

# Commonwealth Bank of Australia

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## Global Investor Update on the Australian Housing Market

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# Important Information



***As this advice has been prepared without considering your objectives, financial situation, or needs, you should, before acting on the advice, consider its appropriateness to your circumstances.***



# Our View



## ■ The housing boom

- part of a global trend;
- a rational response to background economic conditions;
- households left with more debt and riskier asset mix;
- households now net payers of interest and less savings.

## ■ The outlook

- ongoing housing market slowdown not assured;
- construction activity likely to remain at high levels.

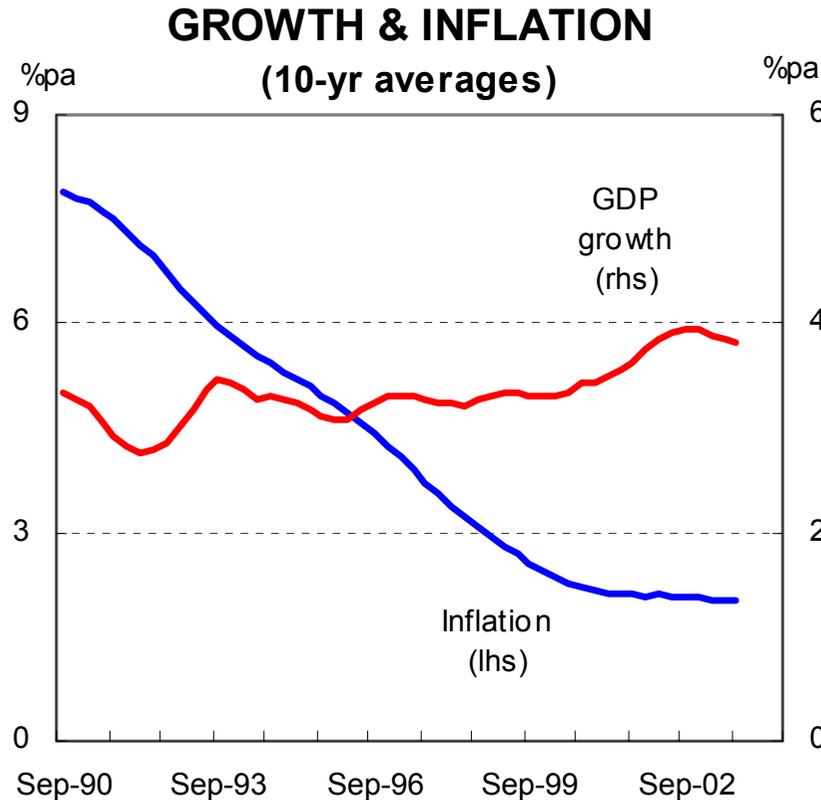
## ■ The house price threat

- generalised house price falls unlikely;
- the first-home buyer segment is a significant deadweight - but State governments are providing assistance;
- dominance of investor activity has distorted the market - but most investors well placed to withstand any negatives.



# Background Drivers

From 33-1/3 to 78rpm

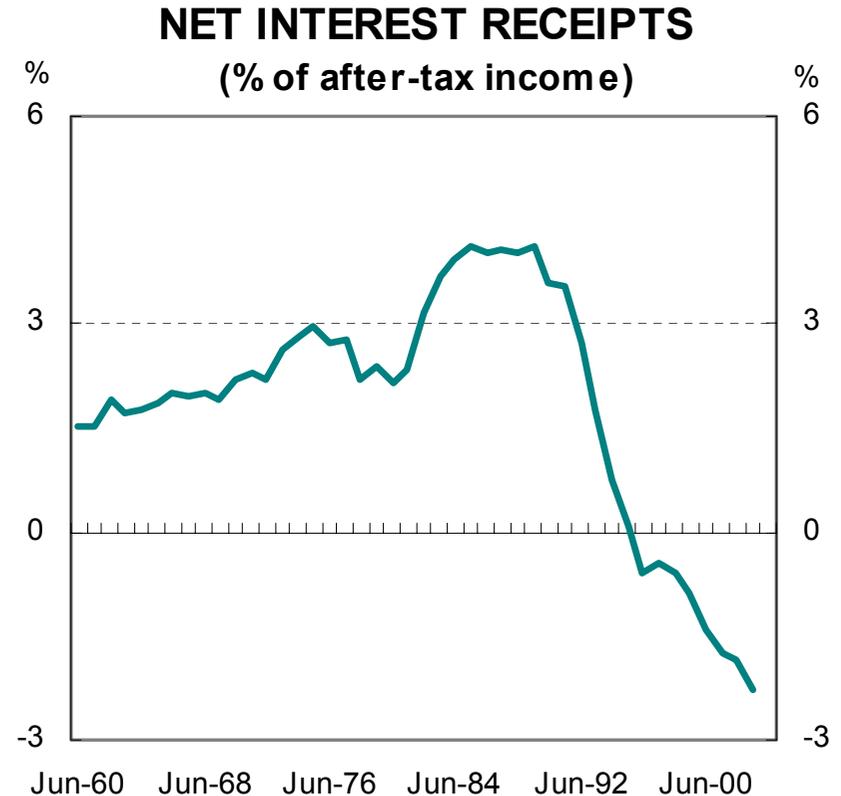
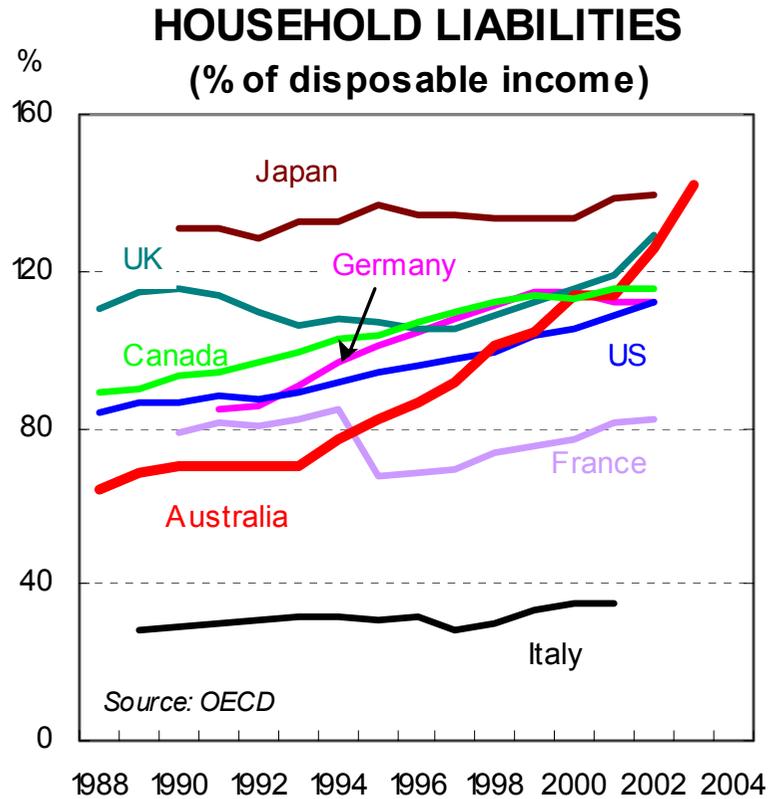


