

EXECUTIVE SUMMARY

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# Financing first home ownership: opportunities and challenges



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

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**Related reports and documents**

Ong ViforJ, R., Graham, J., Cigdem-Bayram, M., Phelps, C. and Whelan, S. (2023) *Financing first home ownership: modelling policy impacts at market and individual levels*, AHURI Final Report No. 398, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/398>, doi: 10.18408/ahuri8127401.

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.

Troy, L., Wolfson, P., Buckley, A., Buckle, C., Adkins, L., Bryant, G. and Konings, M. (2023) *Pathways to home ownership in an age of uncertainty*, AHURI Final Report No. 395, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/395>, doi: 10.18408/ahuri7327301.

Whelan, S., Atalay, K., Barrett, G., Cigdem-Bayram, M. and Edwards, R. (2023) *Transitions into home ownership: a quantitative assessment*, AHURI Final Report No. 404, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/404>, doi: 10.18408/ahuri7327101.

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# Executive summary

## Key points

- This Inquiry focusses on socio-economic developments and policy settings that impact access to home ownership.
- A rapid expansion of owner-occupation in the early postwar period peaked at over 70 per cent in the late 1960s, but was followed by a gradually declining home-ownership rate since 2000—especially among younger adults, where the rate for the 25–34 age cohort fell from 51 per cent in 2001 to 44 per cent in 2021.
- There is evidence that housing affordability has decreased over time. Since 2001, the national ratio of median house price to median income has almost doubled to 8.5, and the time required for the accumulation of a deposit for a typical property has increased from six years median earnings in 1994 to 14 years currently.
- While many young adults are, by force of circumstance, delaying home ownership, many others will never achieve it. Analysis conducted for the Inquiry shows that a quarter of the gap in home-ownership rates at age 30–34 remains at age 50–54.
- The decline in home ownership among younger adult cohorts has occurred despite expenditures in excess of \$37 billion over five decades designed to enable first home ownership.
- Post-1990s policy settings have focussed on demand-side assistance aimed at enhancing first home buyer (FHB) purchasing power, primarily through direct grants and tax concessions.

- **Recent policy settings are in marked contrast to the broader supply-side and demand-side policy mix that characterised the postwar period in Australia, and which remains operational in many comparator countries.**
- **Despite recently adopted policy measures such as mortgage guarantees, opportunities exist to refine Australia's FHB policies in ways that are more targeted and recognise distinct challenges such as the deposit constraint.**
- **Policies designed to assist FHBs must recognise and address structural issues associated with the treatment of housing in the tax and transfer system.**
- **Policy settings need to encompass intermediate tenures such as shared equity as legitimate housing outcomes that may enable households to attain homeownership.**

In Australia, owner-occupied housing generally represents the largest single asset in the household wealth portfolio, and plays a critical role in sustaining welfare over the life cycle. Entry into home ownership for younger Australians has fallen markedly over the past three decades. Commonly cited reasons for this development include:

- delayed partnering and family formation (Burke, Stone et al. 2014; MacDonald and Baxter 2005)
- higher rates of educational attainment and associated debt (Yates 2011)
- the precarious nature of employment (Troy, Wolifson et al. 2023)
- deteriorating housing affordability (Burke, Stone et al. 2014).

This development has occurred despite policy decisions and substantial fiscal expenditures designed to enable first home ownership. Critically, if home ownership is not attained or only achieved later in the life cycle, this will have implications for the welfare of individuals and for the sustainability of current policy settings.

The transition into first home ownership generally necessitates debt financing via a mortgage. This requires satisfying both downpayment and repayment constraints (Ong ViforJ, Graham et al. 2023). It is generally recognised that Australia has a mature credit market that provides a diverse range of options for those seeking to enter home ownership. Nonetheless, key questions remain around the constraints and opportunities that Australians face in financing the purchase of owner-occupied housing. These include:

- how financial innovations in credit markets have shaped housing careers
- the role of past and present policy settings designed to enable home ownership
- the opportunities for novel initiatives to facilitate first home purchase.

