

*“It’s overtly obvious that most commentators are hopeless at picking the direction of property markets. They have well and truly proven that over the years. You can rest assured that market commentators will continue to predict a major property downturn every year as they have for the past decades”* Pete Wargent, Chartered Accountant, Chartered Secretary, Diploma in Financial Planning, Author of the No.1 best-selling 2012 book ‘Get a Financial Grip: a simple plan for financial freedom’

## **Housing bubble? Seven graphs that show why you shouldn't worry**

Contrarian economist Jonathan Tepper, a Hedge Fund advisor, in 2016 re-ignited an age-old debate about whether Australia was in a Housing Bubble, predicting a plunge of up to 50 per cent in Sydney and Melbourne property prices.

Alarming as his claims are, however, it is worth setting them against some other economic trends, which analysts say should dampen many of the fears about the property market.

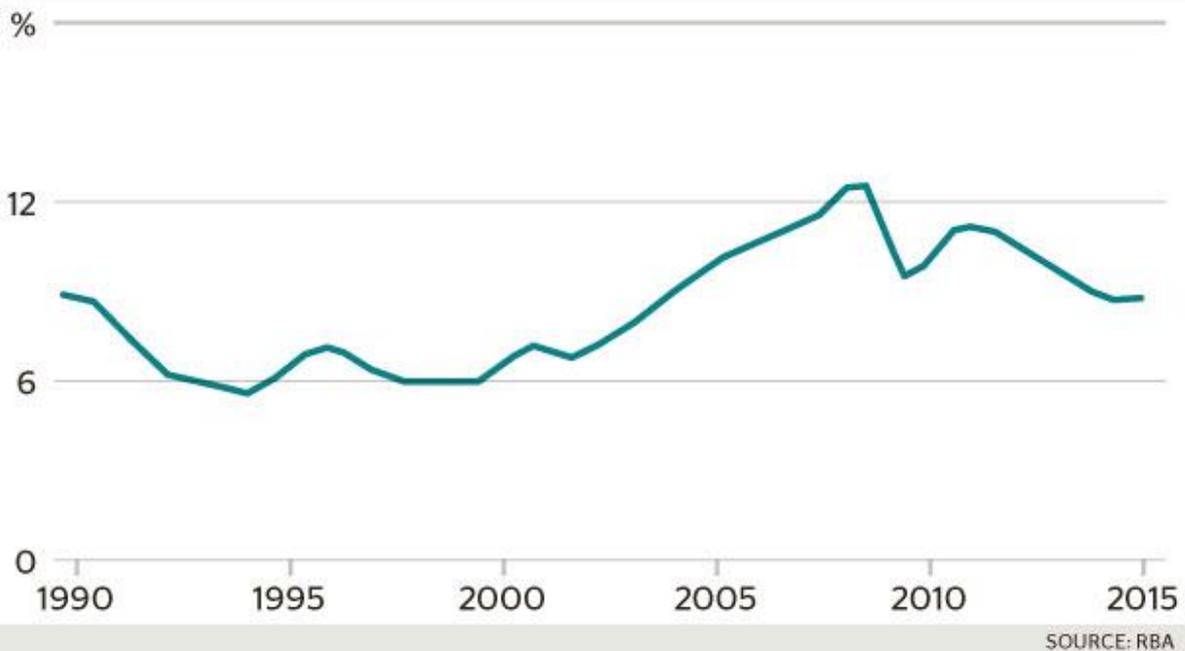
### **1. Average home loan payments look manageable**

Westpac senior economist Matthew Hassan points out that as a proportion of household income, the cost of paying off a typical mortgage for an existing home owner or someone looking to buy is well below previous peaks.

"Both figures highlight that the burden is not really high, but there's a sensitivity around future interest rates," Hassan says.

