

For first-timers, the horse has bolted

Home loans

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The outlook for first-home buyers is set to worsen as investors return to the property market, lured by the prospect of rising house prices and improving rental returns.

As the federal government and Labor trade blows over home affordability, official housing finance figures show that first-home buyers are losing ground to investors, with the number taking out loans below the long-term average.

Australian Bureau of Statistics data show that the value of housing loans for investors surged 8.9 per cent in May to be almost 14 per cent higher than a year earlier, compared with a 0.2 per cent monthly increase in the value of owner-occupier loans.

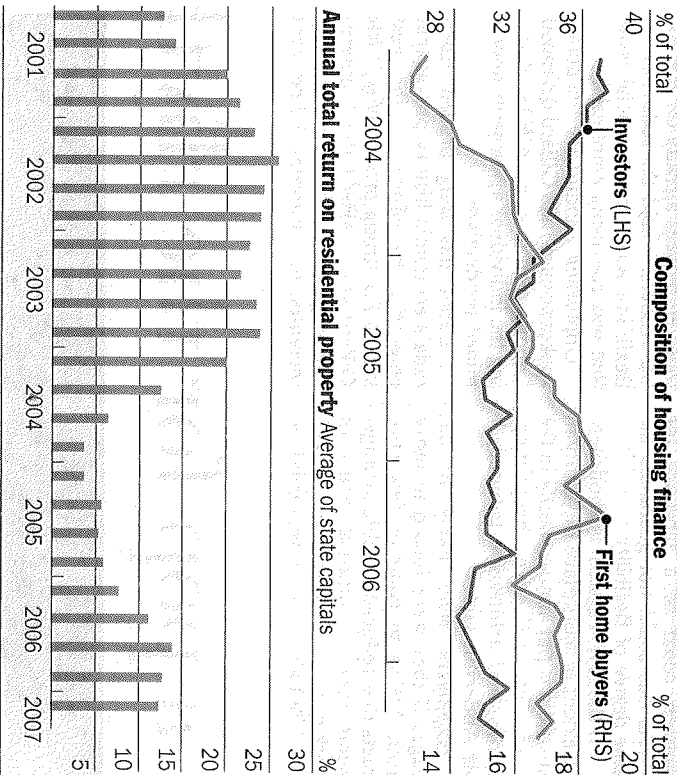
The increase helped push investors' share of home loan approvals to 31 per cent in May, while the proportion going to first-home buyers slumped 0.6 percentage points to 16.6 per cent, well below the long-term average of 20 per cent.

Investor home loans, which are up 23 per cent since the Reserve Bank of Australia raised interest rates in November last year, reached almost \$7 billion in May — surpassing levels reached at the peak of the 2003 housing boom.

Among the states, the number of housing loans increased in Victoria, Queensland, South Australia and Tasmania, but plunged in the two states where housing affordability problems are most acute. They fell 7.3 per cent in Western Australia and 2.6 per cent in NSW.

There is little relief in sight for those struggling to save for a home deposit while paying higher rents, with borrowing to build new homes

INVESTORS' RETURN



Source: JPMorgan, ANZ

or apartments for the rental market still at relatively modest levels despite a recovery in May.

Underlining the difficult task facing many of those trying to break into the housing market, the increase in investor activity is appearing at a time when housing construction appears to be lagging well behind demand.

Building approvals plunged more than 5 per cent in May, including a 10 per cent fall in apartment construction plans, highlighting concerns of an annual shortfall of 30,000 homes or more in the nation's housing stock.

Grange Securities' chief economist, Australia, Stephen Roberts, said

the situation did not bode well for first-home buyers or for attempts by the RBA to keep a lid on demand pressures in the economy.

"The risk is that demand, which is showing signs of running well ahead of supply, could generate upward pressure on house prices," Mr Roberts said. "For the Reserve Bank, the risk of higher house prices, stronger building activity and probably accelerating annual growth in housing credit adds to the list of factors that point to the need for a higher cash rate."

Australia and New Zealand Banking Group senior economist Ange Montalti said the figures showed that home buyers, particu-

larly investors, were increasingly confident about property.

Mr Montalti said that although too much should not be read into just one month's figures, a solid trend toward increased investor interest was emerging.

"Investors are not shying away from the market," he said. "There's a lot of support for house prices in the two years ahead."

JPMorgan economist Helen Keavans said a combination of factors — including stable interest rates, changes to superannuation laws that came into effect at the beginning of the month, and a moderation in stockmarket gains — were all likely to boost investor interest in property.



But the outlook on housing affordability for first-home buyers is bleak, according to Macquarie Research interest rate strategist Rory Robertson.

Mr Robertson said there was no prospect of house prices coming down, which meant those trying to buy a home faced a trade-off between proximity and home size. "The housing affordability horse has bolted and is not coming back," he said.

Despite the problems dogging the housing sector, business remains upbeat about prospects over coming months, with the National Australia Bank monthly business survey showing confidence and trading conditions remain high.

The survey found that although measures of profitability and business conditions eased last month, firms planned to add staff and expected wages growth to remain moderate.

NAB's head of economics, Australia, Jeff Oughton, said that although capacity utilisation levels were high, unit labour costs had fallen.