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EXECUTIVE SUMMARY

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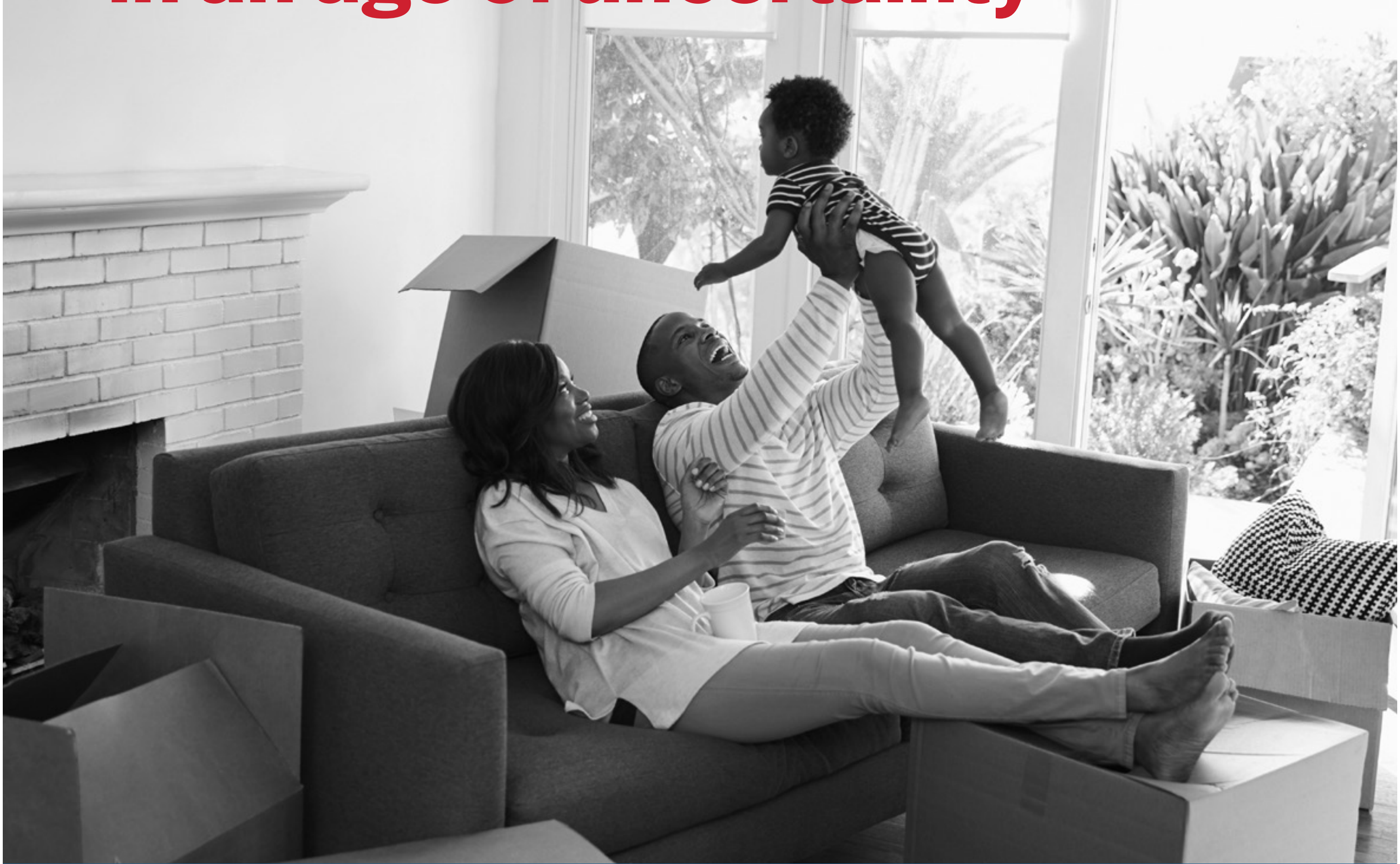
Pathways to home ownership in an age of uncertainty



