

Debt alert

## Cracks appear in housing market

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The Australian housing market has withstood a financial crisis, but an uptick in arrears and evidence of slowing buyer interest may be a sign that cracks are beginning to appear.

In its quarterly arrears report of securitised mortgage loans, Moody's Investors Service says the ability of Australian borrowers to repay their mortgages has started to become strained.

Delinquencies of greater than 30 days have increased from a low base of 1.10 per cent in the fourth quarter of calendar 2009 to 1.34 per cent in the first quarter of 2010.

"Since October 2009, six consecutive 0.25 percentage point rate rises have started pressuring mortgage payments, reflected by the increase in arrears over the course of this quarter," said Moody's analyst Ryan Lu .

Mr Lu said the rise was also compounded by seasonal factors, such as increased holiday spending. But with interest rates expected to stabilise, he did not expect further significant rises in arrears.

Moody's economist Matt Robinson , however, said there were warning signs that the housing market may have peaked as demand for housing finance fell and evidence of softer demand appeared.

"House price appreciation has historically demonstrated a high correlation with growth in housing finance; the dramatic decline in new financing commitments in recent months suggests an imminent period of subdued property market activity looms," said Mr Robinson.

He cited anecdotal evidence gathered by Sydney buyers agent Curtis Associates that suggested weaker demand, including a rise in properties selling before auction as a sign of vendor nervousness; a rise in off-market properties for sale due to financial or other stress; poor attendance and interest in recent auctions; and reduced turnover and slower sales.

The property market may also have been affected by the government's tightening of investment rules and the onset of Europe's debt crisis, which has seen foreign interest decline.

"The chance of a US-style housing collapse in Australia is remote, but a period of softer or stagnant house prices is likely. In any event, the 20 per cent appreciation in Australian house prices last year will not be repeated in 2010," Mr Robinson said.

The Australian Financial Review

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Jonathan Shapiro followed the Australian corporate bond markets as debt editor at Insto

