

OBSTACLES ON THE RISE

Rising interest rates, stricter lending policies and possible land shortages are expected to hit first homebuyers this year, but experts say these challenges can be overcome with the right approach

A MIXED bag of treats, challenges and surprises is in store for first homebuyers in 2010. While higher interest rates and reduced government assistance will lead to a significantly reduced presence of first-time buyers in the marketplace, builders and developers are likely to court clients with a continued flow of buying incentives.

Rising interest rates, continued lending constraints and possible land shortages will present obstacles, however experts say that these challenges can be overcome with the right approach.

Homebuyers can look forward to continued efficient construction times for houses, but greater competition for land in prime locations may see more people camping overnight to secure their favoured building lot.

While major resource projects such as Gorgon will place higher demand on the state's supply of tradespeople, most sources don't expect skills shortages to become a major issue in the housing industry.

Master Builders WA housing director Gavan Forster says the completion of major commercial projects in Perth will free up trades and act as a moderating influence on subcontractor pay rates.

Gavan says it's unlikely first homebuyers will be affected by construction delays, with build times for most single-storey homes being about 24 to 27 weeks.

He says first homebuyer activity, which peaked at almost 40 per cent of the market under the influence of government grants last year, will return to normal levels of about 20 per cent of the market this year.

He says that while first homebuyers are unlikely to be affected by escalating land prices, high-demand areas, such as Cockburn and the northern beach areas, may experience land shortages.

First homebuyer confidence and borrowing capacity will be affected by the threat of continuing rises in interest rates.

"It's important that the flow of finance through Keystart continues to encourage lower income households to buy homes in the future," Gavan says.

First homebuyer activity will inevitably fall back with interest rate rises and the winding up of the First Home Owner Grant (FHOG) boost, says Hegneys Property Group executive chairman Gavin Hegney.

Gavin says that a lot of first homebuyer activity was brought forward by the enhanced FHOG, and in 2009 these sales rose from traditional levels of about one in five sales, to one in two.

He says this year first homebuyer sales are likely to fall to one in 10 or one in 15.

According to Gavin, interest rate rises above 7 per cent may result in some forced sales of homes bought by first homebuyers.

He says homebuyers with concerns about meeting higher mortgage repayments are reminded that applications are assessed on an ability to accommodate a 2 per cent rise in interest rates.

However, homebuyers whose finances are stretched can consider renting out a room, applying to have some superannuation released, refinancing or renting out the home.

"If necessary, it is possible to move out of a house and rent it out for six years and still not be subject to capital gains tax," Gavin says.

"But the important thing is for first homebuyers to consider their options before interest rates rise, rather than being overcome by panic and fear."

Gavin says rising demand this year for land among trade-up buyers and tighter finance restrictions on developers may result in a shortage of lots priced above \$250,000.

He says the removal of the boost to the FHOG will ultimately be positive for the property market because it will lead to renewed pressure on the rental market and renewed investor interest in housing.

Urban Development Institute of Australia (WA) chief executive Debra Goostrey says possible land shortages may artificially inflate prices in some high-demand areas.

Signs of higher demand from first-time and trade-up buyers were already being seen late last year with buyers camping overnight for land sales in some prime locations.

UDIA is working with the government to ensure land is released to the market within reasonable timeframes so first homebuyers have access to affordable land.

"Developers will have to ensure appropriate land is supplied to meet the different needs of all consumer groups," Debra says.

"It is essential the State Government supports the development industry in their goal to provide quality affordable land to the market place."

Debra says critical issues for this year will be how quickly interest rates rise and the tightening of lending criteria.

