



Australia Update

May 26, 2010

First Cracks Appear in Aussie Housing Market

- » Declining foreign interest and tighter domestic policy has sapped momentum in Australia's property market.
- » First-time buyers and investors are withdrawing from the market. Housing finance commitments have slumped to a nine-year low.
- » The likelihood of a U.S.-style housing market collapse in Australia remains remote, but house prices stagnating appears increasingly likely.

Declining foreign investor interest and tighter domestic policy appears to have sapped momentum in Australia's housing market. Local market expert [Curtis Associates](#) muses about a recent auction in an inner city suburb of Sydney that not only failed to attract any registered bidders, but also failed to attract a single onlooker—the auctioneer left wondering whether the real estate agent had advertised the wrong date.

While horror stories like these may not be typical, there is a growing sense that Australia's housing market has stalled. In the Reserve Bank of Australia's haste to withdraw monetary policy stimulus from the recovering economy, its six successive interest rate increases have pushed the standard residential mortgage interest rate above its average of the past decade; more importantly, beyond the mooted 7.5% threshold at which investors withdraw from the market because of insufficient returns to offset risk.

The government's withdrawal of generous first-time buyer concessions, which last year prompted a large bring-forward of demand and spawned exuberance in the most vulnerable market segment, has left an inevitable gap in demand for housing in 2010. Recent housing finance data show first-time buyers as a proportion of all dwellings financed have fallen back below the decade average. Similarly, the number of owner-occupied housing finance commitments more broadly have slumped to a nine-year low in response to higher interest rates.

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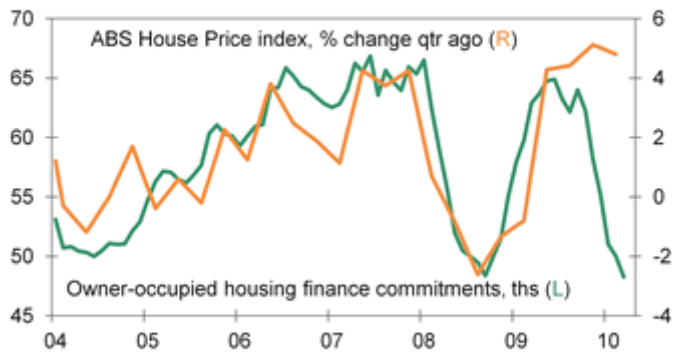
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Lending Warning of Imminent Downturn

Lending finance and house price appreciation



Source: Australian Bureau of Statistics

House price appreciation has historically demonstrated a high correlation with growth in housing finance; the dramatic decline in new financing commitments in recent months suggests an imminent period of subdued property market activity looms. Meanwhile, [foreign market interest](#) has all but evaporated following the government's hurried tightening of investment rules and the onset of Europe's debt crisis. The chance of a U.S.-style housing collapse in Australia is remote, but a period of softer or stagnant house prices is likely. In any event, the [20% appreciation](#) in Australian house prices last year will not be repeated in 2010.

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