

## EXECUTIVE SUMMARY

FINAL REPORT NO. 381

# Assisting first homebuyers: an international policy review



**From the AHURI Inquiry:** Inquiry into financing first home ownership: opportunities and challenges

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*Publication Date* July 2022

*DOI* 10.18408/ahuri7127201

**Title**

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**ISBN**

978-1-922498-48-9

**Key words**

Homeownership, housing affordability; housing markets.

**Series**

AHURI Final Report

**Number**

381

**ISSN**

1834-7223

**Publisher**

Australian Housing and Urban Research Institute Limited  
Melbourne, Australia

**DOI**

10.18408/ahuri7127201

**Format**

PDF, online only

**URL**

<https://www.ahuri.edu.au/research/final-reports/381>  
(full report)

**Recommended citation**

Pawson, H., Martin, C., Lawson, J., Whelan, S. and Aminpour, F.  
(2022) *Assisting first homebuyers: an international policy review*, AHURI Final Report No. 381, Australian Housing and Urban Research Institute Limited, Melbourne,  
<https://www.ahuri.edu.au/research/final-reports/381>,  
doi: 10.18408/ahuri7127201.

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**Acknowledgements**

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

The authors are grateful to Saul Eslake for providing the historic data on first homeowner grants used in Section 6. Thanks are also due to UNSW and University of Sydney colleagues, Honorary Professor Vivienne Milligan, Dr Rebecca Edwards and Dr Kadir Atalay for their contributions to the report. We are also grateful to CoreLogic for kindly providing access to original statistics informing graphs in Chapter 2.

The team is also indebted to the many academic, professional and government colleagues in Australia and in our seven comparator countries whose expertise informed our work, but especially to our country expert academics: Prof David Hulchanski (University of Toronto), Prof Hannu Ruonavaara (University of Turku), Prof Michael Voigtländer (Institut der deutschen Wirtschaft [Institute for German Economy], Köln), Prof Michelle Norris (University College Dublin), Prof Richard Ronald (University of Amsterdam), Assoc Prof Kwan Ok Lee (National University of Singapore), and Kathleen Scanlon (London School of Economics).

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# Executive summary

## Key points

- Homeownership rates in Australia have declined over several decades, and the likelihood of attaining home ownership by age 30 has fallen substantially.
- Especially in Sydney, Melbourne and Perth, first home buyers (FHBs) are now buying fewer houses and more units, and evidence shows that more are receiving parental assistance.
- While mortgage repayment affordability stress has been cushioned by falling interest rates until 2022, mortgage deposit requirements have risen with prices and become an increasingly serious constraint—far more so in Sydney and Melbourne than elsewhere.
- Historically in Australia, demand-side assistance for first homebuyers (e.g. grants and government-backed loans) was complemented by supply-side policies (e.g. state-commissioned housing development for low-cost sale), government mortgage issuance, and regulatory preference for first homebuyer private lending. However, in contrast to some comparator countries, that is no longer true.
- As in many comparator countries, current Australian first homebuyer assistance measures primarily act to bring forward first home purchase by households already close to doing so, rather than opening home-ownership access to households otherwise excluded. In doing so, these measures add to demand and hence house prices.

- **More than \$20.5 billion (in \$2021) was expended by Australian governments in stamp-duty concessions and cash grants (including HomeBuilder) to first homebuyers in the decade to 2021. Even before the economic stimulus response to COVID-19, these forms of assistance were escalating—up from \$1.2 billion to almost \$3 billion in the four years from 2016—and new demand-side measures were being added, such as the National Housing Finance and Investment Corporation’s (NHFIC) low-deposit mortgage scheme.**
- **In most of the seven comparator countries examined in the research, first home ownership support involves a wider range of policy instruments than in Australia. These include supply-side measures such as generation of homes for low-cost sale through government-commissioned land development.**
- **Some countries have even larger FHB grants and concessions than Australia, but articulate them with supply-side measures in more cohesive housing strategies than does Australia. Some are employing demand-side assistance on revolving fund principles—for example, shared-equity arrangements—which appear to be more efficient forms of subsidy than grants and tax concessions. However, it is doubtful that these measures really address inequality of housing wealth.**
- **Although not all of the FHB assistance measures operated in comparator countries would be easily translatable to Australia, there are potential learning points—for example, the possible scope for more imaginative use of available powers in relation to land-use planning and development, mortgage regulation and intermediate housing tenures.**

## Key findings

### Classifying first homebuyer assistance measures

In Australia, as in most developed countries, the promotion of home ownership has been a pre-eminent housing policy goal for many decades. Owner-occupation has been seen by governments and households alike as providing tenure security and control, but also as a key vehicle for tax-advantaged wealth accumulation. As the largest single transaction most households enter into over the course of the life cycle, the purchase of an owner-occupied dwelling is generally financed through debt. Facilitating that transaction has been a key aim of numerous policy initiatives in Australia and internationally.

