

Higher rates slam home values

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HIGHER interest rates are forcing people selling their homes to drop their prices while a rising number of home owners say their mortgage is worth more than their home, a survey has found.

Around two thirds of the 1894 people surveyed in December by *NEWS.com.au* - or 68 per cent - expected house sellers would be forced to sell for less as a result of higher interest rates.

And over half the respondents, or 59 per cent, said the combined impact of three rate rises in 2006 had made it more difficult to make home loan repayments.

Lower income earners were hit the hardest, with 71 per cent of those earning less than \$75,000 struggling with mortgage repayments.

The survey of readers was conducted by polling firm Coredata and *NEWS.com.au* on December 5 to 14.

Higher rates are expected to force more home sales. If there was a 1 per cent rise in interest rates, 39 per cent of property investors said that they would be forced to sell their properties. That compared to 29 per cent of owner occupiers.

For some home owners, the bad news has arrived – around one-third of respondents said the value of their home had fallen in the past twelve months.

Of those people who had seen the value of their property fall, 32 per cent indicated that their mortgage was now worth more than their home, up from 25 per cent in an August survey.

Indeed, 12 per cent of all borrowers surveyed said they held “negative equity” in their homes, with many facing the prospect of forced sales.

The news isn't good for property prices either, with 42 per cent respondents expecting house prices to fall in the next quarter. Just 25 per cent thought house prices would rise.

The survey revealed mortgage repayments are swallowing up huge levels of people's income. Eighteen per cent of borrowers said they spent 60 per cent or more of their total household income on home loan repayments.

The lower income group felt the crunch the most, with one-quarter of borrowers earning less than \$75,000 using up 60 per cent or more of household income on mortgage repayments.

At least 20 per cent of borrowers from New South Wales and Victoria claimed to use up 60 per cent or more of their total household income on home loan repayments.

The central bank in November lifted the official cash rate by 25 basis points to 6.25 per cent, a six-year high, following rate rises in August and May. The rate rise took variable lending rates to 8.02 per cent,

well above lending rates of recent years.

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