

# Do first homebuyer assistance programs work? Australian and international case studies



Based on AHURI Final Report No. 381: Assisting first homebuyers: an international policy review

## What this research is about

This research reviewed first homebuyer (FHB) assistance programs in Australia and seven comparator countries: Canada, Finland, Germany, Ireland, the Netherlands, Singapore and the UK. It considered to what degree such programs are effective in expanding access to home ownership to those whose entry would be otherwise delayed or impossible, or in making the cost of home ownership more affordable and less risky.

## The context of this research

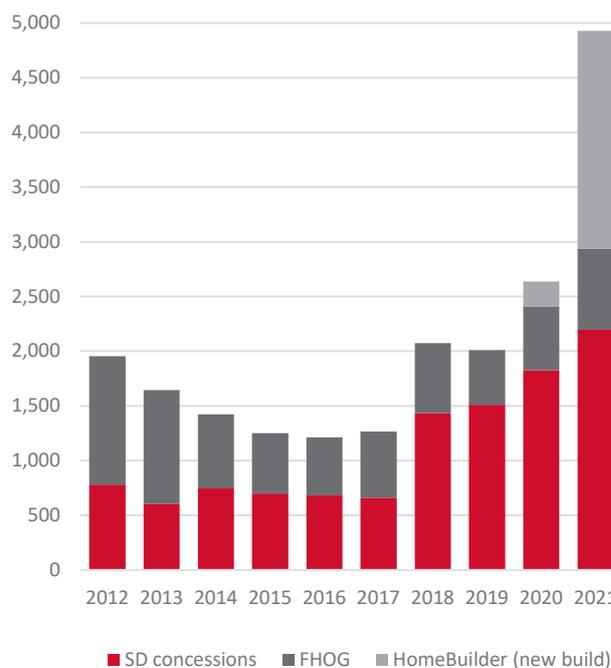
Over the decade to 2021 approximately 92,000 Australian households become FHBs each year, representing around 20 per cent of total annual residential property transactions.

In Australia and most of the other countries covered in this research, home ownership is widely embraced as a housing policy priority, but most have recorded declining rates over the past decade, and in some—Australia, Ireland and the UK—the trend is longer, predating the GFC. Subsequently flat or declining owner-occupation during the 2010s may have been compounded by strengthened mortgage regulation imposed in many countries in response to the GFC. These changes will have weighed especially on FHBs, impeding access to home ownership, while other policy settings continue to preferentially treat ownership, and so encourage households with housing wealth to extend their position in housing, either as upgraders or landlords.

## The key findings

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.

Figure 1: Stamp-duty concessions, FHOG and HomeBuilder, annual expenditure (\$2021m), Australian states, 2012–2021



Note: ACT and NT not included (complete data unavailable). HomeBuilder estimate based on average payment over 10 months of the scheme. SD = stamp duty.

Sources: State budget papers, various years.

Current Australian first homebuyer assistance measures primarily act to bring forward first home purchase for 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 to house prices.

Demand side FHB-assistance programs of this kind tend to benefit existing homeowners rather than new homeowners, thereby compounding the problems of access and risk that such schemes are supposedly meant to address. This is because in a market where supply responsiveness is inherently sluggish or inelastic, assistance for FHBs that boosts households purchasing power is liable to be capitalised into residential property values.

FHB-assistance measures also face challenges in relation to equity, efficiency and effectiveness. Marginal homebuyers—people potentially in need of government assistance to achieve home ownership—are typically middle-income earners rather than low-income earners. Channelling material assistance to this group raises questions about the equitable targeting of public funds or resources—the so-called ‘middle-class welfare’ problem.

FHB-assistance measures need to be designed to maximise ‘additionality’—that is, the proportion of those assisted who would have been otherwise unable to access home ownership at that time.

## How to conceptualise FHB assistance?

For most FHBs there are two distinct financial dimensions to achieving home ownership: the cost of getting into home ownership and the cost of sustaining, or staying in home ownership.

The cost of getting into ownership is primarily represented by the amount of value (or ‘equity’) that purchaser themselves must bring to the transaction—the deposit or down payment needed to secure the mortgage; this is the dimension of wealth, and of accessibility. Sustaining that ownership comprises a range of costs that must be met from the owner’s income over time, including servicing the loan (and repairs, maintenance, utilities and rates); this is the dimension of income, and affordability.

An effective FHB-assistance mechanism or instrument is one that can be credited with ‘additionality’, as it makes first home ownership possible for people who would be otherwise excluded or—in fact far more likely—significantly accelerates access to owner-occupation. An efficient initiative is one that is effective at an acceptably modest unit cost and with minimum administrative complexity.

