Rising rates, falling financial wellbeing: the impact of housing stress on Victorians

December 2022

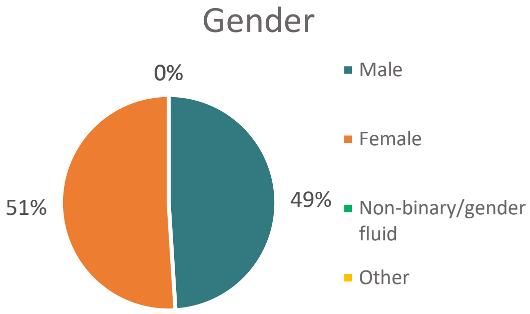
Consumer Policy Research Centre

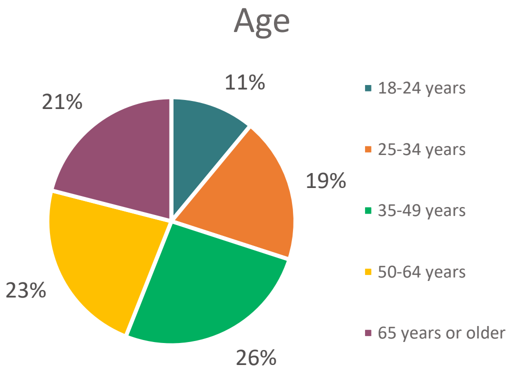
Key findings

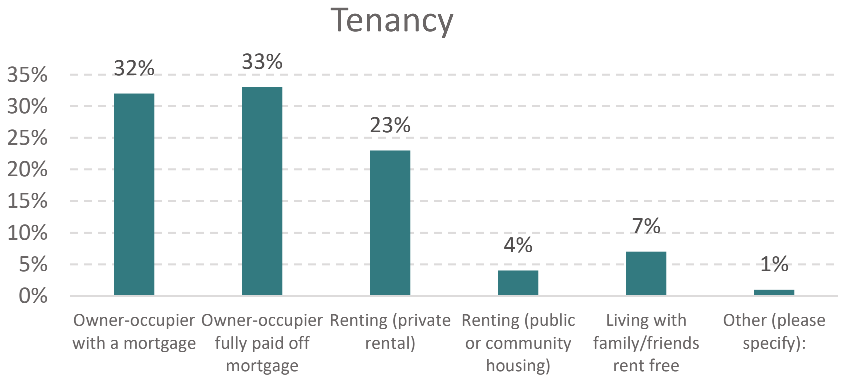
- A considerable proportion of Victorians are already experiencing financial difficulty and distress, turning to informal sources of finance to manage household costs.
- The majority (78%) of mortgaged home-owners in Victoria are already paying significant increases in mortgage repayments. One in seven (15%) report their monthly repayments have increased more than $700 in the last 12 months.
- One in five mortgaged home-owners (18%) reported difficulty paying council rates.
- People who rent are also showing signs of financial stress. Over one in five (22%) have borrowed money from family or friends and 17% have skipped a meal due to costs.
- Half of people who rent (48%) report their rent has increased in the past 12 months. While renters are protected from rapid rent increases if they are on a fixed-term lease, there may be a delayed impact in 2023 for those yet to experience a rent increase.
- Our results show a sizable proportion of both renters and home-owners with a mortgage have little to no ability to raise additional finance in an emergency. This places them in an increasingly precarious financial position in a context of rising interest rates and broader cost of living.

Methodology

- This snapshot constitutes the first of series of insight reports from CPRC's Victorian Consumer Survey.
- Data collection was conducted by CPRC, using Ipsos' Digital Platform with a survey of 1500 Victorian consumers between November 21st and 24th 2022.[1]
- The data has been weighted to ensure it is representative of the Victorian population using age and gender figures from the 2021 ABS census data.
- For more information or to request a briefing on this research, please contact Senior Policy and Research Manager, Ben Martin Hobbs at ben.martinhobbs@cprc.org.au.







