Lending curbs 'won't stall foreign property buyers'

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Key points

The regulators are trying to dampen investor demand for property by constraining finance.

Many buyers are using alternative private lenders.

The crackdown on investor lending by banks and regulators will do nothing to dampen foreign investor demand for Australian property, experts say.

Interest from foreign buyers, particularly from China, was "fairly inelastic" because Australian property was still cheaper than in China and, while Chinese capital controls were having an impact, foreign buyers could source funds from alternative or the "third tier" private lending industry, mortgage brokers and lenders said.

"Many obstacles are put in front of foreign buyers including increased local taxes, major banks no longer lending, and capital restrictions in China, but it is clear foreign buyers will stay and settle on purchases," Credit Suisse analyst Hasan Tevfik said.

"Regulators can squeeze local buyers but it's up to the state [government] and Treasury to squeeze foreign buyers."

The Australian Prudential Regulation Authority, Australian Securities and Investments Commission and the Reserve Bank of Australia are trying to dampen investor demand for property by constraining finance, amid double-digit property prices in Sydney and Melbourne. APRA limited the flow of new interest-only lending to 30 per cent of total new residential mortgage lending last week.

But experts said these measures would not curb demand from foreign buyers or local buyers who could access the more expensive short-term alternative market - worth about $68 billion – which includes lenders like syndicated high net worth individuals, foreign banks and even superannuation funds. These lenders are not regulated by APRA.

Some buyers who have already transferred their cash into Australia or into banks in Singapore or Hong Kong are paying cash for purchases. In Melbourne, developer Tim Gurner said 73 of 110 foreign buyers paid cash at his West Melbourne development.

But these are only a small group. The majority, about 80 per cent, are using alternative private lenders, apartment project marketer Home789's Walton Chu said.

Private lender Development Finance Partners has a credit line for foreign buyers of off-the-plan properties. It lends up to $5 million at interest rates of about 8 per cent for purchases in Melbourne, Sydney and Brisbane at a loan-to-value ratio of 65 to 70 per cent.

"There are big pools of equity out there, it's like a dog trying to eat its tail," Development Finance Partners director Matthew Royal said. "The growth in alternative lenders and mortgage trusts will plug the gap."

Mr Royal also said Australia's sophisticated mortgage broker market would quickly help foreign lenders "sniff" out a lender, and apartment developers also help with vendor financing. "Some purchasers are short 5 per cent and some developers with access to mezzanine funding can stop the gap, they will do the deal," he said.

Foreign banks will also form part of the mix.

"Funders like Latrobe Financials have raised billions out of the United States, China, Singapore to local and foreign investors," mortgage broker Vestyn Finance Solutions' Ken Peng said. "There's enough liquidity for foreigners to come in."

ASX-listed mortgage broker N1 Holdings sold five apartments to Malaysian buyers on a roadshow last week. They were financed by Malaysian bank, Maybank.

But Mr Chu warned these options were short term. Alternative funds offer a two to three year solution compared with banks which will lend for 30 to 40 years. "The lender won't want long term, and borrowers don't want to keep paying high interest rates," he said.

"Effectively, in a few years the industry could collapse if people can't pay off loans, everything is poised on investors paying it off. Good thing is that 99 per cent of foreign buyers will pay back no matter what happens."

WITH LARRY SCHLESINGER

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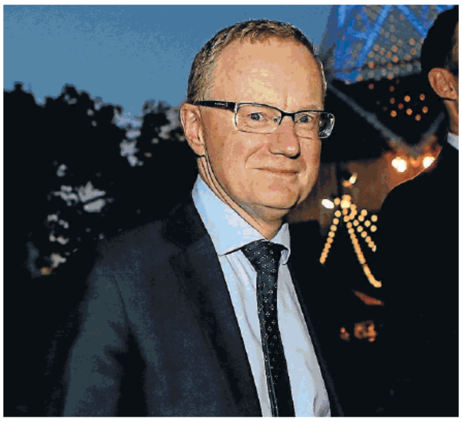
RBA warning on stretched borrowers



RBA governor Philip Lowe says household debt is rising. PHOTO: PAT SCALA

countries," he said, noting that another driver of the popularity of interest-only loans was negative gearing and capital gains tax discounts on residential investment, a politically sensitive point.

"A reduced reliance on interest-only loans in Australia would be a positive development and would help improve our resilience," he said. "With interest rates so low, now is a good time for us to move in this direction."

He urged more borrowers to consider "the merit" of taking out very large interest-only loans when borrowing costs are near record lows.

In a thinly veiled retort against critics of the Reserve Bank's two 2016 interest rate cuts, which some believe are the primary reason for rampant house-price growth in Sydney and Melbourne, Dr Lowe insisted the cost of money was less of a driver of double-digit house price growth than a lack of supply of homes and infrastructure.

"The availability of credit is undoubtedly a factor that can amplify demand, but it is not the root cause," he said, pointing out that property markets currently vary widely across the country despite there being only one official interest rate," he said. "It is hard to escape the conclusion that we need to address the supply side if we are to avoid ever-rising housing costs relative to our incomes and to avoid the attendant incentive to borrow that is created by rising housing prices."

The governor warned that prudential restraints won't address that underlying supply-demand mismatch, which has intensified since the turn of the century because of an unexpected acceleration in population growth and a lack of investment in transport links to unlock fresh housing.

Macroprudential action can lessen financial risks from the housing market and lessen its impact on the broader economy, ideally if banks start "acting themselves without the need for prudential guidance". He warned that regulatory intervention on banks was neither "precise or straightforward".

"We need to keep matters under review," he warned.

"In the end, addressing the supply side of the housing market is likely to prove a more durable way of dealing with the concerns that people have about debt and housing prices than detailed supervisory guidance."

Key regulators, which include the Reserve Bank, have in recent days announced a raft of curbs on bank lending to investors and riskier categories of borrowers.

The governor's speech supports speculation that monetary policy has been effectively sidelined for now, with the central bank caught between avoiding a property bubble and crunching a household sector reeling under record debt and record-low wages growth.

"Household debt in Australia is high and it is rising," he said, with the value of housing-related debt increased by 6½ per cent compared with 3 per cent household income growth.

"At the same time ... slow growth in wages is making it harder for some households to pay down their debt."

Dr Lower reiterated that the global outlook has brightened considerably this year, while acknowledging that the labour market is still "pretty soft".

"Growth in employment is slow and wage growth is the lowest in some decades," he said. "We will want to see an improvement here before we can be confident that growth in the overall economy is strengthening."

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