Caution urged for first-home buyers

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After years of being locked out of housing, first-home buyers are finally starting to see opportunities thanks to property prices falling in Australia’s biggest markets, Sydney and Melbourne.

But CoreLogic research director Tim Lawless says there is "no urgency" to buy given his company’s forecast of Sydney and Melbourne prices falling between 18 and 20 per cent from peak to trough. Sydney home values have fallen 13.2 per cent.
Buyers of apartments are advised by some to beware of further price falls due to post-election issues. Armelle Habib

Chris Bates, a financial adviser and mortgage broker at Wealthful who specialises in advising young families in their 30s and 40s, says those looking to buy an apartment in Sydney should delay their purchase.

"Apartment markets are driven heavily by investors and, with the upcoming election and the [proposed] changes to negative gearing, apartments will be hit harder than houses," he says. Under Labor's policy, negative gearing will be limited to new housing purchases and the capital gains tax discount will be halved to 25 per cent.
Prisoner in your own apartment

Bates cites as an example a young couple who buy a two-bedroom apartment in Sydney's inner city suburb of Waterloo for $800,000 and then have to sell at a loss in three years because they start a family.

"You could be a prisoner in your own apartment. I would hold on, see what happens and try to get into the housing market [as opposed to apartments]," he adds.

For those set on buying an apartment to live in for the long term, Bates says a good strategy would be looking in suburbs that are more family-friendly.

High-density suburbs are not always family-friendly, says Chris Bates. Luis Enrique Ascui

"Be extremely careful where you buy an apartment and avoid the areas where they are building lots of apartments," he adds.

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"Buy into apartment blocks that really suit families and the older generation. You might be looking at old places in the inner-ring suburbs like Rose Bay, Double Bay, Mosman and Balmain," he adds.

Good time to buy house

This is a good time for first-home buyers to buy a house, Bates says, but he cautions against overpaying in case they have to sell at a loss if circumstances change in the short to medium term.

Janet Spencer, a Melbourne buyer's agent and managing director of Buyer Solutions, says the market is quieter than in 2017 but there is still steady demand in the inner and middle-ring suburbs such as Brunswick, Camberwell and St Kilda on the back of strong population growth.

She says a good buying window would be in the next couple of months, because investor interest slows when a federal election is called.

Beware of negative equity

A key risk in buying in a falling market is ending up with negative equity, which happens when a homeowner owes more on the mortgage than the value of the home.
Digital Finance Analytics' Martin North says a large number of first-home buyers who bought homes in the last two years would now be experiencing negative equity.

North, whose base case is Sydney and Melbourne house prices falling 20-30 per cent in the next two to three years, cautions against buying now.

He said if buyers have a 10 per cent deposit and if prices drop a further 10 per cent, they could lose their deposit. "My advice to first-home buyers who saved up their deposit is to be very, very careful," he says. In a worst-case scenario the buyer might sell the property and exit with no equity, which means losing the deposit.

Even if they can continue make mortgage repayments, North adds, negative equity would reduce their ability to sell and buy another property.

Buyers sitting on negative equity may also find it difficult to refinance the loan to get a lower interest rate from another lender if the existing lender raised the interest rate, he adds.

Rentvesting over

A couple of years ago, a popular way for a first-home buyer to get into the booming property market was to "rentvest" – by renting near the city and buying property in growth suburban areas.
"You can’t make the economics of rentvesting work without the capital gain. It won’t turn around again until capital growth starts to reemerge, which could be five years or even longer," he adds.

Opportunities outside Sydney and Melbourne

Wealthful’s Bates said rentvesting is not a sustainable option for many people who want a family and the stability of home ownership.

"[Rentvesting] basically got invented because first-home buyers became disillusioned and gave up on home ownership," he adds.

"It works when you’re single or a young couple, but when starting a family, home ownership typically rises very quickly on the priority list."

CoreLogic’s Lawless says there are still pockets of opportunities for first-home buyers looking for an investment property, including Brisbane, Gold Coast and Sunshine Coast where there is scope for capital gains and healthy rental yields.

Some of the regional "lifestyle" markets such as Byron Bay, Tweed and Coffs Harbour are also good options due to the demand from retirees and second-home buyers.