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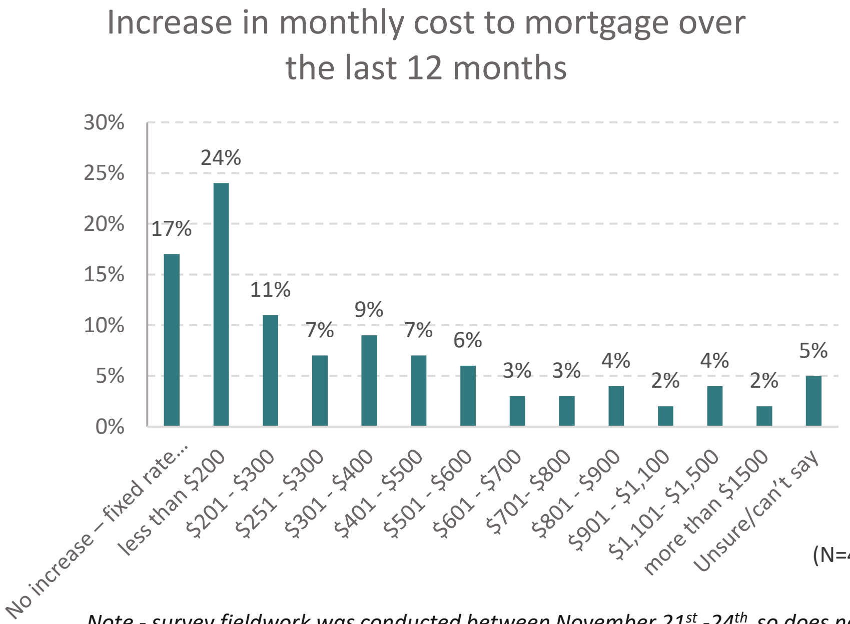
Rising interest rates already biting for home-owners with a mortgage



(N=488)

Note - survey fieldwork was conducted between November 21st -24th so does not capture the December rate rise (25 bps) and may not fully capture the impact of the November rate rise (25 bps) on mortgage repayments.

Since May 2022, the RBA's cash rate has increased 275 basis points, taking mortgages from record lows to their highest rate in a decade - in less than a year.

Our survey highlights the outcome of interest rate increases on Victorians monthly mortgage repayments:

- One in six (17%) are still on a fixed rate and have not experienced any increase in the past 12 months.
- Nearly a quarter (24%) reported their mortgage had increased by less than $200 per month.
- But over a quarter (27%) report their mortgage has increased between $201 and $400 per month
- One in six (16%) report their mortgage increased between $401 and $700 per month
- And one in seven (15%) Victorians surveyed reported their mortgage has increased more than $701 per month – including 2% who reported their mortgage increased by more than $1500 per month.

Our survey was conducted in late November 2022. It does not capture the full impact of rate rises late in the year. With rates expected to increase further and more people on fixed rate loans about to move onto variable, we can expect more Victorians to face higher home loan costs in 2023. The data collected here is just the beginning of cost increases.

Q. Has your mortgage increased in the last 12 months? [*select appropriate option*]

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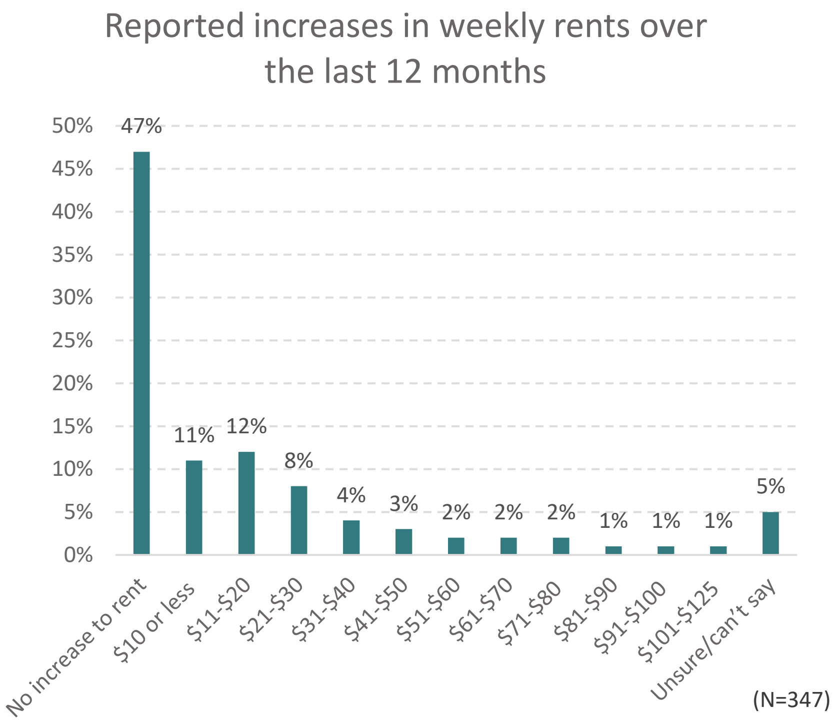
A delayed rise in rents?



