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Residential housing market crash…

setting the record straight!

News headlines have begun to emerge stating with "certainty" that the residential housing market is in bubble territory and is ripe for crash. Before we get into any sort of sensible assessment as to the current state play, the stories beneath those emotion-grabbing headlines only talk to Sydney unit prices falling 4% over the next 2 years and hazard a guess that median Sydney house prices are overvalued in the vicinity of 14%.

Clearly the headlines don't match content of these reports, which really shouldn't surprise anyone – headlines sell and headlines encourage clicks.

We're not saying east coast house prices aren't overvalued and we're definitely not saying that apartment supply isn't worrisome. But it makes sense to be more rational than those headline and emotion charging stories. The facts are as follows:

1. Unless population and immigration growth continue at the current rate, there's likely to be an oversupply of apartments given current projects underway
2. House price growth has been extraordinary, effectively condensing 7 years plus of growth into 3 years
3. This growth has been a function of extremely low borrowing costs, insufficient supply, foreign buying, fear of missing out (FOMO) and low rates of returns on other asset classes.
4. At some point, the current growth rate will slow to low single digits and possibly zero. In this environment, there will be some areas and pockets that experience price falls, but this will be selective as opposed to broad.
5. Right now, we're seeing falling auction clearance rates in major capital cities, led by Sydney. This is a function of sentiment but it is also a function of too much buying too soon (not enough buyers left in the market to push prices well above already high valuations). This has resulted in the "fat" between agent price guides and actual sale prices coming right back in.
6. Big falls in house prices are always possible, but 3 criteria must be satisfied – significant rise in unemployment, significant rise and pace in borrowing costs, and loss of confidence. Right now, none of these criteria are close to be satisfied, but that may change.
7. The biggest concerns right now that will impact future house price growth and house prices more generally – low wages growth, rising household costs, households carrying too much debt, the RBA raising rates and banks raising borrowing rates outside of the RBA cycle. All are valid concerns, and should be watched carefully and managed sensibly.
8. Some time ago, banks begun raising rates out of cycle across their loan books in order to increase profitability, as low interest rate environments are generally bad for bank profitability and margin expansion.

9. More recent out of cycle bank rate rises are specific and targeted – the intention here is to reward principal & interest borrowers whilst penalising interest only borrowers, make it harder for non-owner-occupied borrowers to borrow and reducing the amounts they can borrow, to cap the amount of interest only loans the banks shelve out in order to the lower risk in their loan books, and to ensure future loan affordability doesn't become too big of an issue as rates rise.

Obviously, plenty to take in and lots of moving parts – I could add another 10 points to the above and still not have covered everything.

But the key points are:

1. East coast house prices are high
2. NT and WA house prices are falling whilst SA is not far off falls
3. East coast house price growth is likely to slow given underlying conditions and demand / supply dynamics
4. House prices may fall in some select areas over the next few years, but those falls are likely to be relatively minor.
5. Banks are making a concerted effort to increase their profitability, de-risk their loan books, and keep the banking regulator happy.

Only time will tell as to how the rest plays out.

Key is patience, less reaction and emotion, and ensuring portfolio and wealth diversification.