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first home owner buyers beware

From October, the federal government's first home owner boost scheme (paid in addition to the first home owner grant), will start to reduce, and the looming deadline is creating a dash for cash.

According to industry research up to one in four first homebuyers could be rushing their property purchase just to get the boosted grant. That's a real worry. Our home is not just a major asset, it also comes with a significant debt, so investing some time to select a well-priced property is essential.

From October, the boosted grant will fall from the present \$14,000 for an existing property to \$10,500. If you build or buy a new home, it will fall from the present \$21,000 to \$14,000. From 1 January 2010 the first home owner grant will not be boosted at all, and revert to the original \$7000.

The key risk facing first homebuyers right now is that prices will drop once the flurry of first homebuyer activity tapers off. If this happens, buying now could mean paying more for your property than it's worth.

The first home owner grant boosted by \$7,000 certainly sounds tempting, but the extra

cash pales into comparison with home prices in many capitals. Values would only need to fall by a comparatively small amount to eat up the value of the boost. By way of example, on a property costing \$350,000, prices only need to drop by 2 per cent, and there goes the extra \$7,000 of the beefed up grant.

Paying more than necessary isn't the only risk faced by over-zealous first homebuyers. The odds of ending up with a bricks and mortar lemon are also increased.

The last thing any first homebuyer needs is to find their property is affected by nasties like rising damp or termites. Not only does it devalue your home it could see you lumbered with an extensive repair bill. If interest rates start to climb next year, finding the cash for essential repairs could be difficult.

First homebuyers ought to arrange a pre-purchase inspection that will confirm the structural soundness of the building and advise on any pest activity. These inspections cost around \$500 but it's money well spent. Look up 'Building inspection services' in the Yellow Pages for contact details.

You can always use unfavorable pre-purchase reports to negotiate a better price on a property. A dud inspection report can be a good negotiating tool but it pays to be very certain you can cope with the cost and hassle of future repairs.

Rather than rushing in to join a heated first homebuyer market, it may be better to take your time building a bigger deposit, then entering the market when demand isn't inflated by the FHOG boost. Delaying your purchase will also provide a clearer insight on where our economy is heading and how rates are likely to move.

Getting together the deposit for your first home always seems like a mammoth task, and undoubtedly today's property prices don't make it easy. But the sacrifices you make to build savings should be worth it in the long run.

For some ideas on where you can make spending cutbacks or to find sources of extra cash, take a look at my new TV show Money For Jam. Tune in on Wednesday nights on Channel Nine.

Paul Clitheroe's 'Making Money' for the week beginning 7 September 2009



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