

FINANCE NEWS | VIEWS | CLUES

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DID YOU KNOW?

M Point Financial Solutions is Thomas Hopper & Partners broking & finance division.

With over 25 years of finance experience, Andrew Lennon is a professional who understands the importance of a client's financial needs. Let Andrew take the stress out of your financing decisions. Call him today on 0418850890 for expert advice.

WHAT'S DRIVING HOUSE PRICES

A year ago, the property boom was showing signs of fading and we expected property prices to fall in Sydney and Melbourne by around 5-10%. Home prices were overvalued, affordability was very poor and tightening bank lending standards in response to pressure from the bank regulator APRA was expected to turn the property cycle down. At the same time, we thought a crash was unlikely. Since then average prices are down about 5% in Melbourne and 8% in Sydney. Nationally, prices are off about 5%.

OUTLOOK

Going forward, we expect more weakness based on a range of factors. Our assessment remains that a crash – where national average prices fall by 20% or more over a year are unlikely unless we see much higher interest rates or unemployment (neither of which are expected) or a continuation of recent high construction for several years (which is unlikely as approvals are falling) and a collapse in immigration.

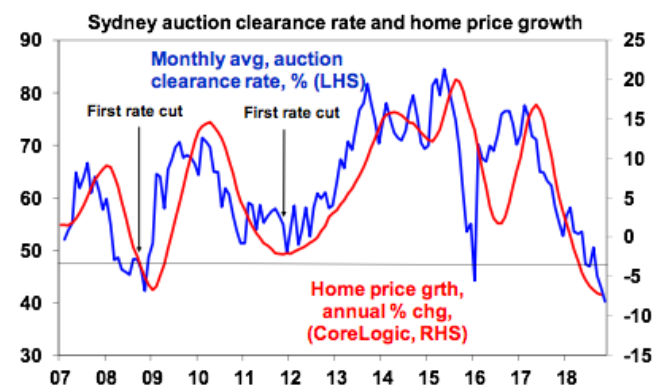
However, the risk of a crash cannot be ignored given the danger banks may overreact to the Royal Commission and become too tight making investors decide to exit in the face of falling returns.

The bottom line is that now remains a time for caution regarding housing as an investment destination – particularly in Sydney and Melbourne where it remains

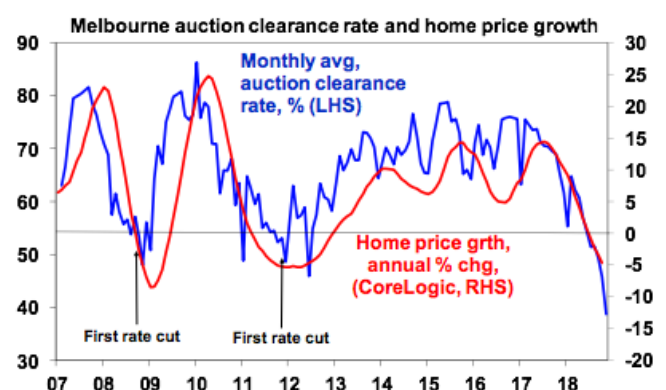
expensive, prices are likely to fall further, and rental yields are low.

Below are 3 charts that provide context on my views and highlight some of the key drivers for house prices.

Chart 1 & 2: Sydney And Melbourne – What Auction Clearance Rates Foreshadow



Source: Domain, CoreLogic, AMP Capital

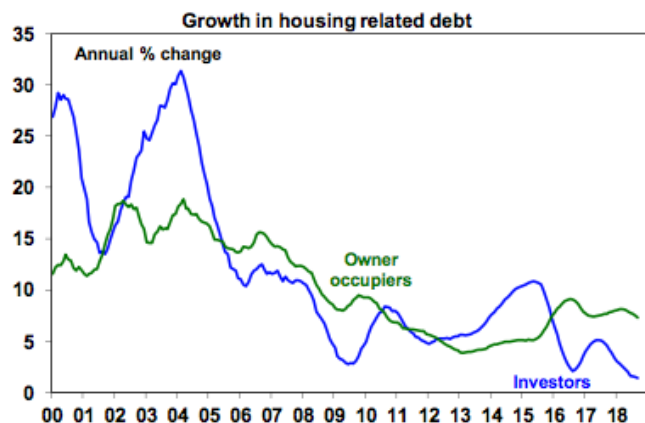


Source: Domain, Core Logic, AMP Capital

The auction clearance rates show a steep decline and has a good cyclical relationship with property prices in Sydney

and Melbourne. Both are pointing towards more downside in property prices.

Chart 3: Housing-Related Credit Slowing to Record Lows?



Source: RBA, AMP Capital

Growth in housing-related credit is critical to keep an eye on given the tightening in lending conditions. It has already slowed to record lows for investors and is looking weaker for owner occupiers too.

Two other factors worth noting relates to supply of housing. The number of apartments under construction remains high providing a guide to how much unit supply is yet to hit the market. Also worth noting is the level of the bank's non-performing housing loans. If they increase more significantly it would point to an increasing risk of forced sales which would accentuate the weakness in house prices.

WHEN TO BUY

This depends on the circumstances and objectives for each individual buyer. There is no doubt prices are lower now than they were a few months ago. The factors outlined above suggest prices may continue to fall into the new year. What we can be certain of is that finance is definitely harder to get in today's market. When you do make a decision to buy you need to ensure that your finance is available.

SEEK EXPERT HELP FROM US

The scrutiny by the banks on each loan application can be overwhelming. At M Point Finance we take the stress out of your loan application. We work with a number of lenders to ensure we get the most suitable financing solution. Let us help you be ready to make that investment decision or buy the home you always wanted now the price has come your way.