



Interest rates pain 'necessary' as homeowners hit again –

Rise 'to murder' Coast market

by Chalpat Sonti and AAP

INTEREST rates have hit their highest level in six years and Prime Minister John Howard says the pain for households is necessary to get inflation under control.

But leading industry figures have warned there will be 'murder' on the Gold Coast property market with mortgagee sales and repossessions 'within weeks' as a result of yesterday's interest rate rise.

The Reserve Bank of Australia raised official rates by 25 basis points to 6.25 per cent, the fourth hike since the Howard Government was returned to power in 2004 on the promise of keeping interest rates low. It was the eighth rise since 2002.

"I don't like this interest rate rise any more than any borrower. I know it will cause pain for some people," said Mr Howard, who believed it was necessary action to control inflation.

The rise in the cost of borrowing to banks, if passed on fully to customers, will add more than \$40 a month to repayments on an average \$220,000 mortgage, and will be a further \$2.9 billion burden to business.

Gold Coast independent property valuer Iain Herriot said the rate rise was 'really bad news' for the 'mum and dad' investors who had stretched themselves to buy investment properties.

There would be forced sales and repossessions 'within weeks' in areas such as Eagleby, Beenleigh, Oxenford and Coomera.

"In a matter of weeks you'll start to see investors selling their rental properties so they can hold on to the family home," said Mr Herriot.

"It's particularly prevalent in those new estate areas where people have been sold house-and-land packages that quite simply don't add up in terms of market value.

"A lot of people, particularly from the southern states, have fallen for slick marketeers with their lures of rebates, and they have lent against equity in the family home without getting an independent valuation.

"When they go to put their investment property on the market in the next couple of weeks because they

The rise we had to have
● Page 35
Editorial
● Page 32

can't afford this interest rate squeeze, they are going to get a very rude shock."

Leading valuer LandMark White said the rate rise would 'murder' the Queensland property market.

Real Estate Institute of Queensland chairman Peter McGrath said more people would be trapped in rentals, with their dreams of home ownership shattered.

The REIQ wanted an immediate increase in



the first homeowners' grant to \$14,000 for existing homes and \$21,000 for new homes. It is \$7000 at present.

The Queensland Government also blasted the rate rise, saying the Federal Government had effectively negated its plans for stamp duty concessions.

"(The) rise will gobble up almost all the benefit we are offering first homeowners," said Deputy Premier Anna Bligh.

Griffith Business School economics professor Tony Makin, while critical of the decision to raise rates, said state governments had to shoulder some of the blame with their increased spending fuelling inflation.

And even Mr Herriot could see some benefit to first home buyers.

"Start looking around because I think their Christmas stocking will be full of decent buying – unfortunately though it will be at someone else's expense," he said.

Yesterday's increase was widely anticipated by economists and financial markets.

