Mortgage belts tighten as prices keep climbing

Author: Jessica Irvine
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Home loans to build new properties have slumped to a year low, as high property prices and long council approval processes deter would-be builders. House prices in NSW remain prohibitively high, prompting a 2.6% fall in the number of residents taking out a loan in May. NSW remains the only state where the average new mortgage is more than $250,000, Bureau of Statistics figures show.

The Labor leader, Kevin Rudd, yesterday promised to work with the state and territory governments to speed up council approvals on development applications. Mr Rudd said that delays of up to 12 months could add up to 15 per cent to the cost of a house, due to "holding charges" imposed by lenders to developers for delays. "If we can standardise and streamline the development approval process across Australia, we can take up to 15 per cent off the cost of housing across the country," he said.

He singled out Pittwater Council, which has an online lodgement and tracking process, as a model to be emulated. The NSW Planning Minister, Frank Sartor, welcomed the intervention. "The fact is that we have systemic problems that mean mums and dads cannot build homes." Fast tracking renovations would ease the housing squeeze by reducing the demand for new homes, Mr Sartor said.

Terry Barnes, the chief executive of the NSW Urban Taskforce, which represents the state's biggest developers, said council delays cost the NSW economy $4 billion a year. "Delays and disputes in the development application process are crippling the nation and hurting the small home owner," he said.

But the Prime Minister, John Howard, insisted low interest rates remained the best solution to housing affordability. "The truth is that the cost of servicing out of your disposable income the average housing loan is in fact lower now than in was in 1989," he said. With housing affordability continuing to dominate political debate, expectations are rising that home buyers will be offered some concessions before the coming election. The latest housing figures show first-home buyers are struggling to get a foot in the door. Their representation among all new borrowers fell to 16.6 per cent in May, well below the historical norm of 21 per cent.

The average loan for a first home buyer hit a record of $238,500 in May. The lack of new construction offers little hope for first home buyers hoping for prices to fall. The chief economist for UBS, Scott Haslem, said: "The fact that by number, loans for construction are still weak overall suggests to us that upward pressure will remain on house prices and rents." Higher rents appear to have lured some investors back to the market, with the value of loans to investors up to 8.9 per cent.

However, economists attributed this to "churn", as investors sold their investment properties to pour money into superannuation before the end of the $1 million contributions cap on June 30. "in our view this reflects a shift investment properties from long-standing holders- with little or no debt- to 'new' debt-funded investors ahead of the June 30 super changes," said the chief economist at Deutsche Bank, Tony Meer.