

How changes in the labour market have affected first time homebuyers

How does the changing labour market influence the behaviour of first time home buyers?

*It is an important research issue, given the evidence suggesting that the traditionally high proportion of home buyers in Australia has fallen by about ten per cent over the past decade. This bulletin examines the association between labour market change, especially job insecurity, and the attitudes and decisions of first time buyers. The research project, by **Valerie Kupke** and **Wayne Marano** of the AHURI Southern Research Centre, draws on survey responses from metropolitan Adelaide and three South Australian regional centres.*

KEY POINTS

- The majority (60%) of first time buyers – regardless of where they lived, their employment category or the year of purchase – agreed that their concerns about job security had influenced their purchase. For many households, job security concerns made them deliberately more cautious in their buying, this meant buyers looked in a lower price range, bought a cheaper home or borrowed less.
- However, most (65%) households who reported being very concerned about job security had taken out the maximum loan available to them.
- Most households on weekly incomes of less than \$500, or who were struggling financially, had taken out the maximum loan available to them.
- Employment category (permanent, contract, casual or self-employed) proved to have a stronger association with home purchase price than did household income. Those in less secure jobs bought cheaper homes; even if they had higher incomes than those with more secure jobs; higher incomes did not necessarily translate into the purchase of more expensive homes.
- The majority of people receiving First Home Owner Grants bought low-priced homes on moderate to high incomes.
- There is a good case for better targeting housing support for low income, less securely employed first time home buyers, and providing them with financial counselling.

CONTEXT

For at least 50 years, Australia's welfare and housing policies have been based on the perceived merits of home ownership. If the risks of buying a home are seen as outweighing the perceived benefits, such as capital gain and security of tenure, then home ownership levels may fall. The consequences may include private sector rents being forced up by stronger rental demand, and increased public housing requirements. Hence the importance of investigating links between labour market circumstances, which include job security, and first home buyers' behaviour.

This project surveyed first time home buyers who had bought in South Australia between 1st January 1999 through to 31st December 2000. That period saw the introduction of the Federal Government's \$7000 First Home Owner Grant (FHOG), available to buyers who had not previously owned a property in Australia.

The main research tool, and source of most of the findings, was a postal survey of first time home buyers in the two-year period. Surveys were sent to a proportional random sample of first time buyers drawn from each suburb in the study area. The 1,167 surveys that were returned represented 508 households who were first time home buyers, which equalled 3% of the estimated total of first time buyers in South Australia for 1999 and 2000.

The study area included metropolitan Adelaide as well as three South Australian regional centres: Mount Gambier, Murray Bridge and Port Lincoln. Most results for Adelaide and the regional centres were combined, as many of the attitudinal responses showed similar trends for metropolitan and regional households.

The level of job security was self-assessed in the survey, with respondents ranking their level of concern from 'Not at all' or 'Of minor concern' to 'Quite concerned' and 'Very concerned'. Respondents with jobs were asked to categorise their employment as permanent, contract, casual or self-employed, and indicate whether these were full time or part time positions. Self-assessment was also used to describe income levels within households.

The postal survey information was supplemented by sales history data from the Department of Administrative

and Information Services (DAIS) in South Australia, which identified when, where, how and what first time entrants to the home market were buying.

FINDINGS

JOB SECURITY AND FIRST HOME PURCHASE

- The majority (60%) of first time buyers agreed that their concerns about job security had influenced their purchase. For many households, the influence has been to make them deliberately more cautious in their buying.

INFLUENCE OF JOB SECURITY ON PURCHASE

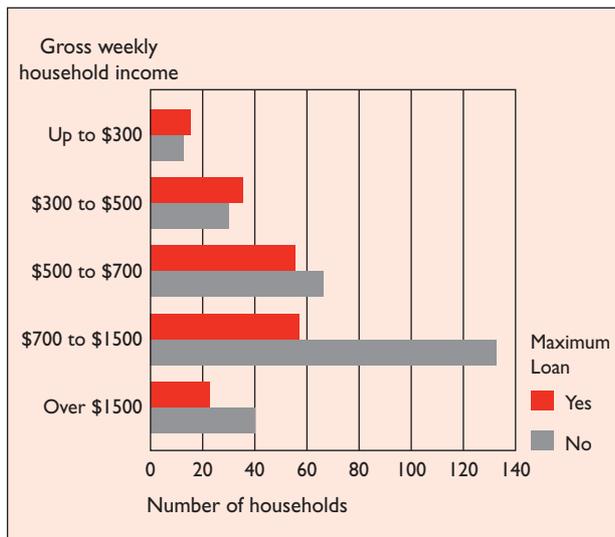
	No.	%
Looked in lower price range	94	22.1
Obtained loan through Bank	92	22
Delayed buying a home	83	20
Bought less expensive home	78	18.7
Bought as soon as possible	67	16
Took out loan with no fixed interest	52	12.6
Took out a smaller loan	50	12.1
Bought more expensive home	45	11.1
Looked at more homes	43	10.5
Took out loan with fixed interest only	42	10.2

