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Offshore fundies worry about local housing bubble

John Kehoe

Foreign fund managers with billions invested in Australian home loans say their biggest concern is a property market crash.

The portfolio managers who invest in residential mortgages issued by banks expressed cautious optimism the local housing market could avoid a real estate downturn experienced in other countries like the United States.

Henry Cooke, an investment manager at Threadneedle Asset Management in Britain, said the biggest local issue that it spent time analysing was whether Australia was in a housing bubble.

"That's the sector everyone outside Australia wants to know about," Mr Cooke said in Sydney on Monday.

"My concern is if you start to see a downturn in the economy . . . foreign investors start to get nervous."

The comments confirm there are perceptions outside Australia the housing market may be overvalued and at risk of a correction in the future.

Francisco Paez, head of international structured finance at insurer Metlife, said a significant rise in unemployment would probably cause house prices to fall.

However, he did not envisage a repeat of the US crash where prices fell by between 20 and 30 per cent in most major cities after from around 2008. "Potentially a tick up in unemployment might be a trigger for some softening in prices," Mr Paez said.

"But absent a very, very big type of event, it's hard to see prices around here tumbling like they did in the US."

The panellists were speaking at the Australian Securitisation Forum conference in Sydney on Monday where they forecast modest price growth in Australian house prices in 2014.

Two of the three speakers said they expected to buy more Australian assets, chiefly residential mortgage backed securities, in 2014 than in 2013.

Mr Paez said the high house prices in Australia appeared to be driven chiefly by a lack of new supply. Standard Chartered director of asset backed securities management Michael Rose expressed confidence in the bank's exposure to the Australian housing market through its investment in residential mortgage backed securities (RMBS).

However, if there was a downturn in the market, he said the RMBS prices would likely fall and the bank would have to incur mark-to-market losses on its investments.

RMBS are loans issued by lenders and then packaged up and sold to investors.

Mr Cooke said if there was a downturn in the Australian economy, foreign investors may stop investing in Australian RMBS as occurred after the 2008 crisis even though the credit quality of Australian securities remained high.

RMBS makes up a small portion of local banks overall funding since the global financial crisis.

Mr Cooke said stress tests conducted by his firm showed even if there was a housing market correction, they would get their money back on investments.

The comments add to debate in Australia about the hot property market, which is capturing the close attention of banks, regulators, investors and home buyers.

National median home prices are up more than 8 per cent over the past year.