WHAT'S IN STORE FOR 2020?

THE YEAR OF THE EVERYDAY AUSTRALIAN

LJ Hooker Home Loans

2020 TRENDS

It was a tale of two markets this year, pre and post-election. Leading up to the federal election, in May 2019, confidence had been dented by the banking royal commission and debate around proposed changes to negative gearing and capital gains tax concessions. These two factors, combined with tighter bank lending practices, saw buyers pull back from the market and property values decline.

Confidence and market activity then turned a corner, once it was clear there was going to be no changes to property tax policy with the re-election of the coalition government. Activity was then further boosted by the Australian Prudential Regulation Authority (APRA) relaxing mortgage serviceability requirements and cuts in the official cash rate by the Reserve Bank of Australia (RBA).

Looking ahead, property markets in 2020 will be driven by two main factors: interest rates and low levels of properties on the market for sale. Cheap mortgages and looser serviceability requirements will see first home buyers, downsizers and upgraders all reassess their budgets and look to get into the market or move.

TREND #1
The power shift from banks to borrowers

Previously, when applying for a home loan, banks and credit providers would only look at your ability to service the mortgage; in other words, your income. That was before the introduction of Comprehensive Credit Reporting (CCR). Now, borrowers are assessed on their full financial history including income, expenses, defaults and even the person's record and reliability to pay a bill on time.

Also known as Positive Credit Reporting, CCR makes recording positive information on credit histories mandatory. The rollout started with Australia's Big Four (1) banks which were required to share all their credit data by the end of September 2019. By July 2021, all financial institutions offering loans will have to be complying with CCR; but what does it mean for potential borrowers?

"Consumers with a good credit score will have the power to capitalise on competition to negotiate better rates, borrow more, and potentially secure their dream house."

Historically, a person's credit report or score was all about bad marks. However, the introduction of CCR, which determines whether an individual is financially responsible or not, completely changes the story from a financial institution.

Firstly, thanks to the positive credit data now being tracked in credit reports (bills paid on time, low balance on credit cards, debts paid off, etc), financial hiccups will become easier to recover from.

(1) Australia and New Zealand Banking Group (ANZ), Commonwealth Bank of Australia (CommBank), National Australian Bank (NAB), Westpac.

But more importantly, responsible consumers should see their credit scores get even better, giving them more leverage when negotiating a product from a financial institution.

As lenders will have a broader understanding of an individual's ability to repay debt, they will be able to assess their risk profile more comprehensively. This change will in-turn see mortgage providers start chasing the "good pupils". They will want to attract and retain the safest borrowers, the ones who appear to be financially healthy, but who are not necessarily the ones with the highest income or buying power. Thus, we will see the power progressively shift from banks to borrowers. The financially mature, responsible consumers will finally get a chance to be rewarded for their good marks.

New opportunities will arise for individuals able to prove healthy financial behaviours. By showcasing a good credit score, they will have the power to capitalise on competition to negotiate better rates, borrow more, and potentially secure their dream house.

With these changes in mind, people who might not be ready to buy in 2020, but who are planning to invest in the next five years, should anticipate their move.

How? By making sure they do everything in their power to improve and maintain the highest credit score possible. This way, when the right time comes, they will be in the best position to negotiate the terms and rate of their future home loan.