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

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Related reports and documents

Inquiry into financing first home ownership: opportunities and challenges

https://www.ahuri.edu.au/research-in-progress/Inquiry-into-financing-first-home-ownership-opportunities-and-challenges

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Executive summary

Key points

- **Home ownership rates among younger people (owned outright or with a mortgage) have been in decline for the past two decades, and can be associated with rising employment precarity and stagnant wages.**
- **The aim of this project was to investigate how young households (aged 25–34) in Sydney and Perth are adapting their financial and consumption behaviours and living arrangements towards the goal of home ownership.**
- **Home ownership remains a key aspiration among young people. However, the survey results indicate a diminished ability to save for a deposit through employment alone, with around 40 per cent expecting family assistance to purchase.**
- **Over 70 per cent of respondents had multiple jobs over the last five years and over 40 per cent expressed the desire for additional work hours, while income volatility was experienced at a rate of 39 per cent in Sydney and 44 per cent in Perth. The financial diaries confirmed high variability in finances as a key challenge for household planning and savings.**
- **Increased house prices and cost of living have worsened the challenge of home ownership, with households—particularly low-income ones—unable to keep pace with market changes through their saving and budgeting strategies. This is despite the commonplace use of creative strategies to increase savings; low levels of discretionary spending are typical.**

- Households' financial strategies, while important, are increasingly insignificant against the backdrop of high house prices, increasing cost of living, volatile income, and stagnant wage rates. The challenge of home ownership is at the systemic level rather than that of the individual household.
- In transitioning to home ownership, familial wealth and in-kind support are essential.
- Location, quality, lifestyle and timing are all key trade-offs households make to enter home ownership, and in some housing markets this is still not enough to make the transition.
- Timing in relation to market changes, and government assistance, is a critical factor; with a palpable fear of missing out that adds pressure and urgency to decisions. Timing regret was a feeling that was common among home owners and non-home owners alike.
- Home deposits are a key barrier, as many households would be able to afford ongoing mortgage repayments if able to enter the market. Where the price of entry into the market is increasingly out of reach, access to a deposit or not has become a key divider.
- Housing goals were prioritised over superannuation as both an immediate goal and retirement strategy. Self-employed households were forgoing superannuation contributions in lieu of saving for a home deposit.
- Government policies designed to facilitate home ownership, such as first home owners grants and stamp duty concessions, bring forward entry to ownership rather than opening up opportunities for additional households to enter home ownership. Given the small contribution these policies make in relation to overall deposit size, those who have purchased needed to be in a position to buy without government assistance in order to utilise the supports.

Key findings

The research presented in this report is based on a survey of 25–34 year olds in Perth and Sydney, together with a novel financial diary methodology (Morduch and Schneider 2017) that has never before used in housing research in Australia. This report uncovered five major lessons in the home ownership pathways of young people (aged 25–34) in Sydney and Perth, each with significant implications for policy. These lessons relate to:

The role of family in home ownership

Accessing intergenerational wealth transfers, whether direct or in-kind, is becoming a condition of home ownership in Australia. The ability to access such family support was found to be the single biggest factor in supporting entry into home ownership. The majority of new or aspiring home owners in this study received one or more types of parental support. Within the Sydney cohort, and in the context of the most expensive housing market, familial support was an essential component of home ownership transitions in all cases. In the Perth study cohort, it was still possible for some to enter home ownership without assistance, however many still benefited from direct and indirect help.

The study confirms previous research in identifying direct financial contributions, either through inheritance or inter *vivos* transfers, as the principal ways families provided assistance (Barrett, Cigdem et al. 2015). However, indirect supports, that have financial implications, were also found to be important. These include living rent free with family, living in investment properties owned by family at no or below-market rent, having key daily expenses covered by family, having parents act as mortgage guarantors, providing mentoring and guidance, and acting as a safety net in the event of unforeseen challenges.

