IDentity Property Buyers

NEWSLETTER #063

Interest Rates Rise, Property Prices Fall???

So here we have it, the record low interest rates are now a thing of the past. For the first time in more than 11 years the RBA has increased the cash rate. At this point in time it is only a 0.25% increase but there is more to come and boy the banks have been quick to pass it on.

There are a myriad of reasons why interest rates are on their way up and the reality is that it is not a bad thing. Looking at things from a macro level the rises are a result of the Australian Economy picking up after moving through the COVID pandemic.

There was an unprecedented amount of government stimulus put in peoples pockets over the last 2 years and that has served us well. Peoples savings levels are high and many are well ahead on their mortgages.

Building material prices are up due to extremely high demand and shortages across the board. Skilled trades are overworked with more work then they can handle. This in turn is pushing labour costs higher and higher.

The war in Ukraine has pushed fuel costs higher, which is driving up the cost to build, produce and transport goods. Our hip pockets are beginning to feel it at the pump, at the grocery store and when out at the shops.

The whole idea behind increasing the interest rates is to try and curtail the rapid increase in inflation. If you think about it, if you are having to put more money into a mortgage, then you have less to spend on everything else.

If you're buying less, or spending less money in the economy then demand is reducing and in theory inflation slows. It is a very simple way to look at it but it kind of makes sense.

But what will happen to the property market as interest rates continue to rise?

Well if you ask the people who haven't purchased yet, they are pretty much all saying the same thing "It will crash!" Well they obviously are hoping this will be the case but it is driven by their personal agenda and not backed up by any precedents.

Reality is that the Australian property market has never crashed, so that means there is no evidence to support significant falls. Yes some single industry towns such as mining towns have plummeted as a result of the mine closing or something of that nature. But as for cities with a multitude of industries to employ people a crash is at really long odds.

As affordability reduces property prices will struggle to continue to grow. We have already seen this in Melbourne and Sydney but Brisbane and Adelaide are still currently pressing on with strength.

	Median dwelling value	Loan principal @80% LVR	Monthly mortgage repayments @ current average variable rate	Monthly mortgage repayment with a 25bp rise	Additional monthly loan cost with a 25bp rise
Sydney	$1,127,723	$902,178	$3,560	$3,678	$118
Melbourne	$806,144	$644,915	$2,545	$2,629	$85
Brisbane	$770,808	$616,646	$2,433	$2,514	$81
Adelaide	$619,819	$495,855	$1,957	$2,022	$65
Perth	$552,128	$441,702	$1,743	$1,801	$58
Hobart	$735,425	$588,340	$2,322	$2,399	$77
Darwin	$501,182	$400,945	$1,582	$1,635	$53
Canberra	$947,309	$757,847	$2,990	$3,090	$99
Combined capitals	$827,410	$661,928	$2,612	$2,699	$87
National	$748,635	$598,908	$2,363	$2,442	$79
Source: CoreLogic.					

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Let's put it in perspective though, an average sized loan of 600k (0.25% interest rate rise) will cost approximately $80 extra per month, which is around about a cup of coffee per day. I'm pretty sure that if it came down to paying the mortgage or having a cup of coffee the mortgage would win this battle.

However it is likely that the increases in interest rates will soften off buyer sentiment, which in turn will reduce competition when buying property. The unrealistic expectation of vendors to see higher and higher sales prices will stop and inevitably some small corrections (~5%) should flow through.

For Melbourne and Sydney this is on us but for Brisbane and Adelaide in particular, will they rise another 5%, 10%, or 15% before that transpires?

Time Will Tell...

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