Did APRA save Australia from a property price crash?

Contrary to the doomsday forecasts, the reality of the Australian property market in the latter part of 2017 was more of a soft landing than a price crash, thanks largely to some sophisticated market intervention from APRA

WITH runaway housing price growth leading to increased speculation of a market collapse over the past 18 months, many investors and homeowners have been living in fear that the so-called property bubble might burst.

While in the past the Reserve Bank has tempered markets by raising interest rates, it has been reluctant to do so as, in the current climate, this would also slow down a still-fragile economy. Instead, a more discerning mode of intervention was required to take the steam out of the property market without prompting economic disaster.

In a cunning move targeting precisely the overheating part of the economy, the Australian Prudential Regulation Authority (APRA) stepped in with a suite of measures to cool the property market without putting the brakes on the economy as a whole. It was dubbed a "scalpel intervention" by Andrew Byrnes, chairman of APRA, and though it might have hurt investors and some homeowners at the time, it worked.

The macroprudential measures included forcing the banks to cap investor growth at 10%, while also limiting interest-only lending to 30% of new loans in an attempt to temper price growth fuelled by investors.

The regulator also sought to limit high loan-to-value ratio (LVR) loans within the interest-only category, insisting that the banks reduce the number of 80% LVR loans they approved, and conduct "strong scrutiny and justification" of any loans with an LVR of more than 90%.

These measures are significant at a time when interest-only borrowing makes up almost 40% of the Australian mortgage market. Thanks to the tax benefits of our negative gearing policy, we have some of the highest rates of interest-only lending in the world. The new measures from APRA have put the brakes on investors and homeowners alike, resulting in a soft landing as opposed to a dreaded market crash.

The results of these changes are already evident, with the median house price in Sydney falling 1.9% in the three months to September 2017, and auction clearance rates dropping thanks to fewer investors and over-excited home seekers with FOMO (fear of missing out) in the crowd.

One of the aspects of these changes I most supported was when APRA encouraged banks to use loan affordability tests, brandishing an interest rate buffer of at least 2%, with a minimum of 7.25% when assessing whether borrowers could afford to repay a loan. As investors, the last thing you want is to end up under mortgage pressure, so this type of loan stress test makes sound financial sense.

Many investors were impacted by these interventions, as it changed the lending landscape to the point where someone with pre-approval at the beginning of the month may no longer have qualified by the end of the month. Although this is causing a lot of frustration and pain, I believe these measures are good for Australian property and the economy overall – and, ultimately, they have saved the market from a far worse fate. YIP

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OUR EXPERT

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