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Australia's property industry
Creating for Generations

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The General Manager
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Australian Prudential Regulation Authority
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By Email

To whom it may concern:

Property Council submission on review of APG 223

The Property Council of Australia would like to thank the Australian Prudential Regulation Authority (APRA) for the opportunity to make a submission to *the Consultation on Revisions to Prudential Practice Guide APG 223 – Residential Mortgage Lending.*

The Property Council welcomes the move by APRA to revisit some of the measures which were put in place at the peak of the market. We fully agree with APRA's assessment that the current interest rate landscape has changed considerably over the last five years.

Property is Australia's biggest industry, supporting 1.4 million jobs and contributing 13 per cent of GDP. The property industry has been a key driver of economic activity and growth in the period following the mining investment boom, providing jobs, investment and housing across the country. The residential property market is worth $6.2 trillion, directly employs more than 995,000 jobs and generates over $100 billion directly into the economy.

The residential construction sector is a reliable economic early warning metric:

- The ANZ/ Property Council sentiment survey for the June 2019 Quarter delivered a six-year low in property industry confidence levels, underscoring Treasury's budget warnings about the risks to the economic outlook from a further deterioration in the housing sector.

- The large completion pipeline is coming to an end, but approvals are declining. This raises significant concerns that the supply of new housing will not be able to meet demand with anticipated shortfall of new housing in Sydney and Melbourne in FY 20/ FY 21.

    - The most recent figures from the Australian Bureau of Statistics (ABS) have noted that dwelling unit approvals continued to decline in April by 4.7%, (seasonally adjusted) this equates to a 2.4% drop in residential building over the April period,

and by 24.2% from April 2018 – April 2019 creating a drag on new developments of housing.
    - The outlook for commencements is concerning as settled sales are down 14.4% year-on-year according to CoreLogic, which will have a negative flow on effect on construction activity and jobs.

Over the last twelve months we have seen the impact of compressing credit availability on the property and construction markets. Regulatory and governance changes have seen lending criteria for residential mortgages tighten as lenders amend their lending criteria and reduce their exposure to certain types of mortgage loans. The flow on impacts have suppressed buyer demand and property values. This is particularly noticeable in the market for new homes and apartments

Credit is the lifeblood of the economy and a competitive credit market is essential for households to purchase property. Restricting credit has a direct effect on financing private housing. The impact of tightening credit markets has been reflected in the recent national account figures have shown that dwelling finance in Australia has retreated in the first quarter of 2019.

We acknowledge APRA's concerns on the risk that household debt plays in any determination of monetary policy and the importance of having strong prudential measures to ensure stability of our financial system. However, as the Reserve Bank Governor noted after the RBA's recent move on official interest rates, the demand for household debt has reduced as consumers move from spending to a more prudent savings phase, driven by a combination of restrictive lending criteria and low wage growth.

The Property Council welcomes the proposal by APRA to remove the serviceability guidance floor and allowing lenders to prudentially monitor their own floor rates.

Creating a more flexible, competitive framework for lenders to release credit, coupled with prudent regulatory oversights will not only assist consumers to seek out more flexible products but will release capital into the Australian housing market to help deliver supply and affordability, and support jobs and economic growth.

If you would like to discuss this submission further, please contact Collin Jennings, Policy Manager – Capital Markets.

Yours sincerely,

Ken Morrison
Chief Executive