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First home buyers are back – but for the right reasons?

- November delivered the largest number of borrowers entering the market in two years
- Majority of first home buyers were in NSW – with many purchases probably 'brought forward' to beat stamp duty concession deadlines
- Building up larger deposit could far outweigh the benefits of a government grant or concession

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There has been a dramatic increase in the number of first home buyers entering the property market, but the numbers may be skewed by changes to first-home owner concessions in NSW, according to new research by Australia's best financial comparison site RateCity (www.ratecity.com.au).

The number of first home buyers increased by 18 percent in November compared to October – adding more than \$2.86 billion in mortgage activity – the largest volume since December 2009.

Damian Smith, RateCity's CEO, said there is cause for optimism about the housing market in 2012.

"November delivered the largest number of borrowers entering the property market in almost two years and it was the fourth consecutive month with rising numbers of dwellings financed by first home buyers. It's significant because it pre-dates the second interest rate cut in December," he said.

However, Mr Smith cautioned against reading too much into the data, as the national figures were largely bolstered by the number of buyers entering the property market in New South Wales.

"In NSW alone, close to 4000 first home buyers financed properties in November – a significant jump of 34 percent up from the previous month. By comparison, the number of first home buyers in Victoria and Queensland rose by just 5 percent and 8 percent respectively, in the same period.

"Many home purchases in NSW were effectively 'brought forward' to meet the stamp duty concession deadline before rulings changed on January 1, 2012.

"We expect to see a similar spike in first home buyer activity in Queensland in coming months after a surge in applications were filed for a \$10,000 building boost grant, which was due to close at the end of this month. To meet demand, the deadline has been pushed out to the end of April," he said.

While grants and concessions are a welcome stimulus for the housing market and wider economy, Mr Smith warned borrowers against rushing in to the property market too early just to take advantage of grants.

"There may be a place for government grants and concessions, but borrowers shouldn't let changes to rules motivate their decision to enter the market unless they are in a good financial position. Instead, borrowers should aim to save at least 10 percent deposit, if not more.

"Saving longer for a deposit can far outweigh the benefits of a government grant or concession.

"Take a \$300,000 property in Queensland, for instance, and a variable home loan at 7.30 percent interest. One borrower, with just 5 percent deposit – or \$15,000 – enters the market now and receives the \$10,000 building boost grant, but could pay about \$336,000 in interest over 25 years.

"A second borrower who forgoes the grant to save longer for a 20 percent deposit – or \$60,000 – would be more than \$43,000 better off over the life of the loan, even after the first borrower has pocketed the grant.

“And of course a borrower with a larger deposit is likely to be able to negotiate a much better interest rate, as well as not having to pay lenders’ mortgage insurance.

“The lure of a government grant means very little over the 25 year life of a loan; it’s important that first home buyers do their sums carefully, and buy at the right time for the right reasons”, he said.

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