

Property

Fears grow over first home buyers bubble

By Craig BinnieHerald SunMay 16, 2009 12:00am

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FEARS are growing that very low interest rates and the first-home owners' grants are creating a property price bubble.

Interest rates are at their lowest in decades and first-home buyers are having cash virtually thrown at them by governments and builders to get them to buy.

But what happens when interest rates go up, as they are expected to do late next year?

Those who scraped into a home loan now with the help of the handouts could be looking at very stretched budgets.

Add rising job losses and falling house prices to the mix and you have a dire situation.

Kevin Sherman, managing director of lender MyRate, says first-home buyers need to be careful not to bite off more than they can chew.

"The current attractive environment will not last forever," he says.

A \$300,000 loan attracts repayments of \$415 a week and an interest rate of 5.26 per cent. But if rates rise one basis point to 6.26 per cent, the repayments will rise to \$457 a week.

If the rate rises to 7.26 per cent, repayments would be \$500 a week -- \$85 a week more than they are now.

Sherman says first-home buyers who intend to buy only because of the government grants should consider whether this is the right move for them.

"Unfortunately, the grant is artificially inflating prices at the lower end and could have dire consequences for the future," he says. "It's important to take stock and ask yourself if you are already stretched in your repayments.

"You don't want to be one of the first-home owners to be affected because there is a possibility these inflated prices will fall and rates will go up during the term of your loan."

He suggests you:

DON'T buy if you have doubts about being able to cope with your mortgage payments now. Rates won't get much cheaper, but they could get a lot more expensive.

ENSURE the property you are considering is valued fairly. Compare its price with other recent sales. The government grant is pushing up prices, but they might come down again when the grant is withdrawn.

Comments on this story

Franklin of Fairlight Posted at 2:14pm today

I think a lot of people miss the point of the FHOG/FHOB. It is not a tool for potential investors to get a foothold on the market. It is so you can more easily buy your HOME, where you will live, and not turn around and sell it after 6 months to make a quick buck. If you are indeed using it to buy yourself a HOME then short term price fluctuations should not be an issue, since you are in it for the long term.

Sunshine Dude of Brisbane Posted at 4:33pm May 17, 2009

Last through the door will be poor! Its a saying - just not a well heard of one - but a saying none the less!

Pragmatist Posted at 11:04am May 17, 2009

Jane of ACT - prices have already fallen 6.7% in the last year so a 5% drop isn't really that big a stretch. Given that a disproportionate amount of that fall was last quarter (2.2%) it appears that the drop is accelerating so another 5% will come off very, very quickly. Even a 10% deposit doesn't give you all that much buffer against current pricing volatility.

DrC of Melbourne Posted at 9:09am May 17, 2009

In the US it was subprime, here it's FHBs. The last into the bubble are the first to lose their homes when it pops. After twenty years of taxpayer subsidy and market manipulation Australian house prices are three times their intrinsic value. There are no more greater fools to sell onto. There is no-one left to take on more debt. Australia's house price crash is slowly unfolding before us.

Chris of Ashfield Posted at 7:31pm May 16, 2009

I bought my current apartment 6 years ago, under the influence of the original FHOG. In that time, the value of the property, being honest with myself, has dropped more than \$60,000. I thought I'd never get into the market, and it seemed sensible to buy something in the inner west, as I worked in the city. I've paid out in interest/strata levies, an amount that is probably 130% of what it would cost to rent a similar property. So I estimate that I've lost ~\$110,000 over 6 years. If I included the stamp duty and mortgage insurance, the loss would probably climb to well over \$120,000... All because I wanted the \$8000 FHOG. FHOG really needs to go... the