

Rate rise will hit renters hardest

Jason Clout

The near inevitability of an interest rate rise next week after the CPI figure announced yesterday will delay the construction cycle and add to the pressure on rents, according to the property industry.

While a rate rise would add to mortgage repayments there is also concern in the sector about the impact on the already stretched rental market.

The deputy president of the Real Estate Institute of Australia, Graham Joyce, said the rental market would be one of the major problems in the next few years.

"Vacancy levels in the capital cities are already very low at around 2 per cent. They haven't been that low for a long time," he said.

"So we already have a tight market and a rate rise will only make that tougher for renters. Often the people at risk are those who are least able to afford it."

Housing Industry Association chief economist Harley Dale said the property industry acknowledged another rise was imminent.

The impact of a third rate rise this year would hold back the NSW and Victorian markets that had already been slow.

On the other hand the Western Australian market should be able to handle the rate rise, but it had other issues, such as land supply.

The HIA and the Commonwealth Bank released their quarterly affordability report on Tuesday which showed affordability was at its lowest point since December 2003.

There have been three successive quarters of declining affordability.

"We would expect that with another interest rate rise then affordability will again decline in the December quarter," Mr Dale said.

But as things stood, the HIA was hopeful there would not be another

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rate rise. He thought the RBA would take its time to measure the impact before lifting rates again.

Senior economist at the Australia and New Zealand Banking Group, Mark Rodrigues, said a rate rise would push back the construction

cycle but the underlying fundamentals in the sector were strong.

"There is balance at the moment. But we expect the pent-up demand will start to have an impact by the end of 2007," he said.

Mr Rodrigues believed the rate rise would not cause property prices to drop, but it might slow the rate of growth in places like Brisbane and Melbourne. He said rents were rising much faster than last year. At the start of 2005 they were increasing at about 2.5 per cent a year but on current figures it was about 4 per cent.

But the environment for investors was mixed. While rents were increasing their returns, higher interest rates were adding to borrowing costs.

As things stood, he thought another rate rise was unlikely.