Our survey found almost half of renters (47%) have not faced a rent rise in the last 12 months. Among renters who did report their rent increased (48%) in the last 12 months:

- one in ten renters (11%) reported an increase of less than $10 per week (equivalent to approx. $45 per month)
- 12% reported an increase of $11 - $20 (approx. $45-90 per month)
- 8% reported an increase of $21- $30 (approx. $91-130 per month)
- At the top end, 3% reported increases between $80 – 125% per week (approx. $351-$541 per month)

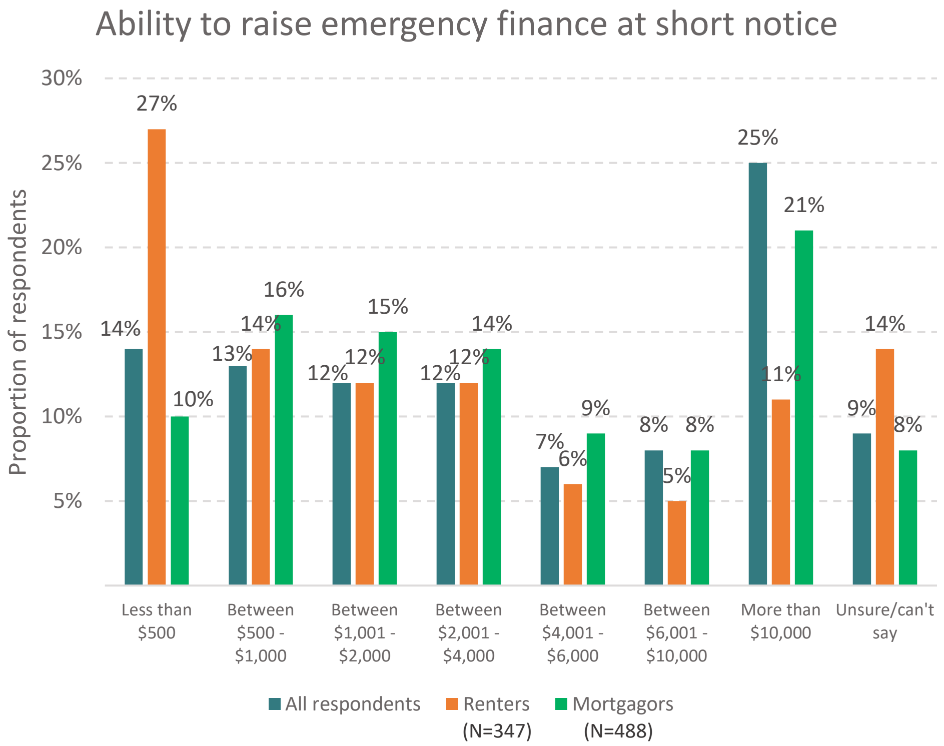
Elsewhere, research finds average rents in Melbourne increased 10% during the last year ‘suggesting upstream rental pressures are building for those tenants already on a lease agreement’.[2] Though Melbourne is currently the most affordable capital city in Australia, the Rental Affordability Index highlights affordability is declining back towards pre-pandemic levels. In regional Victoria, rental affordability has continued to decline from late 2020 onwards.[3]

People who rent and who are on a fixed term lease are protected from immediate rent rises until the term is over.[4] However, rental legislation does not stipulate limits on increasing rents, only requiring rental providers outline their method for calculating an increase.[5]

Policymakers and regulators should be alive to the possibility of significant rent increases in 2023, driven by the combination of low listings and vacancy rates, return of migration and students, as well as and the rapid interest rate rise which might create significant costs for rental providers.

