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First-home buyers borrow big

Nick Tabakoff and Joe Kelly | May 25, 2009

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THE average loan size for first-home buyers has risen by \$52,000 - or 23 per cent - in the past two years, raising fears that government incentives for young buyers are artificially inflating the market.

A report commissioned by Brandmanagement, a market research firm specialising in the finance sector, says the average size of loans being taken up by young home buyers is jumping by an "unsustainable" amount.

Drawing on Australian Bureau of Statistics figures, the report has found the average size of the loans rose by \$11,400 in the three months to February, after rising by \$18,100 in the three months to November.

In total, the first-home buyer average loan size jumped by \$52,000 to \$280,600 in the two years to February.

The huge rise in the value of their individual loans in recent months has made first-home buyers become an increasingly important part of the residential market. The figures show that by February they comprised 26.9 per cent of that market: up from 17.3 per cent in February 2008.

The actual number of first-home buyers also rose sharply in the year to February: rising from just over 9000 to more than 14,400 in the year to February.

The federal Government's First Home Owner's Boost scheme - which provides up to \$21,000 for new homes and \$14,000 for established homes - is being progressively phased out, and will cut out altogether after the end of this year.

Sydney couple David Halter and Kate Tulip, both 25, are among the thousands of first-home buyers who have entered the market - and taken on a sizeable mortgage - since the beginning of the year.

Last month they bought a two-bedroom apartment in Lindfield, on Sydney's north shore, and Mr Halter said the grant was a major factor in their decision to buy.

"We're putting in a new kitchen and bathroom. And we've knocked down a few walls because it was a 70s style unit," Mr Halter said.

While Mr Halter, who works in advertising, and Ms Tulip, a primary school teacher, agree that the first-home buyers grant had inflated the market - particularly for properties valued at below \$500,000 - they are confident that they didn't pay too much. "We looked at about 20 places before we bought ... we thought that some of them were inflated," Mr Halter said.

"It just got silly. In some of the areas there were these bidding wars going on. It was hard to get in to see a place before it got sold."

Brandmanagement's principal, Andrew Inwood, said the statistics - which indicate that property prices are rising in line with loan sizes - have raised questions about whether the grant was simply being used by consumers to buy into a bubble.

"What the government incentives appear to have done is transfer the money from the people who are borrowing money to buy their first homes into the pockets of those who are selling at a more attractive price," he said.

Mr Inwood hinted that this mini-boom in the price of properties would not go on forever.

"There'll be a collapse in those prices again," he said.

Australian Consumers Association spokesman Christopher Zinn said the rapid growth in loans to first-home buyers against the backdrop of the government incentives carried certain moral obligations for banks.

"We would trust that the banks were practising what they preached, in terms of lending responsibly in this area," he said.

Even real estate agents admit that the government incentives are creating an unsustainable bubble at the more affordable end of the property market.

Legendary Sydney luxury property agent Bill Bridges said yesterday some agents on entry-level real estate were

"loading the prices up" to capitalise on the first-home buyers scheme.

"The market's got to take off and go back to 2005, 2006 and 2007 prices for these poor people to get their money back," 80-year old Mr Bridges said.

Mr Bridges is also pessimistic about the ability of many people taking up first-home buyer grants to service loans into the future.

"The Government is giving them money not knowing whether they can service the loan," he said.

"But what about for those that are going to lose their job? It's lovely for people to be first-home buyers and get a house. But the debt has to be paid, and that's a big worry."

He expressed concerns that if people are stretched beyond their means through incentives, "it will all end up like (the sub-prime mortgage situation in) America".

The review reveals that lower-income earners have a propensity to use more low-documentation lending products, with the proportion at at 22.2 per cent. This compares with the figures for the high-income bracket of 16.7 per cent.

Mr Halter and Ms Tulip put a 10 per cent deposit down for their unit, which cost "between \$380,000 and \$420,000".

But the couple, who will marry next year, say they "got a bargain". They believe the value of the property will rise by "50 to 60k" after renovations.

Mr Halter said they were keen to purchase the unit before June 30, when the government grants were originally due to expire.

"We wanted the \$14,000. It gave us an opportunity to buy in a better location than we were normally able to afford, and we used the \$14,000 to renovate."

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