Insights into how young adults access home ownership in an age of uncertainty

AHURI

Based on AHURI Final Report No. 395: Pathways to home ownership in an age of uncertainty

What this research is about

This research investigates how young householders (aged 25–34) in Sydney and Perth are adapting their spending and saving behaviours and living arrangements in order to be able to buy a home.

The context of this research

Rates of home ownership have been in decline for the past two decades, with ownership among younger people showing the sharpest drop-off. Increased house prices and the cost of living have worsened the challenge of home ownership, with households—particularly low-income ones—unable to keep pace with market increases through their saving and budgeting strategies.

The key findings

The research surveyed over 850 young adults across the two cities, with a mix of homeowners (40% in Sydney, 47% in Perth), renters in the private rental market (48% in Sydney, 39% in Perth) and people living in forms of social housing or rent free (with family). In both cities over 90 per cent of young people wanted to own their own home and over 70 per cent intend to buy a house to live in or as investment within the next five years.

The research also more deeply explored the complexities of spending and saving habits recorded in the financial diaries completed by 20 selected households: 11 from Sydney (six who are intending to buy a home and five who are paying off their mortgage) and nine from Perth (five who are paying off their mortgage and four who are intending to buy).

The role of family

The research indicates a diminished ability to save for a deposit through employment alone, with around 40 per cent of research survey participants expecting family assistance, whether direct finance or in-kind, to help them purchase. The ability to access such family support was found to be the single biggest factor in being able to buy a home. The majority of new or aspiring homeowners in this study received one or more types of parental support.

Some of this support for participants came in the form of knowledge and know-how about home buying; having parents act as mortgage guarantors; providing mentoring and guidance; and acting as a safety net in the event of unforeseen challenges. More materially and impactfully, other forms of assistance came in the form of inheritances; financial assistance with first home deposits via loans and cash transfers; as well as free or discounted living in the parental home, second home or investment property. The latter afforded important opportunities for participants to save for deposits, especially for those with low or moderate incomes.

More common than inheritances, were *inter vivos* gifts, transfers and loans, which could be described as a kind of ‘pre-inheritance’. In addition, inheritances and transfers may be international in character, with capital from international family sources being used in the Australian housing market to help finance first home ownership.

The financial diaries revealed that in Sydney, family support was an essential component of being able to buy a home in all cases, while in Perth it was still possible for some to buy without assistance, however many still benefited from direct and indirect help.

Importantly, the research suggests that such support not only enables the transition into first home ownership but also enabled participants to imagine a future where they assist their children, the next generation, to buy a home.

With this research suggesting that access to parental housing wealth plays a substantive role, it means accessing intergenerational wealth rather than government assistance is becoming the key pathway of entry into homeownership. This implies that other families, such as those from renting families or poorer migrant backgrounds, are being excluded from home ownership.

Home deposits are a key barrier, as many households would be able to afford ongoing mortgage repayments if they were able to save up for the deposit and enter the market. Where the price of entry into the market is increasingly out of reach, having access to a deposit or not has become a key divider.

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

The financial diaries recorded that households were minimising discretionary spending and actively managing finances; employing strategies such as minimising social activity, 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 were:

- **The price of housing:** With house prices increasing at a much faster rate than wages, without another source of wealth, wages alone are deemed inadequate for most aspiring homeowners.
- **Insecure employment and incomes:** 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, while real wages have declined by 3.5 per cent in the past year alone and are now (in 2023) at 2011 levels.

There is no ‘typical’ housing pathway

There is significant variability in people’s housing pathways. 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.

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 aspiring homeowners facing 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, who were faced with a market decline fuelled by rising interest rates that also helped increase fortnightly expenses, increasing the risk of having negative equity (i.e. owing more that the dwelling is worth).

Lessons from COVID-19

The COVID-19 pandemic was a major factor influencing pathways to and within home ownership and had uneven impacts on the young people in the study—some lost work while others gained work; some built up savings while others drew down on savings. The income support policies that were enacted by the Australian Government to manage the impact of lockdowns provided significant support in smoothing these income fluctuations. This enabled many to maintain their plans to buy a home or continue to pay their mortgages. The COVID response therefore helped to stabilise the housing market and assisted some in their pathway to home ownership. At the same time, by de-risking housing investments, the COVID response also accelerated house price inflation, worsening housing wealth inequality between those with - and those without - housing assets.

Income variability

Employment insecurity and income volatility create barriers to home ownership because they make saving for a deposit on the basis of employment alone more difficult.

Over the past five years, around 70 per cent of the survey respondents have worked in two or more different jobs, suggesting a level of instability in employment. Renters have experienced greater instability than homeowners; only 25 per cent of owners and 16 per cent of renters had been in the same job for five or more years.

The financial diaries showed many households experience high volatility in income from fortnight to fortnight. This volatility, combined with highly variable spending patterns because of periodic bills and unforeseen events, created a number of challenges for households in planning for and growing savings. This income volatility was driven by short contracts, changing hours of work, gaps between employment, being self employed in small business and changing payment periods.

There is concern about the level of underemployment, in that many young people are unable to secure as many hours work as they would like, which undermines their earning capacity. The survey showed 49 per cent of the renters and 35 per cent of the homeowners wanted additional hours of work, while 60 per cent and 56 per cent of renters and owners respectively experienced gaps in employment of more than one month in the past five years.