## Ratio of interest payments to income

Housing affordability



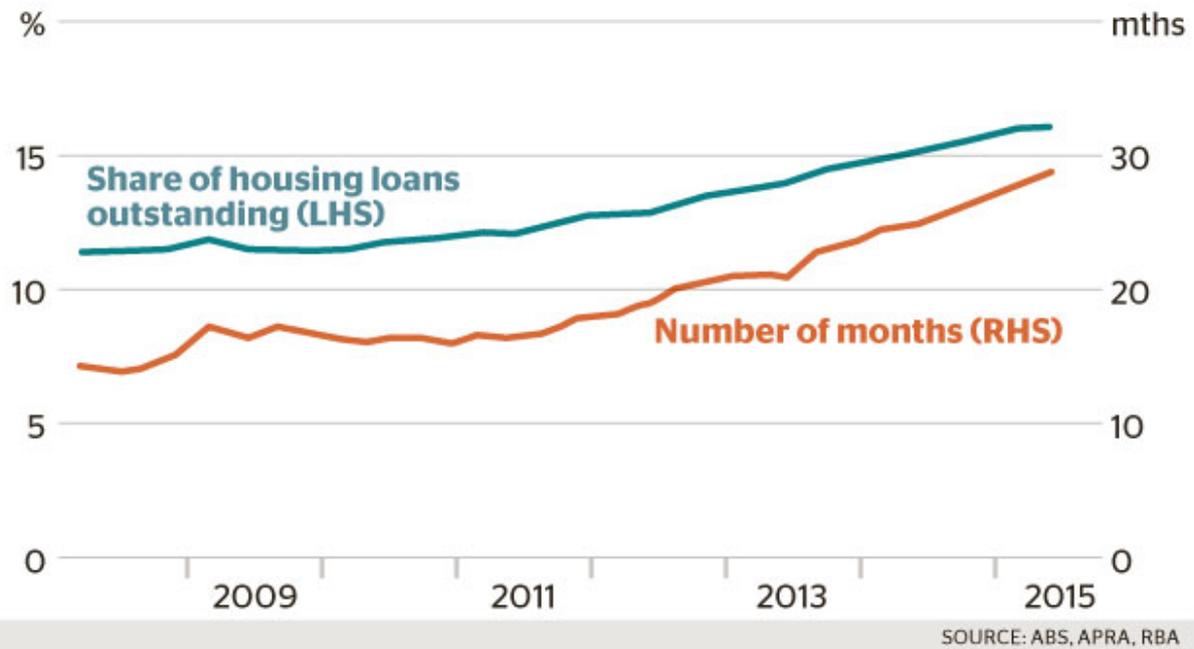
## 2. Mortgage 'buffers' keep growing

Households with home loans are, on average, paying off their home loans ahead of schedule.

No one disputes household debt is high in Australia, but this graphic shows that many borrowers have a "buffer" that could help protect them if they were, for example, to lose their job.

The total value of these buffers is equal to 16 per cent of all loan balances, or more than two years of scheduled loan repayments

