Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

16 April 2018

Are residential investors on the run?

Should we be worried?

Update: Residential investors aren't fleeing in droves despite numerous attempts by governments to treat investors as if they're a community of pariahs. The value of lending for existing property is falling, but lending for new housing is back in the game.

Insight*:* The value of lending for existing property is slowing, as can be seen in the chart below. The annual value of this lending is down by 13 per cent from its peak.

This is hardly surprising given the tightening of lending standards for investors which the Australian Prudential Regulation Authority (APRA) began in April 2016.

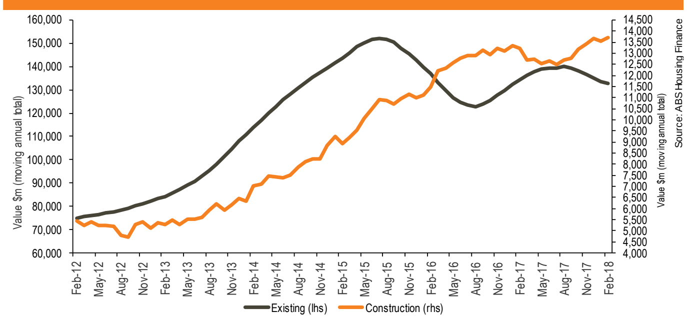
There is nothing to suggest that residential investment lending won't continue to ease in an orderly fashion through most of 2018. The risk is in 2019. The combination of tighter lending conditions, the Reserve Bank of Australia (RBA) lifting interest rates and the four major banks tightening their own prudential standards against the backdrop of the banking Royal Commission could generate a sharper than desirable fall.

Any further increase in taxation on housing – through negative gearing amendments and an increase in Capital Gains Tax (CGT) - would increase the risk of a sharp fall considerably.

Top of the Charts: new investment strikes back

The value of lending for new residential property has recovered by 10 per cent from its July 2017 low. This is an encouraging sign given the 150,000 'multi-unit' dwellings that are under construction (as of December 2017) and flies in the face of doomsayers' alarmist concerns about over-supply.

LENDING FOR RENTAL PROPERTIES - AUSTRALIA



The value of lending for investment in new residential property is under-reported in the ABS statistics. This exposes a fundamental flaw in Federal Labor's plan to restrict negative gearing to new properties.

It is often touted that less than 10 per cent of housing investment is in new dwellings and this statistic is used to take swipes at Australia's negative gearing policy. This is absolute rubbish. The ABS Housing Finance figures provide four lending categories: new construction; purchase of a new dwelling; established dwellings and refinancing. The ABS data on residential investment pulls these last three elements together. In other words, some of the investment lending that is assumed to be for existing property is actually for new dwellings.

This makes intuitive sense. Even allowing for a record cycle in foreign investment, how on earth do you build in excess of 350,000 units and apartments in a record cycle with only 7 to 8 per cent of lending going to new dwellings? The answer is you don't – try 20 per cent or more. Consequently, with the correct numbers you don't get anywhere near the fiscal savings touted for Labor's negative gearing policy.

Speaking of taxes …

Update: The proposal to halve the CGT exemption will increase significantly the effective tax rate on capital gains. There are only two main savings vehicles in Australia – housing and superannuation (the CGT proposal does not apply to superannuation) and hitting one with a great big new tax would be detrimental not only to the housing industry but to the broader economy.

Insight*:* The HIA has today released research undertaken by The Centre for International Economics (TheCIE) which demonstrates that reducing the CGT exemption would increase both rents and home prices, reduce economic activity and lower household consumption. Nice one! The states, especially New South Wales, would also face a big revenue hole each year.

Enquiries regarding the CGT report can be directed to HIA Principal Economist, Tim Reardon on 02 6245 1393.

A first home buyer flurry

Update: The first home buyer (FHB) market has recovered strongly since mid-last year, benefitting from support from some state governments for this buyer cohort.

Insight*:* The number of FHB loans was 32 per cent higher in the three months to February 2018 when compared to a year earlier. A total of $1.4 billion worth of FHB loans was written in the February 2018 'quarter'. While these results are pleasing, FHB concessions are a band aid solution and meaningful housing policy reform (which changes to negative gearing and CGT is not) is required to sustain a FHB recovery.

The fortnight ahead – key dates and releases (AEDST)

Monday 16 April

ABS Lending Finance, February 2018, 11:30am

Thursday 19 April

HIA Housing Affordability Report, March 2018 quarter, 11.00am

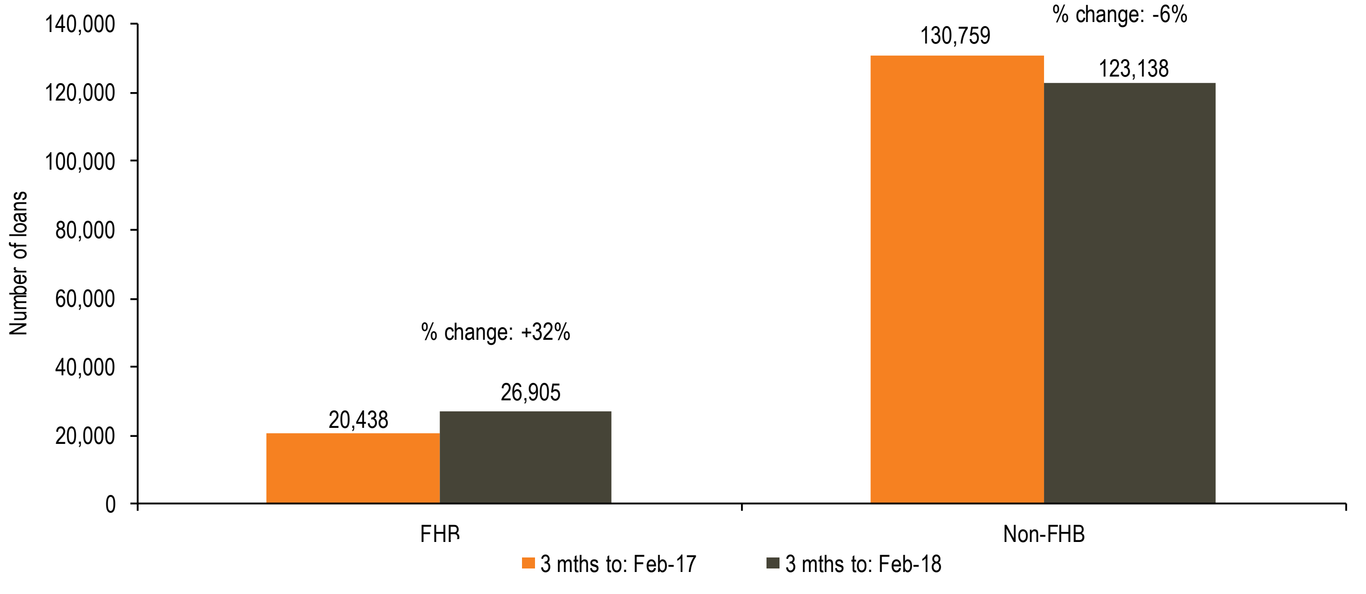
ABS Labour Force, Australia, March 2018, 11:30am

Tuesday 24 April

ABS Consumer Price Index, March 2018 quarter, 11.30am

First Home Buyer versus Non-First Home Buyer Loans - Australia

Source: ABS Housing Finance



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