Research
Macquarie Wealth Management

Investment Strategy Update #49

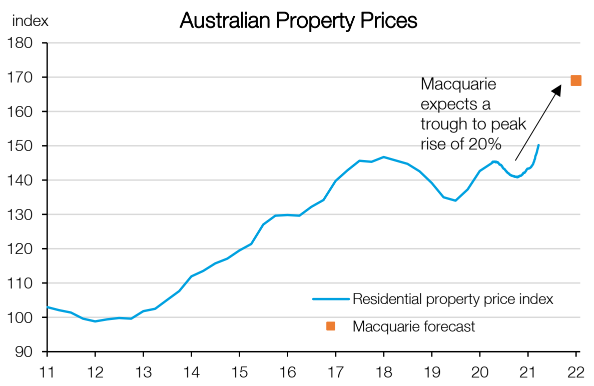
House price gains to continue into 2022

- Macquarie has upgraded their outlook for Australian housing prices and are now expecting a trough-to-peak rise of ~20% by year end 2022 (versus a previous forecast of 10-12%).
- House prices are being boosted by a combination of factors including low rates, a higher capacity to pay and FOMO (fear of missing out), made worse by low supply.
- Very cheap credit for an extended period of time will remain a key tailwind for housing prices, although rising risks of tighter macro-prudential policies will (ultimately) present a headwind. However, while the RBA has not yet signalled their concern, they will be watching closely.
- Rising house prices are an important channel for consumer confidence and more broadly, consumer spending within the economy. As the labour market continues to normalize, elevated asset prices (both housing and the equity market) will provide strong comfort for consumers to loosen the purse strings.
- There are a number of direct and indirect beneficiaries from ongoing strength in the housing sector. Banks will benefit from rising credit growth, the building and construction materials sectors will benefit as activity picks up (multi-dwelling in particular), real estate agents and advertisers will remain well supported as will retail areas exposed to housing consumption.
- We identify a number of likely winners to emerge from on-going housing price growth including: CSR, Domain Holdings Australia, GWA Group, Mirvac Group and Peet.

Macquarie now anticipates a trough-to-peak rise in national dwelling prices of ~20% by the end of 2022 (versus previous forecast of 10-12% rise) – see *Australian Housing Price Outlook - A perfect storm, 10 March 2021*. Price gains are expected to be front end loaded into 2021, with housing price data suggesting dwelling prices are to be ~7% higher than the September 2020 trough by the end of March – the fastest monthly rate since the late 1980s.

This rise in house prices is supported by a combination of factors including ultra-low interest rates, RBA guidance for no near-term cash rate hikes, households' higher capacity to pay and FOMO (fear of missing out) spurred by low supply.

Dwelling prices to rise strongly by year end 2022

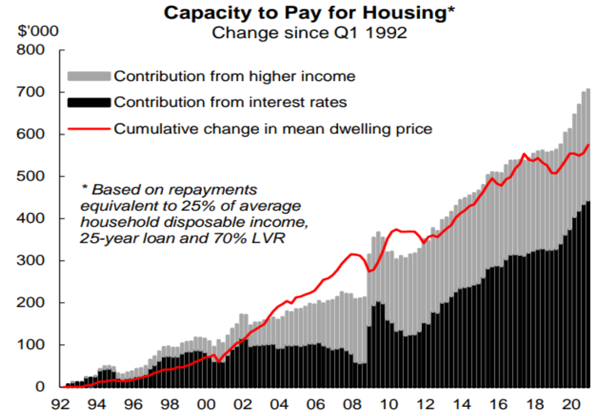


Source: ABS, CoreLogic, MWM Research, March 2021

Higher capacity to pay push prices higher

Capacity to pay is typically gauged using average household income, mortgage interest rates and base assumptions on loan to value (LVR) and loan maturity. Based on those metrics, the average households' capacity to pay for housing has risen noticeably (over 250% since 2008), with the decline in interest rates (and mortgage rates), further supported by household income that has not declined like in a normal recession given the support of unprecedented government stimulus.

Capacity to pay boosted by low interest rates



Source: ABS, RBA, Macquarie Macro Strategy, March 2021

Dwelling values back to peak prices

Regional dwelling prices have now recovered to peak 2019 levels, with majority of capital cities also back at peak or not far behind. Sydney dwelling prices remain on track for a near 4% m/m rise in March, which would make it the fastest monthly increase since the late 1980s. While housing construction and renovations have been strengthened by pent-up domestic demand and policy support, higher-density housing in metropolitan areas is likely to face headwinds from significantly weaker net immigration while borders remain closed.

