THE AUSTRALIAN Business WITH THE WALL STREET JOURNAL

January 15, 2009 09:14am AEDT

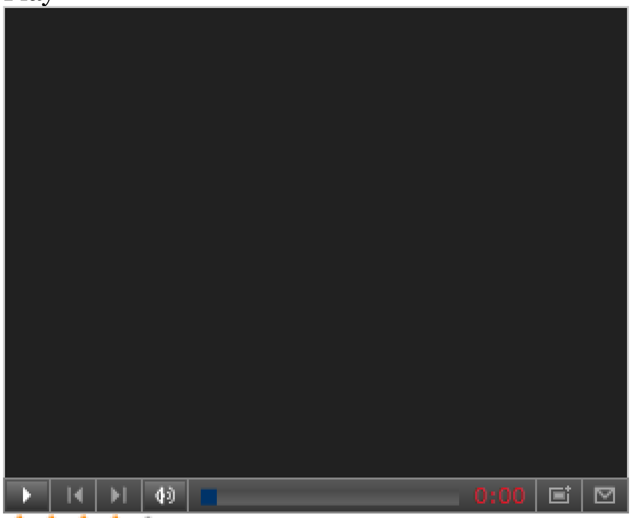
Grant stems housing slide as pressure is on to extend first-home buyer scheme

David Uren, Economics correspondent | January 15, 2009

Article from: The Australian

THE Rudd Government is under pressure to extend the temporary boost to its first-home owner's grant as a flood of applications has stemmed the fall in the housing market.

Play



(1 vote)

Housing recovery
The Government is under pressure to extend the temporary boost to the first home owners grant. 1/09...
Views today: 377
Sorry, this video is no longer available.

People entering the housing market for the first time drove a 1.5per cent lift in the value of loans to owner-occupiers in November.

The number of first-home buyers leapt 17.8 per cent in response to the Government's boost to the first-home buyer's grants, which formed part of its $10.4 billion plan to stimulate the economy.

The grant was doubled to $14,000 for new entrants to the housing market buying an established home and raised three-fold to $21,000 for people buying newly built houses.

However, the increase, costed at $1.5 billion, is supposed to expire on June 30, in line with Treasury's requirement that budget boosts to the economy be temporary.

State governments have also been raising their support for new-home buyers.

In Western Australia, where the housing downturn has been most acute, new home-buyers will soon be eligible for a total of $46,000, in state and federal grants, provided they buy newly built homes in towns with populations of less than 10,000.

The new entrants to the housing market appear to be using the Government's money to buy more expensive property, with the average first-home loan increasing by $18,100 in the past three months.

The housing industry is concerned demand would fall away if the increase were reversed. Master Builders Association chief executive Peter Jones said the Government's measure was bringing forward demand.

"I would argue that the Government should carefully consider extending the first-home owner grant scheme, particularly the tripling of the scheme for new houses," Mr Jones said.

"The Government will get the biggest bang for its buck in terms of fiscal stimulus if the grant encourages building activity in the residential sector."

Property consultants believe it would be impossible for the Government to wind back the scheme while the economy remains under pressure.

Housing Minister Tanya Plibersek yesterday hailed the success of the scheme as a vote of confidence in the housing market.

"First-home buyers have been very enthusiastic in taking up the opportunity to enter the market now, which many first-home buyers are saying is a terrific time for them, that they're feeling very confident about the housing market that they're going into," Ms Plibersek said.

She has declined to be drawn on whether the increase in payments would be extended, saying only that the effect of the stimulus measures would be assessed and the Government would continue to help people weather the financial crisis.

While the value of loans to owner-occupiers has been rising for three months in a row, the investment sector of the housing market is still in free-fall, with new loans dropping 6.1 per cent in value in November.

The head of property research for investment company Advisers Edge, Louis Christopher, said the emergence from previous downturns had been led by first-home buyers, with investors joining some time later.

"It is possible we are seeing a repeat of this pattern," he said.

However he said there were other signs of continuing weakness in the housing market. The stock of unsold houses in the major population centres is more than double the level now that it was during the peak of the property boom in 2005.

Mr Christopher said the overhang was particularly severe in southeast Queensland, where there were more unsold houses on the market than in Sydney, despite the population being 40per cent smaller.

Mr Christopher said the rental market was also weakening. In both Melbourne and Sydney, the vacancy rate was 4.2 per cent, with investors struggling to find tenants for higher-priced property. It is still below 2 per cent in other capitals but is also rising, with an increased number of listings of property to rent.

The Housing Industry Association is seeking further incentives for investment property owners, such as doubling the depreciation allowance and incentives for investment in raising energy efficiency of dwellings.

A survey by the property consultancy Residex found that house prices slipped by 0.6 per cent, while unit prices fell 0.5 per cent in the December quarter.

There was wide regional variation, with prices falling most in Perth at 7 per cent. Residex research head John Lindeman said southeast Queensland was also performing poorly and it was possible Sydney prices had levelled out.

"The Government has done a lot to prop up the finances of the industry and to put a floor under the price of housing."

Deutsche Bank chief economist Tony Meer said total credit to the housing sector was growing at an annual pace of only about 5 per cent, its slowest level in the 35 years private credit numbers have been kept.

"We expect the Reserve Bank will continue to lower the cash rate," he said.