



Australian Social Trends

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Article: First home buyers

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First home buyers

Between July 1991 and March 2008, the average loan commitment to first home buyers increased from \$96,100 to \$215,100 in 2005–06 dollars.

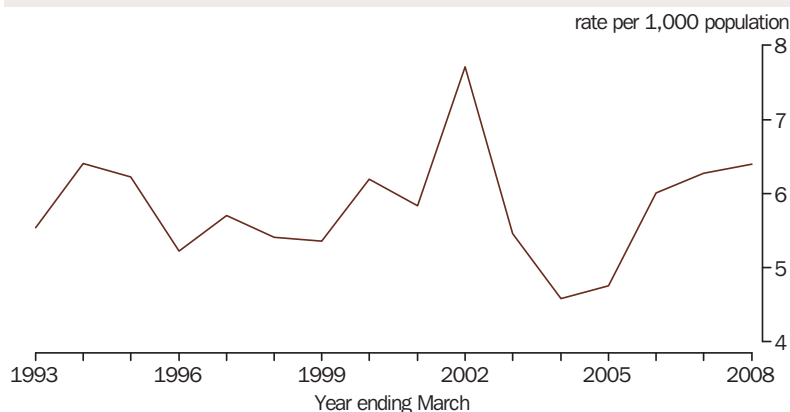
Many Australians consider home ownership to be a highly desirable goal, offering security of residential tenure, a tax-free capital gain, and a minimisation of housing costs during retirement when income tends to be lower. While the overall home ownership rate has remained fairly stable at around 70% over recent decades, there is a widespread perception that escalating property prices and rising interest rates have made home ownership less attainable.

Borrowing with a mortgage is the means by which the great majority of first home buyers purchase their property. In 2005–06, 95% of households who bought their first home in the three years prior to interview had a mortgage on their home. Analysis in this article is limited to first homes purchased with finance and first home buyers who had a mortgage.

Trends in housing finance

During the year to March 2008, there were 135,000 housing finance commitments to first home buyers, equivalent to 6.4 new commitments per 1,000 people. This was higher than the average annual rate to March since data collection began in July 1991, although significantly lower than the record 7.7 commitments per 1,000 people in the year to March 2002. This peak was associated with increased commitments following the introduction of the First Home Owners Grant in July 2000, and the hastening of commitments ahead of the cessation of the Commonwealth Additional Grant at the end of June 2002.

Annual housing finance commitments(a) to first home buyers



(a) From significant lenders for owner occupation, excluding alterations and additions.

Source: *Housing Finance, Australia, April 2008* (ABS cat. no. 5609.0); *Australian Demographic Statistics, December Quarter 2007* (ABS cat. no. 3101.0).

Data sources and definitions

Most of the data in this article are from ABS Surveys of Income and Housing conducted between 1995–96 and 2005–06. These data are supplemented by ABS Housing Finance Statistics and the Reserve Bank of Australia's Indicator Lending Rates series.

First home buyers are defined differently in the Survey of Income and Housing (SIH) and ABS Housing Finance Statistics, and this should be borne in mind when comparing data from the two sources. In ABS Housing Finance Statistics, first home buyers represent firm offers of housing finance to first time entrants to the home ownership market. In the SIH, first home buyer households are those which have bought their current home as their first home, and the measure reported is generally for first home buyers who bought within three years of being interviewed for the SIH ('recent first home buyers').

Throughout this article, all monetary values have been converted into 2005–06 dollars.

Higher residential property values

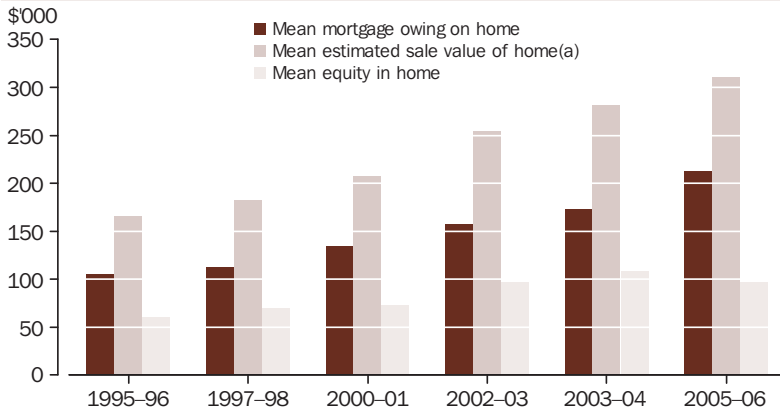
In 2005–06, the average value of the homes of recent first home buyers with a mortgage (as reported by the home owners) was \$310,000. This was considerably higher than the average real (i.e. adjusted for inflation) value of the homes of recent first home buyers with a mortgage in 1995–96 (\$165,400), representing average annual price growth of 6.5% above general price inflation. These values may exceed actual purchase prices because recent first home buyers surveyed in each period could (by definition) have bought their home up to three years before being interviewed. Established house price growth was around four times faster during the three years to 2005–06 than it had been during the three years to 1995–96.¹