- Growth stepped up and inflation stepped down.
- Falls in unemployment and interest rates followed.



# Balance Sheet & Cashflow Changes

## More debt

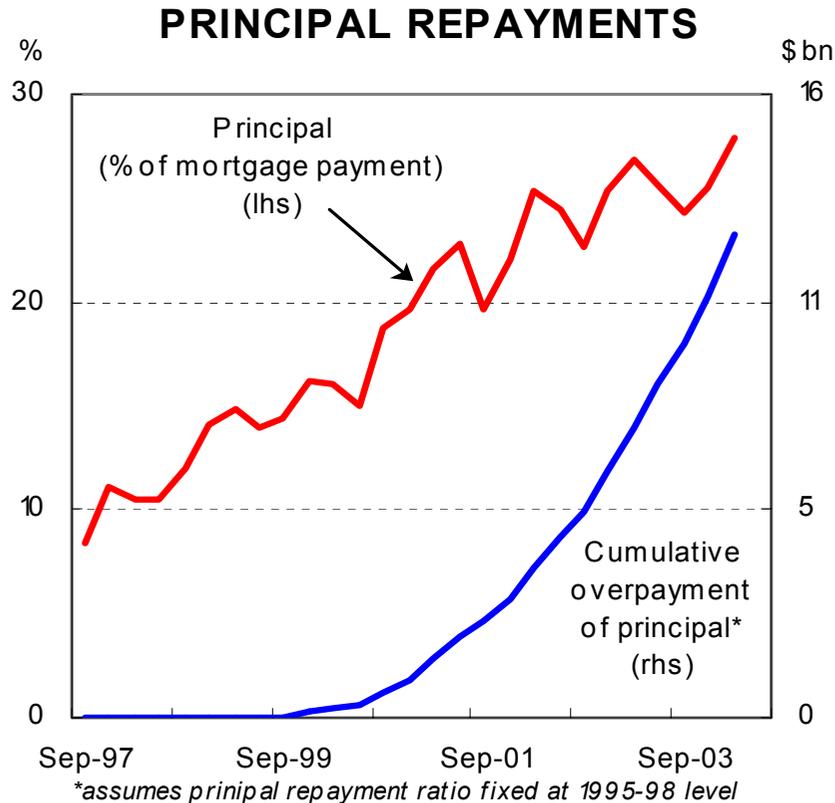


- Household debt has risen sharply.
- Households now net payers of interest.



