

JULY 2017 NEWSLETTER

YOUR EOFY PROPERTY RETURNS & HOW APRA IS TRYING TO COOL THEM!

The end of the financial year gives us a chance to assess how the property market is changing across the country and especially what's happening in the boom cities of Sydney and Melbourne.

Price growth continued in Sydney in FY17 at a rate of 13% for houses and 8.6% for apartments. Melbourne price growth was 15% for houses and 1.5% for apartments.

What is more notable though is the change between the March and June quarter results for both cities. Overall dwelling values in Sydney went from 5% growth in March to 0.8% growth in June. Melbourne dwelling values went from 4.2% in March to 1.5% in June.

The media is always quick to declare booms over the moment statistics turn but in reality, property markets don't change that quickly. I wouldn't be surprised if quarterly price growth stays subdued over Winter but fires up again in Spring. Time will tell.

The biggest elements that will end the boom are affordability and lending restrictions to investors.

Affordability is always a factor at the end of booms – prices get too high and people exit the market, with many giving up and deciding to stay put and renovate instead of trading up.

The other big influence is investor activity. Investors tend to start and end booms. They get in when they see opportunity and they get out when that opportunity has eroded.

Investors are after two things – capital gains and rental yields. Yields are currently low,

which makes it harder for investors to cover their mortgage. Average yields for Sydney houses are 2.8% and apartments 3.7%. In Melbourne, it's 2.6% and 4.2% respectively.

As you most likely know that APRA (Australian Prudential Regulation Authority – the regulator who oversees the banks) recently stepped into the fray, trying to 'cool down' the property investment sector. Stricter serviceability, a crackdown on interest-only lending and higher mortgage rates on investment loans are being enforced by all the banks.

Many property investors use interest only lending so they can take advantage of negatively gearing their property investment while only making interest repayments with no principal component. The Sydney and Melbourne markets have seen a high proportion of new loans as interest only repayments. APRA views this as higher risk and have restricted this type of lending to 30% of new residential mortgages for banks. As a result we have seen significant increases in interest rates to deter investors and maximum LVR's of 80% enforced for this type of lending.

Investor rates for interest only lending are now nearly 1% higher than the traditional principal & interest repayment rates. Similar discrepancies arise for investor fixed rates as well.

If you're a property investor who is considering your options, we would suggest you don't panic at this point. Property investing is a long term strategy and these temporary measures will at some point in the future be relaxed. However for the time being APRA's focus on higher risk lending and the commentary around affordability particularly in Sydney and Melbourne is making it more difficult for investors.

The action from APRA has made the lending landscape more complicated but there are second tier lenders who have some very competitive rates and products. If you are looking to pay a low 4% interest rate instead of the 5% plus for an interest only loan enquire with M Point. We remain committed to guiding our clients in these changing times and providing expert advice and assistance to achieve your financing needs.

RESIDENTIAL REAL ESTATE RETURNS FY 2017

House prices

- Sydney – house prices up 13% to a median \$1.050 million
- Melbourne – house prices up 15% to a median \$755,000
- Brisbane/Gold Coast – house prices up 3.3% to a median \$555,000

- Canberra – house prices up 9.7% to a median \$693,000
- Adelaide – house prices up 2.7% to a median \$465,000
- Perth – house prices down -1.9% to a median \$500,000
- Hobart – house prices up 7.4% to a median \$375,000
- Darwin – house prices down -6.2% to a median \$500,000

Apartment prices

- Sydney – apartment prices up 8.6% to a median \$750,000
- Melbourne – apartment prices up 1.5% to a median \$542,800
- Brisbane/Gold Coast – apartment prices up 1.2% to a median \$400,000
- Canberra – apartment prices up 7.6% to a median \$439,500
- Adelaide – apartment prices down -1.3% to a median \$380,000
- Perth – apartment prices up 0.5% to a median \$400,000
- Hobart – apartment prices up 1.5% to a median \$313,800
- Darwin – apartment prices down -10.5% to a median \$440,000

Source: CoreLogic Home Value Index June 2017, median prices based on settled sales over June quarter

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