There is a consensus view among housing economists that, especially when implemented in time-limited programs, such payments act very largely to bring forward latent demand, which then results in a subsequent ‘hangover’: a deficit of FHB purchasers.

## Demand side interventions

A demand-side intervention increases the purchasing power of the consumer. These forms of assistance include homebuyer grants and tax concessions, low-deposit mortgage products and shared equity (SE) arrangements.

Table 1: Forms of FHB demand side assistance

Assistance type	Example schemes/programs
<b>Financial regulation</b>	<ul style="list-style-type: none"> <li>Rules governing mortgage lending</li> </ul>
<b>Expenditure programs</b>	<ul style="list-style-type: none"> <li>First homebuyer grant schemes</li> </ul>
<b>Tax concessions</b>	<ul style="list-style-type: none"> <li>Stamp-duty concessions</li> <li>Tax-privileged savings schemes</li> </ul>
<b>Institutional innovations and financial instruments</b>	<ul style="list-style-type: none"> <li>Loan assistance schemes</li> <li>Mortgage guarantees</li> <li>Equity investment and similar products</li> </ul>

The first two of these forms of assistance in the table have been by far the most prominent forms of FHB assistance in Australia during the past two decades.

The general view of research interviewees was that the First Home Owner Grants (FHOG) and stamp-duty concessions very effectively added to housing demand, but did not expand access to home ownership to persons otherwise excluded. Interviewees saw these forms of assistance operating to either bridge the deposit gap sooner or by encouraging FHBs to bring forward a purchase.

‘FHB-assistance measures need to be designed to maximise ‘additionality’—that is, the proportion of those assisted who would have been otherwise unable to access home ownership at that time.’

Some interviewees contended strongly that the mortgage deposit gap-bridging assistance claimed for grants and stamp-duty concessions was illusory: these measures increased house prices and hence the size of down payments required, and ultimately made access and affordability problems worse.

None of the interviewees saw a case for the FHOG and stamp-duty concessions improving the affordability of purchasers’ ongoing housing costs. However, some contended that these schemes had become more targeted to purchasers of newly constructed dwellings, and that this encouragement of additional supply was marginally better for affordability generally than an untargeted subsidy.

For the most part, the SE and low deposit loan models enhance access to home ownership rather than improve affordability—and thereby pushing the scope for home ownership down the income scale. The larger schemes—Keystart, Homestart, FHLDS, Homebuyer Fund—are mainly targeted at moderate-income households with good mortgage paying credentials, but who lack substantial equity for a mortgage down payment.

The schemes have only a modest effect on affordability—for example, being assisted to purchase a home through a 5 per cent deposit mortgage will require that a purchaser enjoys an income sufficient to support a mortgage on 95 per cent of the price.

## Supply side interventions

Supply-side instruments are those that directly relate to the provision or use of housing; this covers the disposal of government-owned assets, funding channelled through property developers or suppliers, and regulatory instruments that affect housing production or use of housing assets.

Table 2: Forms of FHB supply-side assistance

Assistance type	Example schemes/programs
<b>Government-funded housing development</b>	<ul style="list-style-type: none"> <li>State-resourced development of shared ownership homes by non-government entities</li> </ul>
<b>Land or property occupancy regulation</b>	<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>

Historically, Australian governments engaged in extensive supply-side intervention to promote first home ownership. As much as two-thirds of all housing built or funded by state housing authorities in the period 1945–1996 appears to have been either sold upon completion or initially rented out but later sold to the occupying tenant or to another party.

‘Historically, Australian governments engaged in extensive supply-side intervention to promote first home ownership.’

## International comparisons

Seven comparator countries: Canada, Finland, Germany, Ireland, the Netherlands, Singapore and the UK were reviewed as part of the research.

The eight countries encompass substantial diversity in terms of policy approaches to supporting home ownership. While the twentieth-century expansion of owner-occupation was substantially a work of policy involving a range of direct interventions, most jurisdictions retreated from such activity at the time of financial deregulation in the 1980s. Singapore is a strong exception to this rule, as it continues to maintain a ‘managed market’ approach in which a range of institutional structures and policy levers articulate with one another.

‘Moreover, unlike countries such as Finland, the Netherlands and the UK, the Australian Government has resisted prioritising FHB interests by reforming tax settings that favour housing market competitors: established homeowners and would-be rental investors.’

Although with much less interventionist approaches to government than that of Singapore, most of the European comparator countries operate a range of instruments and programs aimed at supporting first home ownership, utilising both demand-side and supply-side mechanisms. Neither Australia nor Canada fit this mould. Canada is perhaps most notable as a country that—at least until very recently—has, for decades, taken a fairly hands-off stance when it comes to specific interventions in favour of FHBs. However, despite recording a remarkable level of house price inflation, Canada’s home ownership rate has been maintained at a high and largely stable level. Part of the answer may lie in the strength of an institutional framework with an enduring national housing agency at its centre.