# Offsets

## Padding up

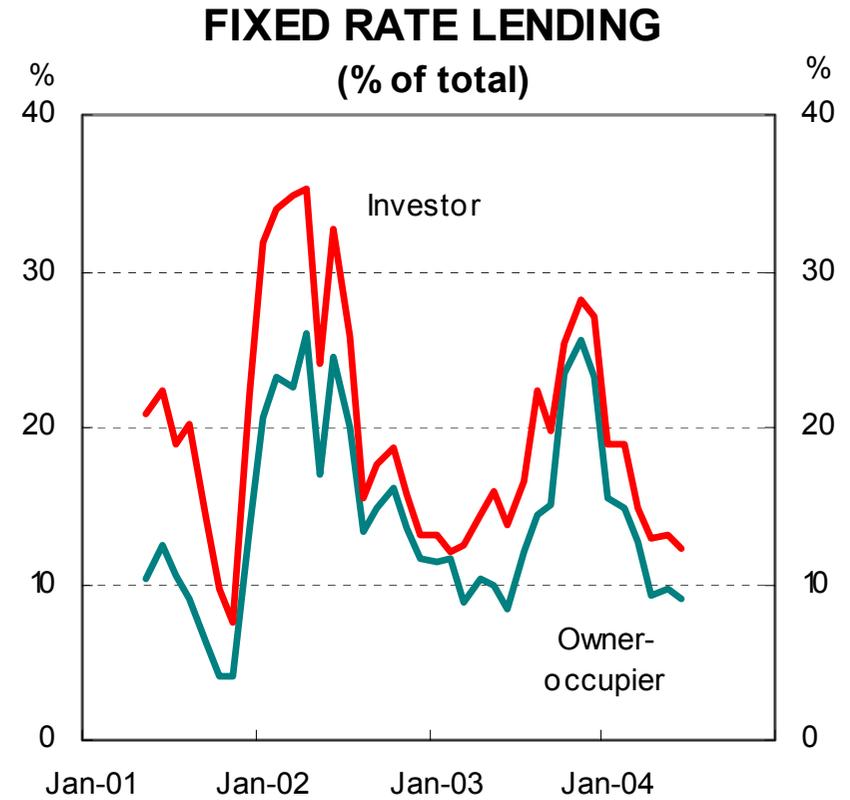
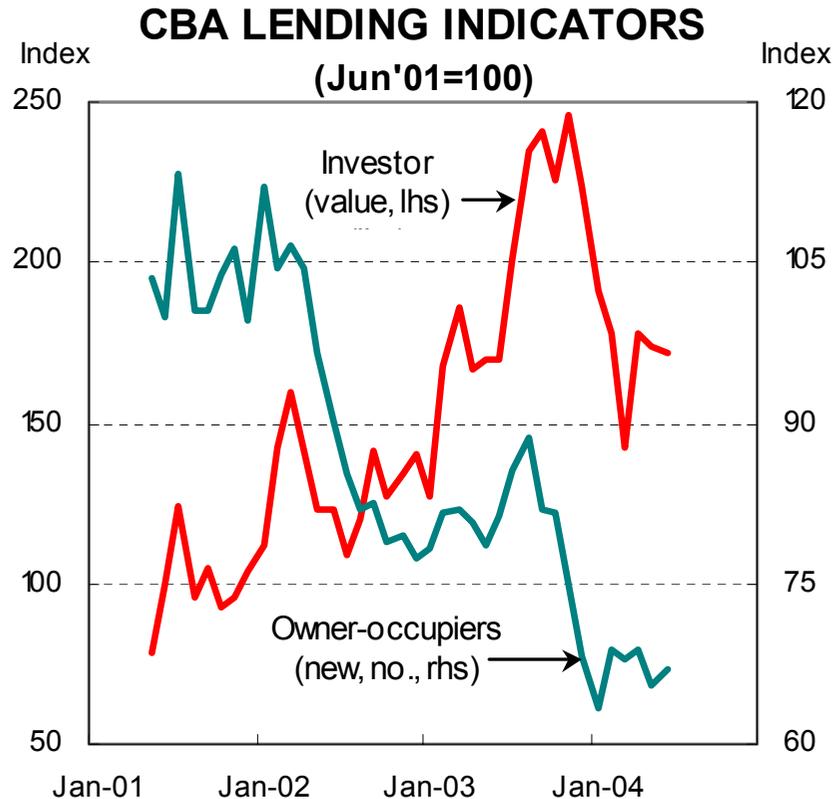


- Household debt repayment practices have changed.
- Constant dollar repayments have accelerated payoff of principal.
- 2/3 of CBA customers paying faster than necessary.
- A sizeable buffer exists.
- Effective mortgage rate 7%.



# Housing

One-way bet - but which way?