While the design of first home ownership policies implicitly acknowledge access to a deposit as the main barrier faced by young people, eligibility testing typically focuses on borrower income and asset value. This research suggests that access to parental housing wealth plays a more substantive role. This means accessing intergenerational wealth rather than government assistance is becoming the key indicator of entry into homeownership, and by implication further excluding others, such as those from family rental and/or migrant backgrounds. Beyond home ownership support policies, our study raises broader issues about addressing the role of housing ownership in generating wealth inequality. The potential role of land or property and inheritance or gift taxes deserves further policy discussion. Our study demonstrates that any move to introduce or expand such taxes would need to factor in the heterogeneous ways that existing housing wealth is leveraged intergenerationally.

The gap between rising house prices and the uncertainty of employment, income, and saving

Poor savings habits and general household financial management were *not* significant barriers to home ownership. Rather, households were minimising discretionary spending and actively managing finances, employing strategies from minimising social activity to paying ahead on utility bills, eating basic foods, and avoiding spending altogether. Similarly, housing aspirations were frequently traded-off in terms of location, size, and property type, in order to meet the realities of the market. For some this meant abandoning their home cities and for others it meant abandoning the goal of home ownership altogether.

The two biggest barriers to young people saving up for a typical 20 per cent housing deposit[1] were the price of housing and the insecurity of employment and incomes. With house prices increasing at a much faster rate than wages, without another source of wealth, wages alone are deemed inadequate for most aspiring home owners. The associated trend in the labour market towards more insecure and irregular work also impacted the ability of households to save consistently to achieve a deposit. It is now estimated that over 50 per cent of jobs take the form of non-standard employment (Melbourne Institute 2019), while real wages have declined by 3.5 per cent in past year alone and are now at 2011 levels (Read 2022a). Along with unpredictable incomes, a certain degree of uncertainty in spending, driven by large bills and unexpected events, impacted on the ability to accumulate the necessary financial resources to enter into home ownership.

1 There is no fixed deposit requirement. However, a deposit of 20 per cent is required to avoid mortgage lenders insurance. It is quite common for banks to issue loans based on smaller deposits.

There is no ‘typical’ housing pathway

Consistent with international research pointing towards the emergence of more ‘chaotic’ housing experiences for younger people (Hochstenbach and Boterman 2015), the report found significant variability in housing pathways. This variability disrupts the assumption of stability underpinning most policy supports for first home ownership—stability to save sufficient deposits, to secure bank finance and expectations of future wage growth. The existence of a ‘typical’ life course, in which people become educated, attain employment, leave home, form a new household with a long term partner and buy and pay off a house during their working lives to underpin a decent standard of living in retirement, is becoming increasingly uncommon. Many young people, even those with tertiary education, good jobs and incomes, find themselves locked out of home ownership.

Many policy settings continue to treat home ownership as the norm. Major government expenditure on housing over the past three decades has been in support of first home buyers, and property ownership more broadly. Policies need to better account for and address the varying needs of home owners and long term renters. Policies also need to acknowledge the wealth implications for the latter group once they reach retirement age. In terms of housing pathways, housing policy needs to account for both existing and emergent generations of households who will never attain home ownership and address the structural wealth inequalities that being locked out of ownership generates.

Uncertainty and risk in a precarious world

Saving for a home deposit and planning for purchase requires long term planning that contrasts with the short term volatility and uncertainty in the household finances of young people. This experience is not limited to low-income households, or those in unskilled work, but includes those with high levels of education and income. The steady rise of education related costs in recent decades has also added to the household debt burden. Beyond uncertainties in their own budgets, households must also navigate uncertainties in housing markets and wider global economic conditions. Timing is a crucial consideration in shifting housing markets, with very real risks of being locked out. The fear of missing out was palpable in the experiences of financial diary participants; the challenge of deposit accumulation grew as prices rapidly escalated, with poor timing leading to poor financial outcomes in some instances. Great uncertainty about house price trajectories also meant risk for those who did buy, with a market decline occurring immediately following the financial diaries study. This decline was, in part, fuelled by rising interest rates that also impacted fortnightly expenses.

