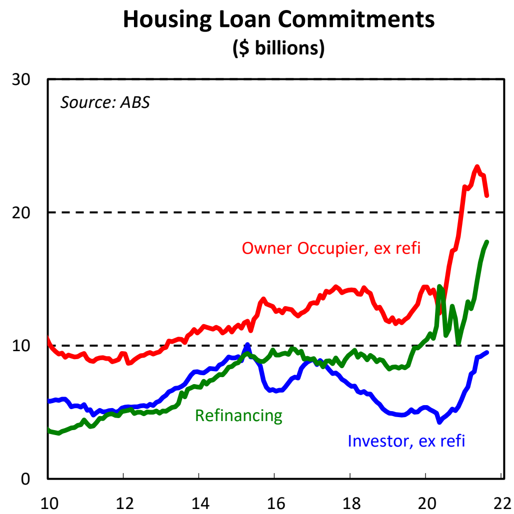
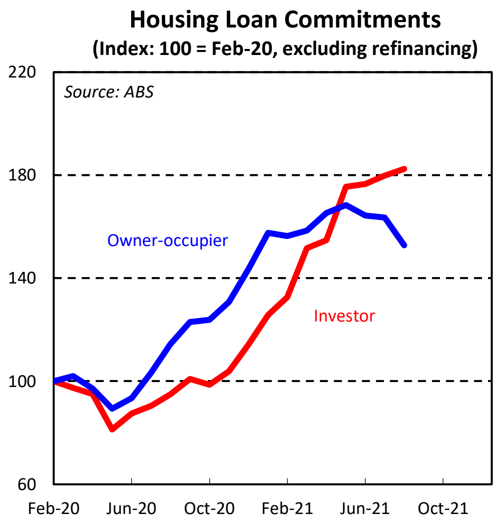
Friday, 1 October 2021

Housing Finance

Lockdowns Soften Owner-Occupier Housing Lending

- **Housing lending fell in August. The value of new loan commitments, excluding refinancing, was down 4.3% in the month.**
- **The fall was driven by a decline of 6.6% in lending to owner-occupiers. This is the largest monthly fall in owner-occupier lending since May 2020. Despite the fall, lending to owner-occupiers remains elevated and was 52.8% above pre-COVID levels as at February 2020.**
- **The impact of lockdowns on the property market contributed to the fall in lending to owner-occupiers, alongside the fall in turnover. The ACT, NSW and Victoria, which were in lockdown for all or a significant part of the month, saw large declines in lending.**
- **Lockdowns appear to have had less of an impact on investors. Investor lending rose 1.5% over the month, to be 92.2% higher over the year to August. Investor lending is at its highest level since April 2015 and at the third highest level in the history of the series (dating back to 2002).**
- **Affordability pressures continue to weigh on lending to first home buyers. The number of loans to first home buyers fell by 3.0% in August.**
- **The likelihood of tighter lending practices via the implementation of macroprudential policy tools has increased as regulators seek to manage risks associated with high debt levels.**
- **Lockdowns are likely to weigh on housing lending over the near term. As lockdowns lift, low interest rates and strong demand will support housing credit growth. A key uncertainty going into 2022 is the timing and form of any macroprudential tightening.**





Housing lending fell in August. The value of new loan commitments, excluding refinancing, was down 4.3% in the month. The fall was driven by a decline of 6.6% in lending to owner-occupiers. This is the largest monthly fall in owner-occupier lending since May 2020. Despite the fall, lending to owner-occupiers remains elevated and was 52.8% above pre-COVID levels as at February 2020.

