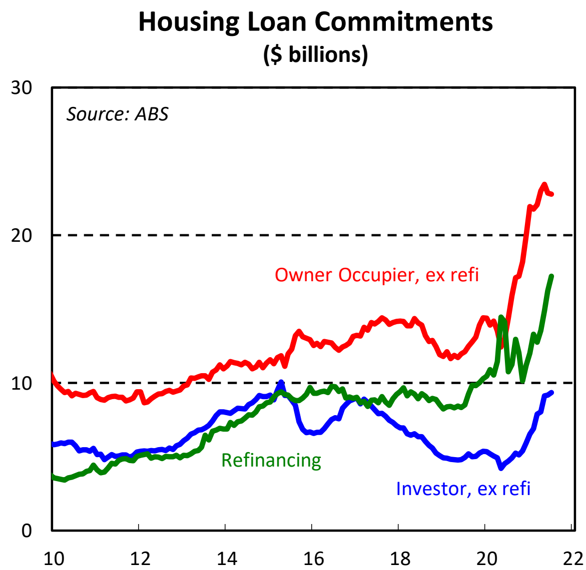
Data Snapshot

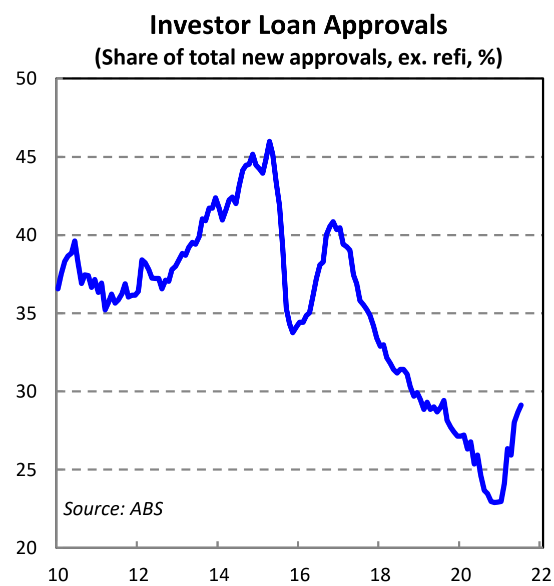
Thursday, 2 September 2021

Housing Finance

Refinancing Boom as Borrowers Secure Low Rates

- **Lending for housing was broadly unchanged in July, excluding refinancing, despite lockdowns in NSW and across other parts of Australia. The value of housing lending approvals, excluding refinancing, was up 0.2% in July, to be 68.2% higher over the year.**
- **There were offsetting movements across the states. Counterintuitively, lending in NSW increased 6.5% in July to hit a new record high. Lenders reported this reflected processing of loan applications from prior to the lockdown. Excluding NSW, lending was down 1.5% in July.**
- **Borrowers have jumped to take advantage of lower interest rates with refinancing reaching an all-time high. This is particularly the case for fixed rate loans. Refinancing was up 6.0% in the month to be up almost 60% up on a year ago.**
- **The unwind of the HomeBuilder bring-forward continued. Lending to owner-occupiers edged down a modest 0.4% in the month. Lending for construction, which was boosted significantly by HomeBuilder, fell 4.7% in the month and is now 41.9% below its peak in February 2021.**
- **Investor lending grew 1.8% in the month, to be 98.7% higher than a year ago. This is the ninth consecutive month of growth. Investor lending is at its highest level since April 2015.**
- **Mounting affordability pressures continued to impact first-home buyers. The number of loans to first-home buyers fell for the sixth consecutive month, to be 6.8% lower in July.**
- **Lockdowns are disrupting housing activity, underpinning falls in sales volumes in NSW and Victoria. However, looking beyond immediate effects, monetary policy remains accommodative, interest rates are low and demand remains robust. This will support lending as restrictions lift.**





Housing lending was broadly unchanged in July, when excluding refinancing, despite lockdowns in NSW and across other parts of Australia. It was up 0.2% in July and a whopping 68.2% over the year.

There were offsetting movements across the states. Counterintuitively, lending in NSW increased 6.5% in July to hit a new record high. Both lending to owner-occupiers and investors was up. Lenders reported this reflected processing of loan applications from prior to the lockdown. Excluding NSW, lending was down 1.5% in July.

However, borrowers have jumped to take advantage of lower interest rates by increasing the level of refinancing of existing mortgages. This is particular the case for fixed rate loans. Refinancing was up 6.0% in the month and reached a record high. Refinancing was almost 60% up on a year ago.

The unwind of the bring-forward effect induced by HomeBuilder and other state government policies continued. Lending to owner-occupiers was down 0.4% in the month.

This can be seen more clearly by looking at the categories of owner-occupier lending. Lending to owner-occupiers for the construction of dwellings fell for the fifth consecutive month and was down 4.7%. This benefitted most from HomeBuilder and is now 41.9% below its February 2021 peak. However, it remains elevated relative to historical norms.

Lending for the purchase of new dwellings by owner-occupiers was down 6.1% in the month, to be 38.5% higher over the year. On the other hand, lending for existing dwellings rose by 0.8% in the month, to be 68.4% higher over the year.

Investors continued to return to the market, with lending up 1.8% in the month. This is the ninth consecutive month of growth and lending to investors is now 98.7% higher than a year ago. 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).

The share of new lending to investors (excluding refinancing) also continued to rise, increasing to 29.1% in July. This has increased steadily from 22.9% in November 2020 but remains well below the levels in late 2014, early 2015 of around 45%.

The growth in investor lending in the month was particularly evident in the NT (27.2%), Queensland (9.1%), NSW (6.1%) and the ACT (6.0%).

The return of investors to the market continues to be an area to watch because of the associated financial stability risks. Regulators have so far been consistent in their messaging that lending standards currently remain sound. However, as investors return at some pace and with housing prices already stretched, we cannot rule out the prospect of macroprudential tightening in 2022.

Mounting affordability pressures continued to impact first-home buyers. The number of loans to first-home buyers fell for the sixth consecutive month, to be 6.8% lower in July. As a result, the share of loans going to first-home buyers was down to 30.3%, down 6.3 percentage points from the peak in January 2021.

States and Territories

Victoria was impacted by lockdowns in late July. However, in early July it was recovering from the lockdown that began in late June. On balance, this saw lending in the state down 0.5% in July.

The NT (15.7%) and WA (8.1%) increased in the month. New lending fell in the remaining states and territories. Tasmania saw the largest decrease, down 7.1%. SA (-6.4%), Queensland (-2.2%) and the ACT (-2.1%) were also down.

On an annual basis, growth across all the states and territories is in the double digits. The NT and ACT have grown at the fastest clip, at 81.3% and 80.2%, respectively. While Tasmania and SA are the weakest, with growth of 36.6% and 41.7%, respectively.

Outlook

The housing market has shown resilience despite lockdowns across NSW, Victoria and other parts of the country. House prices continued to grow and lending has also increased. The unwind from HomeBuilder continues and the previous strength in owner-occupier lending has been replaced with a resurgence in growth to investors over recent months. This trend in increased investor lending and any potential action on the part of regulators remains an area to watch in 2022.

Lockdowns are disrupting activity in the housing market, underpinning falls in sales volumes in NSW and Victoria. However, previous experience has shown that the economy tends to rebound strongly once restrictions lift. Looking beyond the immediate effects of the lockdowns, monetary policy remains extremely accommodative, interest rates are low and demand remains robust. These factors will continue to support housing lending as restrictions lift.

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