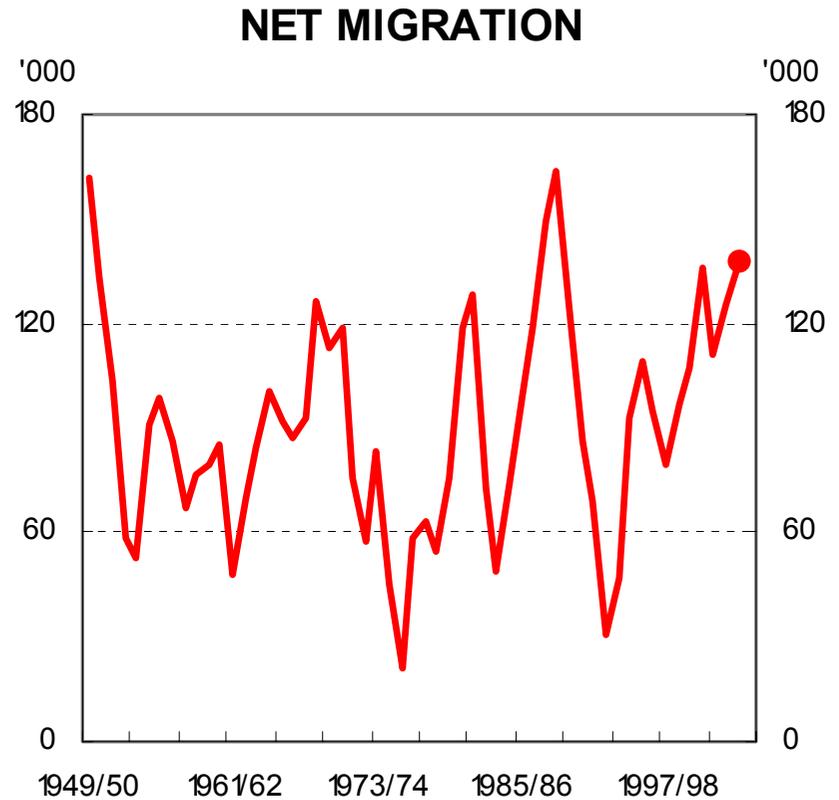
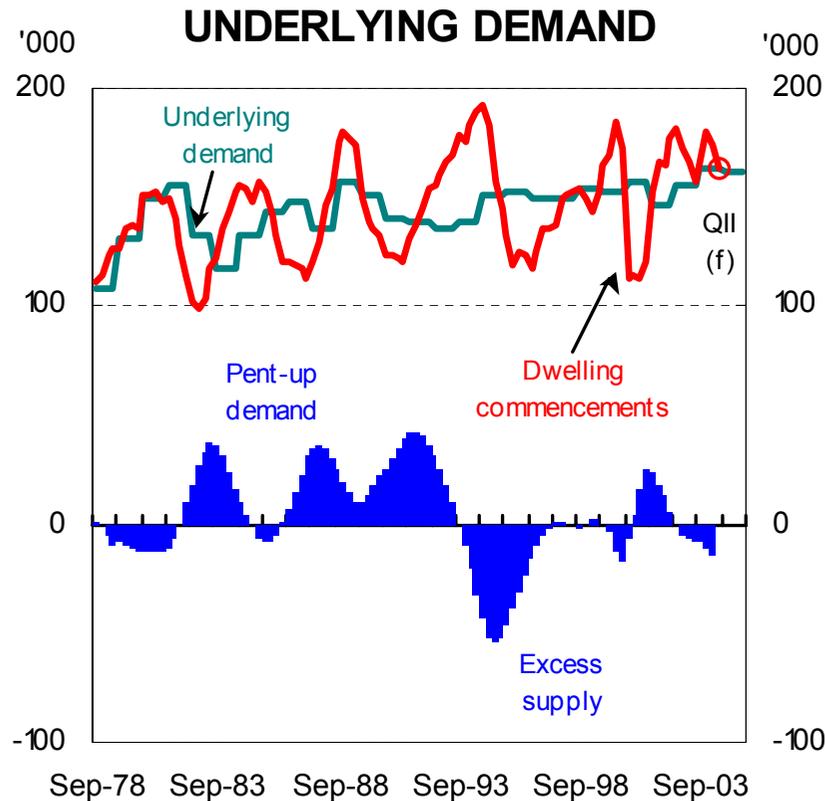


- Lending has stabilised after earlier large falls.
- Unemployment low, confidence high, buyers market, sentiment turning - could housing bounce?



# Construction Risks

Excess supply or excess demand?