- The researchers found a stronger relationship between purchase price and employment category than between price and household income. Most households surveyed were conservative in their borrowing and were buying relatively cheap homes, even if they could afford more expensive houses. Those with less secure jobs bought cheaper homes, with 54% of those in casual employment buying homes for \$100,000 or less.
- However, of the households with the greatest concern about job security, most (65%) had taken out the maximum loan, suggesting that they did not have the option of avoiding risk by borrowing less.
- While 64% of all respondents were not worried about employment security, most of those who were very concerned about job security were in casual employment.

INCOME LEVELS AND BUYING BEHAVIOUR

- Most households on weekly incomes of less than \$500 took out the maximum loan available to them. Similarly, 59% of those households who viewed themselves as struggling financially took out the maximum loan.

GROSS WEEKLY HOUSEHOLD INCOME BY MAXIMUM LOAN



- In contrast, most households on incomes over \$500 per week have not taken out the maximum loan available to them. Nor are those with higher incomes necessarily buying more expensive homes. Almost 50% of households on weekly gross incomes of over \$1500 had bought homes for no more than \$150,000.
- The majority of people receiving the FHOG bought low-priced homes on moderate to high incomes, and most (60%) had not taken out the maximum loan.
- Those in permanent and casual employment, many with higher household incomes, had delayed buying, while contract and self-employed workers, often with lower incomes, had bought sooner.

PATTERNS OF EMPLOYMENT SECURITY AND INCOME LEVELS

- On the evidence from the survey, contract workers and the self-employed generally have lower household incomes than those in permanent employment.
- However, first time buyers with less job security were not necessarily on lower household incomes.

For example, gross weekly household incomes for casual employees were comparable to those in permanent employment.

OTHER FINDINGS

- For those receiving the FHOG, the \$7,000 grant was the most important factor in the timing of purchase.
- For regional buyers, job relocation and stamp duty exemption were important items in the timing of their purchase. The authors suggested that stamp duty exemptions are likely to be more important in country areas, where lower house prices allow more households to be eligible for the concession than in the city.
- The survey showed that couples dominate the first time housing market. However, single households and especially single females are becoming a significant group of buyers.

POLICY IMPLICATIONS

- This study indicates that lack of job security is more significant than income levels in driving changes in the behaviour of first time home buyers. The main impact is more caution in housing decisions, with first time buyers lowering risk by borrowing less and buying cheaper homes. These risk-averse buyers include those with permanent jobs and people with less secure work but high incomes. Such changes could increase competition for cheaper houses, making it harder for low income families to buy a home. This suggests the need for continuing support targeted at these low income earners, an example being South Australia's HomeStart scheme which helps low income people into home ownership.
- Most first time home buyers who had taken out the maximum loan were on lower incomes, and many of them were very concerned about job security. Interest rate rises or loss of income would hit these buyers hard. One proposal worth exploring is to provide government-supported financial counselling, including household budgeting, specifically designed for first home buyers on low or insecure incomes. Some pilot programs along these lines have been used in the United States.

- Given that the FHOG was found to influence the timing of purchase, rather than the ability to buy, better directing such grants seems warranted. One way to increase the effectiveness of grants in making home ownership possible is to target them more specifically for those on low incomes buying their first home.
- The researchers contend that young people still believe in the benefits of owning their own home despite greater job insecurity – they are still buying. This level of support suggests that home ownership should continue to be an important component of Australian housing policy, especially when any significant decline in home ownership among younger age groups will put further pressure on the private rental sector and on demand for public housing.

FURTHER INFORMATION

For more information about this research project, the following papers are available:

- Positioning Paper
- Work in Progress Report
- Final Report

See: www.ahuri.edu.au

Or contact AHURI National Office on +61 3 9613 5400



Australian Housing and Urban Research Institute

Level 7, 20 Queen Street, Melbourne Victoria 3000

PHONE +61 3 9613 5400 FAX +61 3 9629 8536 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

Acknowledgments

This material was produced with funding from the Commonwealth of Australia and the Australian States and Territories. AHURI Ltd gratefully acknowledges the financial and other support it has received from the Commonwealth, State and Territory governments, without which this work would not have been possible.

Disclaimer

The opinions in this publication reflect the results of a research study and do not necessarily reflect the views of AHURI Ltd, its Board or its funding organisations. No responsibility is accepted by AHURI Ltd or its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.