Sage Financial Solutions director James Pibworth says that unlike some buyers of the past, the

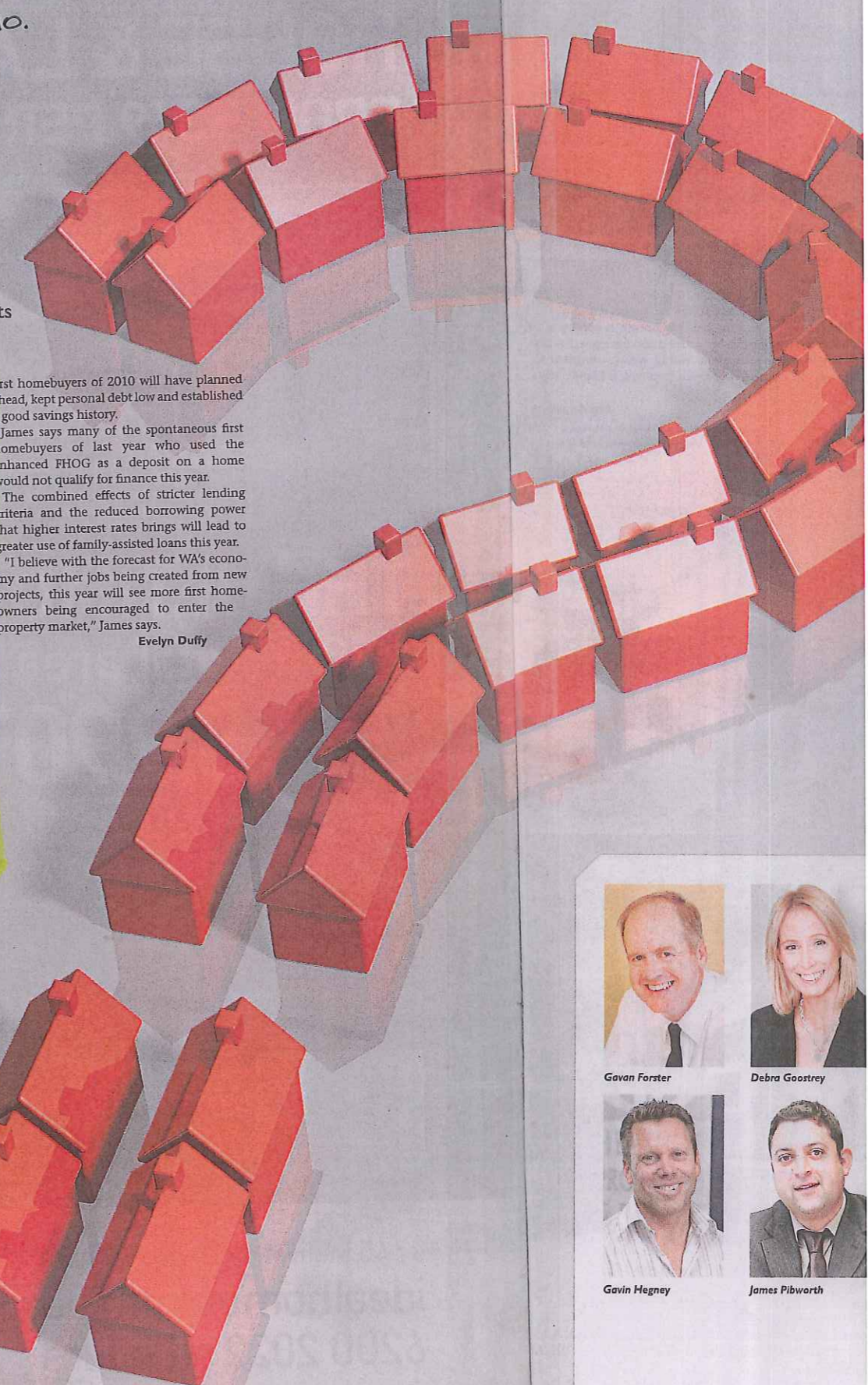
first homebuyers of 2010 will have planned ahead, kept personal debt low and established a good savings history.

James says many of the spontaneous first homebuyers of last year who used the enhanced FHOG as a deposit on a home would not qualify for finance this year.

The combined effects of stricter lending criteria and the reduced borrowing power that higher interest rates brings will lead to greater use of family-assisted loans this year.

"I believe with the forecast for WA's economy and further jobs being created from new projects, this year will see more first home-owners being encouraged to enter the property market," James says.

Evelyn Duffy



Gavan Forster



Debra Goostrey



Gavin Hegney



James Pibworth