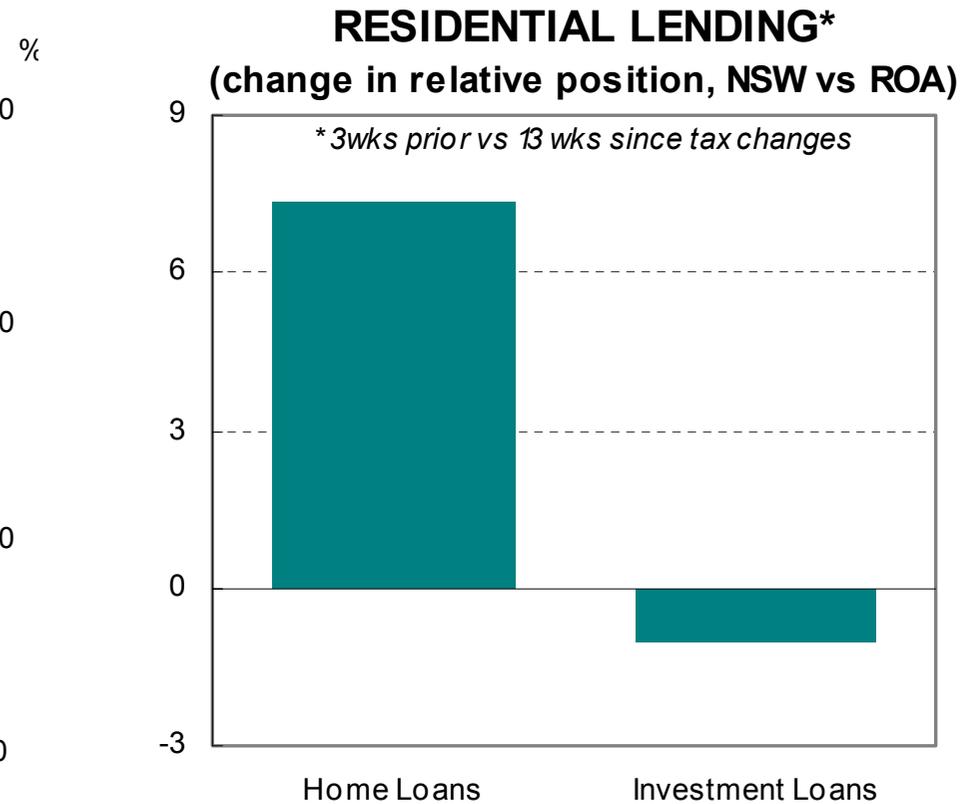
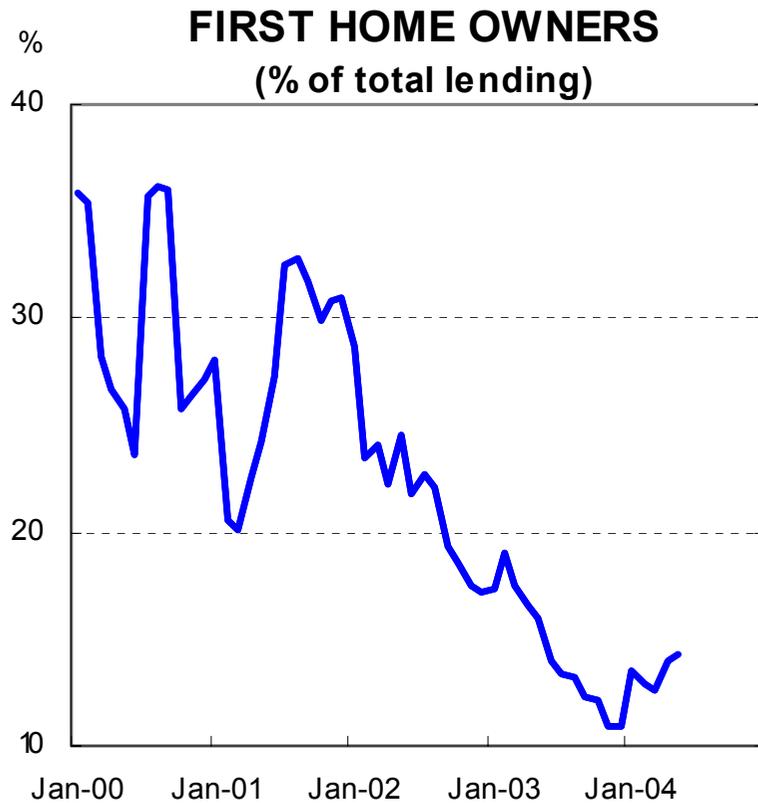


- Commencements running only a little above underlying demand.
- Relative price shifts favour alts & adds.



# House Prices: The First Home Owner Deadweight

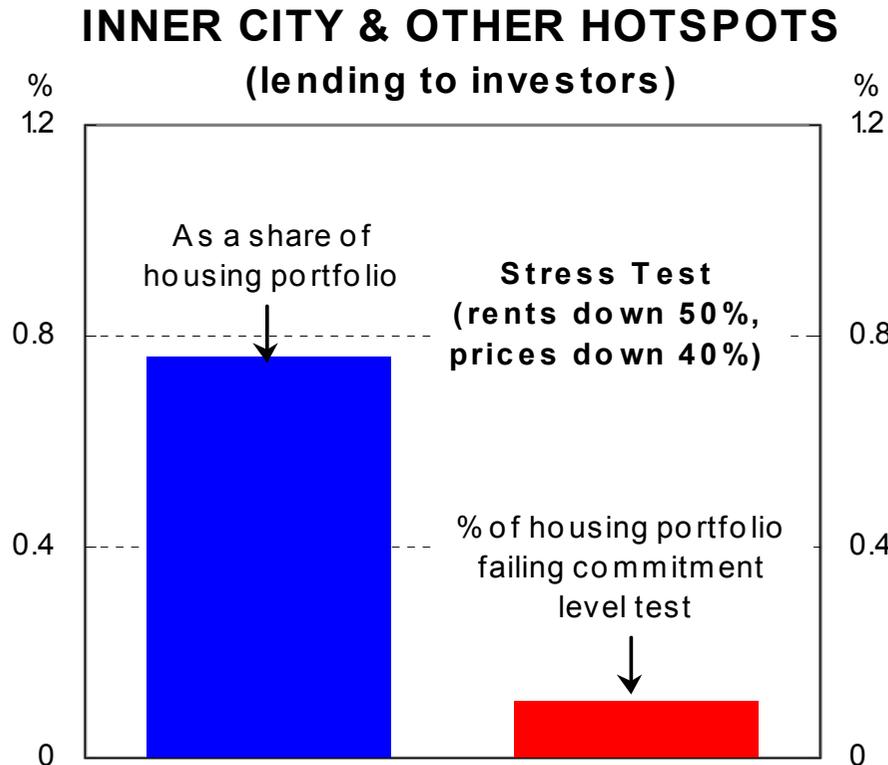
## Sidelined



- **Absence of first-home buyers putting downward pressure on prices?**
- **State Government now providing significant assistance.**
- **Pent-up demand?**

# House Prices: The Investor Threat

## Inner city & other hotspots



### ■ The hotspots:

- Inner Sydney (inc Homebush, Dee Why, Arncliffe);
- Inner Melbourne;
- Inner Brisbane (inc Surfers Paradise, Cairns).