Australia stands out as it uses demand-side instruments almost exclusively and lacks a strategic framework. Moreover, unlike countries such as Finland, the Netherlands and the UK, the Australian Government has resisted prioritising FHB interests by reforming tax settings that favour housing market competitors: established homeowners and would-be rental investors.

Table 3: FHB-assistance measures 2021: frequency/scale of use, Australia and comparator countries<sup>1</sup>

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

Key: ■ Heavy use ■ Moderate ■ Limited

Source: Authors.

### International FHB assistance: demand-side approaches

FHB demand-side assistance measures are operated across all of our comparator countries. However, while these generally include cash grants and concessions of the kind historically dominant in Australia, the nature of the programs is very different. Some, such as Singapore’s grants program, are so substantial on a unit-value basis that they may have significant impacts on affordability.

Many of the other forms of demand-side assistance found across the comparator countries also have similarities to schemes implemented in Australia at some scale. This would be true of savings schemes and, especially recently, government-enabled housing loans. In the anglophone countries, the past decade has seen strong or growing interest in shared equity (SE) models, which are as yet little represented in Australia. The way that the UK’s main SE scheme, with its Help to Buy (HtB) program has channelled housing demand to newly constructed housing could be instructive for Australia, should there be any future perceived need for housebuilding industry stimulus. SE provision also features prominently in Ireland’s 2021 national housing strategy ‘Housing for All’.

While there are forms of demand-side 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. For many of those receiving such help, the impact on their home ownership prospects is, as summarised by one industry expert, ‘bigger, better, sooner’.

### International FHB assistance: supply-side approaches

By comparison with modern day Australia, supply-side approaches to FHB assistance are more common in a number of comparator countries.

Among these approaches are the sale of social housing to sitting tenants at discounted prices, the fostering of shared ownership as a hybrid tenure and the exercise of land-use planning powers to mandate the inclusion of homes for low-cost sale within market housing developments.

‘Some interviewees contended strongly that the mortgage deposit gap-bridging assistance claimed for grants and stamp-duty concessions was illusory: these measures increased house prices and hence the size of down payments required, and ultimately made access and affordability problems worse.’

While few of the supply-side approaches to FHB assistance operated in comparator countries would be easily translatable to Australian conditions, there are potential learning points—especially in relation to the possible scope for government to make more imaginative use of planning and land-disposal powers. The most salient examples are the use of land-use planning regulation requiring developer contributions of ‘affordable housing’ for sale as well as for rent (as in Germany, Ireland, the Netherlands and the UK); and Government land development to produce FHB-appropriate dwellings (as in Finland, the Netherlands and Singapore).

<sup>1</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.

## What this research means for policy makers

Compared with Australian housing policy approaches of the past, and with current policy approaches in most comparator countries, supply-side measures in Australia are very thinly represented.

‘By comparison with modern day Australia, supply-side approaches to FHB assistance are more common in a number of comparator countries.’

While currently at drawing-board stage or operated only at very small scale, four models appear to have strengths that should commend them for consideration by other Australian governments:

- Build to Rent to Buy (proposal)
- Land rent schemes (in the ACT)
- Developer contributions to affordable homes for sale (in SA)
- Government housing developer (proposal)

Although typically in concert with requirements for affordable rental housing contributions, practice in some of the 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.

When it comes to demand-side assistance, the strong consensus among industry experts and academics is that schemes such as loans, guarantees and SE instruments should be favoured over grants and concessions. Importantly, loans, guarantees and SE instruments tend to be implemented through revolving fund structures and repayable assistance, rather than government-funded gifts, which may be administratively simple but are both inflationary and yield no return to government.

A form of FHB assistance practised in some countries is the enabling of intermediate tenure housing—as exemplified by Finland’s Right of Occupancy (ROO) and Part Ownership (PO) models. Both are developed by not-for-profit housing developers and substantially financed with state-subsidised housing loans or interest-subsidy loans with government guarantee. ROO offers long-term secure occupancy and reduced costs compared to private rental, but does not offer possibilities to accumulate equity to achieve outright ownership. PO allows accumulation of equity and savings and ultimately the transition from rental lease to ownership contract. These are both potential means of easing lower-income households into a form of home ownership that could be profitably further investigated by Australian governments.

## Methodology

The research reviewed relevant literature and interviewed academic, government and industry experts, both in Australia and in seven comparator countries (Canada, Finland, Germany, Ireland, Netherlands, Singapore and UK).

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### To cite the AHURI research, please refer to:

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