



Housing grants create a false economy

From the desk of ...

Paul Kounnas, Director of Hudson Bond Real Estate

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THERE are more incentives than ever before to own your own home, with the lowest interest rates in decades and huge housing grants for first home buyers.

While the housing grants are popular with first home buyers, there are some serious concerns about their impact on housing affordability. There is no doubt the grants have made it easier and possible for some who could not otherwise afford a first home.

Evidence is mounting however that the increase in demand from buyers has created a price bubble in the lower end of the market.

The financial benefit of the grant to buyers is being wiped out by ever increasing prices that are being paid by first home buyers competing to secure their first home.

ANZ's chief economist Saul Eslake warned that the grants are lining the pockets of developers and sellers rather than buyers and worsening affordability.

The grants did manage to put a floor under house prices, when the housing markets in the rest of the world were falling.

The government's artificial engineering of the housing market is creating a price bubble with a number of other economic problems.

If the bubble bursts many buyers could be left with mortgages that exceed the value of their homes.

Furthermore if unemployment rises to 8.5% next year as forecast, it will hit mostly the blue collar suburbs where first home buyers are concentrated.

The other unknown factor is whether the grants and stimulus package payments will contribute to an inflation problem once the economy starts to recover, putting upward pressure on interest rates.

First home buyers who have taken out record high mortgages could be left vulnerable. I hope that the great Australian dream does not end in a nightmare for some.

■ Hudson Bond Real Estate
751 Doncaster Road, Doncaster 3108.
Phone: 9840 7700



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