

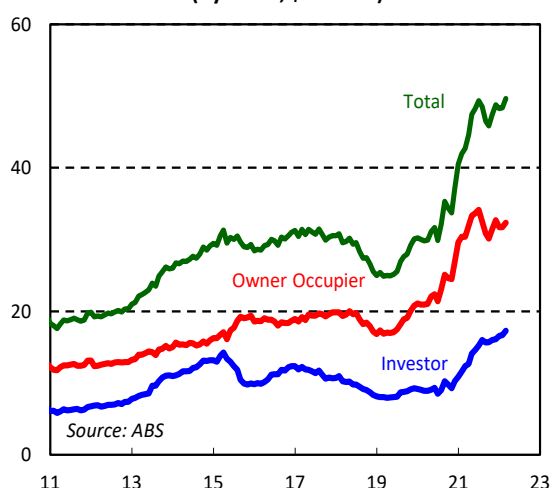
Wednesday, 4 May 2022

# Housing Finance

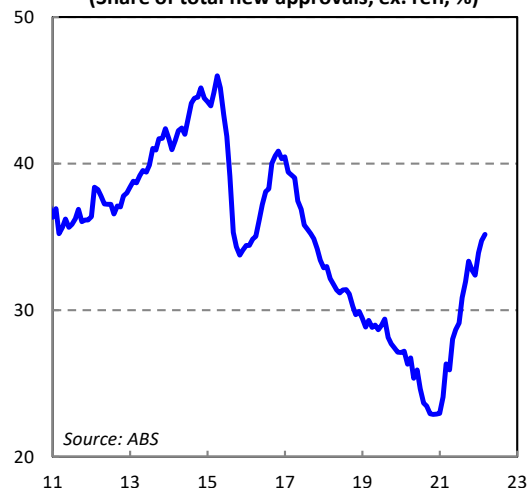
## Record for Investors Ahead of Rate Hikes

- Housing finance, excluding refinancing, rose 1.6% in March, despite the moderation in dwelling price growth. Consensus expectations pointed to a 1.9% decline in the month.
- The result follows a 3.5% decline in February. Total housing finance is 1.9% below its peak from January. The rebound in March may partly reflect the unwind of Omicron-related weakness from February.
- However, the uplift is unlikely to be sustained for long after the Reserve Bank (RBA) kicked off the hiking cycle yesterday with a 25 basis point increase in the cash rate to 0.35%. Inevitably, a higher cash rate will put the brakes on the housing market.
- The increase in lending in March was led by investors. Lending to investors rose 2.9% in the month to a new record high while lending to owner-occupiers increased 0.9%.
- The housing boom was initially led by owner-occupiers but they have been increasingly hampered by rising affordability pressures. In March, investor lending accounted for 35.2% of new lending, excluding refinancing, the highest share since September 2017.
- The uptick in March was broad-based across the country. The ACT and NT led the charge while NSW and Victoria, where dwelling prices have begun to decline, brought up the rear.
- The commencement of the RBA's hiking cycle will take the steam out of the housing market in the coming period. However, this is coming off the back of record highs in new housing lending. Plus, the strength in the jobs market and ongoing lift in economic activity will continue to support demand for housing finance.

Value of Housing Finance  
(By value, \$ billions)



Investor Loan Approvals  
(Share of total new approvals, ex. refi, %)



Housing lending surprised analysts in March, rising 1.6% excluding refinancing, despite the moderation in the housing boom. Consensus expectations pointed to a 1.9% decline in the month. The result follows a 3.5% decline in February. Total housing finance is 1.9% below its peak from January. The rebound in March may partly reflect the unwind of Omicron-related weakness from February.

However, the uplift is unlikely to be sustained for long after the Reserve Bank kicked off the hiking cycle yesterday with a 25 basis point increase in the cash rate to 0.35%. This was a milestone event, marking the end of the record low cash rate and the first rate hike in more than a decade. And the cash rate is expected to move higher over the coming months. Inevitably, a higher cash rate will put the brakes on the housing market.

The increase in lending for March was led by investors, rising 2.9% in the month to a new record high. Investor lending is now 48.4% higher over the year.

The housing boom was initially led by owner-occupiers but they have been increasingly hampered by rising affordability pressures. Accordingly, investor lending is accounting for a growing share of new lending. Investor lending accounted for 35.2% of new lending excluding refinancing, the highest share since September 2017.

Lending to owner-occupiers rose 0.9% in March although is now down 2.2% in annual terms. Despite this, lending to owner-occupiers remains elevated and well above its pre-pandemic level. The increase in March primarily reflects an uptick in lending for the purchase of new dwellings, which rose 5.4% in the month. Lending for construction slipped 0.5%, while lending for the purchase of established dwellings edged up 0.5%.

The number of loans to first home buyers jumped 4.2% in March, although this follows a decline of more than 15% over the first two months of the year. Elevated affordability pressures make it more challenging for first home buyers to get into the market, given they do not have the benefit of existing housing equity behind them. Indeed, the number of loans to first home buyers in this cycle peaked way back in January 2021.

### **States and Territories**

The uptick in March was broad-based across the country.

The ACT (17.0%) and the NT (10.3%) led the charge, although growth rates are more volatile in these smaller regions. There was also sizeable lending growth in SA (5.1%) and Queensland (3.7%), where dwelling price growth has been outperforming the larger states over recent months, partly reflecting their relative affordability. There was also solid growth in March in Tasmania (2.6%) and WA (2.5%). NSW (1.4%) and Victoria (0.9%) brought up the rear. Stretched affordability, a lift in supply and rising fixed rates has resulted in a decline in dwelling prices in NSW and Victoria in recent months.

### **Outlook**

The commencement of the RBA's hiking cycle will take the steam out of the housing market in the coming period. However, this follows record highs in new housing lending in January. Plus, demand for housing finance will continue to be supported by the lift in economic activity as we adapt to living with covid. In addition, the unemployment rate, which is currently at its lowest level in almost 50 years, is expected to decline further. The strength of the jobs market will provide ongoing support to demand for housing lending.

**Matthew Bunny, Economist**  
Ph: 0421 749 491

## 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

**Associate Economist**

Jameson Coombs  
jameson.coombs@banksa.com.au  
0401 102 789

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