Question: Has your landlord increased the rent in your current rental property in the last 12 months? [*select appropriate option*]

Financial wellbeing indicators



A significant proportion of Victorians have few financial resources available to them if required at short notice – putting them at risk of real financial distress:

- 14% of all respondents reported they could raise less than $500 at short notice and a further 13% reported they could only raise between $500-$1000 at short notice.

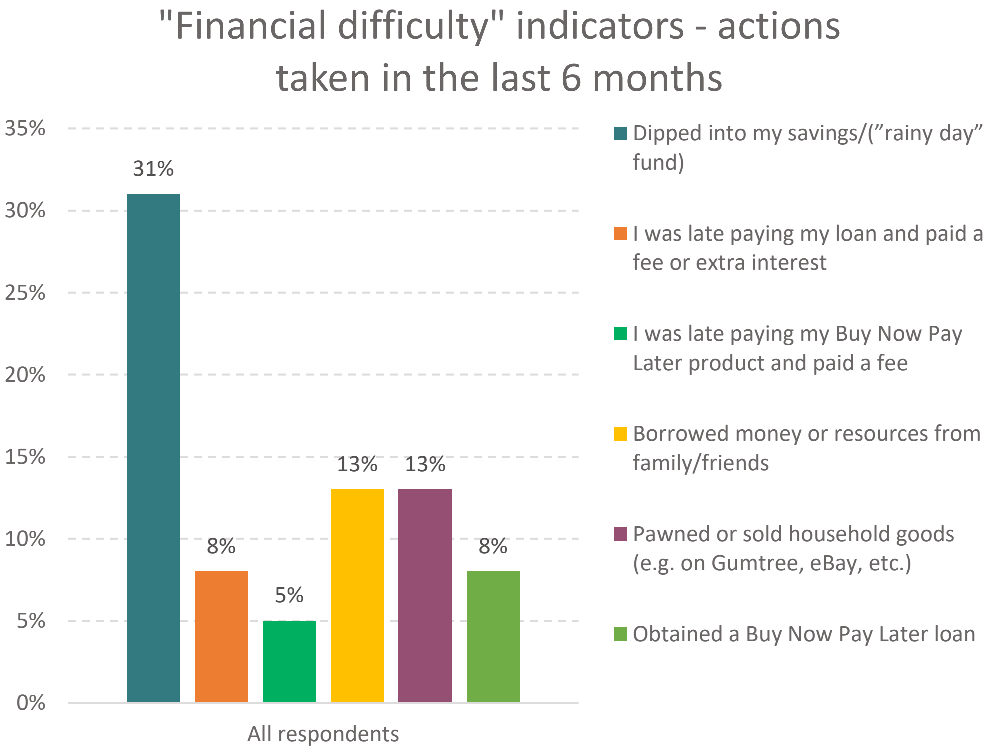
When analysed by tenancy our results show renters have significantly less financial resources available in an emergency. However, a sizable proportion of mortgaged home-owners also have limited ability to raise finance:

- 27% of renters report they could raise less than $500 and a further 14% could raise between $500 - $1000 at short notice.
- 10% of mortgaged home-owners report they could raise less than $500 and a further 16% could raise between $500 - $1000 at short notice.

While much has been made of the significant savings buffers accumulated during the period of COVID-19, our findings suggest this isn't universal across all consumers. This means rapidly rising interest rates and cost of living have the potential for, or can contribute to, significant financial distress.

Q. Thinking about your finances more generally, if you suddenly faced a large unexpected financial cost (e.g. car broke down), could you quickly raise… [*select from options*]

Financial wellbeing indicators



A proportion of the Victorian population is already experiencing poor financial wellbeing. Financial difficulty indicators from our survey show consumers drawing down on savings, borrowing from family and friends, paying loans late and taking on new unregulated debts to manage household costs. In the last 6 months:

- 31% dipped into their "rainy day fund".
- 13% said they had borrowed from family or friends.
- 13% said they pawned or sold household goods.
- 8% took out a buy-now-pay-later loan.
- 8% were late in paying a loan and paid a fee or extra interest.

