Winter 2022 Newsletter

MORTGAGE & FINANCE

Mortgage & Finance (HOLDINGS) PTY LTD

- UPDATE -

ELECTION 2022: WHAT'S NEXT FOR HOUSING?

Following the federal election, here's a recap of the housing policies we can expect to see from the Australian Labor Party (ALP) this year.

With the country now facing a rising interest rate environment amid record-high property prices, a key focus of this campaign has been on housing affordability.

The Australian Labor Party has committed to bring in a suite of policies designed to improve housing affordability and ownership.

Here's what we know we can expect in terms of housing:

- A new Help to Buy scheme, involving an equity contribution from the Federal Government of up to a maximum of 40% of the purchase price of a new home (and up to a maximum of 30% of the purchase price for an existing home) for 10,000 Australians per year;
- A Regional First Home Buyer Support Scheme, which will provide a government guarantee of up to 15% for eligible first home buyers, so that locals with a 5% deposit can avoid paying mortgage insurance
- $10 billion Housing Australia Future Fund, which will build 30,000 new social and affordable housing in its first five years
- Commit $100 million to start work on urgent housing and essential infrastructure on Northern Territory (NT) homeland and negotiate a new remote housing agreement with the NT that includes homelands, when the current agreement expires in mid-2023.
- Provide $200 million from the Housing Australia Future Fund for repair, maintenance and improvement of remote housing in Western Australia, South Australia, Queensland and the Northern Territory.
- Establish a National Housing Supply and Affordability Council that will set targets for land supply and advise on ways to improve land use planning and supply for housing; as well as collect "nationally consistent data" on housing supply, demand and affordability and report on rental affordability, social housing, and homelessness and advise on ways to boost the construction of social and affordable housing.

A TABLE LISTING ALL SCHEMES AVAILABLE CAN BE FOUND OF PAGE 2

WHAT MATTERS MOST TO THE MORTGAGE INDUSTRY?

Unlike in the 2019 election, both the Morrison government and the Labor opposition had pedalled back from any review of broker remuneration this year, closing the gap between the two parties.

Moreover, the Labor party recently suggested it would be open to discussing the format of clawbacks (which the Coalition has not previously agreed to).

However, the second edition of the Industry Insight Report found that 52% of industry participants said they would be voting for the Liberal-National Coalition, with 61% of the mortgage lending industry stating that they believed Prime Minister Scott Morrison was a better Prime Minister than Labor Leader Anthony Albanese.

According to the report, the top priorities were:

- The economy (73%);
- Small-business interests (56%);
- Housing affordability (52%); and
- Taxation (51%).

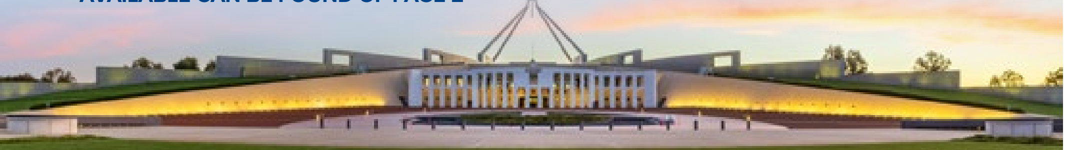
When looking across all seven industries surveyed (mortgage lending, real estate services, financial advice and wealth management, defence and national security, accounting services, aviation, and legal services), the Liberal-National Coalition was coming out top in primary voting responses.

However, less than half of all respondents flagged this as their primary vote (49%), with just over a quarter leaning towards Labor (26%) and the remaining 24% either voting for "others" or undecided.

Only the legal services sector had voted a preference for a Labor Party government led by Mr Albanese, with 43% of lawyers suggesting their primary vote would lean that way (compared to 31% of this profession leaning to a primary vote of Liberal-National Coalition) and 60% believing Mr Albanese would make a better Prime Minister than Mr Morrison.

As a whole, the top three most important voting considerations across all industries were: the economy (69%), taxation (49%), and defence and security (47%).

- MORTGAGE BUSINESS -



WELCOME TO OUR WINTER EDITION

Despite the variable rates rise, we have experienced a strong quarter in the housing finance market. Fixed rates have continued to show strong increases, indicating that the general trend will be upwards, and the Reserve bank will monitor how the markets may react.

Rising rates have encouraged consumers to review their loans for a possible refinance, looking to obtain savings where they can, to help with cash flow. The present level of refinancing is on track to smash last year's figures, as borrowers seek more competitive rates and packages.

