POLICY EVIDENCE SUMMARY September 2023

Ways to support more people to buy their first home

Based on AHURI Final Report No. 408: Financing first home ownership: opportunities and challenges

AHURI

What this research is about

This final Inquiry examines the challenges of financing to buy a first home. It incorporates four independent but complementary supporting Research Projects and focuses on socio-economic developments and policy settings that impact access to home ownership.

The context of this research

Owner-occupied housing supports living standards throughout retirement—a critical consideration given Australia's flat-rate means-tested age pension. From a policy perspective, a systemic fall in home ownership is likely to place increasing fiscal pressure on governments and may exacerbate existing economic inequalities as individuals age.

Fewer younger Australians are becoming first home buyers. The average age of buying a first home increased from 26 to 31 years between 1965–69 and 2010–14. While housing affordability is challenging to measure, there is a consensus that housing has become less affordable and therefore less accessible to first home buyers.

The key findings

While high house prices are often cited as the challenge faced by first home buyers, this Inquiry highlights that the problem is significantly more complex. Critically, existing policy settings are likely to have exacerbated rather than alleviated the challenge faced by first home buyers to finance home ownership. While politically seductive, measures specifically targeted to assist first home buyers, such as first homeowner grants and tax concessions, have failed to arrest declining rates of home ownership over time. Moreover, Australia's taxation settings favour existing home owners and small-scale rental investors over first home buyers and tenants. The pathway to home ownership has narrowed and the journey to ownership appears increasingly reliant on parental resources.

Housing affordability is falling, although the measure is difficult to define

The challenge for aspiring first home buyers is often characterised as one of declining 'affordability'. However, affordability is not easily defined. Rather, what is affordable will be a function of a range of considerations, some of which are external to the households and others that are shaped by household choices. External factors include the price of housing in a given market; interest rates; and constraints on borrowing, such as those encapsulated in loan to value ratios (LVRs) or debt-servicing requirements imposed by financial institutions.

The 'deposit hurdle' is an increasingly important barrier as house price growth has outpaced earnings growth. In the early 1990s average households took just six years to save for a deposit, rising to 9–10 years by the late 2010s. There can be substantial regional variations, with markets such as Sydney (13.5 years) and Melbourne (11.1 years) increasing substantially by 2021.

While affordability measured in terms of house prices has declined, this has been mitigated by other developments. Notably, interest rates fell substantially over the three decades preceding recent increases (starting in early mid-2022), and developments in housing finance have provided aspiring first home buyers with an increasingly diverse suite of opportunities.

Despite price increases, first home buyers are still borrowing around 80 per cent of their home mortgage

Despite the significantly higher barrier represented by the deposit hurdle, first home buyers have generally maintained a LVR of around 0.8. This reflects a variety of strategies and behavioural changes, including, in higher-priced housing markets such as Sydney and Melbourne, buying more affordable attached dwellings (e.g. units and apartments) at increasing distance from their social and economic networks and finding other sources of financing such as parental support.

Table 1: First home buyers in Sydney, Melbourne and Perth maintain loan to value ratios but purchase smaller homes with more diverse finance sources.

Characteristic	2001–2005	2016–2018
House price ($)	$330,349	$730,411
Loan size ($)	$257,004	$580,474
Loan-to-value ratio	0.82	0.80
Received non-bank loan (%)	8	11
Parental transfer received (%)	8	15
Purchase unit / apartment (%)	15	27
Purchase house (%)	85	73

International first home buyers policy review shows where Australia can improve

The Inquiry examined home-ownership promotion policies in Canada, Finland, Germany, Ireland, the Netherlands, Singapore and the UK. Like Australia, these countries experienced rising home ownership over the 20th century, then tapering off—if not declining—over the past two decades.

Research identified that comparator countries have employed a diverse mix of demand-side and supply-side measures to support first home buyers.

Supply-side approaches to first homebuyer assistance are more common in comparator countries than in Australia. Policy settings in Australia have focussed almost exclusively on demand-side measures enabling or even boosting demand for mortgage credit. Other measures, such as mortgage guarantees and loan assistance schemes have grown in popularity but are unlikely to create much 'additionality' (i.e. help for those who would not have otherwise been able to buy a home).

Table 2: First homebuyer assistance measures 2021, Australia and comparator countries

	Aus	Can	Fin	Ger	Ire	Neth	Sing	UK
Demand-side								
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
Supply-side								
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: AHURI Final Report No. 381.

It is clear that Australia lags behind in the use of land policies to promote segmented supply and in providing sustained support for intermediate shared equity tenures.

