

real estate wrap

Your guide to what's happening in the Dubbo market

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First home-buyers: largest share of loans on record

Housing finance: Consumer sentiment

- The number of new housing loans rose by 3.5 per cent in January. The average new home loan stood at \$251,100 up 7.4 per cent on a year ago. The value of construction loans increased by 2.5 per cent while loans for the purchase of established dwellings rose by 3.9 per cent.
- First home buyer interest remained strong, with 38,687 contracts being signed in the three months to January – the best three month result since February 2002. First homebuyers are now making up 26.5 per cent of all dwellings financed – the highest reading in records going back 17½ years.
- Consumers remain rather pessimistic about the current economic outlook with sentiment falling by 0.2 per cent to 85.6 in March.

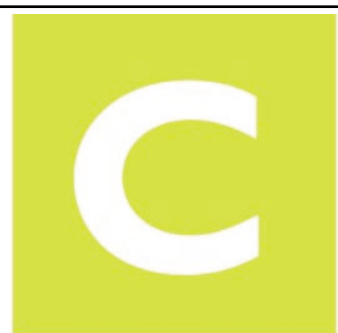
What does it all mean?

- The latest round of housing finance figures has confirmed a sustained improvement in activity in the housing sector over the last few months. Overall, the total number of new housing loans posted the best result in nine months – an encouraging sign that rate cuts and government stimulus were causing budding homebuyers to sign on the bottom line.
- Prospective home-buyers are certainly finding the current conditions quite attractive and first home-buyers are attempting to take advantage of the current environment. Over the last three months almost 40,000 properties have been purchased by first home buyers – the best result in 8 years.
- Unemployment is expected to rise over the coming year but housing related jobs such as builders, tradesmen and even real estate agents are likely to see plenty of work over coming months. And first home buyers are certainly doing their part in ensuring the housing sector remains well supported. First homebuyers are now making up almost 27 per cent of all dwellings financed – the highest reading in records going back 17½ years. The additional first home-buyers grant and the substantial savings on stamp duty are ensuring that the housing sector remains well sustained.
- The concerted efforts by the government and the Reserve Bank to stimulate the economy are having the desired effect. And with the potential for rates to ease further over the next few months, it is likely that activity in the housing sector should continue to strengthen. Job security remains the one major concern for budding home buyers. If employment manages to hold up relatively well in coming months, demand for homes should gain significant momentum.
- Consumers remain rather despondent as the deluge of bad news continues to weigh on sentiment. Consumer sentiment has remained in recession territory for over a year, and it is unlikely to turn around anytime soon. The global recession shows no signs of turning around and the latest result is surprisingly strong considering the weakness in markets and the global economy over the last couple of weeks.
- The confirmation of a substantial government handout has been able to buffer the considerable amount of bad news that has hit consumers. The possibility of job losses is likely to weigh heavily on the outlook for the economy. With most of our global trading partners already in recession territory, if Australia manages to avoid a recession it will be nothing short of an extraordinary result.
- No doubt the Reserve Bank would have been heartened by the improvement in the latest housing data. However with the global economy remaining in a dire state, and consumers seeming to feel rather pessimistic, further rate cuts and government stimulus will be necessary to support the domestic economy. CommSec expects further rate cuts of at least 50–75 bps at the next meeting in April.

What do the figures show?

- Housing finance: The number of new housing loans rose by 3.5 per cent in January to a nine month high of 55,628 after rising by 6.7 per cent in December.
- Construction loans rose by 2.5 per cent, while the purchase of newly erected dwellings fell by 1.4 per cent, loans for the purchase of established dwellings rose by 3.9 per cent, which was hindered by a 1.0 per cent fall in refinancing.
- The value of new commitments rose by 0.7 per cent in January to \$18.9 billion. Investment loans fell by 3.8 per cent while owner-occupier loans rose by 2.3 per cent.
- The value of home loans approved but not advanced rose by 0.1 per cent to a record high of \$41.7 billion and stands 11.4 per cent up on a year earlier.
- The average loan stood at \$251,100, up 7.4 per cent on a year ago – just below the decade average of 7.7 per cent. The average loan by first home-buyers fell by \$1,700 to \$268,100 in January and stands 15.7 per cent higher than a year ago. The market share of first home buyers continued to increase. With first homebuyers making up 26.5 per cent of all dwellings financed – the highest reading in records going back 17½ years.
- Banks financed 92 per cent of all home loans (by value) in January – a record 33 year high.
- The index of consumer sentiment fell by 0.2 points or 0.2 per cent to 85.6 in March. The sentiment index is tracking back towards the 17-year low of 79 hit in July. The consumer sentiment index is down 3.4 per cent on a year earlier.
- The current conditions index fell by 6.8 per cent, while the expectations index rose by 5.0 per cent.