Government-enabled or government-funded initiatives to assist first-home acquisition are longstanding in Australia, and common across the seven comparator countries included in this research. Our typology (see Table 1) differentiates measures that enhance a first homebuyer’s purchasing power in the private housing market (‘demand-side’ assistance) from those which fund or otherwise enable the production of housing suitable for this cohort (‘supply-side’ interventions).

Table 1: Forms of first homebuyer assistance: a typology

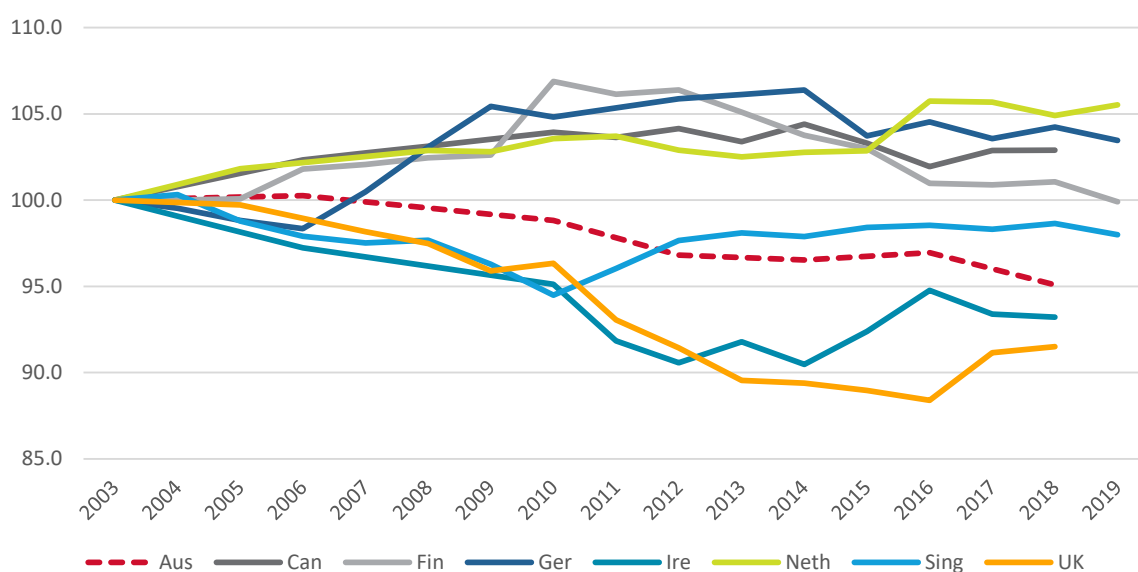
Demand/supply	Assistance type	Example schemes/programs
<b>Demand-side</b>	Financial regulation	<ul style="list-style-type: none"> <li>• Rules governing mortgage lending</li> </ul>
	Expenditure programs	<ul style="list-style-type: none"> <li>• First homebuyer grant schemes</li> </ul>
	Tax concessions	<ul style="list-style-type: none"> <li>• Stamp-duty concessions</li> <li>• Tax-privileged savings schemes</li> </ul>
	Institutional innovations and financial instruments	<ul style="list-style-type: none"> <li>• Loan assistance schemes</li> <li>• Mortgage guarantees</li> <li>• Equity investment and similar products</li> </ul>
<b>Supply-side</b>	Use of publicly owned assets	<ul style="list-style-type: none"> <li>• Public housing sale to tenants</li> <li>• Land rent schemes</li> </ul>
	Government-funded housing development	<ul style="list-style-type: none"> <li>• State-resourced development of shared ownership homes by non-government entities</li> </ul>
	Land or property occupancy regulation	<ul style="list-style-type: none"> <li>• Inclusion of 'affordably priced' homes in developments required via land-use planning powers</li> <li>• Restrictions on occupancy of privately owned homes</li> <li>• Use of publicly owned assets: land development</li> </ul>

Source: Authors.