Dwelling values mostly back to pre-COVID levels

		% Change from		
	Median value	Peak	Trough since 2018	2015
Sydney	$ 868,000	-1.3%	16.0%	29%
Melbourne	$ 740,000	-1.8%	11.1%	32%
Brisbane	$ 525,000	At peak	8.8%	15%
Adelaide	$ 490,000	At peak	9.0%	19%
Perth	$ 478,500	-16.9%	6.5%	-16%
Hobart	$ 567,000	At peak	23.4%	58%
Darwin	$ 470,000	-23.0%	13.8%	-21%
Canberra	$ 663,000	At peak	18.3%	36%
Regions	$ 460,000	At peak	12.2%	24%
National	$ 585,000	At peak	12.1%	23%

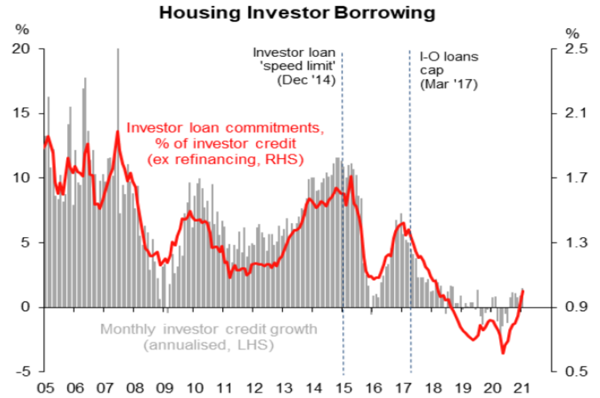
Source: CoreLogic, MWM Research, March 2021

Macro-prudential measures a risk later this year?

While borrowing activity by housing investors has come back significantly over a relatively short period, it is bouncing back from very low levels and remains well below previous levels when APRA implemented ‘speed limits’ on investor housing credit growth and interest-only lending. Although some forward-looking indicators suggest that housing price growth should soon moderate, very cheap credit for an extended period should remain a key tailwind in our view.

Even if the types of borrowing traditionally perceived as riskier by regulators (investor and interest-only) remain well behaved, Macquarie believes the possibility of ‘speed limits’ being introduced on high-LVR (loan-to-value ratio) or high-DTI (debt-to-income) borrowing have increased (these haven’t been used before in Australia).

Borrowing levels still below previous APRA 'speed limits'

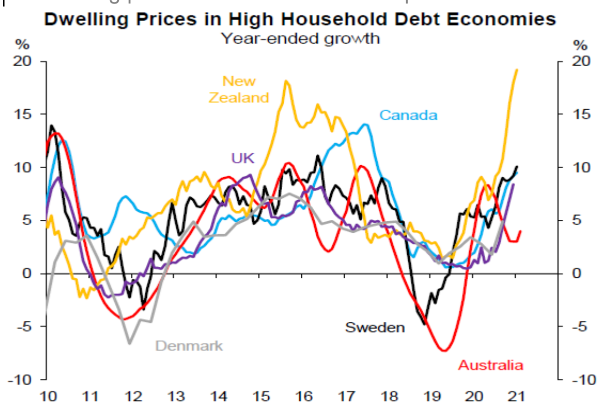


Source: ABS, RBA, Macquarie Macro Strategy, March 2021

Nevertheless, Macquarie does not see tighter macro-prudential policies as an issue until later this year. Although the risks towards earlier action have increased, particularly if housing price growth does not slow in coming months (because where housing prices go, credit is inevitably involved), the RBA has reiterated that *“(they) do not target housing prices, nor would it make sense to do so”*.

However, the RBA and APRA will be monitoring New Zealand closely to see how effective the reintroduction and tightening of LVR restrictions is in cooling its red-hot housing market.

NZ housing prices have boomed in comparison to Australia



Source: CoreLogic, Macrobond, Macquarie Macro Strategy, March 2021

Macquarie WM Investment Strategy Team

The report was finalised on 23 March 2021.

Recommendation definitions (Macquarie Australia/New Zealand)

Outperform – return >3% in excess of benchmark return

Neutral – return within 3% of benchmark return

Underperform – return >3% below benchmark return

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