

## Update on the Housing Market

The purpose of this report is to provide an update of the housing market and how our Research Team believes it will evolve in 2021.

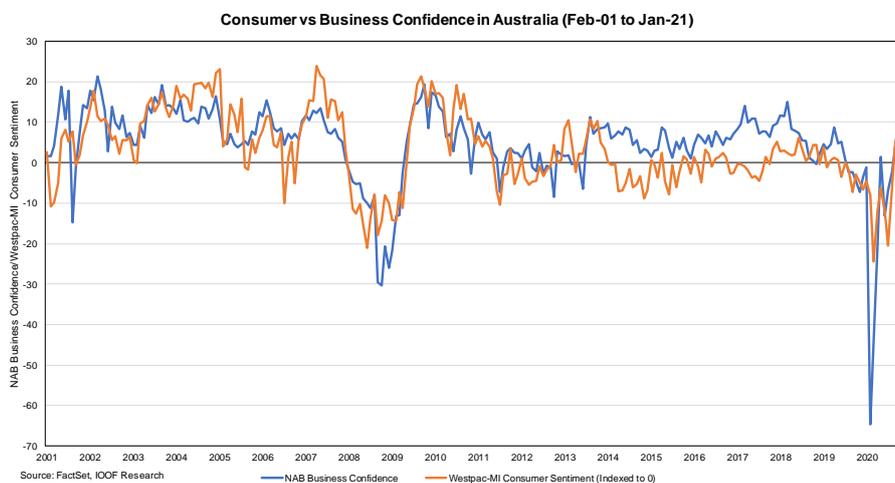
Whilst property prices generally declined throughout most of 2020, they have since rebounded.

### Why have house prices rebounded?

#### 1. Effective containment of pandemic and reopening economy

Since the first wave of Australian cases in March-April 2020, subsequent outbreaks have generally been quickly and effectively contained, the Melbourne second wave is one of the main exceptions. We believe the combination of improving management of the virus and the rollout of the vaccine programme in late February 2021, should ensure further outbreaks remain well contained. More virulent strains pose a potential risk although early signs are that the vaccines should limit the damage that these could cause.

Effective management of the coronavirus through short term lockdowns has resulted in restrictions on personal and business economic activity being less disruptive than initially feared. This has not only had a positive financial impact but has also improved personal and business confidence.



#### 2. Government support helps offset damage done

Government support has helped offset or reduce the economic damage of lockdowns led by the **JobKeeper** (wage subsidy) and **JobSeeker** (unemployment benefit supplement) initiatives. These programmes were combined with many lenders offering a deferral of repayments last year for both mortgages and small business loans. These measures were critical in supporting households to maintain financial security, including managing their debt, during the most stringent lockdowns.

*Your trusted partner on the journey to financial security.*

Level 1, 633 Logan Road, Greenslopes QLD 4120 | PO Box 162, Carina QLD 4152

T 07 3160 2600 | F 07 3036 4623 | [info@tileawealth.com.au](mailto:info@tileawealth.com.au) | [www.tileawealth.com.au](http://www.tileawealth.com.au) | ABN 92 034 065 376

Tilea Wealth Pty Ltd t/as Tilea Wealth Financial Services is an Authorised Representative of Consultum Financial Advisers Pty Ltd | ABN 65 006 373 995 | AFSL 230323

Other support measures were also put in place for the housing and construction sector. Grants to underwrite the construction of new homes or major renovations (such as the **HomeBuilder** program) have been a catalyst for improving consumer confidence in the housing market and cushion the housing construction industry (a major employer nationwide).

Programmes designed to support financial institutions allowed lenders to access financing at low interest rates. The Reserve Bank cut rates three times in 2020 to a historical low of 0.1% This encouraged lending by banks, particularly home mortgages.

### 3. Uptick in mortgage lending

Mortgage finance is a strong short-term predictor for property prices, as illustrated below. Current strength in mortgage lending suggests house prices are likely to trend higher in the near term (the next year).



These factors supported domestic demand (and prices) for housing, which has been critical given the demand shock from stalled overseas immigration due to border closures.

### What themes do we expect in 2021?

Some key themes that have emerged during the pandemic and are expected to continue into 2021. These include:

- Regional housing prices rising at a stronger rate than capital city prices given:
  - Immigration from urban centres such as Sydney into regional areas due to lifestyle considerations and more flexible working arrangements, and;
  - better housing affordability, an opportunity for a lifestyle upgrade and lower density housing options; all boosted by the “working from home” dynamic.
- Outperformance of houses over units’ price growth given:
  - Reduced levels of investor participation, especially in the Sydney and Melbourne markets (which tend to attract considerable overseas interest); and
  - elevated supply of units versus stronger demand for larger housing options.

- Rental demand and growth, especially for units, given disruption to rental demand from reduced overseas migration.

Whether these trends are permanent remains to be seen. The timing of overseas migration resuming will be one key factor and the other still-open question is whether a shift to remote working becomes a common and sustainable practice.

## **Summary**

For prices in general we expect continued growth in the near term. Houses are likely to be favoured over units given the meaningful demand shortfall with border closures and excess capacity in some markets. Longer-term we note that Australian houses remain highly indebted (amongst the highest levels in the world) which should constrain the amount of further credit growth we see in the longer term. This may favour other markets outside the more expensive values assigned in Sydney and Melbourne.

Please contact us if you have any questions or would like further information, **07 3160 2600** or email [info@tileawealth.com.au](mailto:info@tileawealth.com.au).

### **Disclaimer**

The information provided is general in nature. It has been prepared without taking into account any of your individual objectives, financial situation or needs. Before acting on this advice you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs. This publication is prepared by IOOF for Consultum Financial Advisers Pty Ltd ABN 65 006 373 995 AFSL 230323. This publication is not available for distribution outside Australia and may not be passed on to any third person without the prior written consent of the Advice Licensees. The views expressed in this publication are solely those of the author, IOOF's Research Team. They cannot be reproduced in any form without the express written consent of the author.