

Herald Sun Interview

Q1: Why is the great Australian dream of owning an average size house on a block of land fading for more and more Victorians?

There is no doubt that the cost of land supply has increased, mostly due to government taxes and levies; but from a home builder point of view, a major factor is the created by unrealistic expectations of buyers today.

Major builders are offering large 'inspirational' homes with more extras; alfresco areas, theatre rooms and extensive upgrade options. The first home buyer is dazzled by the range of different features and add on's but in reality the majority of these homes are out of reach for a first time buyer. Melbourne's average mortgage sits at \$268,000 (December quarter in 2006), with repayments of \$1,980 per month, this is too high for most buyers. First home buyers need to review their options and think within their means as there is quality product available for \$225,000 – a great starting point – the bigger home can always come later.

Q2: Are we likely to see a rapid increase in the number of smaller houses on compact lots as a way of ensuring more affordable house and land combinations?

Smaller lots tend to be sold directly to builders, who then on-sell them to the general public. Builders can speculate their own designs and offer them to the consumer at a higher price; however, this incurs further costs, due to buying and reselling charges, government fees such as GST and additional stamp duty. Affordable housing sits between \$200,000 and \$250,000, where the mortgage repayments are about 35 percent of the average household wage which is unattainable if buying a small block from a builder. The smart way to avoid this situation is to go direct to land developers/agents to purchase a small block and then find a builder who deals exclusively with the first home buyer market for the right design.

Q3: What can state and federal governments do to improve affordability?

Collecting on stamp duty and GST every time land or property changes from developer to builder and finally to consumer, the state and federal governments play a major part in the affordability debate. \$5,000 in GST payable, \$5,000 in stamp duty (Victoria's stamp duty remains the highest in Australia), this all equates to an increase in cost for the consumer. It's a strong belief within the industry that the federal government should subsidize the first homebuyer's mortgage by up to one percent. An example is to provide a subsidy for lender's mortgage insurance requirements, which add on about 2.4 percent to the cost of a mortgage, as a one off fee, as the consumer is borrowing

95% and or above. The governments need to assess the market and their levy system before we reach a crisis situation. They are currently double dipping, increasing prices and adversely effecting affordability.

Q: What areas of Melbourne offer the best value in terms of affordable house and land combinations?

If affordable housing in Melbourne lies at a figure between \$200,000 and \$250,000 for a fully completed home, then land prices should be \$100,000 - \$120,000.

Land prices which reflect this tend to be in the outer growth corridors skirting metropolitan Melbourne where buyers are left to find a builder that can deliver a fully completed home including carpets, tiles, driveways, all site costs and service connections for around \$100,000 - \$130,000. This can be difficult if a buyer isn't aware of some of the tricks of the trade. Beware of excessive building requirements such as covenants that force higher ceilings, pitched roof lines or specific facades/finishes - these add cost but no additional investment value to the home. The best bet is to go directly to a builder which deals exclusively with the first home buyer market.