One concern faced by all has been the global financial crisis and its enduring impact on housing markets. Following the global financial crisis, financial regulators became increasingly focussed on the stability of the financial system. Most comparator countries subsequently imposed new rules on credit and limited access for first home buyers, and this has led to considerable debate about the role of financial regulation and its relationship to wider social objectives.

A key lesson is that policies work most effectively when they are part of a comprehensive strategy. Efforts by comparator countries to promote first home ownership through land-disposal conditions and land-use planning powers may potentially be of relevance in Australia. In the UK, Germany, the Netherlands and Finland planning obligations to include homes for affordable sale often come in tandem with requirements for social and affordable rental units.

Recent households aged 30–34 less likely to own a house by age 50 than in previous generations

This Inquiry investigated how ownership rates evolve over time as each generation reaches age 30–34. With more recent cohorts of young people less likely to own a home at 30–34, there is evidence of an incomplete catch-up of ownership by 50–54 years of age. Relative to older generations, the younger cohorts who have experienced lower rates of home ownership only close three-quarters of the ownership rate gap by age 50–54 years. This points to a systemic decline in home-ownership rates that will increasingly be evident as cohorts age.

A later transition into home ownership means that households are more likely to enter retirement carrying mortgage debt, potentially extending the period spent working. In addition, with more older people relying on rental dwellings, welfare is likely to be substantially lower during retirement, characterised by insecurity of tenure and low incomes after housing costs. For policy makers, such a development implies increasing reliance on transfers such as Commonwealth Rent Assistance (CRA) as individuals enter into retirement.

First Home Owners Grants and stamp duty concessions lead to slight increase in first home buyers

This Inquiry considered the effectiveness of demand-side measures in assisting first home buyers. The analysis identified some evidence that the First Home Owners Grant available in the early 2000s increased the extent of catch-up exhibited by younger cohorts relative to those cohorts not exposed to the First Home Owners Grant. Specifically, for those cohorts exposed to the First Home Owners Grant at age 30–34 years there was no effect for a 10-year catch-up but a significant effect on a 20-year catch-up.

Analysis of the impact of lowering stamp duty imposed on first home buyers in Queensland indicated that stamp duty concessions may have had significant impacts, both economically and statistically, on increasing the number of first-time dwellings financed, and thus on first-time home ownership (however, this finding requires further analysis).

Finance from family is a new key for first home buyers

Parental transfers have become an increasingly important source of finance for first home ownership: over the past two decades the value of inheritance in Australia has more than doubled and the value of gifts has more than trebled. Such transfers may reduce the time required to accumulate savings and hasten the transition into home ownership. They may also impact on the level of mortgage debt taken on by first home buyers. People who receive a bequest transition into home ownership at double the rate of those not receiving a bequest. Similarly, the transfer of $10,000 is associated with approximately a 90 per cent increase in the likelihood of buying a first home.

In-kind transfers in the form of living with parents also play an important role in facilitating first home ownership, with estimated savings in the order of $300–$400 per week. For each additional year spent residing in the parental home at zero cost (that is, no payment of board), the likelihood of transitioning into home ownership is associated with an increase of approximately 40 per cent relative to additional time spent renting. Interestingly, additional time spent residing in the parental home and paying board is associated with a slightly higher transition rate again.

First home buyers experience insecure work in the quest to buy a home

Almost all young Australian households aged 25–34 years navigating the pathway to home ownership surveyed in Sydney and Perth expressed a strong desire for home ownership, especially those with, or planning to have, a family.

Among the survey respondents, 39 per cent in Sydney and 44 per cent in Perth experienced volatility in take home income. Insecure and inadequate work, rising house prices and increasing cost of living impacted on their ability to budget, plan and save for a home of their own. Housing outcomes and labour market experiences are highly correlated: 72 per cent of owners reported being in full-time employment compared with only 41 per cent of renters. A large proportion of young households reported short-term and inadequately compensated employment: 70 per cent of households had held multiple jobs in the previous five years and 40 per cent were actively searching for additional sources of income.

Many households adopted a set of strategies to supplement income, including buying shares; dual income earning; taking on additional shifts or employment; and acquiring interest in property, with five per cent and 2 per cent of 25–34 year olds in Sydney and Perth, respectively, being 'rent-vestors'.

A significant share of young households anticipate some form of family assistance (40 per cent) in order to purchase housing. There was also evidence that long-term compromises to household welfare are being made. Respondents reported that superannuation savings are eroded and self-employed households are forgoing contributions altogether to save for a home deposit.