Up until the March quarter many customers were still fixing part of their loans (splitting their loan part variable and part fixed). Those who fixed their rate have insulated themselves from rate rises for the short term, as those rates are now currently below the present variable rates.

We wait for the details of the new government's first home buyer scheme to be rolled out and see how this will operate for all going forward.

The swing towards Labour in the recent election places the state Government in a strong position of influence to protect the present GST arrangement in place and promote many of the state's development project due to the importance of WA Labor to the federal government. The influences of the Greens and Independents will provide challenges. Inflationary pressure and rising cost for all areas of business have become the centre of attention for the WA economy as a whole.

More than one third of businesses have planned or have already increased their prices by more than usual due to inflationary pressures. WA has to date increased is capital expenditure by 2.3% in the past three months, while nationally it is down 0.3%.

WA has already awarded pay rises to the lowest paid workers. With one of the nation's lowest unemployment rate and labour shortages, many industries have had significant pay rises across the board as they aim to retain or recruit staff. Where possible the Reserve Bank will focus on trying to keep inflation under control, whilst still trying to keep the labour market strong. Getting the balance right moving forward will be the challenge.

The WA property market remains healthy, we still have more buyers than sellers, placing upward pressure on prices. The shortage of housing, and built-up demand, plus labour shortages restricting the completion of new homes has only exacerbated the present situation.

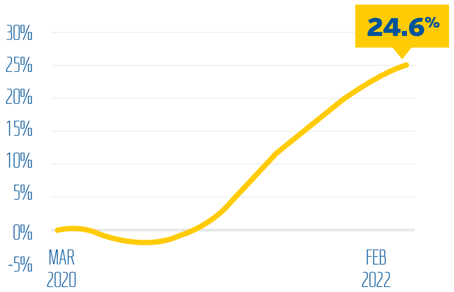
There are still major lenders offering cash back promotions up to 4k for refinancing loans and many others offering specials on variable and fixed rates.

We are always thankful for our clients continued support and referrals you pass on to family and friends.

VIC GIANNAKIS - DIRECTOR
0413 154 263
vicg@betterchoice.net.au

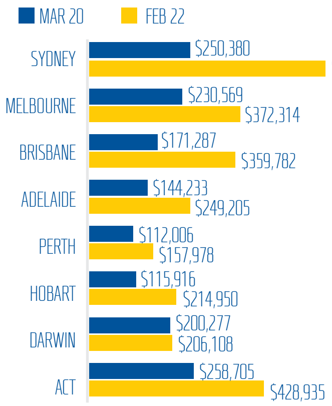
CONTACT US FOR FURTHER INFORMATION & GUIDANCE
Mortgage & Finance Call 08 9240 2446 Email vicg@betterchoice.net.au
Suite 12, 10 Whipple Street Balcatta Western Australia 6021 Australian Credit Licence Number 384633

CUMULATIVE CHANGE IN HOME VALUE INDEX



NUMBER OF FIRST HOME BUYER OWNER-OCCUPIER LOANS - AUSTRALIA

HOW MUCH MORE EXPENSIVE ARE HOUSES THAN UNITS



EXISTING SCHEMES

	HELP TO BUY	REGIONAL FIRST HOME BUYER SUPPORT SCHEME	HOME GUARANTEE - FIRST-HOME BUYERS	FAMILY HOME GUARANTEE
WHO'S IT FOR?	Low to middle income earners*	First-home buyers already living in regional areas	First-home buyers	Single parents*
MAX TAXABLE INCOME/YEAR	$90K for singles, $120K for couples	$125K for individuals, $200K for couples	$125K for individuals, $200K for couples	$125K
WHAT'S ON OFFER?	GOV co-buys up to 30% of an existing home and 40% of a new build	GOV guarantees loan to avoid LMI	GOV guarantees loan to avoid LMI	GOV guarantees loan to avoid LMI
MIN DEPOSIT	2% of the portion of the home you own	5% of property value	5% of property value	5% of property value
PLACES P/A	10,000	10,000	35,000**	5,000
START DATE	Jan 1	Jan 1	Operating	Operating

*Who currently don't own property
**Slated for July 1
LMI - Lenders Mortgage Insurance
GOV - Government

WHAT IS THE FIRST HOME LOAN DEPOSIT SCHEME?

Find out more or Download FHLDS Fact Sheet

6 WAYS COVID-19 HAS SHAPED THE HOUSING MARKET

The global pandemic has catalysed remarkable shifts in Australian housing.

