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## The door is closing

First-home buyers, beware. With interest rates rising, property prices at new highs and the big government grants on the wane or gone, those yet to take the plunge into home ownership face one of the toughest markets in years.

It is a dramatic turnaround on the conditions that first-home buyers faced in the aftermath of the 2008 global financial crisis, which ushered in one of the best periods in generations to climb on the property ladder.

Interest rates fell to a 49 year low. The first home owners grant was boosted to \$17,000 for those buying an existing property and \$32,000 for those who built a new house.

Prices had even begun to slide as buyers fled the market in the face of the global financial crisis.

“First-home buyers had a very fertile market to buy into,” says Robert Papaleo, research director for analysts **Charter Keck Cramer**. “The boosted grant and low interest rates helped push a lot of people on the verge of home ownership over the line.”

In 2009, first-home buyers rushed into the market in record numbers, often willing to spend big enough to shoulder aside up-graders and investors in the highly competitive market at the lower end (below \$500,000) that developed over the course of the year.

“It was like a call to action,” says Barry Plant, partner of Barry Plant Real Estate. “For a while, they seemed to be everywhere.” But it couldn’t last.

As it became clear Australia would avoid the worst of the global financial crisis, the Reserve Bank implemented the first of six near-sequential interest rate rises that took the cash rate from 3 per cent in September 2009 to 4.5 per cent in May 2010.

With the big banks adding more on top, mortgage repayments jumped about 18 per cent in a matter of just eight months. The first-home owner’s grant was also sharply scaled back over the course of 2009, with the amount available to the buyers of existing homes falling well below the level that was available even before the onset of the crisis. (New-home purchases are still heavily subsidised in a bid to boost long-term housing construction.)

It doesn’t “pay” as much to be a first-home buyer in 2010, but it is the rise in property prices over the past 18 months that has caused the greatest damage to the aspirations of would-be first-home owners.

Melbourne's median house price rose 22.4 per cent to \$520,000 in the year to June, a figure that stretches to breaking point even the most liberal assessment of the standard first-home buyer's budget.

The median house price for the city's inner suburbs – up to 10 kilometres from the CBD – is now \$852,000 after rising 19.8 per cent in the year to June.

Even the once-affordable middle suburbs are rapidly pushing beyond the reach of first-home buyers, except at the outer-most edges of the 10 to 20-kilometre ring around the city.

The median price in the middle suburbs is now \$582,000, up 23.8 per cent in one year. The outer suburbs (20 kilometres plus) remain the heartland of first-home ownership – if out of necessity rather than any real choice – with a comparatively affordable median house price of \$412,000. But that region too saw a sharp price rise of 16.1 per cent.

“Prices have pushed to far, putting a lot of first-home buyers out of action,” says Bruce Renowden, of Renowden Buyers Advocates. “Taken along with the interest rate rises, the combination of the two has tipped it. It's a pretty bad combination.”

The Australian Bureau of Statistics reports the number of Victorian first-home buyers taking out loans between January and June 2010 fell to its lowest level in six years.

About 15,000 first-home buyers secured a property in the six months to June. Which sounds like a lot but represents a 37 per cent drop compared with the six months from July to December 2009.

The figures indicate that more first-home buyers were willing to jump into the market during 2008 property downturn and the onset of the global financial crisis than in the past six months.

“Even if they have modest expectations of what they can buy, the supply at the price levels that many can afford – particularly in the inner and middle suburbs – just isn't there,” Mr Papaleo says.

Although the numbers paint a grim picture, the news is not all bad. Some of the gloomier analysts had predicted that the inflationary effect on prices at the lower end, thanks to the first-home buyer rush, would create a bubble that would burst once rates increased and the grant was slashed. That has not happened.

On the plus side, Melbourne's property market has notably eased overall since late April in the face of all those rate rises. Many analysts are expecting prices at the lower end to grow only moderately at best over the rest of the year – and that will give first home buyers breathing space.

“If you were looking to buy in February and you didn't, you were going to be in strife by the time it got to May. But I don't think that is the case at the moment,” Mr Plant says. “Buyers can now afford to take their time but they're going to have to put in a bit more hard work to find an opportunity.”

Generation X and Y buyers, faced with the prospect of buying a house in the outer suburbs or nowhere at all, have also been turning away from the traditional concept of the “Great Australian Dream” to embrace apartment living.

Accordingly, Melbourne’s median apartment price rose 17.8 per cent for \$436,000 in the year to June. “To go from expecting a house to getting a flat or unit is a pretty big ask,” Mr Renowden says. “But for those who do, there are still plenty of opportunities to buy into the inner and middle suburbs for far less than they would pay for a house.

<b>FIRST HOME OWNER GRANT AMOUNTS</b>		
<b>Metropolitan Melbourne</b>	<b>Existing Homes</b>	<b>New Homes</b>
Federal Grant +	\$7,000	\$7,000
Victorian Bonus *		\$13,000
<b>Total:</b>	<b>\$7,000</b>	<b>\$20,000</b>
+ Price of eligible properties capped at \$750,000 * Price of eligible properties capped at \$600,000		
<b>Regional Victoria</b>	<b>Existing Homes</b>	<b>New Homes</b>
Federal Grant +	\$7,000	\$7,000
Victorian Bonus *	\$6,500	\$19,500
<b>Total:</b>	<b>\$13,500</b>	<b>\$26,500</b>
+ Price of eligible properties capped at \$750,000 * Price of eligible properties capped at \$600,000		