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# Changes likely to close link

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**HOT PROPERTY**

Australian Prudential Regulation Authority (APRA)'s proposed change to increase equity allocation on mortgages has been a hot topic for some time within banking circles and its implications will soon be felt across the property development and construction sectors.

APRA has announced the funds banks are required to hold against their mortgage books will increase from 16 per cent to 25 per cent by July 1, 2016.

The proposal means that the bank's return on equity driven by mortgages will be reduced unless pricing on mortgages is increased.

We expect this will occur but only to a limited degree given the significant competition in this space for business.

Much of the attention so far has focused on the impact on bank profits and shareholder returns but there are far-reaching implications for the property sector with serious consequences.

APRA's changes will have a significant impact on property market dynamics that cannot be underestimated.

Banks will assess the change with the view that settlement risk will increase as mortgages will become less attractive to banks to write and as a direct result, the availability of mortgages to settle pre-sales will reduce.

Compounding the above, APRA has forced banks to write investment home loans with higher levels of equity and the availability of finance to Self Managed Superannuation Funds has significantly reduced over the past few months as a direct result of the government's efforts to constrain credit growth in the housing market.

For property developers, this will have a knock-on effect in three major ways.

Firstly, pricing for development and construction finance is likely to increase in line with the greater perception of risk for any transaction. Secondly, the availability of bank capital to fund residential development will reduce, further tightening funds for that sector. Finally, overall gearing levels will reduce.

The banking world is already reeling from APRA's announcement with rumours that even the "big four banks" are acting conservatively and not willing to look at new clients in favour of funding only their existing client base. This is something we have not witnessed since the GFC.

Domenic Lo Surdo is the executive director of Stamford Capital.