Q. In the past six months, have any of the following applied to you or your household?
[Please select all that apply]

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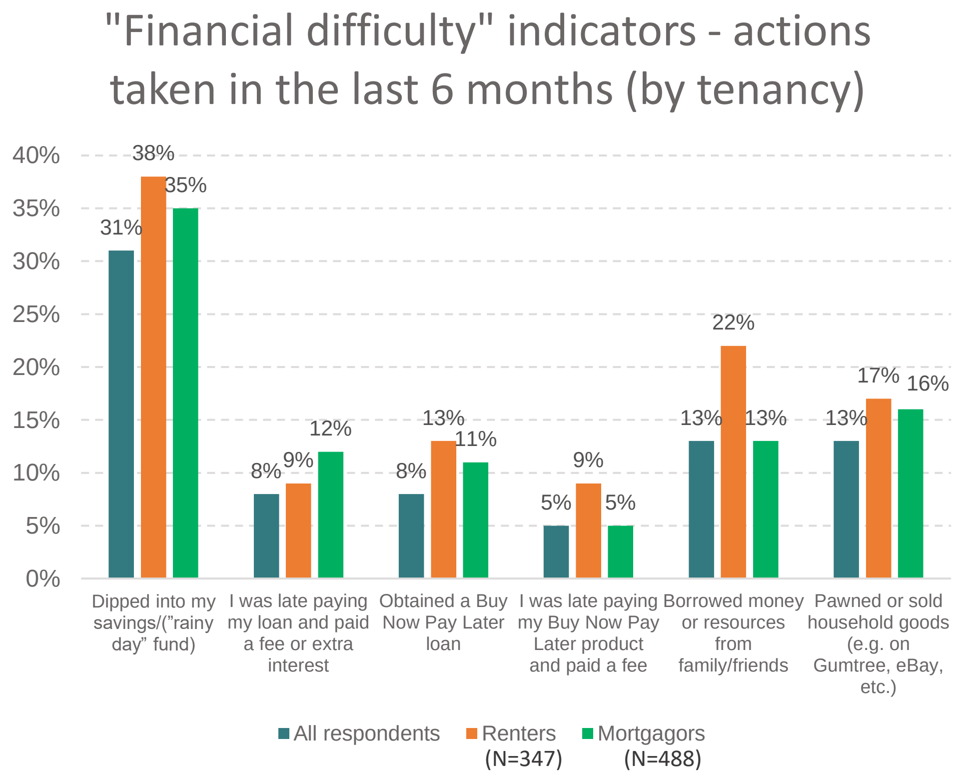
Financial wellbeing indicators



Further analysis highlights some consumers facing higher rates of financial difficulty. In the last 6 months:

- 38% of renters and 35% of mortgaged home-owners dipped into their "rainy day fund" compared with 31% of the total sample.
- 22% of renters borrowed from their family or friends compared with 13% of the total sample.
- 17% of renters and 16% of mortgaged home-owners pawned something compared with 13% of the total sample.
- 13% of renters and 11% of mortgaged home-owners took out a buy-now-pay-later loan compared with 8% of the total sample.
- 12% of mortgaged home-owners were late paying a loan and paid a fee or extra interest compared with 8% of the total sample.
- 9% of renters were late paying their buy-now-pay-later loan compared with 5% of the total sample.

These findings highlight a large proportion of all consumers drawing on their savings, while others are already borrowing from informal sources of finance and unregulated credit. Particularly concerning is the proportion missing debt repayments to regulated and unregulated providers, creating further costs in the form of fees and interest charged.