This Inquiry examines the challenge of financing the transition into home ownership and provides an evidence-base to inform policy and institutional settings that will enable Australians to attain home ownership. The overarching question addressed by the Inquiry is this:

**How have economic, social and demographic developments impacted on entry into home ownership and the housing careers of successive cohorts of Australians, and what opportunities exist to develop policy settings that enhance opportunities to access finance for home ownership in a sustainable manner?**

Specifically, the research questions addressed by the projects that form part of the Inquiry program are as follows:

1. How has entry into home ownership changed over time, and is there evidence of convergence in patterns of home ownership across the life cycle for successive cohorts of Australians?
2. How does Australian and international evidence around the role of financial innovations and policy settings provide insights on pathways into home ownership?
3. How is the pathway into home ownership shaped by developments in financial markets, precariousness in labour markets, alternative financing mechanisms and government policy?
4. How might entry into home ownership evolve in response to specific policy settings and what are the implications of this for housing markets and the broader economy?

The projects that form part of the Inquiry addressed these questions by first providing robust analysis of how we 'got where we are'. This entailed an examination of socio-demographic and economic trends that have shaped housing decisions over time, and an analysis of how Australians navigate the increasingly challenging path to home ownership. Quantitative and qualitative analysis provided insight into the role that policy settings and economic factors have played in shaping housing careers.

A comprehensive review of evidence from Australian and international sources identified challenges and opportunities for policy settings ostensibly designed to facilitate first home ownership. The evidence highlights significant diversity in international experiences, depending on historical, social and institutional considerations that shape housing outcomes. Identifying the implications of alternative policy settings in the Australian context has been facilitated by quantitative modelling drawing on the findings of the research program and the deliberations of the first Inquiry Panel meeting.

## Key findings

Home-ownership rates among those aged 25–34 years have declined by over one-quarter in the four decades since 1981. Novel analysis of the Survey of Income and Housing (SIH) identified that many younger Australians do not achieve home ownership as they age. Around one-quarter of the gap in home-ownership rates at age 30–34 remains at 50–54 years of age. Failure to attain owner-occupation as households progress through the life cycle has important implications for the welfare of individuals given the role played by housing in supporting consumption as they enter retirement. Such a development also has the potential to place increasing fiscal demands on governments.

The evidence highlights how housing careers have evolved in response to emerging challenges around affordability and the financing of owner-occupied housing. First home buyers (FHBs) have increasingly gravitated towards more affordable dwellings, including attached dwellings in higher-priced markets such as Sydney and Melbourne. Those dwellings tend to be located at an increasing distance from their social and economic networks. Parental transfers, both direct and in-kind, are increasingly assisting individuals make a more rapid transition into home ownership. Analysis identified that in-kind transfers in the form of co-residence with parents (and not renting) lifts the likelihood of transitioning into home ownership by 40 per cent. Given the central role played by housing in the wealth accumulation process over the life cycle, such transfers have the potential to increase wealth inequality over time (Whelan, Atalay et al. 2023).

The Inquiry identified that young households' ability to budget, plan and save for a home has been underlined by insecure and inadequate work, amidst rising house prices and costs of living (Troy, Wolfson et al. 2023). Home owners were more likely to be in full-time employment (72%) compared to renters (41%). Precarity in employment presents a persistent challenge for navigating the path into home ownership. Approximately 39 per cent and 44 per cent of 25–34 year olds surveyed in Sydney and Perth respectively reported experiencing income volatility that accentuated the challenge of attaining home ownership. Temporary measures in Australia such as JobKeeper, HomeBuilder and mortgage deferrals (Leishman, Aminpour et al. 2022) created a buffer during the COVID-19 pandemic, but precarity remains as such measures have been scaled back or withdrawn (Troy, Wolfson et al. 2023).

The challenge of attaining first home ownership is not new, nor is it a uniquely Australian experience. Analysis of Australian and international policy settings aimed at enabling first home ownership highlighted two key patterns.

