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First home buyer dilemma: property prices going up or down?

By Perrie Croshaw

March 10, 2009 10:52am

Should the federal government extend the First Home Buyers grants beyond June 30 2009?

Newby home buyers are rushing into the property market to take advantage of low interest rates and the \$14,000 to \$21,000 grant (plus all those other dollar incentives offered by property developers).

Housing Minister Tanya Plibersek will not say one way or the other whether the government will extend this buying incentive into the new financial year – although she must be pretty pleased that 30,000 first-time home buyers have already taken up the grant and entered the market. In December alone, owner-occupier loans rose to a 7-year high - 6.4 per cent compared to the previous month (economists expected this to be around only 3.5 per cent).

The Mortgage and Finance Association of Australia (MFAA) CEO Phil Naylor has called on the government to extend the grants saying: "There is a wealth of evidence showing that it is a highly successful program and is attracting new entrants into the market now, who may otherwise have to delay their purchase while they continue to save."

But it is responsible to cajole novice investors into taking on these high levels of debt at this stage of the GFC (Global Financial Crisis)? Are these newbies just being used to help prop up our economy in such grim times?

Can we be sure that these buyers new to the world of property investment have done their repayment sums correctly? Have they factored in repayments if interest rates rise?

While late last month Mortgage Choice CEO Paul Lahiff, said that Australia's "housing market is unlikely to experience a prolonged downturn", Fujitsui Consulting MD Martin North is of another opinion.

For some time he has talked of a US-style housing crisis in this country. The next chapter in mortgage stress, he says, is mirroring US housing events over the past three years that brought on the GFC.

Gathering Storm Clouds?

A Perfect Storm might blow up if interest rates rise, property prices fall and unemployment rises.

He says: "First Time Buyers are highly likely to enter the market now because of significant Federal and State incentives, and low interest rates. However, we expect many of these new buyers to experience stress later, because interest rates will rise from their current low levels, unemployment will rise, and house prices are likely to slip. Many of the deals being written in the First Time Buyer segment of the market are at high Loan to Value Ratios, so there is little leeway."

Fujitsu Consulting is expecting mortgage stress to lift to 1.2 million households in September 2009.

"This will more than offset any upside offered by the increased first-time buyers grants or further rate cuts and we expect to see house prices drift lower over the coming months."

Is it a good idea to get out of the rental market and jump into the property investment market at this time in the economic cycle?

Build in a buffer

Whether you already have a mortgage or are about to become a proud home owners, Kevin Sherman, Managing Director of <http://www.MyRate.com.au>, encourages all Australians to take advantage of these lower interest rates and pay as much as they can in their monthly instalments. He explains that "with such significant cuts in interest rates, consumers who do so will save tens of thousands of dollars over the life of their loan".

"With so many and such significant rate cuts coming one on top of each other, people have gone from say 9 per cent to 5 per cent repayments on their home loans. Some people are saving monthly around \$1,000 on their mortgage bill, lower fuel prices, and lower grocery costs. Those of you with secure jobs should take that additional money and put it in your mortgage. Pay down the principal as fast as you can and you will save tens of thousands of dollars in loan repayments.

"If things do get tougher down the line, then you can redraw on your mortgage as you will be ahead on payments having built in a big buffer."

In sydney now it's cheaper to buy than rent for the first time in decades. Why wouldn't I take advantage of the first home buyers money? I'm going to be sensible and not pay too much, make sure I keep paying if rates go up. The govt shld make this grant available for the next few years if they want to boost the economy - not just give people money handouts.

Jacko of sydney - [Reply](#) Wed 11 Mar 09 (08:47am)

Ready2Buy replied to Jacko Wed 11 Mar 09 (04:07pm)

I completely agree with you Jacko. The gov should extend this for at least another 12 months, in fact this should be their priority over splashing out on cash handouts.

i absolutely **DO NOT** think the government should EVER be subsidizing home ownership. this obsession with having your own castle (or McMansion) is what led to the whole housing bubble to begin with. there are many government priorities that should come before home ownership.

gene of surry hills - [Reply](#) Wed 11 Mar 09 (03:42pm)

Are house prices really coming down or has the First Home Buyers grant just inflated housing prices within the \$400 - \$500k range? As someone who is looking to enter the market I still don't see much benefit from the government grant except for inflating the prices around the price range I can afford to buy.

confused of Annandale - [Reply](#) Wed 11 Mar 09 (04:45pm)

Perish the thought any money should be spent on hospitals, or have I missed something?

Dino of West - [Reply](#) Wed 11 Mar 09 (04:51pm)

Dear oh dear, it is so simple it hurts.... I feel for these noobs who are jumping in now.

Firstly it is not cheaper to own than rent when body corporate fees, repairs, maintenance, insurance, rates, water and other expenses are included.

Your little extra \$7K grant is gone if house prices drop just 1.5%, and if houses drop by 30% as has happened in the USA, UK, Japan and other countries then you've possibly lost 10 years worth of savings. Maybe you can make that back by 2020 if you never go out again.

On top of that when the recession is over most experts predict significant inflation, your interest rates then may cripple you, just as houses start to increase in value.

My tip, rent now, wait for an easing in prices, get a variable loan, pay off as much as possible, then fix for 5 years as late as possible when it is clear rates are rising.

Realist of Mosman - [Reply](#) Wed 11 Mar 09 (10:24pm)