1 AUSTRALIAN HOME VALUES ROSE 25%, TO RECORD HIGHS

Despite an initial dip, housing values rose 24.6% between the end of March 2020 and February 2022. By February 2022, CoreLogic estimated the total value of residential real estate to be $9.8 trillion, up from $7.2 trillion at the onset of the pandemic. The median Australian dwelling value increased to $728,034.

2 FIRST HOMEBUYER ACTIVITY SPIKED

First homebuyers were a sizable part of housing demand at the start of the pandemic. This cohort took advantage of more affordable housing options following the earlier downturn, along with record low mortgage rates and government incentives.

As of January 2022, loans to first homebuyers was 10,964, above the decade average of 8,682. Proportionally, first homebuyer lending comprised 24% of owner occupier mortgage demand in January, in-line with the decade average.

3 RENTS ROSE 11.8% TO RECORD HIGHS, WHILE GROSS YIELDS FELL TO RECORD LOWS

There are multiple reasons rents have risen. Investor activity had been relatively subdued between 2017 and mid-2020, contributing to rental supply constraints. Rental supply may also have been eroded through the rise of rental services like Airbnb, which have enabled property owners to pivot to the short-term rental accommodation market. This latter trend may have been particularly prevalent in tourism destinations across Australia, some of which have flourished amid a rise in domestic tourism in the past two years. For investors who have recently purchased long-term rental accommodation, rents may have increased due to higher purchasing prices.

Over the course of 2021, annual rent value growth was at its highest levels since 2008. Across Australia, median advertised rents since March 2020 increased to $470 per week. The headline numbers hide the diversity of rental conditions. Through the pandemic, there has been a shift in rental preferences towards lower density housing options, where the upwards pressure on rents has been more substantial.

4 HOUSING DEBT LEVELS HIT RECORD HIGHS

Rapid increases in housing and rent values in the past two years was largely the result of a sizable reduction in the official cash rate. With the RBA setting the official cash rate target at 0.1% since November 2020, lower debt costs enabled borrowers to access more credit.

As of January, total outstanding housing credit sat at a record high of over $2 trillion, according to the RBA, while the ratio of housing debt to household income was at a record high 140.5% through Q3 2021. This is up from 139.2% in March 2020.

While total outstanding credit reached over $2 trillion in January, ABS data shows monthly new finance borrowed for the purchase of property continued to hit fresh record highs through January 2022, at $33.7 billion.

High levels of housing debt, particularly where it has grown faster than incomes, creates a vulnerability in the Australian economy. However, it is important to frame debt levels in the context of high asset values, and relatively low interest costs.

5 THE PREMIUM OF HOUSE PRICES COMPARED TO UNITS HIT RECORD HIGHS

Both the composition of the buyer pool and the impacts of COVID may have contributed to a record gap between house and unit values. Investors, who may have a preference for units, have been a relatively small part of demand through the upswing. Additionally, detached houses may have been in higher demand as Australians spent more time at home through the pandemic. Government policies such as the HomeBuilder grant may have also contributed to increased detached housing demand, due to tight construction timelines to qualify. The result is a record high gap between house and unit values.

6 THE RISE OF THE REGIONS.

Migration trends over 2020 and 2021 revealed an uptick in the volume of people leaving cities for regions outside of lockdown periods, and a decline in people leaving regions for cities.

The result has been higher than normal housing demand against unusually low levels of listings across regional Australia, in both the sales and rental market. Value gains across regional Australian dwelling values has been almost 40% since March 2020, while capital city home values have increased around 21%.

In lifestyle regions, which have become intensely popular in the past two years, new million-dollar markets have been created across areas such as the Sunshine Coast, the Illawarra and the Gold Coast, where median house values now sit above the million dollar mark.

WHERE TO FROM HERE?

The current housing market upswing has delivered extraordinary value gains, providing a significant wealth boost for home owners, but larger hurdles to enter the market for non-home owners. But since April of 2021, monthly gains in national home values have softened. Arguably, there are more headwinds than tailwinds now stacked against continued growth in the property market, with the potential for sooner-than expected cash rate increases, affordability constraints, and weakening consumer sentiment slowing demand. While some structural shifts through the pandemic, such as remote work, may sustain demand in regional Australia long term, it is likely that housing values will start to decline on a fairly broad basis later this year.

- CORE LOGIC -

WHAT AUSTRALIANS SHOULD GET RID OF TO COMBAT COST OF LIVING PRESSURES

Cost of living pressures are continuing to mount for many Australian families, but experts have revealed how you can start saving money immediately and reduce your debt.