### ■ Share of investor lending:

- <1% of home loan portfolio.

### ■ The stress test:

- gross rents drop 50%;
- prices drop 40%.

### ■ The result:

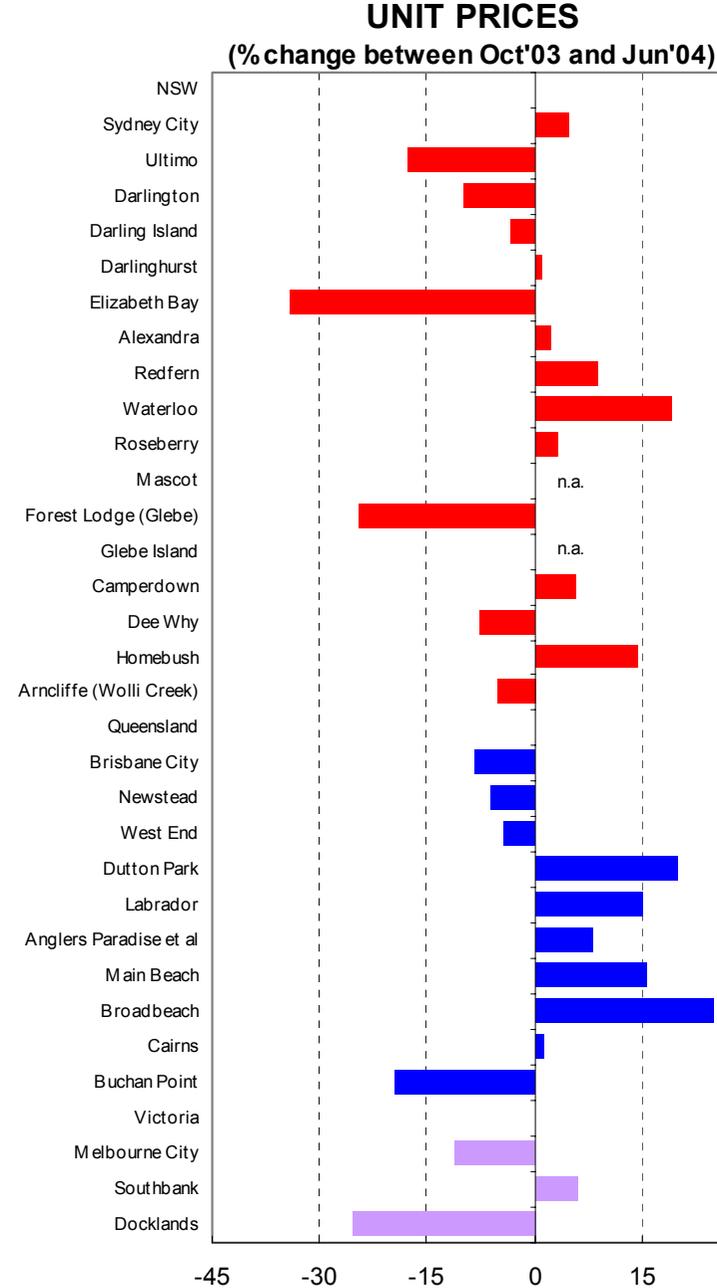
- 0.1% of portfolio fail commitment level test.