Q. In the past six months, have any of the following applied to you or your household? [Please select all that apply]

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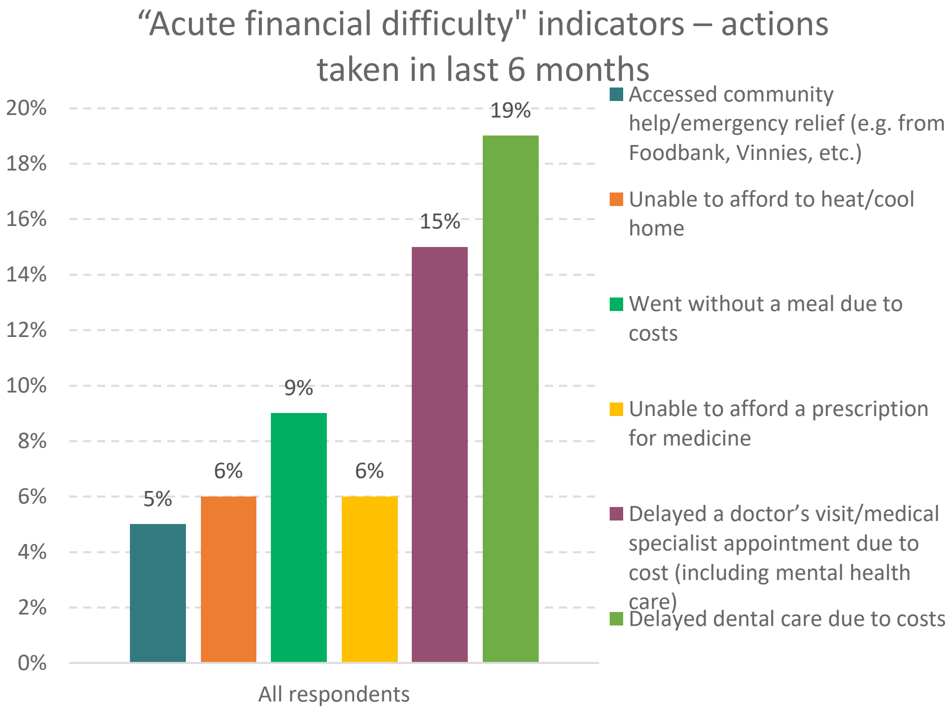
Financial wellbeing indicators



Our findings also indicate evidence of more acute financial difficulty – consumers going without meals, heating and medical care. In the past 6 months:

- 5% accessed community help/emergency relief.
- 6% reported they were unable to afford to heat or cool their home.
- 9% went without a meal due to costs.
- One in seven (15%) delayed a doctors visit/medical specialist due to cost.
- Nearly one in five (19%) delayed dental care due to cost.

Q. In the past six months, have any of the following applied to you or your household?
[Please select all that apply]

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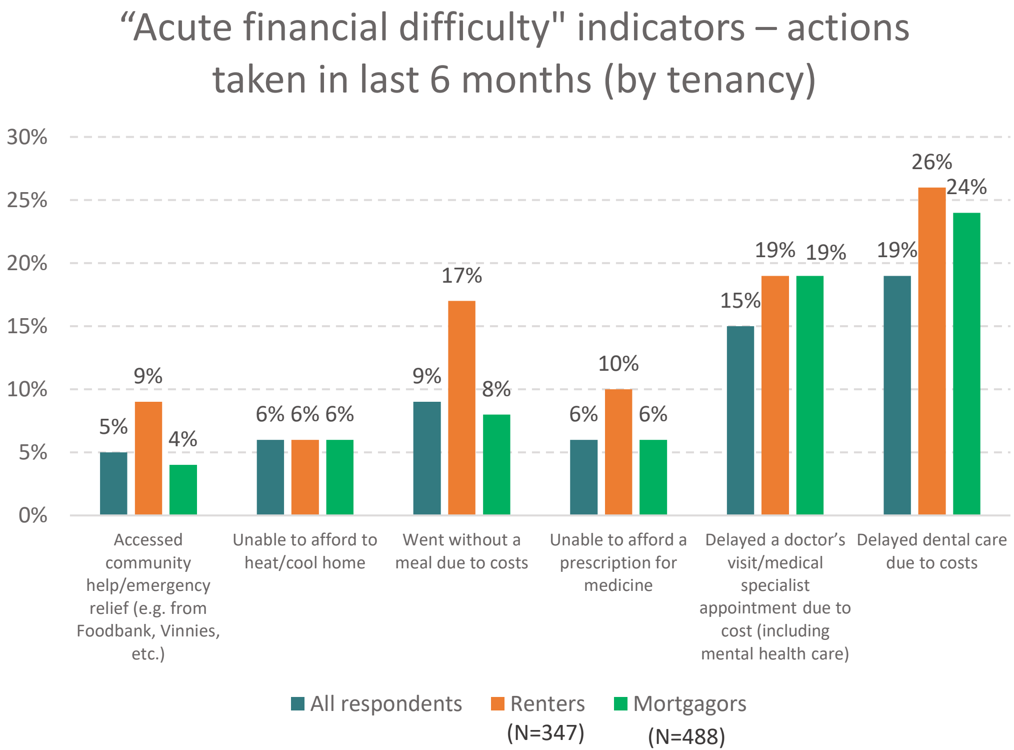
Financial wellbeing indicators