## Aggregate mortgage buffers



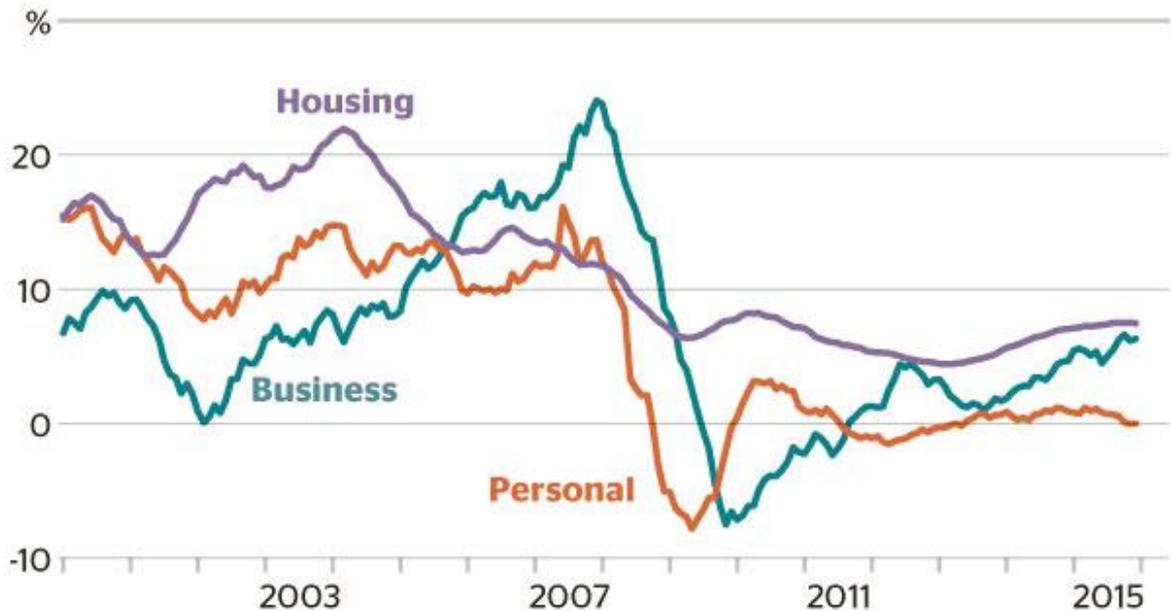
### 3. Credit growth is not extreme

Economists say a tell-tale sign of a bubble brewing is rapid credit growth.

Housing credit has picked up, without doubt, but it is still a long way from previous highs.

## Credit growth by sector

Year-ended



SOURCE: ABS, APRA, RBA

### 4. Mortgage arrears are low

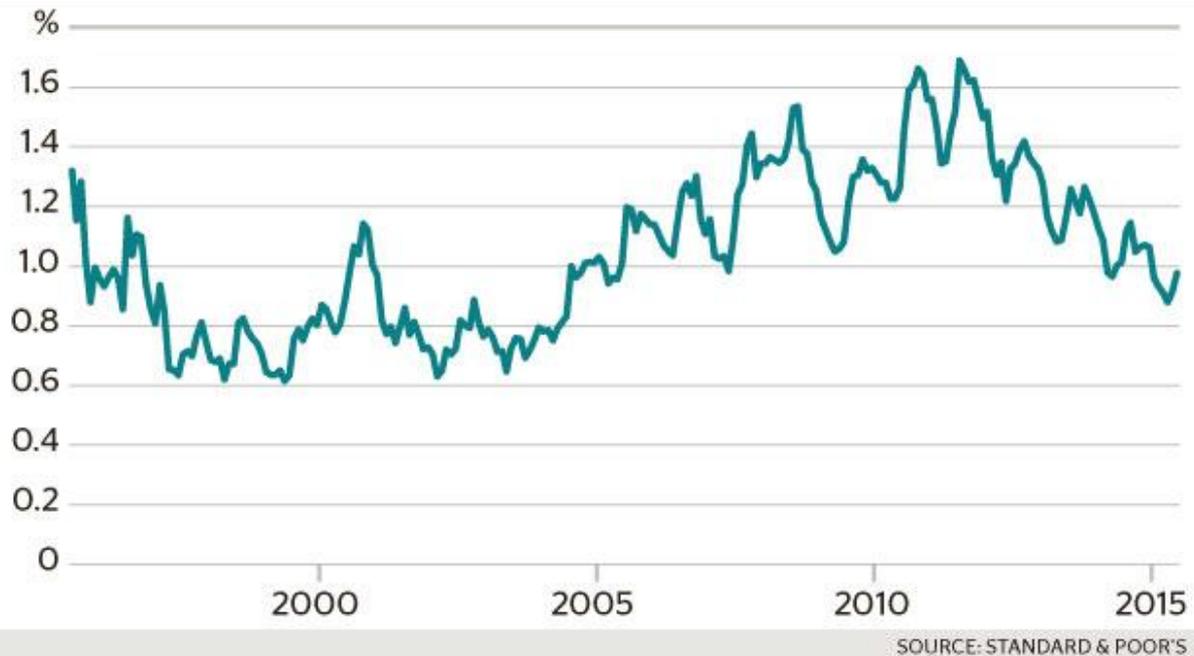
If there is a housing crisis coming, the banks have not yet seen a lot of evidence of borrowers falling behind on their home loans.

This chart from Standard and Poor's shows the percentage of borrowers in arrears is lower than a few years ago.

Of course, that would probably change if interest rates or unemployment rose sharply.

## Home loan arrears

Percentage of borrowers more than 30 days behind on their loans



### 5. 'Low-doc' lending has fallen

A key reason for the meltdown in the United States housing market that precipitated the global financial crisis was rapid growth in lending to risky borrowers.

While the banks' lending standards have been criticised, the value of low-documentation ("low-doc") mortgage lending in Australia has been falling for several years.

