

16 March 2010

Edition *Eight*

Property prices on the rise...

We've all heard how NSW is in the grip of a significant housing shortage - due largely to an increase in general population growth, cross border migration and of course record overseas immigration which the government recently announced is likely to contribute to Australia's population hitting 35 million by 2050.

This coupled with a lack of new land releases and mountains of government-required developer red-tape (when new land releases are finally issued), mean that new developments take much longer and cost much more than they necessarily should.

All this demand and lack of supply is once again driving an increase in property prices. Matthew Bell, economist with Australian Property Monitors said recently that property owners will continue to see their investment grow in 2010 with house prices already exceeding pre-global financial crisis levels by nearly 3% nationally, and this growth is expected to continue.

What's more with Australia largely fairing well through the Global Financial Crisis (GFC) and being the first Western nation to raise interest rates where does that leave the average property owner? Higher property prices and higher interest rates predictably mean a decrease in housing affordability for many.

* Property Prices Forecast to Soar 2010, NMD Data Newsletter January 2010.



Above: Fairway Gardens, Kellyville

Is it time for an overhaul of the way we borrow money to fund the family home?

With three rate rises in late 2009 and additional increases in store for 2010 it is estimated that more and more Australian households will face some form of mortgage stress. Fujitsu Consulting managing director Martin North estimates there are 377,960 Australian households classified as being under mild mortgage stress, or those defined as being able to make loan repayments, but forced to cut back on spending or dangerously increase the credit card usage [uu](#).

When the Reserve Bank announces the next 0.25 per cent hike, Mr North's key mortgage report^[1] estimates 26,000 of those 377,960 households will be reclassified as being under severe mortgage stress, joining the 199,000 already struggling to make their repayments and considering selling their property.

We've already had the first interest rate rise for 2010 and further interest rate rises are inevitable so where does that leave the average home owner with a variable interest rate mortgage? Should we as a public be asking the government and the lenders to review the way they lend - can we count on the banks to champion such a scheme? In many ways the first and inexperienced home borrowers need protection from the system (given that lax lending policies of financial institutions - predominantly overseas - created the GFC in the first place.)

Is it time that the government and the financial institutions took responsibility and ownership of the part they play when lending money rather than the responsibility solely lying with the borrower?

Perhaps the government could legislate that all Australian home loans below \$1 million have fixed interest rates or at the very least were capped for a set period of time. This would protect those most vulnerable from the disaster of future interest rate rises. If the market was given six months notice of the impending changes we wouldn't need to worry about the lack of competition in the fixed interest rate market as the home loan market would quickly adjust to more competitive rates for that type of product.

This would ensure that when the Reserve Bank inevitably raises interest rates, the majority of home owners are guaranteed peace of mind in knowing that their loan won't increase above a certain percentage. In turn allowing them to better budget thus resulting in the number of mortgage sales being drastically reduced.

It seems that there is only one capped loan in the Australian market to date provided by Bank West. If the larger financial institutions (including Bank West owner Commonwealth Bank) listen to what consumers want they might find there's demand for this type of product in the market.

We certainly don't want to appear to be 'bank bashing' and we've seen of late that financial institutions are re-evaluating their Loan to Value Ratios (LVRs) as a result of the GFC with most decreasing their LVRs to at a maximum of between 90 - 95% from high's of up to 98 - 105%.

[1] Families face interest rate rise pain, Andrew Carswell, Business Reporter, The Daily Telegraph, 2 February 2010

[2] Anatomy of Australian Mortgage Stress, Fujitsu Consulting

SO WHERE SHOULD THE RESPONSIBILITY SIT?

Should it sit with government, financial institutions or borrowers?


Is it the responsibility of the government through bodies, such as the Australian Prudential Regulatory Authority (APRA), to step in and set more stringent lending guidelines for financial institutions?

Realistically, the financial institutions are unmotivated to change things dramatically when lenders with higher LVRs are required to take out Lenders Mortgage Insurance designed to protect the lender and not the borrower.

Maybe it's time the Government stepped in ...

Are you in the market for a new home or investment?

Capital Residential currently has two projects in the Kellyville area. With a mix of property catering to families, professionals, investors or empty nesters these homes (built by award winning builder Eden Brae Homes), are ideal for entertaining and provide fully landscaped courtyard gardens which complement the first class interior finishes and designer fittings.

 <p>CAPITAL RESIDENTIAL</p>	<p>Contact Capital Residential on 8853 5000 or email enquiries@capcorp.com.au to find out more today.</p>
---	--



Above: York Estate, Kellyville

For any further information contact Capital Corporation on (02) 8853 5000

www.capitalcorporation.com.au

2010 Capital Corporation Pty Limited. Whilst all effort has been undertaken to ensure the accuracy of the content of this email, Capital Corporation takes no responsibilities for errors or omissions. The information given in this email is provided in good faith and without any liability for loss or damage suffered as a result of its application and use. To unsubscribe from this mailing list please reply to nomoreemails@capcorp.com.au with your full name in the body of the email, to be deleted from our database please put subject as delete and you will be taken off this list within 48 hours.