### First homebuyer assistance measures: policy context, policy challenge

Flat or declining owner-occupation was common to Australia and most comparator countries during the 2010s (see Figure 1). While this has deeper origins that largely reflect declining house purchase affordability, it may have been compounded by strengthened mortgage regulation imposed by many governments post-2008 in response to the global financial crisis (GFC). Such changes will have especially impacted potential first homebuyers (FHBs), impeding first home acquisition.

Figure 1: Changing home-ownership rates in Australia and comparator countries indexed to 2003 (2003=100)



Sources: See Figure 19 (Section 6).

FHBs accounted for around 20 per cent of Australia's total residential property transactions during the 2010s, across the decade. However, their numbers are volatile, apparently highly susceptible to the time-limited boosts in government assistance deployed in response to economic downturns. The experience of the period 2009–12 suggests that, because they largely involve 'brought forward demand', FHB activity spikes may lead to a subsequent dearth of activity.

The growing incidence of FHB acquisitions involving units and parentally-assisted purchases over recent decades has been much more significant in Sydney, Melbourne and Perth than elsewhere. In these cities, between the early 2000s and the late 2010s, parental cash transfers coinciding with home purchase nearly doubled to 15 per cent, while receipt of 'non-bank loans' also increased in frequency. Similarly, first home ownership involving apartment (rather than house) purchase nearly doubled to 27 per cent over the same period.

Paralleling these findings, analysis also shows that post-2005 home-purchase accessibility deteriorated much more notably in Sydney and Melbourne than elsewhere, because of rising mortgage deposit requirements.

### Demand-side FHB assistance

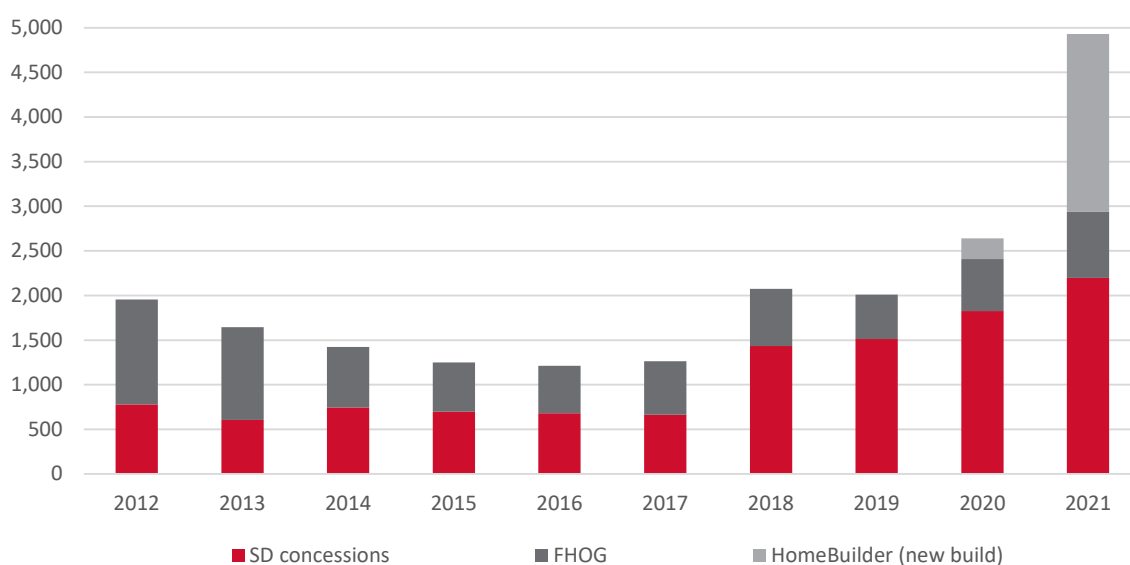
FHB demand-side assistance measures can be divided between those that involve:

- government expenditures—for example, cash grants; tax concessions and exemptions
- assistance to be repaid, perhaps along with interest or equity charges—for example, low-deposit home loans; government equity contributions to home purchase.

FHB cash grants (and stamp-duty concessions) sharply polarise opinion. While acknowledging that such outlays may usefully stimulate economic activity when necessary, economists and housing policy experts generally criticise them as otherwise unhelpful because they inflate house prices, and arguably lack justification both in terms of equity and value for money. FHBs, on the other hand, are of course highly attracted to such measures; so too, it appears, are politicians, seemingly undeterred by their price-stimulating effect.