Again, further analysis of wellbeing indicators by tenancy shows these key cohorts experiencing more acute financial difficulties. In the past 6 months:

- 9% of renters accessed community help/emergency relief compared with 5% of the total sample.
- 17% of renters went without a meal due to costs compared with 9% of the total sample.
- 10% of renters were unable to afford a prescription compared with 6% of the total sample.
- Nearly one in five (19%) renters and mortgaged home-owners delayed a doctors visit/medical specialist due to cost compared with 15% of the total sample.
- Approximately one in four renters (26%) and mortgaged home-owners (24%) delayed dental care due to cost compared with 19% of the total sample.

These financial wellbeing findings highlight that there is a group of renters and mortgaged home-owners who do not have significant savings buffers and are already going without meals and medical care due to cost.

Q. In the past six months, have any of the following applied to you or your household? [Please select all that apply]

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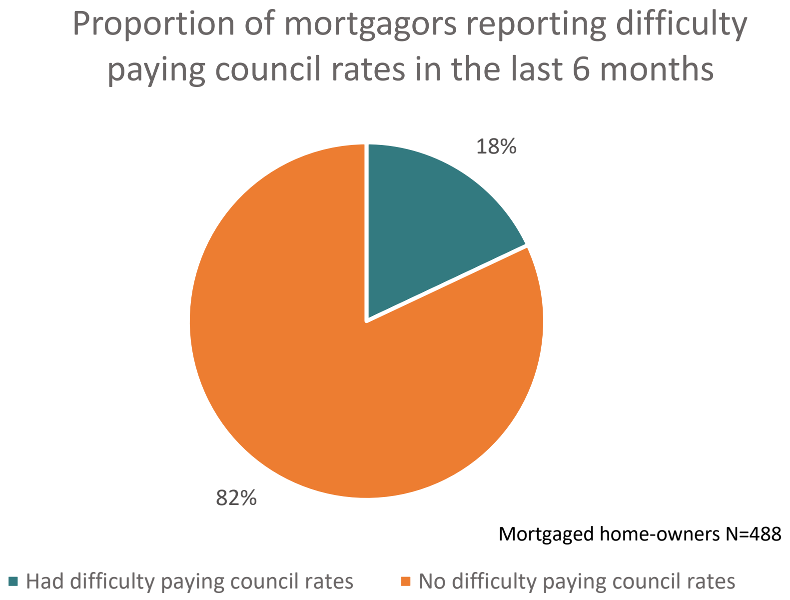
Payment difficulty extends beyond mortgage repayments



Our research found a significant proportion of consumers reported payment difficulty with their council rates.

Nearly one in five (18%) of those with a mortgage reported difficulty paying council rates in the last 6 months.

This highlights wider affordability issues, and is likely driven by the rising cost of living and by interest rate rises in particular.

In response to the Victorian Ombudsman report, legislation was introduced in mid-2022 to require Councils to offer effective payment difficulty supports to consumers, and limiting their ability to rely on debt collectors.[6]

Q. In the past six months, have any of the following applied to you or your household?
[Please select all that apply]

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Endnotes

1. Terms and Conditions of Ipsos' Digital Platform can be found here: https://www.ipsos.digital/terms-and-conditions
2. National Housing Finance and Investment Corporation, *Analysis on Australia's rental markets*, 9 December 2022, https://www.nhfic.gov.au/research/analysis-australias-rental-markets
3. SGS Economics & Planning, *Rental Affordability Index: Key Findings*. (Canberra, ACT, Australia: SGS, Brotherhood of St Laurence, Community Sector Banking, National Shelter), November 2022 https://www.sgsep.com.au/assets/main/Rental-Affordability-Index_Nov_2022_low-resolution.pdf
4. Recent changes to rental regulations in Victoria limit the degree to which rents can be increased each year in Victoria - tenancies commencing after 19th June 2019 can only be increased every 12 months (tenancies commencing before this date can be increased every 6 months).
5. Common methods include alignment with consumer price index (CPI), increasing according to the statewide rent index, by a fixed percentage increase or by a fixed dollar amount.
6. Victorian Ombudsman, *Investigation into how local councils respond to ratepayers in financial hardship,* May 2021