Housing finance approvals for September

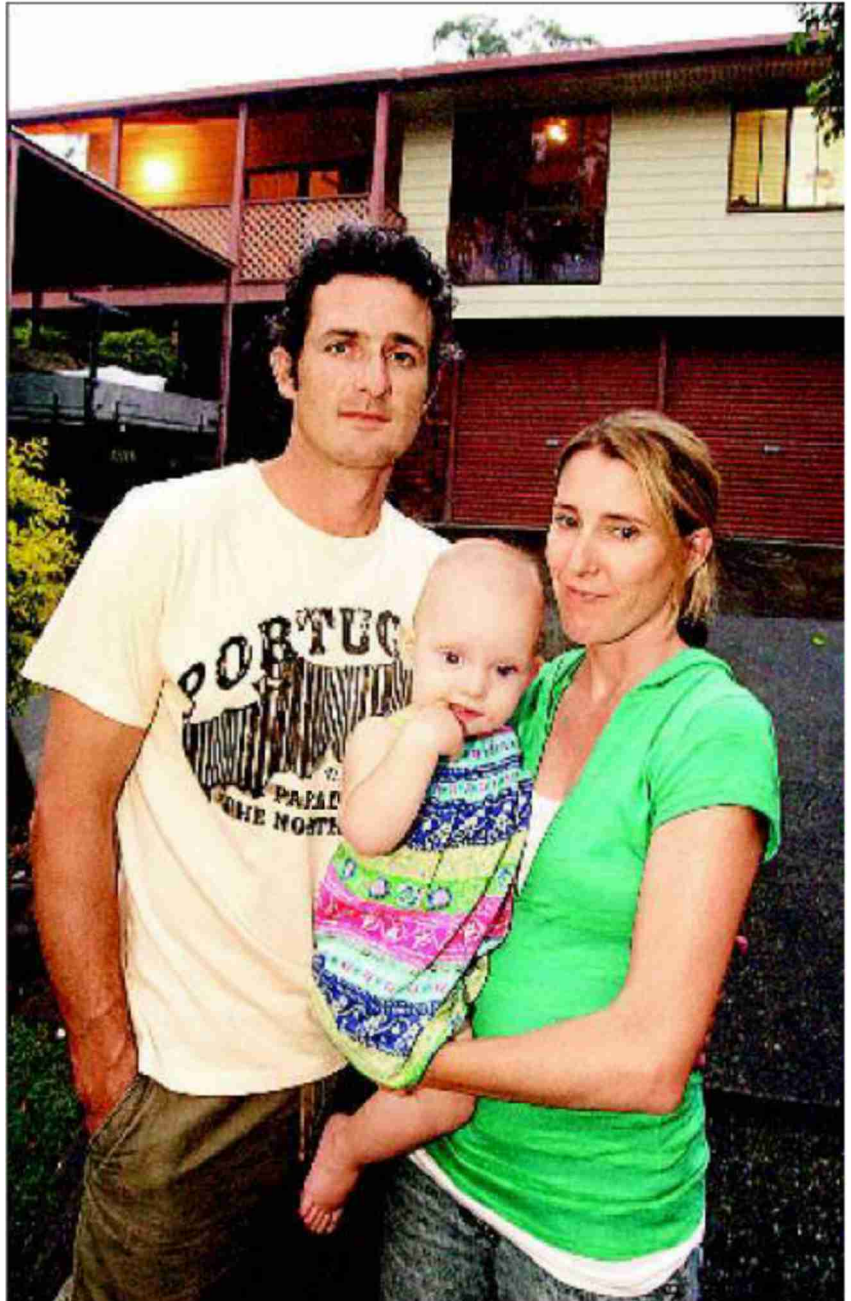
released yesterday fell for a second consecutive month for the first time since mid-2005 and follows recent benign retail sales reports.

"Should they continue to moderate, today's 25 basis point hike could well be the last in this long and drawn-out cycle which began in 2002," said RBC Capital Markets senior economist Su-Lin Ong.

Opposition Leader Kim Beazley said the Prime Minister had already failed to deliver his election promise to keep interest rates low, but 'he was now out there actively advocating rises'.

"Middle Australia is being belted and around the kitchen tables ... there'll be an atmosphere of gloom and some considerable concern as they contemplate that rates have been rising on them time and time again," said Mr Beazley.

While Mr Howard pointed out that housing interest rates were still lower than they were at any time in the 13 years of the previous Labor government, economist Craig James said home buyers were only interested in recent hikes.



Tough going ... homeowners Luke and Angela Dunshea with daughter Katelyn, 10 months, lament the latest rise

● Picture: David Clark

Rate Rise Pain	
How much more you will pay per month on a variable 25-year loan with a 0.25pt rise to 8.08%	
Loan	Increase
\$100,000	\$16.54
\$200,000	\$33.07
\$300,000	\$49.60
\$400,000	\$66.14
\$500,000	\$82.67
\$600,000	\$99.20
\$700,000	\$115.74