Although recently spotlighted once more by the Commonwealth Government's 2020 HomeBuilder program (which largely funded first home acquisitions), FHB grants have been embedded in Australian housing policy since 1963. We estimate that associated expenditures over this period—and ultimately capitalised into house prices—have totalled \$36.8 billion, although mostly incurred since 2000. Moreover, as indicated in the key points, grants and stamp-duty concessions were already growing strongly in the late 2010s, even prior to the HomeBuilder program—see Figure 2.

Figure 2: Stamp-duty concessions, First Home Owner Grant, and HomeBuilder, annual expenditure (\$2021m), Australian states, 2012–2021



Sources: See Figure 17 (Section 3).

As noted earlier, some \$20.5 billion was expended by Australian governments (i.e. federal state and territory administrations) in stamp-duty concessions and grants (including HomeBuilder) to first homebuyers in the decade to 2021. To give some sense of scale, this sum could otherwise have funded around 60,000 social housing dwellings,<sup>1</sup> as a non-inflationary form of stimulus investment. Or, alternatively, it could have funded 137,000 shared-equity (SE) dwellings.<sup>2</sup>

Distinct from grants and stamp-duty concessions, other forms of Australian demand-side FHB assistance include government-backed home loans and (on a much smaller scale) SE schemes. The former have become recently much more important with the 2020 establishment of low-deposit mortgage programs under the Australian Government's National Housing Finance and Investment Corporation (NHFIC). In enabling FHBs to secure a home loan with a down payment often of only around 5 per cent of property value (rather than the usual 20 per cent), the NHFIC schemes complement state-government-backed loan issuance programs in South Australia and Western Australia.

In contrast with cash grants and tax concessions where governments receive no direct financial return, government-issued low-deposit mortgages and SE programs can be run on a 'revolving fund' basis, where monies repaid are recycled to a new recipient. Beyond this they can also generate surplus funds. However, in housing policy terms, their main contribution tends to be to accelerate home-ownership access for moderate-income households rather than to enhance prospects for lower-income groups.

Many forms of demand-side assistance found across the comparator countries have similarities to measures implemented in Australia. This would be true of savings schemes and, especially lately, government-enabled housing loans. However, at least in the anglophone countries, the past decade has also seen strong or growing interest in SE models, until recently little represented in Australia (although subject to growing interest).

While there are forms of demand-side FHB assistance that involve little or no cost to government, many of those that incur significant expenditure involve disbursements that are weakly targeted in terms of any express objective to enable home ownership for households otherwise excluded. This statement holds true not only for Australia but for comparator countries. For many recipients of such help, the impact on their home-ownership prospects is, as summarised by one of our industry expert interviewees, 'bigger, better, sooner'.

### Supply-side FHB assistance

While rising home ownership in Australia in the postwar period was strongly driven by supply-side assistance, interventions of this kind largely ceased from the 1970s.

Lately there has been resurgent interest in forms of SE which, because they involve assistance being channelled to developers (rather than consumers) of housing, can be classed as a supply-side approach. The Build to Rent to Buy (BtRtB) proposal recently devised by NHFIC exemplifies such a model. It envisages enabling a community housing organisation to develop a dwelling for renting out to an aspiring first homebuyer for up to a decade, while the occupier accumulates a mortgage deposit to take ownership of the dwelling, with this achieved not only through a savings plan but also designation of a share in property appreciation over the period.

Recent Australian debate on the role of land-use planning in relation to first home ownership has tended to focus on contended over-regulation as an impediment to housing supply—and therefore a cause of the problem that FHB-assistance schemes are designed to ameliorate. However, while there is scope for land-use planning powers to *facilitate* first home ownership, such powers have been largely unexploited outside South Australia—and even there to only a limited extent.

<sup>1</sup> If it is assumed that the unit cost (typically small) of a social housing dwelling is \$400,000, and that a not-for-profit developer could support debt equating to 15 per cent of the capital cost.

<sup>2</sup> Assuming a 30 per cent government stake in a \$500,000 home.



By comparison with FHB-assistance approaches in contemporary Australia, supply-side tools play more significant roles in several comparator countries (see Table 2). Australian not-for-profit housing providers might well view with envy the government-funded shared-ownership —as opposed to shared-equity—programs found in Finland and the UK. However, from the consumer perspective, the UK model has lately become quite tarnished. In any case, how far such models could be translatable to Australia is doubtful.