# House Prices: Investor Threat

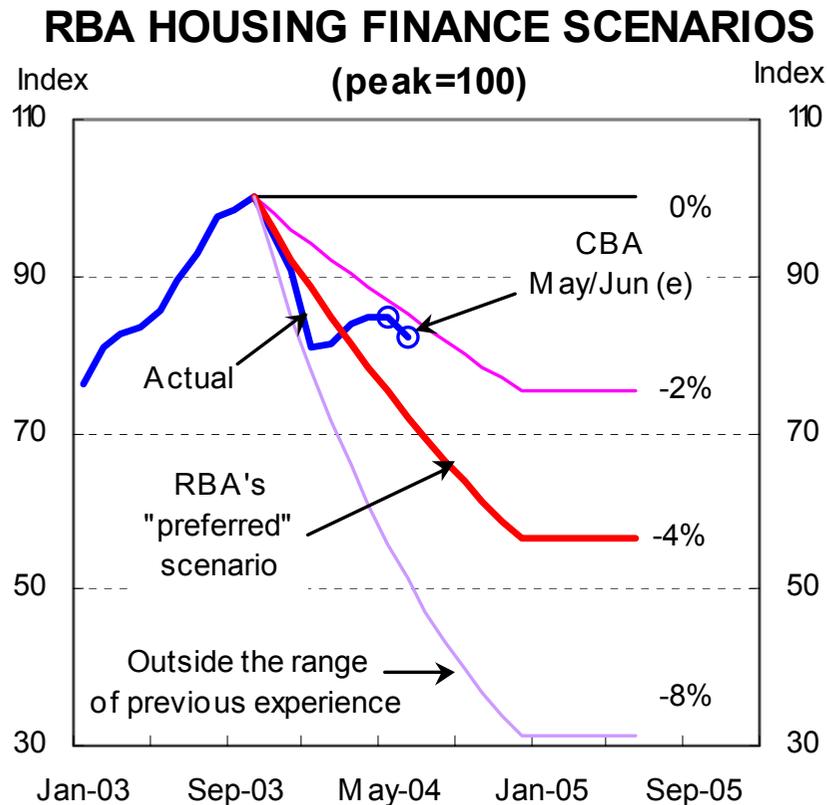
## Hotspots not so hot

- Unit prices largely unchanged over October-June period at national level.
- Prices in “hotspot” areas of Sydney and Melbourne have fallen.
- Qld still rising.
- No obvious economic fallout.



# Housing: The RBA Roadmap

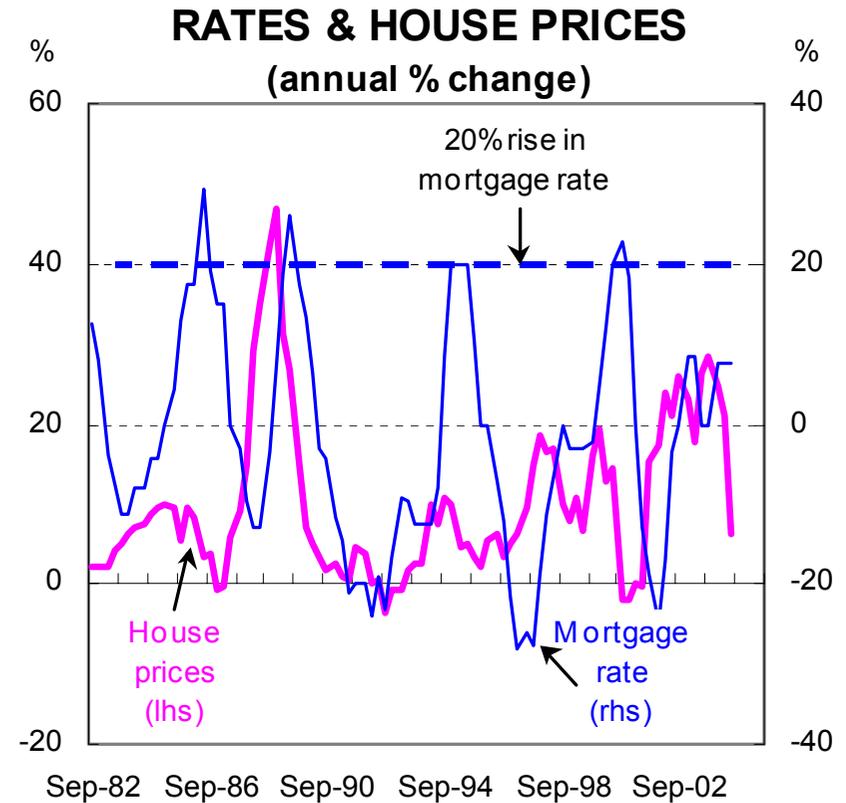
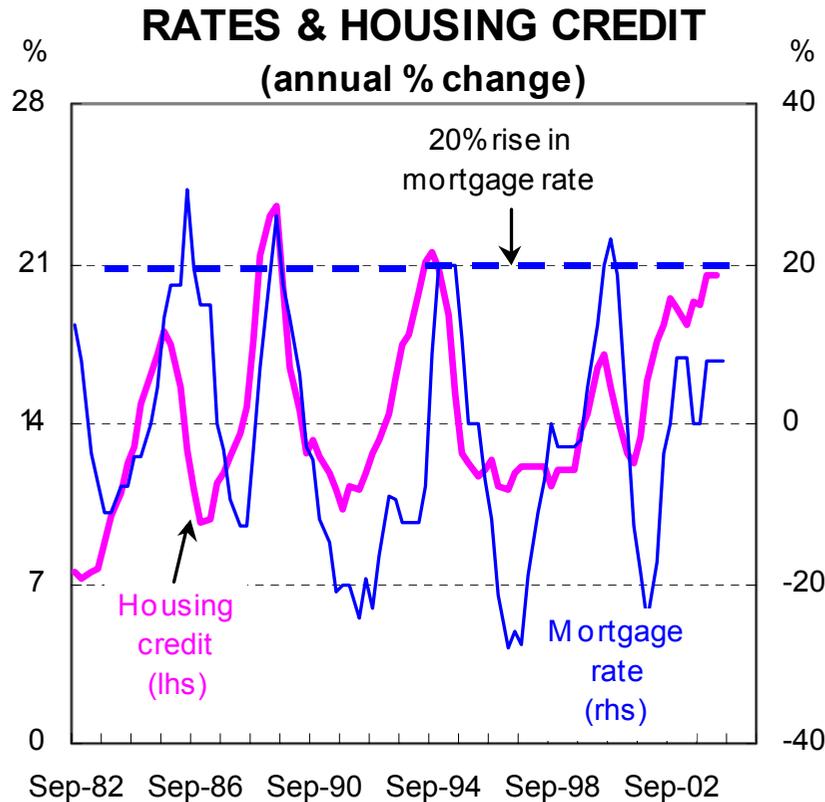
Are we heading in the right direction?



