Experts say housing market can withstand more rate rises

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The housing market will not see any significant drop in demand until the variable mortgage rate reaches about 8%, according to industry experts, leaving some time before the real estate industry feels the pain of rising interest rates.

The comments come just one week after the Reserve Bank of Australia lifted the official cash rate by 25 basis points to 4%, the fourth rate rise since October, with the four major banks raising their own rates as a result to about 7%.

David Airey, president of the Real Estate Industry of Australia, says the market still has some time to go before any significant drop in demand or mortgage stress will be realised. He says these developments should occur when variable rates hit about 8%.

"I think the point of mortgage stress has not been reached yet, but I would think that another half percent of interest rate rises could be the tip. The expectation for that is by June, so a few increases over six months will start to hurt, particularly those in the lower-priced markets such as first home owners."

"In summary I would say mortgage stress is on the rise but it hasn't curtailed activity just yet," he says.

Airey says his views are in line with those of Westpac, which has said it expects the RBA to settle at about 4.5% by mid-year.

"We also expected that the cash rate would settle at 4.50% around mid-year, prior to an extended pause for the remainder of 2010. This view, which we have held for many months, was significantly below market expectations for the end point for the cash rate in 2010," economist Bill Evans said in a statement last month.

Matthew Bell, economist for Australian Property Monitors, agrees that the market will not feel any pinch for the remainder of the year and interest rate rises will be scarce until 2011.

"My view is that mortgage rates need to be closer to the 8% range, so I predict we'll need another 100 basis points before we see any affect on people's demand for property. Agents are telling me demand is still there and people are putting these increases into their budgets."

"I would be surprised if interest rates had a big effect this year. The banks may add to the few official increases given their argument of funding costs, but I still don't think we will see a big impact on demand."

Meanwhile, the auction market has still managed to sustain good results despite the rises. Melbourne posted an 87% clearance rate, even with the Labour Day holiday and one of the biggest storms the city has seen in years, although volumes were lower than the past few weeks.

"The number of auctions this weekend was lower than last weekend due to the Labour Day holiday. From the result it is clear that buyers were not concerned about the interest rate increase, they came out in force and demand remained strong," Real Estate Industry of Victoria chief executive Enzo Raimondo said in a statement.

The clearance rate is an increase from last year's 75% on the corresponding weekend. There were 238 auctions reported, with a total value of $131 million, but more activity is expected over the next three weeks with 2,500 upcoming auctions.

In Sydney, there were 207 properties sold resulting in a clearance rate of 73%. Total sales came to $175 million.

In Adelaide, 14 properties sold with a clearance rate of 61%, with the total value reaching $6.7 million. Brisbane recorded just nine sales, a 53% clearance rate, with the total value at $5.6 million.