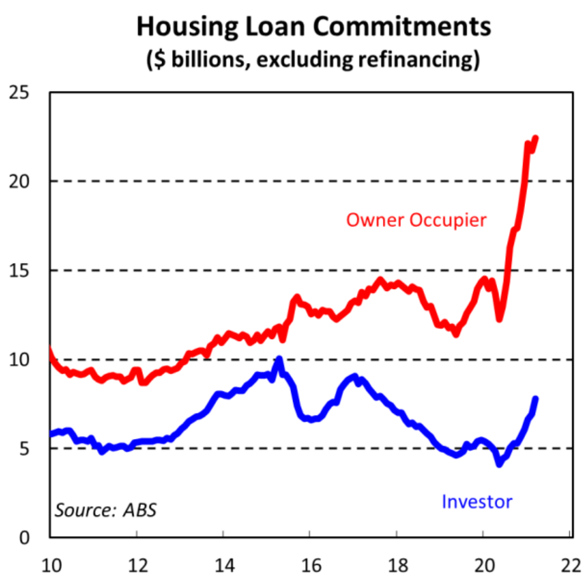
Data Snapshot

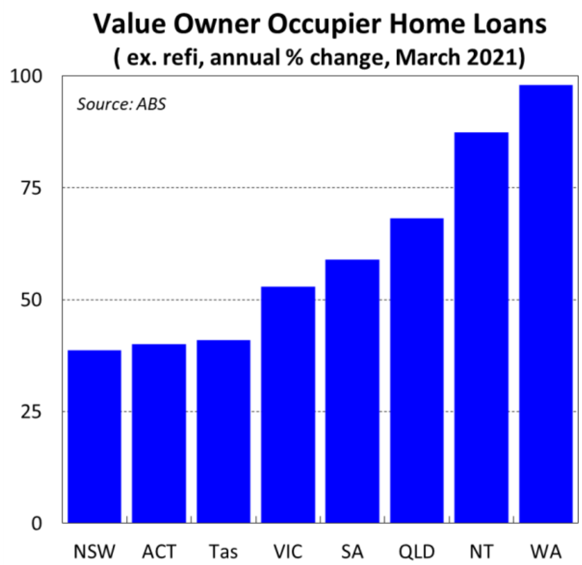
Tuesday, 4 May 2021

Housing Finance

Investors Coming to the Party

- **New lending jumped in March as the housing market continued to run red hot. The value of new loans excluding refinancing rose 5.5% in the month. Housing loan commitments are now up a stunning 85.1% from their low in May 2020 and are sitting well above their pre-COVID peak.**
- **What is most striking about today's data is the 12.7% increase in lending to investors in March. This is the strongest monthly growth rate since July 2003 – almost 18 years! The prospect of capital gains and the fear of missing out after remarkable price growth over recent months may be tempting investors. In addition, rental conditions in capital cities have tightened.**
- **However, new lending to owner occupiers still well above new lending to investors. Lending to owner occupiers increased 3.3% in March.**
- **Construction-related lending appears to have passed its peak, declining 14.5% in March after eight consecutive months of gains. This category has been bolstered by the HomeBuilder scheme, which ended in March.**
- **The proportion of first-home buyers among owner occupiers declined, possibly reflecting that affordability is starting to become stretched.**
- **Growth was led by the larger states in March. The biggest jump was in NSW, where lending increased 9.6% in the month. Over the year, WA is leading the pack, with housing finance up a massive 97.4%. WA has benefitted from extensive state government support, as well as the Federal HomeBuilder package.**





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What is most striking about today's data is the 12.7% increase in lending to investors in March. This is the strongest monthly growth rate since July 2003 – almost 18 years!

So far, the upturn in the housing market has been driven largely by owner occupiers. But it looks like investors are coming to the party.

A few factors could be drawing investors back to the market. The prospect of capital gains and the fear of missing out after remarkable price growth over recent months may be tempting investors.

In addition, rental conditions in capital cities have tightened. Rental yields in the capitals were hit hard by the pandemic, especially for higher density housing. In recent months rental conditions appear to have turned a corner, particularly in the weak pockets of Sydney and Melbourne unit markets.

However, new lending to owner occupiers still well above new lending to investors. Lending to owner occupiers increased 3.3% in March.

The surge in lending to owner occupiers over recent months partly reflects construction-related finance associated with the HomeBuilder scheme which expired at the end of March. These loans represent around 15 to 20% of all housing finance approvals.

It appears this construction-related spending has already passed it peak, declining 14.5% in March after eight consecutive months of gains. HomeBuilder drove a bring-forward of lending in this category and so we are likely to see a further drop over the coming months as its impact unwinds.

The proportion of first-home buyers among owner occupiers declined, possibly reflecting that affordability is starting to become stretched. In January, first-home buyers accounted for 36.5% of owner occupier loan approvals – the highest share since the data starts in the early 1990s. In March, this share declined to 33.7%. First-home buyers usually have lower incomes and lower wealth than the average household and so typically are most sensitive to affordability pressures.

States and Territories

Growth was led by the larger states in March. The biggest jump was in NSW, where lending increased 9.6% in the month, led by a 13.0% increase in investor lending. This was followed by WA (5.1%), Queensland (5.0%) and Victoria (4.4%). Growth was more subdued in the smaller states and territories. Lending in the ACT increased 2.9% while it declined modestly in the Northern Territory (-0.1%), South Australia (-0.6%) and Tasmania (-1.2%).

Stepping back to look over the past 12 months, WA is leading the pack, with housing finance up 97.4%. Indeed, WA has recorded double-digit growth on an annual pace for the past nine consecutive months. WA has benefitted from extensive state government support, as well as the Federal government's HomeBuilder package.

More broadly, the upturn in lending has been led by areas outside of the two major capital cities, Sydney and Melbourne. This partly reflects the strong uptake of HomeBuilder in the smaller states because the scheme's price and income caps goes further in these smaller states. Relatedly, NSW is lagging the rest of the country in annual growth terms, up 42.5%. Although, it is worth acknowledging this still represents a huge uplift in lending.

Outlook

We expect the underlying momentum in lending will remain strong. In the near-term, the expiry of HomeBuilder at the end of March may weigh temporarily, given the bring-forward in lending associated with the program. However, low interest rates, elevated consumer confidence and the ongoing recovery in the economy will remain strong tailwinds over the coming period.

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