## Demand-side measures

First, the substantial expenditures, exceeding \$37 billion over the past five decades, in direct grants and tax concessions targeted at FHBs. Policies targeted at FHBs in Australia in recent decades have focussed almost exclusively on demand-side measures designed to boost the capacity of FHBs to pay for housing. This is in stark contrast to the mix of supply-side and demand-side measures that characterised policy in the early postwar period, and the strategies that remain functional in some comparator countries examined as part of the Inquiry. Under these approaches, demand-side measures such as tax concessions are used as part of a comprehensive package of measures within a broader housing policy suite. This highlights the need for a broader and more coherent approach to home ownership policy in Australia to create additionality in first home ownership without damaging side-effects such as the compounding of property price inflation.

## Deposit constraints

Second, there has been increasing recent policy focus on one aspect that constrains aspiring FHBs as they seek to enter home ownership: the deposit constraint. Measures adopted include low deposit loans coupled with mortgage guarantees. Prudential regulation has also had direct and indirect consequences for FHBs as loan to value ratios (LVRs) and debt servicing norms directly determine the borrowing capacity of FHBs and define the range of affordable dwellings for purchase. Regulation of financial institutions shapes the level of credit in the economy more broadly, channelling mortgage credit towards the real estate sector and influencing house prices.

Analysis conducted as part of the Inquiry considered how macroeconomic developments have impacted FHBs, and the potential for policies such as mortgage guarantees and shared equity arrangements to create additionality. That analysis identified that lower interest rates since the mid-1990s have contributed approximately a third of the increase in house prices over the same period. Lower borrowing costs have been more than offset by the additional burden associated with the deposit constraint for FHBs. Moreover, while more relaxed prudential regulation of borrowing rules may allow FHBs to access owner-occupation by taking on additional credit, it could also expose such households to problematic levels of risk associated with higher mortgage debt.

Policies targeted at aspiring FHBs—such as mortgage guarantees and shared equity arrangements—may also create additionality. Mortgage guarantees alleviate the downpayment constraint, while shared equity addresses both loan repayment and deposit constraints faced by FHBs. Modelling suggests that a mortgage guarantee scheme similar to the Home Guarantee Scheme (HGS) assists 22 per cent of eligible aspiring FHBs. A shared equity scheme modelled on the Help to Buy (HtB) policy has the potential to assist 41 per cent of eligible aspiring FHBs. An important aspect of both schemes is the application of property price thresholds that account for the significant differences in prices that exist across geographically distinct markets in Australia.

Experience of financial crises has revealed that they tend to emerge from loosely regulated mortgage markets. Thus the primary motivation of financial regulators today is safeguarding the stability of the financial system. This focus on stability is narrower than previous decades, which also embraced strategic social and economic development, including increasing home ownership. The analysis in this Inquiry identified the complex challenge faced by individuals in achieving home ownership, and the difficult choices faced by policy makers in assisting FHBs. The increase in house prices that accompanied measures adopted during the COVID-19 pandemic will likely have ongoing distributional consequences. In turn, such developments have attracted strong critique in Europe, the United States and Australia (Gittens 2022; Kohl 2021; Norris and Lawson 2022; Ryan-Collins 2019; Wolff 2021), leading to calls for a broader discussion around such measures (Bruegel Institute 2021; European Parliament 2021; Special Rapporteur on Adequate Housing 2020).

## Policy development options

The Inquiry makes six key recommendations, as follows.

1. Policy to assist entry to home ownership in Australia has been overwhelmingly focussed on demand-side measures. While measures such as First Home Owners Grants (FHOGs) and stamp duty concessions have enhanced the purchasing power of FHBs, additionality is more likely from a suite of supply-side and demand-side approaches that embody a coherent home ownership strategy.

Reflecting both the historical Australian experience and international best practice, demand-side measures that simply enhance buying capacity of aspiring FHBs are unlikely to create additionality. There is a broad consensus that such measures exacerbate the challenge of financing first home ownership, rather than alleviate it.

2. Structural tax-transfer reforms are required to deliver Australia's aspirations for sustainable growth in home ownership.