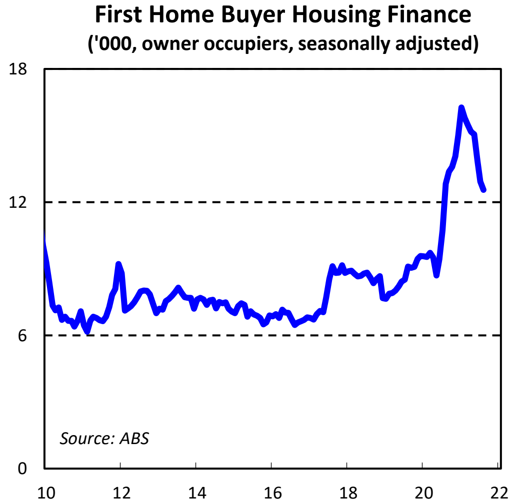
The impact of lockdowns on the property market contributed to the fall in lending to owner-occupiers. The ACT, NSW and Victoria, which were in lockdown for all or a significant part of the month, saw large declines in lending.

Owner-occupier lending fell across all categories. Lending for new dwellings was down 10.7% and lending for existing housing was down 7.1%. Lending for construction edged down slightly (-0.9%). This marks the sixth consecutive decline, reflecting the unwind of the bring-forward effect from HomeBuilder and other state government home buyer incentives. All categories of owner-occupier lending remain more than 30% above their respective pre-COVID levels.

Lockdowns appear to have had less of an impact on investors. Lending to investors rose 1.5% over the month, to be 92.2% higher over the year to August. This is the tenth consecutive month of growth. Investor lending is at its highest level since April 2015 and at the third highest level in the history of the series (dating back to 2002).

Over recent months, investor lending has continued to grow while owner-occupier lending has tailed-off. Lending to investors is now more than 80% above pre-COVID levels.

Affordability pressures continue to weigh on first home buyers. The number of loans to first home buyers fell by 3.0% in August. This is the seventh consecutive month of falls and takes the series to its lowest level since July 2020. However, it is important to note that lending is coming down from a high level as lending to first home buyers increased significantly over 2020, driven by low interest rates and government policy incentives.



Borrowers continued to take advantage of low interest rates, with refinancing activity increasing to a new all-time high.

States and Territories

Lockdowns negatively impacted lending to owner-occupiers. Owner-occupier lending fell in the ACT (-11.0%), NSW (-9.6%) and Victoria (-4.9%), all of which were in lockdown for all or a significant part of August. Lending also fell in Tasmania (-4.3%), WA (-2.9%) and the NT (-1.3%), the latter of which was in a brief lockdown during August.

Despite going into a brief lockdown at the beginning of the month, Queensland bucked the trend and lending to owner-occupiers increased by 2.0%. SA also saw a 1.8% rise as it bounced back from its lockdown in July.

Investor lending growth was mixed across the states and territories. The NT (41.8%) and Queensland (13.6%) saw investor lending growth in the double digits, although the former is a volatile series. Lending was up in Victoria, despite the state imposing strict restrictions on physical property inspections during its lockdown. NSW, which was in lockdown for the entire month, saw a decline in investor lending of 3.2%.

Outlook

Lockdowns are beginning to have an impact on housing finance. However, the market has shown resilience despite these effects. Investor lending has continued to grow, while owner-occupiers appear to have been more impacted by lockdowns in August.

Recently, the likelihood of a tightening of lending standards via the implementation of macroprudential policy tools has increased. Regulators and the Federal Treasurer have spoken of the need to ensure prudent lending standards and manage risks to the economy from a highly indebted household sector.

In the past, regulators have taken action to reduce financial stability risks from a rapid growth in investor and interest-only lending. However, despite the increase in investor lending over the past year, potential macroprudential tools are unlikely to be the same as those used in the past. Comments from the RBA and the Treasurer suggest that tools will be focussed on managing the risks from high housing debt levels, such as limiting high debt-to-income ratios, and the serviceability of mortgage debt.

Lockdown-related disruptions are likely to weigh on housing lending over the near term. As lockdowns lift, low interest rates and strong demand will support housing credit growth. A key uncertainty is the timing and form of any macroprudential tightening, which remains a key area to watch going into 2022.

Jarek Kowcza, Senior Economist
Ph: 0481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
Matthew.bunny@banksa.com.au
(02) 8254 1316

Senior Economist
Jarek Kowcza
Jarek.kowcza@banksa.com.au
0481 476 436

Research Assistant (Secondment)
Sonali Patel
sonali.patel@banksa.com.au
(02) 8254 0030