

First-home grants push prices through the roof

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NEARLY \$450 million of government money a year is being pumped into the Victorian property market through first home owner grants. Yet the policy is having no noticeable effect in improving affordability for first-time buyers, data shows.

In fact, overall housing affordability in Victoria is getting worse, and recently hit three-year lows in the September quarter, according to an HIA-Commonwealth Bank report.

"The way the grant is done on boosting (housing) demand is

pretty scatter-gun," said Professor Mike Berry, from RMIT University. "Of course, that's good politics but it's not necessarily good social policy."

It is not only bad social policy, it also appears the first home owners grant and bonus schemes are inflating prices and distorting markets in the suburbs that receive it the most, data compiled by *The Age* reveals.

That's good news for vendors and agents but not for those who are meant to benefit most — first-time buyers.

State Revenue Office data provided to *The Age* shows that the SRO paid out \$434.4 million in

2004-05 and \$445.78 last financial year for both the \$7000 first home owners grant and the \$3000 first home owners bonus.

Much of the money is being directed into suburbs on the urban fringe such as Craigieburn and Cranbourne, the two biggest recipients of the grant and bonus between June 2004 and June last year, according to the SRO data.

But rather than those markets becoming more affordable for would-be buyers, prices have shot up by more than twice the Melbourne average.

In Craigieburn, median prices jumped 13.2 per cent over those two years, and in Cranbourne by

9.5 per cent, industry house price data shows.

In Berwick, the next largest recipient where price data is available, prices leapt 10.8 per cent. Only one suburb in the top 10 had prices fall, and even then only marginally.

Overall Melbourne prices rose just 4 per cent during the same two-year period.

And no matter who wins next Saturday's election, even more money is set to be pumped into the market in the coming years, with a series of bigger and better promises from the major parties.

Some academics and experts are calling for an overhaul of the

policy. They say the money could be directed elsewhere or would not be needed if governments changed other policies that affected affordability.

The State Government has committed to extending the \$3000 bonus for a further two years and increasing it for new homes. Premier Steve Bracks said the policies, which included cuts to stamp duty, would improve affordability.

The Liberals, who are making deeper cuts to stamp duty, will match the extension to the bonus and the \$5000 for new homes.

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"I think the money could be far better used on the supply side, quite frankly, because you can target the subsidies more closely to those who really need it," Professor Berry said.

Also the lack of means testing of the grant and bonus leads to economic waste, he added.

"It means there's what economists call a large dead-weight cost. That means many people would have bought the house at the price regardless of whether they got the grant."

Alan Moran, director of the

deregulation unit at the Institute of Public Affairs — who recently wrote a book on the planning system — agrees the grant and bonus are not good policy.

He described them as a "third or fourth" best policy option but said they served a purpose by alleviating the land price increases caused by urban growth boundaries.

"We wouldn't normally be in favour of those sorts of things, but they are mitigating a problem that is created by government regulations, particularly state government regulations," he said.

Research by Mr Moran found that the real cost of new land in Melbourne has more than doubled in 15 years to \$120,000 a block, which he pinned to artificial constraints on the supply of land on the urban fringe.

"The average new house is overpriced in the Victorian region by at least \$70,000 as a result of that," he said.

"The real solution is, let's get rid of regulation in the first place, then we needn't have to go to the taxpayer to recirculate money like that."

Professor Berry said that while governments promoted the

scheme as an affordability measure, its original intention, when the grant was started by the Federal Government in 2000, was to boost the building industry after the introduction of GST.

Others say it should be better targeted. "We do have the view that these sorts of bonuses aren't the best way to ensure that people get into home ownership without inflating the market," said David Imber, from the Tenants Union of Victoria.

He said the proposal to provide a \$5000 bonus for new homes was an improvement, but there needed to be a range of

measures. It appears measures that encourage first-home buyers do provide a boost to builders, at least in the short term.

The Housing Industry Association has found that an extra 1400 houses would be built in the year after the proposed changes by the Government were introduced, but the benefit would decline after that.

Glenn Evans, HIA regional director for Victoria, said he saw the first home owners scheme as a "starting point" but said affordability needed a "whole of government" approach. He said planning and WorkCover were

areas where government needed to consider the effect of affordability of delays or excessive regulation.

Mr Moran said if the market was freer, the building industry would respond and improve affordability. "We have a very competitive building industry, one that is capable of expanding quite a lot, and we have a very competitive development industry." In Australia, he said, was squandering what should be one of its comparative advantages with its expanses and competitive building industry — cheap housing