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choice
HOME LOANS
What is Your
Resolution?

- Become debt free?
- Rearrange/organise your finances?
- Relocate?
- Purchase an investment property?
- Purchase a new business?

Start 2009 with a fresh start
and let us help you achieve your
financial resolution.

Life is all about choice

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Did You Know...

The best time for a person to buy shoes is in the afternoon. This is because the foot tends to swell a bit around this time.



The first Tupperware item marketed was the seven-ounce bathroom cup in 1945.

www.amusingfacts.com

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- Only one of the five components of the index improved in March. The survey on economic conditions over the next five years improved by 15.2 per cent.
- The estimate of family finances compared with a year ago fell by 11.4 per cent while the estimate of family finances over the next year fell by 0.3 per cent. The survey on whether it was a good time to buy a major household item fell by 3.3 per cent. Economic conditions over the next 12 months fell by 1.2 per cent while economic conditions over the next 5 years fell by 17.9 per cent.

What is the importance of the economic data?

· Housing Finance data is produced monthly by the Bureau of Statistics and shows commitments by lenders, such as banks, to provide finance for housing purposes. The lending figures relate to those looking to buy or build homes to live in as well as those seeking to buy or build homes for investment purposes. Generally people get their finance organised first, so the figures are regarded as a leading indicator on the housing market.

· Westpac and the Melbourne Institute release the Index of Consumer Sentiment each month. Roy Morgan conducts a survey of consumer confidence. Both surveys are aggregated from responses to questions on the current and likely future state of family finances, current and likely future state of the economy and whether it is a good time to buy a major household item. Confident consumers may be more inclined to spend, especially on major items.

What are the implications for interest rates and investors?

· No one should under-estimate the impact of the global financial crisis on the Australian economy. While significant fiscal and monetary stimulus is being applied to the economy, more efforts to boost activity will be required. CommSec expects rates to be cut by another 50-75bps at the next Reserve Bank meeting in April.

· The outlook for housing dependant companies is likely to improve over 2009 as construction activity continues to gain momentum.

Source Craig James, Chief Equities Economist, CommSec

INTEREST RATES: How low can they go?

Have we reached the bottom of the interest rate cycle and what does that mean for your home loan?

Interest rates are at a 45 year low. The Real Estate Institute of Australia (REIA) has just recorded a significant improvement in housing affordability. Could there possibly be a better time to take out your first mortgage?

"Our data shows that average Australian households were paying in excess of \$300 a month less for their home loan at the end of December than they were three months earlier," says REIA president, Noel Dyett.

Lower rates and improved affordability are fantastic news for existing and first home buyers but they also raise a range of questions about the type of home loan you should choose and how to manage your mortgage to make the most out of this opportunity.

Why are rates so low?

Ongoing financial turmoil forced the Reserve Bank of Australia (RBA) to reduce interest rates by 4% between August 2008 and February 2009. In his February statement RBA Governor, Glenn Stevens explained the RBA had decided to lower rates in an effort to "...give further support to demand ...[and] help to cushion the Australian economy..."

Head of consumer advocacy for Resi Home Loans, Lisa Montgomery, says "Obviously the RBA wants to reinvigorate consumer confidence."

The lower interest rates have been put in place to free up that spare money for spending that will lead to increased consumer demand and stimulate economic activity and growth.

Will rates go lower?

The RBA then left rates on hold at its March meeting but Montgomery says it is Resi's view that "we probably have another couple of cuts to go before we see rates stabilise."

"We have had economists saying the official cash rate will drop to 2% before September 2009 and it is Resi's view that it will be between 2 and 3% by September but the question for borrowers is whether lenders will be able to afford to pass on any further interest rate cuts," she says.

According to Montgomery lenders' "cost of funds" – the rate they have to pay to borrow money on the capital market in order to on-lend to consumers – remains prohibitively high and that could prevent the passing on of further rate cuts to home buyers.

So should I borrow now?

Montgomery says first home buyers have become the "new black" with a raft of new loans targeted at first-time borrowers who are taking advantage of lower rates and the Federal Government's First Home Owners Grant Boost.

"We're starting to see a paradigm shift in how borrowers are thinking," she says. "Mortgage rates are now down to around 5% but borrowers are also looking for service, low fees, flexibility and features. I think right now there are some good deals out there."

Fixed or variable loan?

Montgomery says Resi's view is that it is still too early to enter a fixed-rate mortgage at the moment, and that the best deals currently available for first home buyers are the introductory rate loans provided you make sure they don't have a sting in the tail.

"Look at the comparison rate. It is very important for you because it will give you the real cost. Look at how long the introductory rate will last and make sure the rate the loan reverts to at the end of the introduction won't be higher than the average standard variable rate is now," she says.

Jackie Pearson - www.ratecity.com.au - 11 March 2009