

# A mini first home buyer price bubble



From the desk of ...

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FIRST home buyer activity continues to fuel strong demand for housing. Much of this demand is attributed to the closing deadline for the First Home Owners Grant (FHOG). If the government intends to extend the deadline they should announce it immediately because the demand on the limited supply of property in the lower end of the residential market is pushing prices up.

There are many first home buyers and investors in the market at present competing for the same properties. Residex's John Edwards claims the government is being negligent by not declaring whether the grant will continue. Such an announcement will stop the frenzy of buying before the grant expires.

The super low interest rates and the government grants have substantially boosted the purchasing power and have created a mini first home buyer price bubble at a time when more expensive properties are stagnant. This bubble could quickly burst if the grants are withdrawn. The grants are supposed to end on June 30th 2009, but some analysts are saying there's no way the government

will stop them without hurting those first home buyers they were trying to help in the first place.

Rod Cornish, Macquarie Bank's head of property research says that if the grants are no longer available it is highly likely house prices in the first homebuyer price range will fall. I believe the government should continue with the FHOG but only for the purchase of new housing. Applying the grant in this manner will further stimulate the economy and create more jobs. This will also encourage the construction of more housing which will somewhat contribute in fulfilling our national housing shortage. However, to avoid

further panic buying the FHOG for established homes should not be abruptly terminated on the 30th of June but phased out gradually over a period of time.

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