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THE 7.30 REPORT

First home buyers boom in times of economic gloom

Australian Broadcasting Corporation

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Reporter: Thea Dikeos

Encouraged by the lowest interest rates in decades and the Rudd Government's decision to double the first home buyers grant, nearly 30,000 people have entered the property market since October. However, at the top end of the market it is a different story, an oversupply of properties for sale is driving down prices.

Transcript

KERRY O'BRIEN, PRESENTER: First, a look at the tale of two housing markets in Australia and how they've been affected by the global crunch.

At one end of the market, thanks to lower interest rates and a big boost to the first home buyers grant, 30,000 new home buyers have entered the property market since October. The biggest proportion since 2001.

It's a different story at the top end of the market. Where an oversupply of properties for sale is driving prices down. The Housing Industry Association is urging the Government to continue boosting grants for first time buyers beyond the Government's mid year deadline but some analysts are raising concerns the boom may bring its own problems down the track.

Thea Dikeos reports.

SARAH ZAJAC, HOME BUYER: Once we get the keys, it's gonna be exciting times from there. And to actually know that we've actually done this is a really exciting step for us.

THEA DIKEOS, REPORTER: Melbourne couple Matthew Tregent and Sarah Zajac have taken the plunge and bought their first home much sooner than they'd anticipated.

They're part of an army of buyers unleashed onto the market since the Federal Government boosted

grants for first home buyers late last year.

With mortgage interest rates the lowest in decades, they've taken on a loan of \$378,000.

MATTHEW TREGENT, HOME BUYER: The repayments we are looking at are about \$550 per week so compared to renting it's only about a difference of \$100 to \$150.

THEA DIKEOS: Across Australia business is booming for developers and real estate agents at the lower and medium end of the market.

(Extract from advertisement)

SPEAKER: And still with no deposit.

ANNOUNCER: Your first home grant covers that ...

(End of extract)

THEA DIKEOS: In the four months to the end of January 30,000 home buyers applied for grants ranging from \$14,000 for an existing home to \$21,000 to build.

LUKE HARTMAN, GENERAL MANAGER, DEVINE HOMES: Devine in Victoria has seen an increase in sales of 50 per cent. Those same numbers have been recorded an increase of 50 per cent in our South Australian operation. And Queensland has also had a big pickup in takeup in the months of January and February.

(To potential home buyers) You know all about the first home owners grant?

MATTHEW TREGENT: Yep.

THEA DIKEOS: On top of the Federal Government \$21,000 grant, Matthew Tregent and Sarah Zajac received \$5,000 from the Victorian Government, and a further \$6,000 from the developer as their \$32,000 deposit.

SARAH ZAJAC: It's a great home to start a family in. So we're pretty much setting up for our future with this house.

THEA DIKEOS: How much have prices gone up here?

DARA DHILLON, REAL ESTATE AGENT: In my area here, in Ingleburn, about 10 to 20 per cent in the last four months.

THEA DIKEOS: In Sydney's western suburbs real estate agent Dara Dhillon sees many first home buyers rushing into the market before the first home owner boost runs out on June 30.

DARA DHILLON: In some cases they just come where the first home buyers grant that they will have. Fourteen or 24, depending on which property they're buying. They want a kick start because rents were too high.

THEA DIKEOS: The Rudd Government is also hoping the economic activity generated by the building of new homes will help combat the downturn from the global financial crisis.

JASON ANDERSON, BIS SHRAPNEL: I think the boost scheme, we will look back upon that as being one of the linchpins for the recovery in the economy.

TANYA PLIBERSEK, HOUSING MINISTER: The construction sector accounts for about 9 per cent of employment in Australia. It is absolutely vital to keep the industry strong, to keep those people employed.

THEA DIKEOS: The housing Minister Tanya Plibersek hasn't ruled out extending the boosted grants for first home buyers beyond June 30.

TANYA PLIBERSEK: It hasn't been our intention to extend it but certainly we're not ruling in or out.

THEA DIKEOS: But while the lower end of the property market is booming, the top end has taken a direct hit from the global financial crisis.

MARTIN NORTH, FUJITSU CONSULTING: We did some surveys quite recently on first home owners.

THEA DIKEOS: Martin North is an analyst with Fujitsu Consulting and his February report on mortgage stress tells the story.

