Rate rises less pain for top-end buyers

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IT'S become conventional wisdom that buyers at the top end of the housing market are unaffected by rising interest rates.

Yes, many middle-market and top-end buyers are cashed up, flush with bonuses and stock-market profits.

But surely not all upper-end buyers can put down $2 million or $5 million for their new home.

One thing is certain — everyone wants that little bit more: a new plasma TV, a more salubrious car, a more beautiful home. And we often borrow more than we should.

After the property boom — which, unlike the rest of the housing market, just keeps going at the upper end — that beautiful home can cost millions of dollars.

So, for the sake of argument, if you don't have a million or two in cash lying around, and you do have a big mortgage, just how much of an impact does this year's three interest-rate rises have?

On a $2 million housing loan, the three 25 basis-point rate rises during the year add up to about an extra $1000 a month, mortgage broker Sam Ghoreyshi says.

It's a lot extra a month, but not as much as you would think, as the bigger mortgages attract an immediate discount to the standard variable rate, probably 0.7 per cent, says Ghoreyshi, principal of a Smartline brokerage that has clients in both Sydney and Melbourne. This takes the current standard variable from 8.07 per cent down to 7.37 per cent.

Ghoreyshi has seen a number of trends as rates began to climb.

In March, after the first rise, a number of his high-end clients fixed their mortgages, mostly at 6.49-6.69 per cent for three years.

He has also seen buyers taking out $400,000 to $500,000 loans dry up.

"They have taken a step back and adopted a wait-and-see attitude," he says.

But there hasn't been a downturn among the bigger borrowers.

In Sydney, where his clients are mostly buying on the North Shore, mortgages of $800,000 to $1.5 million are common, and they are typically at least twice the size of his Melbourne clients' mortgages.

While most upper-end buyers generally borrow a smaller proportion (around 60-70 per cent) than the average homebuyer, Ghoreyshi has seen a small group overstretching.

"There are people who go to the absolute max just to make sure they don't miss out," he says.

It's often those who have been unsuccessful at a few auctions.

But if there is a change in circumstances, if they lose their job or have an illness, then some of these borrowers will be experiencing the same sort of mortgage pain that has become common in Sydney's outer suburbs or, for first-home buyers around the country, the parts of the market hard hit by two years of falling property values.