Over 74 per cent of renters across both cities reported having less than $5,000 in savings, compared with 51 per cent of owners. Only 4 per cent of renters and 13 per cent of owners reported having more than $50,000 in savings; a 20 per cent deposit on the median dwelling price in Sydney would be $220,000 and $106,000 in Perth. In other words, more than 95 per cent of renters do not come close to having accumulated enough savings for a deposit on a median dwelling. With owners reporting having larger savings, this points to key wealth differences and the ability to accumulate savings as a driver of housing outcomes.

Value of gifts and inheritances

Only about 9 per cent of respondents in Sydney and 5 per cent in Perth received values of over $20,000. While this is not an insignificant amount, compared with the value of deposits required for the average dwellings across these cities, the sums involved are relatively minor. This is consistent with findings from the Productivity Commission who noted a large difference between the median and average values of gifts and inheritance. This supports other literature in noting the highly skewed, and consequently unequal, distribution of wealth transfer.

When specifically questioned about future expectations around home purchase, 32 per cent of survey respondents in Sydney and 29 per cent in Perth expected financial support from their family. A further 10 per cent across the cities indicated their family would act as guarantor alone, leaving approximately 60 per cent of respondents who did not expect any help.

Spending and expenses

The financial diary showed discretionary spending was generally low among the participants. They did not appear to spend overly on eating out, going out or going on holidays. Indeed, a number of study participants described themselves as living frugally, which was reflected in their spending patterns.

Much of the spending focussed on reoccurring fortnightly items, for example, food, petrol and debts. The biggest challenge for most participants was large irregular, and often unexpected expenditures.

The first category of large items could be described as large essentials, such as utility bills or car maintenance. Small business owners and some other professionals also incurred large bills related to running that business or maintaining professional insurances or accreditation.

The other category of large expenses was unknown or unforeseen expenses. For example, unforeseen car expenses created significant problems and ultimately had to be accommodated through drawing down on savings. In addition, the recent spate of natural disasters impacted on one participant who lost many possessions during a flood event, requiring spending from household savings. This incident reveals that unforeseen events have the potential to impact on household finances, which for many can alter their housing purchase ambitions.

Saving

For lower income earners, saving becomes difficult at best, and impossible at worst. Those who did attempt to regularly save tended to deposit into a savings account and then draw on those savings to meet bills or unexpected expenses.

The most quoted strategies for cutting down spending was cooking at home rather than getting takeaway or eating out, and spending less on clothing and household items. One of the most important saving strategies to emerge was living with parents or in properties owned by parents. Reducing social activities was also a strategy.

Superannuation

Most participants were not actively engaging with their super by making voluntary contributions or self-managing. Super was generally not viewed as an important future investment, even in retirement. Housing—both owner-occupied and investment properties—was prioritised over super, with participants not seeing 'the point in having it [superannuation money] when 65 years old' - they'd rather have the money now for housing.

Early access to super may facilitate already existing homeowners to pay their housing debts. Yet, super balances are generally insufficient to materially assist with the leap into home ownership. This reflects patterns of insecure work and unstable incomes that create barriers to steady accumulation of superannuation balances. In fact, some participants were not receiving or making any contributions to their super, including self-employed participants.

Inequalities in levels of superannuation wealth do, however, create pathways into home ownership that are differentially available to some young people. The superannuation of parents played a role in one participant's entry into home ownership, allowing them to borrow $220,000 from their parents' own superannuation accounts. This was described as an 'early inheritance' and, further, a good investment as 'the capital growth on [the house] is better than whatever it will do sitting in their super'. This shows that super is not only being used to pay off mortgages upon retirement; it is also being used to facilitate intergenerational support for home ownership.

Government support

Overall, the research participants did not consider government support as essential to their transition into home ownership. This suggests that current government support is more likely to benefit those who were already in the process of entering into home ownership - by bringing this forward or enabling larger loans to be taken and different properties purchased. This is particularly so given that many government supports are designed to intervene only at the point of purchase (e.g. stamp duty, grants) when the decision to enter the property market has already been made.

What this research means for policy makers

Government housing policy ought to recognise that many factors affecting home ownership pathways are outside households' ability to control. What is required is a focus on long term risks and uncertainties generated through rising house prices, rising interest rates and an uncertain labour market. This will require some explicit attention to be given to housing outcomes that are enabled or impacted by labour policy, regulation of financial markets and operation of the housing market.

Policy also needs to move beyond demand-side measures to include supply-side and market regulatory measures. Generous tax incentives such as negative gearing and capital gains discounts (which support wealth accumulation through property investing and over-stimulate demand and asset prices), should be reconsidered in favour of policies that drive supply of affordable housing options.

Housing policy will need to recognise the non-standard and often precarious life courses people experience, including recognising other tenures (such as renting) as legitimate long-term housing outcomes. 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.

Methodology

The research surveyed over 850 25–34 year olds in Perth and Sydney. In addition, a financial diary method was used to track the income, spending and saving habits of twenty 25–34 year old householders – nine from Perth and 11 from Sydney - over a nine month period.

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