Is home ownership becoming less accessible in Australia?

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It is popular to paint a picture that first home buyers are unable to get into the housing market because of affordability issues in the property market. But is that picture accurate? Or are there other factors contributing to why home ownership is declining?

The value of residential mortgage loans in Australia was about $1.75 trillion in December 2017. About 61 per cent of these loans went to owner-occupiers in December 2017 compared to 56 per cent in June 2015. The increase in owner-occupier loans in Australia is definitely encouraging for owner occupiers.

Housing Loans

Outstanding housing loans to households have increased at a compound rate of 6.8 per cent per year for the past decade, from $906 billion in December 2007 to $1.75 trillion in December 2017.

The percentage of owner-occupied loans have accounted for around 50 per cent and 62 per cent since the beginning of the millennium. Currently, owner-occupied loans are at about 61 per cent, which is well above the long-term average of 57 per cent, indicating owner-occupiers are edging out investors in the current conditions.

First-Home Buyers by State

First-home buyers are those who are buying as owner-occupiers for the first time. We’ve excluded first-time buyers acquiring an investment property but this means figures included here will be lower than the actual total number of first-time buyers participating in the property market, either as owner-occupiers or investors.

First-home buyers measured as a proportion of total owner-occupied lending have trended downwards for the past decade throughout Australia.

The Australian long-term average (from 1991 to date) sits at about 19 per cent. This compares to the December 2017 first-home buyers’ lending contribution of 18 per cent.

The current participation of first-home buyers in Western Australia, Northern Territory and ACT exceeds the relevant state long-term average. This means that first-home buyers in these locations are currently having more chances to achieve the dream of home ownership compared to previous years.

The following analysis is based on a state by state comparison of the participation of the first-home buyers in the owner-occupied lending market, property prices, average annual earnings and unemployment rate. This analysis has revealed no clear correlation between affordability and first-home buyers’ market participation throughout Australia.

In plain English this means that affordability constraints are not necessarily the main or only factor discouraging first-home buyers from entering the property market.

About one in five new owner-occupied home loans generally fund the purchase of a property for a first-home buyer in Australia.

Western Australia: 1 in 4

First-home buyers in Western Australia have generally had better chances to reach the dream of property ownership. At present, about one in four new owner-occupied home loans are directed to first-home owners. Western Australia currently has one of the highest levels of unemployment in Australia of 6 per cent and the ratio of annual earnings to median house price sits in the middle of the range at 15 per cent.

South Australia: 1 in 7

First-home buyers in South Australia have generally had the lowest chances to reach the dream of property ownership throughout Australia. At present, one in seven new owner-occupied home loans are for first-home buyers. House prices in South Australia are generally the second most affordable in the country. Annual earnings to median house price ratio sits in the middle of the range and the unemployment rate is the highest in Australia.

ACT: 1 in 5

ACT is the most expensive house market in Australia, and it also has one of the lowest-average earnings to property price ratios. However, the current participation of first-home buyers in the owner-occupied market sits at 21 per cent, which was the third highest in Australia in December 2017.

Queensland: 1 in 5

Queensland has the second highest unemployment rate of 6.1 per cent. Property prices as well as the annual earnings to property prices ratio sit in the middle of the range.

Tasmania: 1 in 7

Tasmania has the highest average annual earnings to property prices ratio, the lowest median house price in Australia and its unemployment rates sits in the middle of the range. However, only about one in seven owner-occupied loans are for first-home buyers. This level sits below the long-term average of about one in 5.
six first-home buyers and below the Australian level of one in five.

Why is Home Ownership a Challenge?

An analysis of lending data trends has demonstrated that home ownership has always been challenging. Reasons vary depending on personal circumstances and these reasons could be classified as tangible or intangible.

Entry costs associated with the purchase are overwhelming and financially tangible. These costs include a minimum deposit of between 10 and 20 per cent of the purchase price, enormous stamp duty charges along with high legal fees and bank fees. And do not forget financing this purchase could be the largest indebtedness in the life of many first-home buyers.

The intangible reasons could be partially driven by the tangible costs. The complexity of the process is generally very intimidating for an inexperienced first-home buyer.

Buying a property requires a combination of financial, analytical and decision-making skills. Buyers have to be in the position to search and select the desired property, source and negotiate finance to fund the purchase and understand and manage the legal and financial requirements associated to the purchase.

Closing the Home Ownership Gap

A number of factors influence the performance of the first-home buyers’ market. Some of the factors are acquisition costs, taxes, affordability, the cash rate, stock on market, and so on.

As the Government has limited power to intervene on the performance of a free property market, education of future first-home buyers is one of the most powerful tools to support home ownership for future generations.

Conclusion

Home ownership has always been challenging. Yes, rising property prices adds a level of complexity to the issue but data shows that owner-occupiers comprise 61 per cent of all borrowers, which is above the long-term average of 57 per cent.

First-home ownership lending by state does not seem to have any correlation with house prices, unemployment and level of income as a percentage of property prices. As such, affordability constraints are not necessarily the main or only factor discouraging first-home buyers to enter the property market.

For example, ACT has the most expensive median house prices in Australia, the lowest income-to-property-prices ratio but the second highest participation of first-home buyers lending in December 2017.

Another clear example is Tasmania which has the cheapest property prices and the highest average earnings to property prices. However, the participation of first-home buyers is one of the smallest one in Australia.

Politicians have the power to develop strategies and policies to manage the challenges surrounding home ownership. Let’s start teaching our children at schools, the basics of home ownership and how to manage their finances. Surely, this will support a more confident generation entering the property market.

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**Table: First-home Buyers’ Dwelling Financial Participation**

<table>
<thead>
<tr>
<th>State</th>
<th>% First-home Buyers’ Dwelling</th>
<th>Dwelling Financial</th>
<th>% Owner-Occupied Loans</th>
<th>% Investment Loans</th>
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<tbody>
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<td>Western Australia</td>
<td>25%</td>
<td>22%</td>
<td>62%</td>
<td>38%</td>
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<tr>
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<td>61%</td>
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<tr>
<td>South Australia</td>
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Source: ABS - Trend Data, REIQ