TREND #2
Renters become home owners

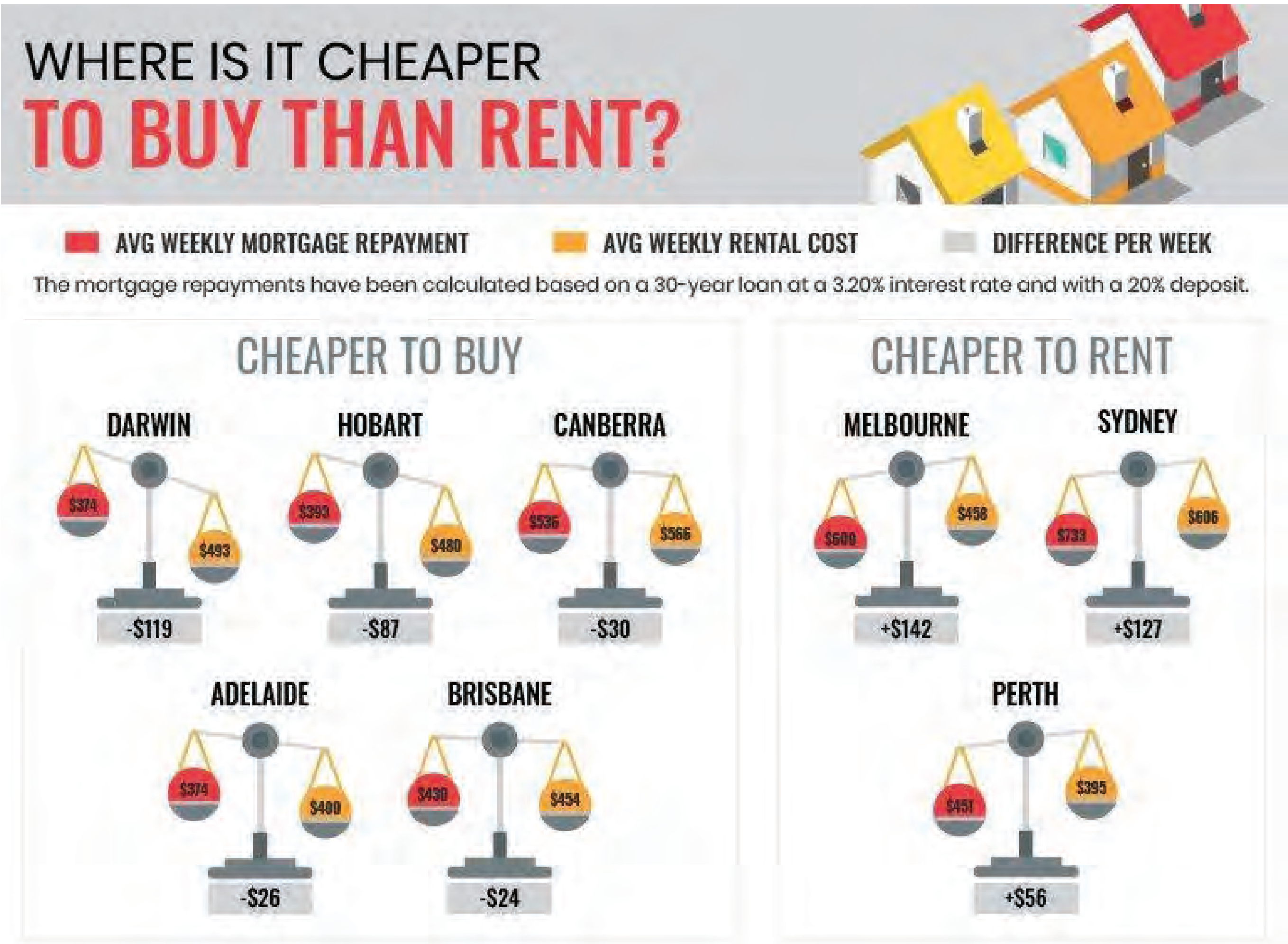
Record low interest rates, APRA softening mortgage serviceability requirements, and property prices below their 2017 peak have made weekly mortgage payments cheaper than weekly rents in most capital cities.

This has seen more tenants, first home buyers in particular, consider the switch from renting to purchasing a home. And this trend is likely to gather further momentum in 2020 as the federal government rolls out its much anticipated First Home Loan Deposit Scheme, which will help 10,000 first home buyers get into the market quicker.

Moreover, to encourage borrowing, APRA released some pressure on applicants and amended its guidance on residential mortgage lending. Up until June 2019, because the market had been running hot for a few years, borrowers were assessed on their capacity to service a mortgage with an interest rate of 7.25 per cent.

This has since changed to a rate of 2.5 points above the quoted interest rate (e.g., 6.5 per cent if the interest rate is 4 per cent), making borrowing accessible to more people, but also allowing applicants to borrow more.

Add to this interest rates reaching a record-low that should fuel demand from all buyers' types, prices still 10 per cent below the 2017 peak, but also the option for 10,000 buyers on low or middle incomes to benefit from the First Home Loan Deposit Scheme, and 2020 appears like the year to make a move. Despite prices beginning to rise, all these changes provide opportunities to buy at a more affordable level. Furthermore, some states also offer first-time buyer grants and stamp duty exemptions.