There is a consensus among housing policy experts that current policy settings disadvantage aspiring FHBs and benefit existing home owners. Policy reforms such as those initiated in New South Wales (NSW) and currently underway in the Australian Capital Territory (ACT) to abolish stamp duty are required, along with a broader reassessment of the treatment of housing in the tax and transfer system.

3. Policy must take into account distributional consequences and must be targeted.

Policy settings adopted over the past three decades have been poorly targeted and create little in additionality. Given the central role played by owner-occupied housing in the wealth accumulation process, it is critical that FHB policies be designed in a way that ensures they benefit those who may not otherwise achieve owner-occupation.

4. Policy measures must recognise that aspiring FHBs potentially face both downpayment and repayment constraints. Schemes that assist first home purchase can be designed to support 'additionality' by assisting households who would not have accessed home ownership in the absence of the scheme.

Aspiring FHBs face particular challenges in financing in the absence of accumulated equity to draw on. This hurdle has become more pronounced as prices across major markets have increased. To be effective and create additionality, policies designed to assist FHBs need to acknowledge the need to facilitate both:

- accessibility—the downpayment constraint
- affordability—the repayment constraint.

5. Policy makers need to be aware of the consequences of policy settings and avoid unintended consequences when designing and implementing measures that are ostensibly designed to assist FHBs.

The Inquiry Panel highlighted how policy settings may create incentives for players, such as housing developers, to build to the market. That market is itself defined in part by government policy settings. At the same time, policy may have unintended consequences. The experience of the global financial crisis (GFC) highlighted how encouraging owner-occupation creates the potential for risks for households to arise, and the economy to be exposed to broader systemic risk. The Inquiry noted how FHB policy may inadvertently encourage urban sprawl and associated infrastructure costs. Policy must be carefully designed, be cognisant of any incentives created and the potential for unintended consequences.

6. Policy ambitions need to expand beyond a mono-tenurial home-ownership system to also include intermediate tenures as legitimate long-term housing outcomes.

While owner-occupation remains a preferred tenure for many Australians, policy must support and enable a broader range of housing choices beyond home ownership as traditionally envisaged in Australia. International experience suggests that alternatives such as rent to buy, shared equity and well-regulated affordable rental tenure, along with social rental, can also offer security and life-long wellbeing. More generally, policy should support security of tenure and capacity of households to sustain welfare, especially into older age, outside of home ownership.



## The study

The past 30 years have seen economic, demographic and social changes that have reshaped Australian housing career trajectories. This has occurred against a backdrop of financial deregulation, mortgage market innovations and government policies designed to facilitate home ownership. This Inquiry seeks to understand why, for younger age cohorts, home ownership typically appears an increasingly distant goal, and how policy settings could help to reverse this.

Four independent but complementary supporting Research Projects addressed the questions considered by the Inquiry:

1. Quantitative research drawing on successive cross-sectional datasets and longitudinal data to examine how entry into home ownership has evolved over time, identifying key barriers and enablers of entry into home ownership (Whelan, Atalay et al. 2023).
2. Review of Australian and international policy evidence informed by country-specific studies to identify how policy interventions have shaped housing outcomes, and the opportunities, risks and implications for the Australian policy environment (Pawson, Martin et al. 2022).
3. Qualitative research identifying how entry into home ownership has been shaped by economic and social circumstances, how individuals navigate the financial challenge of entering into home ownership, and the role of non-traditional sources of finance for the attainment of home ownership (Troy, Wolfson et al. 2023).
4. Quantitative analysis using micro- and macro-simulations that identify how home-ownership decisions and the broader housing market may evolve in response to alternative policy settings (Ong ViforJ, Graham et al. 2023).

The Inquiry outcomes include a series of peer-reviewed Final Reports that provide an evidence-base that contributed to the robust analysis of alternative policy settings, which can inform relevant state and federal policy reform considerations.

The research team encompassed senior, mid-career and early-career researchers across four AHURI Research Centres that have successfully delivered on numerous AHURI projects and inquiries. In undertaking the program, team members were able to draw upon their significant expertise in quantitative and qualitative techniques, in policy analysis, and in economic modelling of housing markets and policy.



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