

Impact of changes to the First Home Owner's Grant Boost Scheme on the Residential Market

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The First Home Owners Grant Boost Scheme (FHOGBS) has provided a substantial stimulus to the residential property market activity since its introduction by the Federal Government in October 2008. Research conducted for QBE LMI by BIS Shrapnel shows that if the FHOGBS is extended beyond 30 June, then First Home Buyer demand could peak at 180,000 loans in 2009. However, if the FHOGBS expires, demand for new and established dwellings will be pulled forward, with short term rises in property prices of 5% forecast.

With rising rents and lower interest rates, the motivation for renters/first home buyers to get into the housing market has never been more compelling. This is reflected in the rebound of First Home Buyer's share of new loans up 25.7% in December quarter 2008 compared to December quarter 2007, and activity remaining strong in January (+19.6%) and February (+35.8%) 2009*.

The research also highlights that following the introduction of FHOGBS, First Home Buyers in a lower interest rate environment are able to borrow more. The average size of a loan to first home buyers has increased from \$264,500 in October 2008 (when the FHOGBS was first announced) to \$280,600 in February 2009*.

"First Home Buyers, irrespective of whether FHOGBS is extended or not, need to ask whether they are buying for the right reasons as a home purchase/mortgage is a long term commitment, and they need to be able to service interest rate increases in the future." said Ian Graham, Chief Executive Officer of QBE LMI; one of the leading providers of Lenders' Mortgage Insurance in Australia.

"Government incentives alone should not be the primary driver of a decision to buy. This is particularly important if the Boost Scheme is not extended beyond 30 June 2009, as this may result in a hasty decision by First Home Buyers on their choice and the price they are prepared to pay for their home." said Mr Graham.

Background on QBE LMI

QBE Lenders' Mortgage Insurance Limited (QBE LMI), is a leading mortgage insurer, credit enhancer and residential property market specialist with over 44 years experience in the Australian market and over 20 years in the New Zealand market. Through our proactive approach, innovative products and services, and longstanding knowledge and expertise, QBE LMI has helped its customers to manage and reduce risk.

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