Source: LJ Hooker Research

Let's look at the figures. At a national level, considering the median house value and house rent, first home buyers able to get a 20 per cent deposit would save an average of $3 per week with a 30-year loan term offering a 3.20 per cent interest rate. With a 10 per cent deposit and the same mortgage terms, they would only pay an extra $51 per week or $2,652 per year.

Not surprisingly, these figures vary from one region to another, and some capital cities offer more opportunities than others. For example, with a 20 per cent deposit and the same contract, first home buyers would save money weekly in Darwin ($119), Hobart ($87), Canberra ($30), Adelaide ($26) and Brisbane ($24). In Darwin and Hobart, even a 10 per cent deposit would suffice to save money on housing costs, respectively $73 and $38 per week.

In Perth, however, where prices started falling after the end of the mining boom, they would still need to spend an extra $54 per week to trade-off rental payments for mortgage payments.

Similarly, in Sydney and Melbourne, where the median house values are high, making the switch from renting to owning would respectively cost an extra $127 and $142 per week, or $6,604 and $7,384 per year.

No matter the area, and even if prices should continue to rise, all indicators are green to make the leap in 2020, with affordability still quite good compared to where it was. Renters willing to buy their first home will have everything to gain by taking action in the coming year, starting with a decrease in their housing costs.

But what if, despite all these favourable signals, they can't afford to buy where they live? Then two alternatives have seemed to take shape in the past year: either move to a nearby, more affordable suburb, or make a bigger move and relocate to a regional area, where opportunities to enjoy a similar lifestyle could be at a much more affordable cost.

"Paying a mortgage has now become comparable to the cost of renting a property."

TREND #3
The regional rush

Despite recent price declines, median prices across Sydney and Melbourne remain elevated when compared to other capital cities and regional centres. And with prices in our two largest cities continuing to rise, 2020 will see the migration to regional areas accelerate once again.

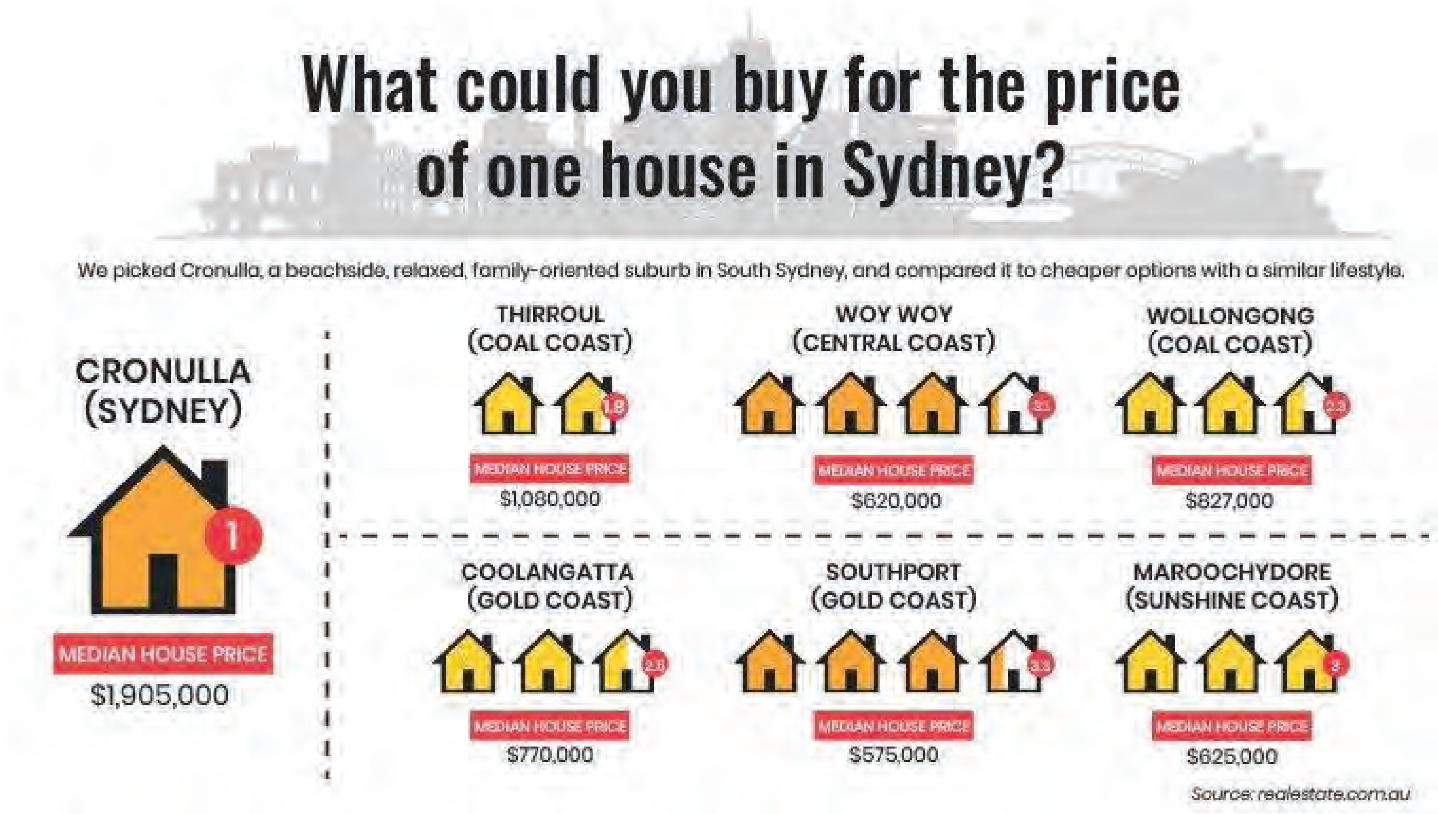
More and more first time buyers, young families and retirees will rule out purchasing in a capital city. Instead, they will seize the opportunity to move into regional markets as they can provide a similar lifestyle to their preferred capital city, but at a more affordable price.