- RBA's "preferred scenario" has housing credit slowing to a sustainable pace of 9%pa.
- Initial slowdown faster than consistent with preferred path:
  - collapse scenario?
  - So RBA on sidelines.
- Latest ABS data shows we were back on track in April.
- CBA data suggests now off track on the upside.

# Housing: The RBA Roadmap

## Engineering the desired scenario

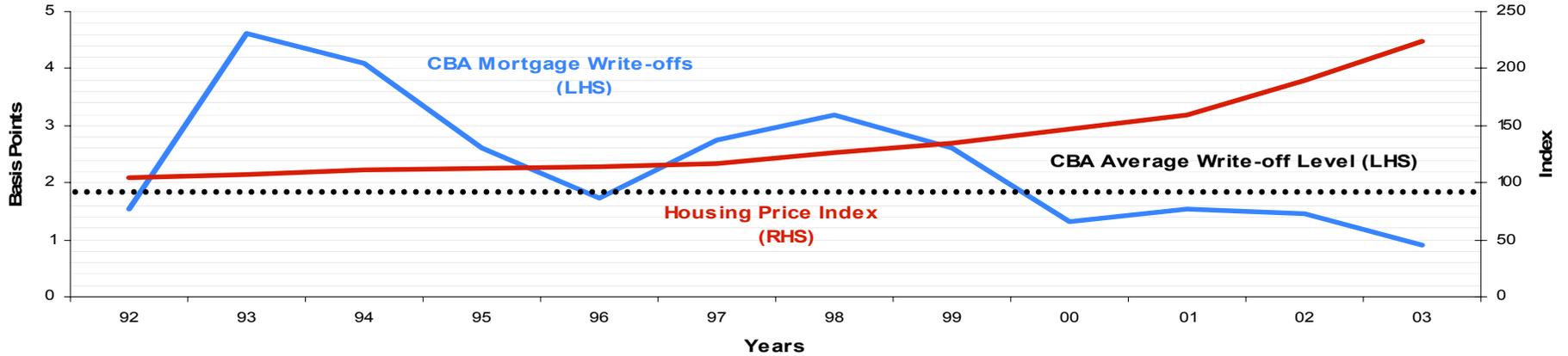


- Past cycles show a 20% rise in mortgage rate needed to slow credit to desired pace and kill house price rises.
- Implied cash rate: 5½-5¾%.

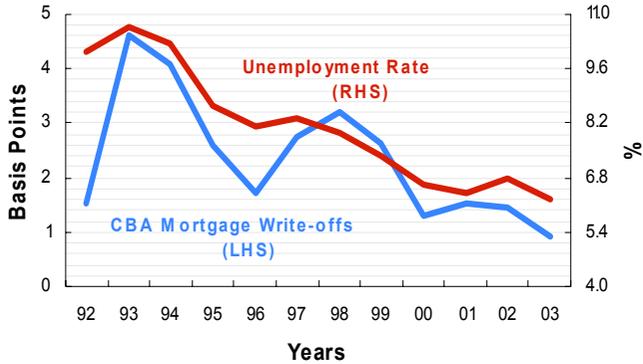


# Housing: Mortgage Write-offs

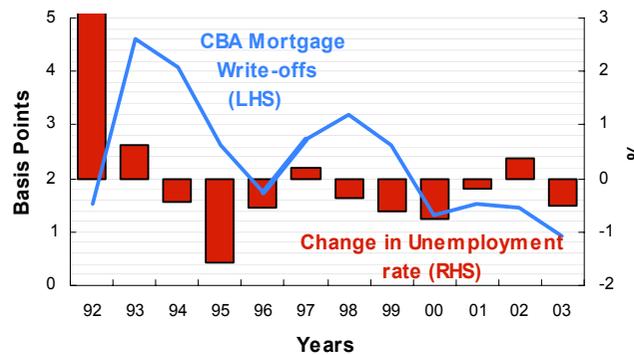
CBA Mortgage Write-offs v Australian Residential Property Index



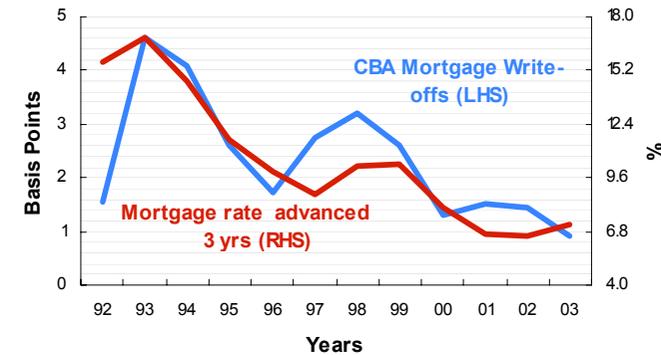
CBA Mortgage Write-offs v Unemployment rate



CBA Mortgage Write-offs v Change in Unemployment rate



CBA Mortgage Write-offs v Advanced Interest rates





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