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By **Nila Sweeney**
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How owners’ ‘heroism’ reversed the property slide

Property owners with a mortgage are expected to largely weather the damaging effects of rapid interest rate increases, despite signs of rising financial stress, experts say.

A survey conducted by McCrindle Research for the Finance Brokers Association of Australia found that 50 per cent of mortgage holders have experienced increased stress as a direct result of the 10 consecutive interest rate rises over the past year.

Sydney home owner Steven Scharenguivel says he plans to rent out one of the rooms of his new apartment and will take an extra job to boost his income to meet his increased mortgage repayments. Louie Douvis

This prompted more than 60 per cent to cut back on leisure and social activities to manage the higher repayments. Meanwhile, 28 per cent said they have taken additional work and 30 per cent said they were considering it.

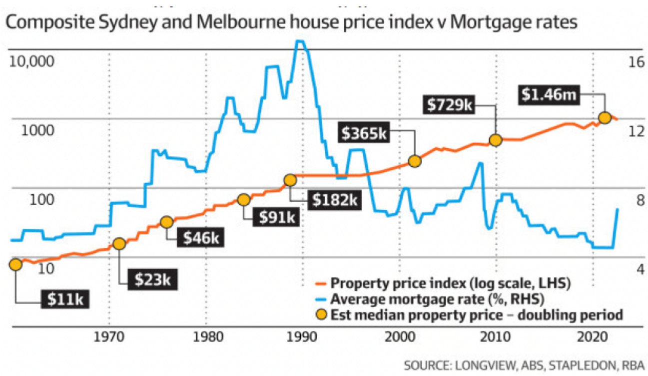
Newly-minted Sydney home owner Steve Scharenguivel is among those feeling the pinch but who are determined to hold on to their homes.

“My repayments will go up by more than $600 a month from next month, so it’s putting pressure on my finances, but I’m lucky that I have a full-time job,” Mr Scharenguivel said.

“So, I plan to rent out one of the rooms in my new place to get extra income and help with my increased repayments.

“I also plan to get an extra job, as well as increase my time rideshare driving so I can earn more cash and make sure I don’t have to sell.”

Louis Christopher, SQM Research managing director said the current level of interest rates, while it jumped substantially in the past year, was still below the breaking point for most mortgage holders.



“We did some extensive research and surveys with the banking sector in particular the non-bank sector in terms of the level of interest rate that would place people into distress, and it was suggested that it would be 4 per cent,” Mr Christopher said.

“The 3.6 per cent interest rate is still below that stress point, so unless it goes above 4 per cent, people will mostly be able to service their loans and avoid being forced to sell."

Tim Lawless, CoreLogic research director said the portion of borrowers falling behind on their mortgage repayments, which generally trigger distressed selling, remained low at just 0.4 per cent of all loans based on APRA data.

"We haven't seen any evidence that distressed home sales have become a feature of the housing market," Mr Lawless said.

"A lack of sellers, let alone motivated sellers, is likely to be a key factor that has supported housing prices, especially when we consider the surge in demand from overseas migration and an extremely tight rental situation."

The housing downturn reversed faster and earlier than expected amid low listings and increased demand according to CoreLogic.

CoreLogic's home-value index for April shows Sydney house prices increased by 1.3 per cent during the month, extending the 1.4 per cent gain in March.

Melbourne, Brisbane, Adelaide and Perth have also moved to the recovery phase of the cycle after bottoming out in the past two months, with values lifting between 0.1 and 0.6 per cent during April. The combined capital cities and regionals increased by 0.7 and 0.1 per cent respectively, and are also now past their troughs.

"Home owners in general are managing higher interest rates quite well because they have very large savings buffers built up through the pandemic, and unemployment remains very low," said Felicity Emmett, ANZ senior economist.

"Home owners normally get into stress and are forced to sell, not because of higher rates, but because of a shock to their incomes – the loss of a job.

"But given our expectation that unemployment will stay below pre-pandemic levels we think the increase in delinquencies is likely to be quite modest by historical standards."

In order for a widespread mortgage default to occur, unemployment will have to rise to around 5 per cent, according to independent economist, Stephen Koukoulas.

"If we get to 4.5 per cent to 5 per cent, we would see some genuine pressure on the property market, and see a bigger increase in force selling. We're currently at a near-five-decade low of 3.5 per cent, so we're a long way away," Mr Koukoulas said.
"The low jobless rate is arguably one of the most important things in driving the housing market because when people have a job, they'll tend to make their mortgage repayments."

Evan Thornley, LongView chief executive said even when homeowners were forced to sell, they would likely get a good price in the current market.
"People want to hang on to their homes, and they'll do fairly heroic things, at least, for a period of time to do that," Mr Thornley said.

"The only thing that could lead to prices going down is if distressed vendors face a lack of competition for those properties.

"We certainly don't have a lack of competition for properties right now due to a shortage of listings. So, any listings, distressed or otherwise will likely see strong competition if it's a good asset."

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