HPH Solutions financial planner Matt Hern told NCA NewsWire said to cut out "forgettable comforts" such as "the sweet treat with your morning coffee, takeaway meals, or at least cut the home-delivery of takeaway".

Finance Quarter director and broker Sean Lee told NCA NewsWire how people spent money on food was a major factor.

"Meal planning, sticking to a shopping list, bulk cooking and eating in could easily save a couple at least $200 per week.

"Consider replacing more expensive fitness memberships with cheaper alternatives or free outdoor exercises, limit the use of air conditioners and heaters, and turn off any devices that don't get used often as energy costs are expected to rise."

Financial planner and Edith Cowan University lecturer Damon Brown told NCA NewsWire that entertainment and travel were the main expenses people should dump if they were struggling financially.

"Particularly travel that involves driving based on the fuel costs. The five-hour drive to a camping location and things like that – just because the cost of fuel has just skyrocketed," he said.

> *Mr Hern warned having all of your money in a single account made it too easy to overspend.*

"Limit your likelihood of overspending impulsively by automatically setting aside money in a separate account every pay to cover your commitments, such as bills and essentials," he said.

"Remove temptation to spend impulsively by unsubscribing from marketing newsletters, and avoid browsing the shops without a list and a set budget."

Mr Lee agreed."Record your weekly income, add up your expenses and calculate how much you have left over, if any, to see if this is enough to meet your annual saving goals. If not, adjust your budget and review your expenses," he said.

"Transfer your budgeted weekly savings to another account to avoid spending this.

"Pay your credit card in full every month to avoid interest charges or don't use credit cards at all to prevent yourself from getting caught in a debt trap."

"We're gonna see credit card interest rates increase considerably more than what just the Reserve Bank increase in prices," said Mr Brown.

Mr Hern said cutting spending could be confronting, so people should start with quick and easy steps.

"Look at the direct debits from your account and cut subscriptions you no longer use," he said.

"Next, swap to lower cost versions of your current spending habits.

"For example, take your lunch to work rather than buying it, and rather than dining out socialise with friends at home with homemade snacks.

"Use public transport or carpool if possible and refuel your car at the lowest point in the fuel cycle."

> *Mr Lee said he recommend anyone with a loan should speak to a finance broker.*

"This is usually your biggest expense so it makes sense to review your loan structure and interest rate," he said.

"More often than not people are paying at least 0.50% per annum more than they should be and on a $600,000 home loan – and this equates to $250 per month in interest savings just by reviewing your home loans.

"The major banks are forecasting the Reserve Bank of Australia to increase interest rates by at least 1% by year end. For the average home loan balance, this equates to a minimum $500 per month increase in your mortgage repayments – be prepared and budget for this."

Mr Lee noted banks were competing hard for business and it paid to shop around.

"Some banks are paying a rebate of up to $6000 for you to refinance your loan to them, subject to certain terms and conditions, which could be an added bonus to the interest savings," he said.

- MPAMAGAZINE.COM.AU -

GUARANTORS CAN REDUCE RISK

Rapidly rising prices have seen the median more price in major cities hit record highs, with the average required deposit now about $107,000.

This momentum, combined with the fact is takes an average of six to eight years to save for a deposit, has seen an increasing number of parents help their children break into the market.

In fact, the bank of Mum and Dad is now Australia's nineth largest mortgage lender, with almost $34 billion in loans.

However, this act of generosity can come at a price if not done correctly. How can parents mitigate the financial risks they face when going guarantor? Knowing the conditions of the guarantee is crucial, from the loan amount to the terms of enforcement and more.

Ensuring the borrower has income protection and total and permanent disability insurance in case the unexpected occurs is vital.

Consider limiting your guarantee to a portion of the (for example, 20%) of the property price. Avoid a guarantee for the life of the loan – establish a time when your part will end. Most importantly, seek expert legal and financial advice to ensure your fully understand this commitment and its impact on your own financial situation.

- MONEY MAGAZINE -

PREPARATION FOR BUYING A HOME

SET A BUDGET:

- the size of your deposit.
- your borrowing capacity.
- how much debt you're comfortable with.
- upfront costs, such as due diligence and stamp duty.

It's a good idea to speak to a mortgage broker early in the process. They can confirm your borrowing capacity, outline some purchasing scenarios and recommend various loan products that will suit your circumstances.

If you think you're ready to start looking at properties straight away, then that is the time to get home loan pre-approval

HOW TO FIND A PROPERTY TO BUY:

- Download real estate apps.
- Enter your criteria by typing in your target suburb, area or school catchment and selecting your ideal property features.
- Shortlist properties you like and share your shortlist with your partner.
- Set up property alerts to find out when suitable properties are available, including off-market properties.
- Enquire with agents for price guides, to arrange inspections and to let them know what you're looking for.