MARTIN NORTH: If you've got stock market investments or superannuation income those are being killed and as a result of that, the feedback from our research is that a lot of people more affluent are now in some deep difficulty.

THEA DIKEOS: In the wealthier postcodes like Toorak in Melbourne and Vaucluse in Sydney, houses are being put on the market in greater numbers.

On the Gold Coast in Queensland prices have fallen as they have in dozens of million dollars suburbs in Perth.

CHRIS CURTIS, BUYERS AGENT: The change that has occurred in the market has in recent times has been a flood of stock on the market. Whereas 18 months ago getting quality property at the prestige end of the Sydney real estate market was extremely difficult.

THEA DIKEOS: Property agent Chris Curtis specialises in buying prestige property in Sydney. He helps clients find properties valued between \$1.5-million and \$50-million.

CHRIS CURTIS: It is a buyers' market at the moment. You need some skill to exploit it.

THEA DIKEOS: For three weeks to the end of February, he tracked 33 such properties in Sydney and found 75 per cent didn't sell.

CHRIS CURTIS: Buyers are sitting there with their hands in their pocket not prepared to bid and that explains the low clearance rate.

THEA DIKEOS: Chris Curtis says many properties in Sydney's harbour side suburbs are for sale but there is no sign out the front.

CHRIS CURTIS: The silent listings are everywhere. There are silent sales are few and far between. The reason for people wanting silent listings is a natural sense of privacy that occurs at the top end of the market, but also I think the desire to not be stigmatised perhaps by the global financial crisis or to be seen to be a victim of that crisis.

THEA DIKEOS: While the picture may be gloomy at the top end of the market, some analysts also see storm clouds on the horizon for those being enticed into the bottom end through government grants and low interest rates.

MARTIN NORTH: If prices drop, we've got a problem. If interest rates go up, we have a problem. If unemployment go up we have a problem. If all those three things come together that's a perfect storm and we're gonna have a crisis.

DARA DHILLON: As a real estate agent I'm happy. I'm making more money. I'm making more sales, more than ever but as a person it's very scary. It's scary that somebody will pay this price later.

THEA DIKEOS: Real estate agent Dara Dillon fears these first time buyers haven't factored in the implications of their large debt.

DARA DHILLON: The interest rate will go up again. These buyers who are calculating their mortgage repayments based on today's rate will pay the price. I've seen that happen to six, seven of my clients in the last three, four years. They lost their properties. Same thing can happen again.

THEA DIKEOS: Fujitsu's Martin North fears a worst case scenario in which the first home owner boost could even lead to a US style housing crisis.

MARTIN NORTH: If unemployment stays low, if rates stay low, then no, but if unemployment begins to move up, if interest rates move up, we've actually got all the ingredient for the same disaster here in Australia.

We're gonna see default rising. We are going to see people who will be in negative equity situations. We're going to see people who will struggle to pay the mortgage that they have.

THEA DIKEOS: Housing Minister Tanya Plibersek says unlike the United States, Australia has an under supply of housing and Australian banks are much more rigorous in their lending.

TANYA PLIBERSEK: Most banks, in fact, are requiring a, even as high as a 20 per cent deposit. Now that's quite different to the situation a year or two ago. Certainly most banks are requiring at least 10 per cent. It's much harder to get a loan and banks are much more cautious in the valuation of the home.

JASON ANDERSON: We know rates are already very low. Will they go up again at some point in the future? Almost certainly. But they will only go up once we see evidence of unemployment topping out and in fact of job gains starting to come through again.

THEA DIKEOS: Property analyst Jason Anderson of BIS Schrapnel is far more optimistic. He argues the first home owner boost was well targeted.

JASON ANDERSON: We have all the conditions in place for a typical recovery in the housing sector that we saw coming out of the recession from the early 90s - low rates, under supplied housing market and in that environment, we got a large and extended pickup in terms of house building and that is what we are going to rely on again for this cycle.

THEA DIKEOS: These first home buyers in Melbourne are confident they'll be able to face the years ahead and absorb any rate rise.

MATTHEW TREGENT, HOME BUYER: We've budgeted so far for them to increase to about 8 per cent. So in the event they do exceed that I guess we're gonna have to work out some new strategies about how to handle that, I guess.

KERRY O'BRIEN: Thea Dikeos with that report.

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