Low rate mortgage rates reinvigorate housing market

Early signs are emerging that lower mortgage rates are providing further stimulus to housing market conditions.

Even though the Reserve Bank chose to keep the cash rate on hold at their March board meeting, the February rate cut brought mortgage rates down to their lowest level since 1968. This was the first rate cut since August 2013 and the ninth drop in the cash rate since the RBA started easing rates back in November 2011.

To provide some perspective on what the rate cuts mean to the typical mortgage holder, before interest rates started falling in late 2011 a $400,000 mortgage would incur interest payments of $27,200 per annum (based on a discounted variable mortgage rate of 6.8%). By March this year, with the average discounted variable rate now tracking at 4.9%, the annual interest payment would be $19,400, a saving of $7,800 per year or $150 per week.

Since the latest rate cut we have seen a variety of timely indicators show a substantial upwards movement.

Auction clearance rates have surged to levels not seen since 2009. The last three weeks of February (including March 1) saw the combined capital city clearance rate move above 70%, with the last two weeks recording a clearance of 77% over both weeks. The largest auction market, Melbourne, saw clearance rates move above 75% over the final two weeks of the month and in Sydney (the second largest auction market) the results were even stronger with the rate of clearance higher than 80% over the past four weeks. The higher auction clearance rates indicate that vendors have become more empowered as buyers compete more fiercely for available housing stock.

The number of auctions being held has also picked up. The last week of February (including March 1) saw 3,132 auctions held across the capital cites which was 16% higher than a year ago and auction numbers have been substantially higher than what was recorded in 2009 and 2010 when market conditions were also very strong. While these auctions would have been scheduled prior to the cut in interest rates, we expect auction volumes will trend higher over the coming weeks.

CoreLogic RP Data's platform metadata also provides virtually a real time insight into the level of industry activity that is underway across the housing market.

Our valuation platforms, which account for more than 95% of all mortgage related valuation instructions, have seen the number of valuation events move to new record levels in February. The CoreLogic RP Data Mortgage Index, which tracks the number of valuation events on a rolling four week basis, surpassed the previous record high (which was in mid-December last year) over the month of February. The high level of mortgage related activity can be attributed to both an increase in mortgage origination activity as well as refinancing activity.

Another hint that vendors have grown in confidence since the latest rate cut is the amount of real estate agent activity we are seeing across our RP Data Professional Platform. Focussing on real estate agent activity across the platform, we have seen the number of Comparative Market Analysis (CMA) reports move to new record highs in February. CMA reports are generally actioned when a real estate agent is preparing a listing presentation or preparing a home for sale. With real estate agent activity so high, we are expecting a consequent increase in the number of homes advertised for sale over the coming weeks.

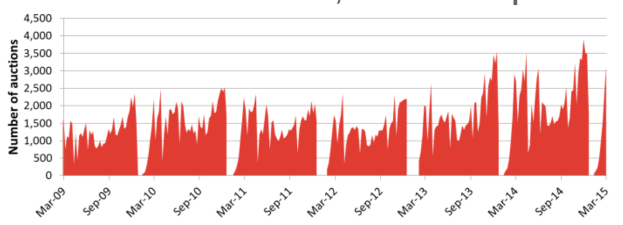
The number of newly advertised properties has been tracking around average levels over February. Over the same period a year ago the number of new listings entering the market across the capital cities was 2.4% higher, however with the surge in real estate agent activity we would expect new listing numbers to surpass what was recorded last year.

The increase in market and industry activity comes as no surprise. Australian households are very sensitive to interest rate movements, given the vast majority of mortgage holders and newly originated mortgages are on variable mortgage rates. The challenge for the Reserve Bank and industry regulators will be to keep a lid on the rate of appreciation in home values while at the same time stimulating housing construction and household spending. The number of dwelling approvals is currently at a record high; the ongoing high level of new housing construction will assist in adding new supply to the housing market as well as support economic growth and labour markets. On the flipside, higher supply levels may help to slow the rate of capital growth. We have already seen a slowdown in rental appreciation, whether this also translates to a slowdown in the rate of capital gain in the face of lower mortgage rates but higher levels of housing supply is yet to be seen.

Auction clearance rates

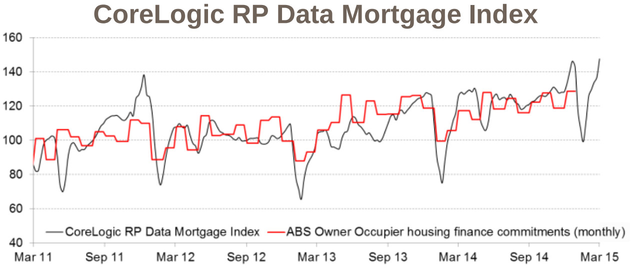
Source: CoreLogic RP Data

Number of auctions held, combined capitals



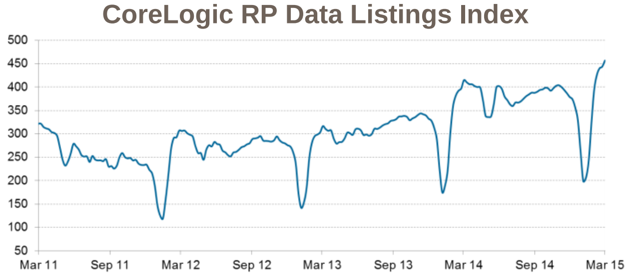
Source: CoreLogic RP Data

CoreLogic RP Data Mortgage Index



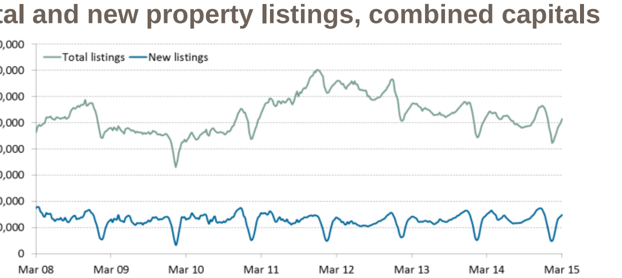
Source: CoreLogic RP Data, ABS

CoreLogic RP Data Listings Index



Source: CoreLogic RP Data

Total and new property listings, combined capitals



Source: CoreLogic RP Data,

CoreLogic