Westpac's Brian Hartzer provides some housing sanity

By **Chanticleer**

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Westpac chief executive Brian Hartzer has provided a voice of reason – even sanity – on Australia's property cycle.

Less than two years ago, the nation was plunged into an important (if slightly comedic) debate about home ownership when demographer Bernard Salt set off a claim Millennials could afford to buy homes if only they would cut back on indulgences such as smashed avocado breakfasts.

But suddenly softening house prices seem to have completely obliterated any affordability concerns.

Westpac chief executive Brian Hartzer has provided a voice of reason – even sanity – on Australia's property cycle. **David Rowe**

It's silly and short-sighted, and Hartzer is right to call it out in an exclusive opinion piece for *The Australian Financial Review*, in which he also suggests that prices could drop a little more.

"Looking ahead, affordability needs to improve in order to attract more buyers to the market, after rising house prices in prior years made it increasingly difficult for new entrants to save the deposit and service a new loan. As such, prices could fall further in certain markets.
"But it's important to note that it is normal — and indeed healthy for the economy – for the house price cycle to slow after the six strong years of growth to 2017.

"After all, lower prices mean more affordable housing for people who would otherwise be priced out of the market.

"What we're seeing is an orderly adjustment – not the bursting of a bubble — that to date regulators and banks are managing reasonably well."

That the prospect of the nation's kids and grandkids actually having a better shot at breaking into the property market appears to have been largely forgotten is probably no surprise, given the community's hyper-sensitivity to any bad news out from housing.

You can see this in the way Treasurer Josh Frydenberg has become increasingly worried about the flow of credit into the market, and the state of prices. Given all of the Coalition's problems, they will be keen to avoid being blamed for any house price declines as well.

But Hartzer is running a 200-year-old bank, selling 30-year loans on behalf of investors who profess to have 10-year horizons.

Pointing out that property prices jumped by as much as 75 per cent in Sydney between 2011 and 2017, and that credit growth has only moderated from around 7.5 per cent in 2015 to around 4.9 per cent in 2018, is exactly the bigger picture, longer-term perspective that he can and should provide.

More information

In the week before the royal commission lands its final report, Hartzer is also right to provide some context around exactly how the banks are actually treating borrowers.

In conjunction with the prudential regulator – and further prompted by Commission Ken Hayne's obvious concerns about the lack of scrutiny of borrowers' specific financial circumstances – the banks have been asking for more information from home buyers. And yes, this has made getting a loan and longer and more costly process.

But as APRA itself made clear earlier this week, an improvement in standards was warranted to help take the heat out of the market.

And the idea perpetuated by politicians and regulators that the banks are restricting credit is wrong, Hartzer says. Any reduction in the Westpac's credit growth rate is down to the market cooling, not the bank putting up the shutters.

"Average approved loan sizes actually increased slightly, while our approval rates remained unchanged. In essence, our risk appetite hasn't changed — there are just fewer people walking through the door."

That said, Hartzer is worried about the impacts of the stricter credit check on one pocket of borrowers: SMEs, who typically use property to secure their business loans.

Small business cash flow and expenses are more complex than that of residential borrowers, and Hartzer is working with regulators and the government to try and find a way to streamline things.

This is an important point to raise. While business borrowers are typically lumped in a different category to mortgagees, the importance of the family home as security in small business lending means that twists and turns in the housing market – be that falling prices, or any slowdown in credit provision – do flow through the SME sector.

Rather than worrying too much about the appropriate cooling of property prices, politicians would be well served to focus on ensuring the SMEs aren't being disadvantaged, and aren't further caught up in any further changes to credit checks that Hayne might recommend.

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