APRA crackdown presents “very real danger”

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The Australia and New Zealand boss of a multinational real estate group has warned of the severe impact that APRA’s lending crackdown could have on property markets across the country.

RE/MAX Australia and New Zealand managing director Michael Davoren says that the investor lending crackdown may have unpredictable consequences.

“There is a very real danger in applying a national remedy to a problem that is not national,” Mr Davoren said.

“There is no boom evident in most places outside Sydney and Melbourne – and even within those markets, it’s not in all suburbs,” he said. “There should be more engagement with financial and real estate industries before decisions are reached.”

Mr Davoren pointed to the use of macroprudential measures in New Zealand, where lending restrictions were introduced for people buying houses in Auckland.

“It didn't really impact where they wanted it to but it did cruel the first home buyer market,” he said. “Don’t strangle a market when and where you don’t need to.”

The prudential regulator is unlikely to introduce city-specific restrictions anytime soon.

In a speech last month, APRA chairman Wayne Byres said the regulator’s mandate “is to preserve the resilience of the banking system, not target housing prices in a particular region of the country".

But Mr Davoren believes the lending crackdown could have just as much impact on Australia’s banks as it will on property markets.

“Banks don’t make money by keeping money in the bank, they make money by loaning money to investors,” he said.

“Banks are in the business of making a profit. When something threatens the profit margin, one of the things they can do is to pass on their losses to consumers.

“With the APRA measures, the big lenders’ exposure – their need to hold capital – has almost doubled. Because they have to hold more, they can’t make as much money; they need more money so they can continue to lend."

Mr Davoren added: “What are the options? They can increase the cost to the investor in order to meet their targets; they can raise capital from their investors by issuing additional shares, as the CBA is doing; or they can pull out of the investor market altogether, like we saw AMP do.

“The heat in predominantly inner Sydney and Melbourne markets led to APRA’s involvement in limiting investor lending, with the flow-on impacts on banks and the strategies they subsequently employ.”

While APRA’s 10 per cent speed limit on investor credit growth is seen as a reaction to strong investment activity in Sydney and Melbourne, other markets around the nation – including other capital cities – are not experiencing the same rate of growth.

In fact, some markets are already deflated, Mr Davoren said.

In CoreLogic’s September 2015 Housing Market & Economic Update, median house prices in Australia’s capital cities ranged from $430,000 in Adelaide to $900,000 in Sydney.

Sydney and Melbourne are still experiencing price growth, but Perth and Darwin are seeing declines.

“The danger is in taking a statement like ‘property prices to fall’ and thinking it applies to every market, every micro-market, in Australia,” Mr Davoren said.

His comments echo those made by Domain Group senior economist Dr Andrew Wilson, who told *Mortgage Business* that APRA should be more transparent about its intentions.

Dr Wilson also noted APRA’s approach has been a “one-size-fits-all model” that ignores cities outside of Sydney and Melbourne.

“We've had a lot of sloganeering happen over the last 12 months, particularly about housing market bubbles [and] international buyers,” he said.

“We’re now seeing a moderation in housing market activity in Sydney," he added. "We've had interest rates on hold for four months so that means affordability has plateaued and price growth will plateau as a consequence. This is the nature of our housing markets, and we're very fortunate that we have those in-built stabilisers in our housing market.”

Dr Wilson said that once we see policymakers interfere in that process, the downstream consequences are “really problematic”.