Looking beyond the city limits therefore becomes a serious option for buyers wanting to get more for their money. They want to find a location where they can enjoy the same lifestyle, without the mortgage pressure that comes with buying in a capital city. By making a move to a regional area, these households will allow themselves to purchase a home without sacrificing their standard of living comfortably.

Someone living in Cronulla (Sydney) for example, where the median house price now reaches $1,905,000, could look into buying in the Wollongong area, where the median house price is almost three times cheaper, at $678,000.

The same way, whether work would be a barrier or not, a move to the Gold Coast or the Sunshine Coast could also make sense. These regions offer the same beachside lifestyle, but with a median house price of respectively $627,500 and $600,000.

Of course, changes in the way we live contributed to an acceleration of the regional rush, starting with the increased flexibility and digitalisation of the workplace. With more and more companies offering flexible work arrangements such as part-time opportunities, flexible hours or the option to work from home, one of the main barriers to moving out of the city has now faded away.



> "By making a move to a regional area, these households will allow themselves to purchase a home without sacrificing their standard of living comfortably".

Additionally, commutes will significantly improve in the coming years. With its 2019/20 Federal Budget allocating $100 billion to infrastructure over 10 years, the Australian Government showed its intention to better connect major capital cities with surrounding regional centres. Spending will focus on several fast rail projects, road safety initiatives and highway upgrades, with the biggest beneficiary being regional Australia.

Geelong, for example, will benefit from the upgrade of Avalon Airport, as well as the $2 billion super-fast rail line to Melbourne. Similar developments will significantly improve commute times between Brisbane and the Gold Coast (32 minutes, instead of 74 today), Brisbane and the Sunshine Coast, Sydney and Wollongong or Sydney and Newcastle. Even if these projects will take a few years to come to life, they already contribute to making regional areas even more attractive.

"We're seeing people move to Drysdale and The Bellarine to give their families the liefstyle opportunities Melbourne can't provide. Close to Drysdale, we have world-class wineries, four top-ranked golf courses and surf beaches. Within 20 minutes, you can be in Geelong with three hospitals, Deakin University, government headquarters and corporates. Employment prospects are strong and facilities are available for growing families."

- Alastair Thomson, LJ Hooker Drysdale

To discuss any aspects of this report or if you have any questions around buying or investing in property, please speak to one of our local property lending specialists.

ljhookerhomeloans.com.au

LJ Hooker Home Loans