Finding the right home is a matter of balancing your needs, wants, and budget.

- DOMAIN -

APPLY NOW

HOME LOANS

BUSINESS LOANS

CAR AND EQUIPMENT LOANS

INTEREST RATES

OWNER OCCUPIER

2.14%

VARIABLE RATE

MIN 10% DEPOSIT AND COSTS

*CONDITIONS APPLY

COMPARISON RATE

2.18%

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison.

THE RBA STARTS RAISING RATES, HOW FAR & HOW FAST, AND WHAT DOES IT MEAN FOR INVESTORS?

The RBA has hiked the cash rate by 0.25% taking it to 0.35% and signalling more rate hikes ahead.

WHY THE RATE HIKE?

What's changed is that the jobs market, with just 4% unemployment and inflation at 5.1%yoy or 3.7%yoy in underlying terms, have been far stronger than the RBA expected. It announced a downwards revision to its unemployment rate forecasts (to 3.5% by early next year from 3.75%) and big upwards revisions to its inflation forecasts (to 6% for year end from 3.25%) and appears to have become more upbeat on wages growth noting "larger wage increases are now occurring in many firms".

WON'T HIKING RATES JUST ADD TO THE COST OF LIVING?

It's true that the rate hike will add to "cost pressures" facing households with a mortgage. But tightening monetary policy by raising the cost of borrowing (or money) in order to slow demand growth relative to supply in the economy is one of the few levers policy makers have in the short-term to reduce inflation.

Much of the surge in inflation owes to pandemic distortions to global supply and goods demand, made worse by the war in Ukraine and the recent floods, which may reverse to some degree at some point. The RBA can't do much about supply constraints but it had no choice but to act to increase the cost of money from near zero.

1. Having a near zero cash rate when unemployment is 4% and inflation is over 5% makes no sense.
2. The experience from the late 1970s tells us the longer high inflation persists the more inflation expectations will rise making it even harder to get inflation down again without a recession.
3. The global backdrop now of bigger government, a long period of ultra-easy monetary policy and big budget deficits, the reversal in globalisation and the demographic decline in workers relative to consumers, all point to a transition from the falling and low inflation world of the last 30-40 years to structurally higher inflation.
4. Waiting till after the election would have left the RBA vulnerable to criticism that it was influenced politically, which could call into question its independence and credibility.

HOW FAR WILL RATES RISE IN AUSTRALIA?

In order to bear down on inflation expectations, we expect another increase in the cash rate in June (probably of 0.25% but it could be up to 0.4%), a rise in the cash rate to 1.5% by year end and to 2% next year, which, all things being equal, will translate to an increase in variable mortgage rates of up to 2%.

The RBA will only raise rates as far as necessary to cool inflation. It knows that high household debt levels compared to the past means households are more sensitive to higher rates and therefore it won't need to raise rates as much as in the past to cool inflation.

> *Moving earlier and faster initially should allow the RBA to slow the pace of rate hikes next year.*

And through next year the combination of fixed rate borrowers seeing a doubling in their interest rate as their fixed terms come to an end and falling home prices exerting a negative wealth effect will start to do some of the RBA's work for it.

WHAT ABOUT THE IMPACT ON THE ECONOMY?

While rate hikes will cause bouts of uncertainty and see economic growth slow down to around 2.5% next year from 4.5% this year, we don't see RBA rate hikes this year as being enough to end the economic recovery and trigger a recession. Monetary policy will still be relatively easy for much of this year at least. It's usually only tight monetary conditions that result in recessions & we are a long way from that.

The strong jobs market will continue to support households, and the household sector as a whole is sitting on around $250bn in excess savings, built up through the pandemic.

WHAT DOES IT MEAN FOR THE SHARE MARKET?

Higher rates place pressure on share market valuations by making shares appear less attractive, early in the economic recovery cycle this impact is offset by still improving earnings growth.

WHAT ABOUT RESIDENTIAL PROPERTY PRICES?

The Australian property market is highly sensitive to the monetary cycle as a result of very high prices and debt to income ratios. We expect the combination of worsening affordability, along with rising mortgage rates to drive a top to bottom fall of 10 to 15% in average home prices from mid-year out to early 2024.

- AMP CAPITAL -

Mortgage & Finance (HOLDINGS) PTY LTD

BOOK YOUR **FREE** APPOINTMENT

Email vicg@betterchoice.net.au