Prospective and recent home owners are particularly sensitive to short term house price and finance cost movements, which have outsized balance sheet impacts compared to more established home owners. Uncertainties across multiple dimensions of the home ownership is driving elevated levels of risk in household financial security. In contrast to earlier periods where governments have assumed much of the risk in home ownership through supporting supply and finance, and ensuring wage growth, households now need to bear those risk burdens. The alternative is facing a lifetime in tenure insecurity and likely lower wealth prospects.

Policy development options

Government policy in support of home ownership has in recent decades become almost exclusively focussed on short term aspects of the ownership challenge—deposit assistance and stamp duty concessions. This project supports wider research that suggests first home buyer policies, where they could be accessed, do not impact overall rates of home ownership and only enabled participants to either bring forward their purchase decisions slightly, moving households along a standard life course. These policies were not a factor enabling more households to make the transition in the first place. These types of demand side policies do little to address the structural issues within the housing market itself in terms of availability and affordability. As a result, they have previously been criticised for having inflationary effects on house prices.

Key factors driving the success of households transitioning to home ownership are largely outside of their control. These factors include the ability to secure financial help from family, their employment stability, and the state of the housing market at the time they consider themselves ready or willing to purchase. Government housing policy ought to recognise that many factors affecting home ownership pathways are outside of the households' ability to control. Policy needs to move beyond demand side measures, to also include supply side and market regulatory measures.

Housing policy will need to recognise the non-standard and often precarious life courses people experience, including employment and housing tenure. Policy ambition needs to expand beyond a mono-tenurial home ownership system to also include other tenures as legitimate long term housing outcomes. This will require addressing the wealth implications of generation rent, those locked into a life of rental. In addressing long term wealth implications of renters, policy should also address the disproportionate wealth accumulated by existing owners (particularly those with multiple homes), which is a core driver of the intergenerational inequalities emerging in housing pathways.

Finally, policy will instead increasingly need to deal with long term risks and broader structural issues that prevent people from being able to purchase a home. This will require a pivot from addressing short term housing deposit challenges, to long term risks and uncertainties generated through rising house prices, rising interest rates, uncertain labour markets and increasing cost of living. This will require some explicit attention given to housing outcomes that are enabled or impacted by labour policy, regulation of financial markets and operation of housing market.

The study

This study is part of a wider AHURI Inquiry into financing first home ownership, which aims to investigate the economic, social, demographic and policy developments that impacted on transitions into home ownership by Australians over time. This study specifically aims to investigate how young households are adapting their behaviour in the areas of finance, living arrangements and consumption in order to navigate their pathway into home ownership.

Stage one of this research involved implementing a panel survey to understand broad experiences in home ownership transitions of millennials (25–34 year olds) in Perth and Sydney. In stage two, nine 25–34 year olds from Perth and 11 from Sydney were randomly selected from the survey to participate in a novel financial diary methodology. The financial diaries tracked the income, spending and saving habits of these 20 young Australian households fortnightly for a period of nine months.

This approach enabled us to move away from production and consumption views of the household, to understand how households operate as financial units. The aim was to understand the balance sheet strategies of newly formed and aspiring owner-occupier households and factors involved in household survival, including intergenerational factors. Importantly this exposed that the unpredictability of household finances was a key constraint on households' ability to effectively plan and control spending. This unpredictability cannot be drawn out of standard surveys such as Australian Bureau of Statistics (ABS) and Household, Income and Labour Dynamics in Australia (HILDA) that capture longer-term, annual averages. The financial diary was analysed to provide novel insights into how the financial pathway into home ownership is navigated by considering the financial constraints and choices households make.

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