Falling interest rates are associated with rising house prices

In the two decades from the mid-1990s, real interest rates in Australia declined by approximately 5 per cent, from approximately 6.81 per cent in 1994 to 1.89 per cent by 2017. The analysis showed that the decline in interest rates was associated with approximately one-third of the increase in house prices over this period. However, while the cost of servicing a given level of mortgage debt fell substantially, this was offset as house prices and the upfront cost of the deposit increased significantly. These developments have a particular impact on first home buyers who tend to be younger, experience lower incomes and have accumulated fewer household assets. The analysis indicated that decreases in interest rates experienced from the mid-1990s exacerbated, rather than alleviated, the challenge faced by aspiring first home buyers and contributed to the decline in home ownership among younger cohorts.

Need for larger home deposits leads to lower house prices

Economic modelling indicated that with tighter LVR constraints (that is requiring buyers to have larger deposits) house prices would have increased by less as interest rates fell from 1994 to 2017. In essence, tighter LVR constraints would have led to a smaller increase in housing demand and, in turn, a smaller increase in house prices. Conversely, with looser LVR constraints, a greater ability to leverage the purchase of housing would have led to a greater increase in housing demand and even greater increase in house prices. Furthermore, home-ownership rates are shown to fall by a smaller amount if LVR ratios were decreased from 0.85 to 0.6 and fall by a larger margin if LVRs were increased from 0.85 to 1.0.

Shared equity schemes provide better assistance for first home buyers

The research simulated the effects of two policies based on current programs designed to assist first home buyers: a mortgage guarantee scheme designed to alleviate the downpayment constraint faced by first home buyers and a shared equity scheme that addresses both the downpayment and repayment constraints.

Of the 1.6 million renting households identified as aspiring first home buyers, the analysis identified 266,500 (16%) as eligible under the mortgage guarantee scheme, while 496,800 (31%) were eligible for the shared equity scheme.

What this research means for policy makers

The Inquiry suggests six key areas for focus:

1. Policy to assist entry to home ownership in Australia needs focus on both demand and supply side measures. While measures such as First Home Owners Grants and stamp duty concessions have enhanced the purchasing power of first home buyers, helping additional households (i.e. those who would not have otherwise been able to buy a home) to be able to buy is more likely from a suite of supply-side and demand-side approaches that arise from a coherent home ownership strategy.
2. Structural tax-transfer reforms are required to deliver sustainable growth in home ownership as current policy settings disadvantage aspiring first home buyers and benefit existing home owners. Policy reforms to abolish stamp duty are required, along with a broader reassessment of the treatment of housing in the tax and transfer system.
3. Policy designed to facilitate home-ownership must take into account 'distributional consequences' (that is, they may benefit or disadvantage people from certain income groups or geographical regions) and must be targeted in a way that ensures they benefit those who may not otherwise achieve owner-occupation.
4. Policy measures must recognise that aspiring first home buyers potentially face both downpayment and repayment constraints. To be effective, policies need to facilitate both accessibility—the downpayment constraint, and affordability—the repayment constraint.
5. Policy intended to assist first home buyers must be carefully designed and be aware of any incentives created and the potential for unintended consequences.

The experience of the global financial crisis highlights how encouraging owner-occupation creates the potential for risks for households to arise, and for the economy to be exposed to broader systemic risks. The Inquiry noted how first homebuyer policy may inadvertently encourage urban sprawl and associated infrastructure costs.

Housing policy ambitions need to expand to also include other tenures as legitimate long-term housing outcomes. 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.

Methodology

This Inquiry uses a mix of quantitative and qualitative research, including from the Household Income and Labour Dynamics in Australia (HILDA) survey, the Australian Bureau of Statistics Survey of Income and Housing and insights provided by policy experts and key stakeholders in Australia and internationally.

To cite the AHURI research, please refer to:

Whelan, S., Pawson, H., Troy, L., Ong ViforJ, R. and Lawson, J. (2023) *Financing first home ownership: opportunities and challenges,* AHURI Final Report No. 408, Australian Housing and Urban Research Institute Limited, Melbourne.

Available from the AHURI website at ahuri.edu.au/research/final-reports/408

Australian Housing and Urban Research Institute

Level 12, 460 Bourke Street
Melbourne VIC 3000
Australia

+61 3 9660 2300
information@ahuri.edu.au
ahuri.edu.au

twitter.com/AHURI_Research
facebook.com/AHURI.AUS
Australian Housing and Urban Research Institute