Efforts of comparator countries to promote first home ownership through land-disposal conditions and land-use planning powers could be of more relevance in Australia. However, it should be recognised that in a country like the UK, well-established planning powers enabling local authorities to require inclusion of homes for affordable sale as part of market housing developments are often used in tandem with similar stipulations for social or affordable rental units. Utilisation of such powers exclusively for homes for low-cost sale would be hard to justify or recommend.

Table 2: FHB-assistance measures 2021: frequency/scale of use, Australia and comparator countries<sup>3</sup>

	Aus	Can	Fin	Ger	Ire	Neth	Sing	UK
<b>Demand-side</b>								
Financial regulation			Limited		Limited		Limited	
Grants, concessions	Heavy use	Limited	Moderate	Limited	Moderate		Heavy use	Moderate
Savings schemes	Limited	Limited	Moderate	Moderate			Heavy use	
Loans	Limited			Moderate	Limited	Limited	Heavy use	
Guarantees	Limited		Moderate			Moderate		Limited
Shared equity	Limited	Limited			Moderate	Limited		Heavy use
<b>Supply-side</b>								
Public assets: social-housing privatisation					Limited	Limited		Moderate
Government housing development			Limited					Heavy use
Public assets: land development			Moderate	Limited	Limited	Limited	Heavy use	
Land-use regulation				Limited	Limited	Limited		Moderate

Key: ■ Heavy use ■ Moderate ■ Limited

Source: Authors.

## Policy development options

Policy development implications for Australia that arise from this report are informed not only by our research on contemporary practice internationally, but also from revisiting home-ownership promotion policies earlier in this country's post-war history. Additionally, to the extent that the report highlights certain practices that are operated in some Australian jurisdictions but not others, there could be scope for their adoption more broadly across the country.

As indicated earlier, there is nowadays a striking one-sidedness in Australian efforts to assist FHBs. As also indicated in the main body of the report (see also Table 2), supply-side measures are very thinly represented. The only notable instances currently in operation (or officially proposed) are Build to Rent to Buy (proposal); land-rent schemes (ACT), and developer contributions to affordable homes for sale (SA). All of these appear to have strengths that should commend them for consideration by other Australian governments.

<sup>3</sup> Note that weighting in this table and in other tables is necessarily impressionistic being informed by our review of published sources and qualitative research involving country experts.



Although typically in concert with requirements for affordable rental housing contributions, practice in some of our comparator countries is also instructive on how land-use planning powers can be effectively used to stipulate development of low-priced dwellings for sale within market housing developments.

Drawing inspiration from historical approaches in Australia, as well as contemporary practice in some comparator countries, the research also highlights the scope for active supply-side contribution to affordable home ownership through state land-development agencies. However, unlike counterpart entities in countries such as Germany, Finland, the Netherlands and Singapore, such Australian bodies nowadays lack the authority to pursue such a role on any scale. Objectives of this kind are constrained by commercial imperatives of state and territory government Treasury frameworks, which have seen dividend objectives prioritised over broader social and economic policy goals.

When it comes to demand-side assistance, there is a strong consensus among industry experts and academics favouring models such as government-backed loans and SE instruments over cash grants and stamp-duty concessions. The latter may be administratively simple, but they are inflationary and yield no return to government.

In Singapore and other comparator countries, including Canada, Ireland and England, home-ownership policy—including FHB assistance—is to some extent framed within broader national housing strategies. Since it lacks any equivalent overarching framework, Australia is out of step here. This links to the wider reality that aspirations for sustainable growth in home ownership cannot be fulfilled solely through adoption of more effective FHB-assistance mechanisms. Indeed, pursuit of such approaches may serve as a form of displacement activity: a distraction from the need to countenance the much more far-reaching reforms needed to fundamentally enhance home-ownership affordability.

While some currently operational Australian FHB-assistance measures benefit recipients without representing unjustifiable and inflationary expenditure, significantly widening home-ownership access cannot be achieved without substantial changes to tax and social-security policy settings that currently preference existing homeowners over aspiring homeowners.

## The study

The research was largely based on a large body of in-depth interviews with academic, government and industry experts, both in Australia and in seven comparator countries: Canada, Finland, Germany, Ireland, the Netherlands, Singapore and the UK. This testimony is framed and elaborated through a comprehensive review of academic and policy literature of generic relevance, as well as specific to Australia and the comparator nations. In addition, we undertook a secondary data analysis drawing on the Housing, Income and Labour Dynamics in Australia (HILDA) survey to explore the changing cohort of FHBs in Australia and first home acquisitions.



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