## Value of low-doc loans

\$ (millions)



SOURCE: APRA

### 6. Sydney's market has been playing catch-up

Sydney prices rose by 9.39% per annum since 2009.

But growth in the city's house prices was much softer than other cities for much of the 2000s.

That game of catch-up is reflected in this graph, which shows the ratio of Sydney homes to those in other cities was below-average for much of the decade.

Also, the 10 years prior to 2009 saw Sydney prices average 6.42% pa, with the average growth for the whole period 1999-2016 being 7.46% pa.

## Sydney housing prices

Ratio to other capital cities



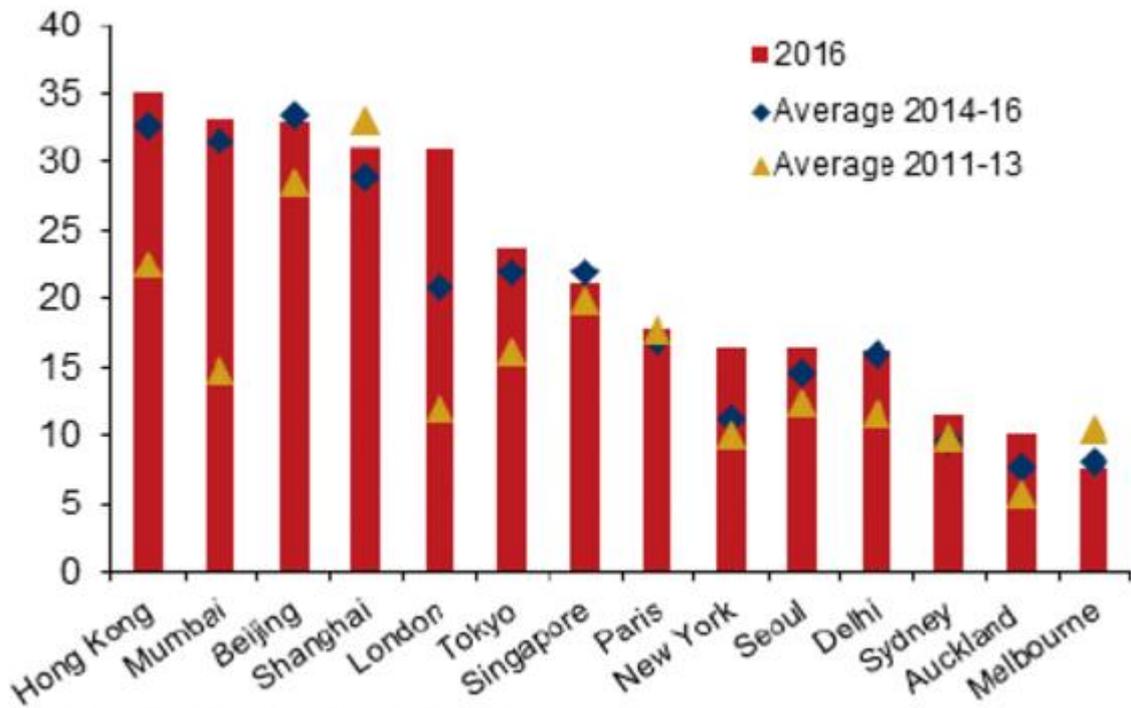
### 7. Where do Australia's house price rate

The housing markets of Sydney and Melbourne pale in comparison to the boom in China that has pushed prices up by 40 per cent in some major cities. Chinese cities account for the top eight rankings in Global Residential Cities Index compiled by international real estate group Knight Frank. Nanjing topped the chart, posting price growth of almost 43 per cent in the 12 months to the third quarter of 2016.

Elsewhere in the world, Auckland and Vancouver were well ahead of the Australian cities, to which they are often compared. Despite a new tax on purchases by foreign buyers, which has put a brake on home sales, Vancouver prices rose 24 per cent in the past year. Houses in Auckland gained more than 15 per cent.

In Hong Kong, Mumbai, Beijing and Shanghai, it now takes more than 30 years for a household with the local median income to buy a 90 square meter (970 square foot) apartment. That's according to Oxford Economics examination of price-to-income ratios across the world.

## House price to income ratios



Source: Oxford Economics, Numbeo