First home buyers without a mortgage

In 2005–06, 5% of households who had recently bought their first home did not have a mortgage, down from 18% in 1995–96.

First home buyer households without a mortgage differed significantly from those with mortgages in a number of areas. For example, in 2005–06, first home buyer households without a mortgage had much greater wealth, with an average net worth of \$882,200 compared with \$235,900 for first home buyer households with a mortgage. Over half (56%) of all first home buyer households without a mortgage were lone person households. In contrast, couple family households made up the majority of first home buyer households with a mortgage.

Real change in average mortgage debt, home sale value and home equity among recent first home buyers with a mortgage



(a) Based on the sale price of their home at the time of their interview, as estimated by recent first home buyers with a mortgage.

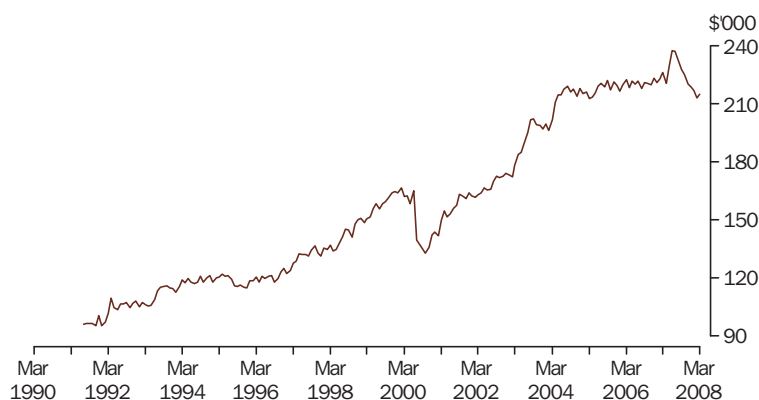
Source: ABS Surveys of Income and Housing; Consumer Price Index, Australia, March Quarter 2008 (ABS cat. no. 6401.0).

Larger loans

Adjusted to 2005-06 dollars, the nationwide average loan commitment to first home buyers rose from \$96,100 in July 1991 to peak at \$237,600 in June 2007, before falling to \$215,100 in March 2008. Despite an even larger fall coinciding with the introduction of the First Home Owners Grant, the overall rise from July 1991 to March 2008 represented an average yearly increase of 5.0% over and above the rate of general price inflation.

There were clear differences at the state and territory level, with the average amount committed to first home buyers in the ACT in March 2008 (\$234,400 in 2005-06 dollars) substantially larger than the average amount committed to their Tasmanian counterparts

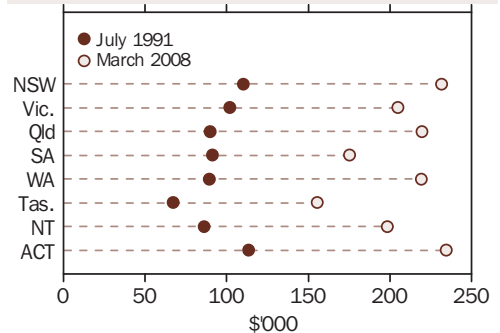
Average real housing loan commitment(a) to first home buyers



(a) From significant lenders for owner occupation, excluding alterations and additions.

Source: Housing Finance, Australia, April 2008 (ABS cat. no. 5609.0); Consumer Price Index, Australia, March Quarter 2008 (ABS cat. no. 6401.0).

Real change in the size of an average housing loan(a) to a first home buyer



(a) From significant lenders for owner occupation, excluding alterations and additions.

Source: Housing Finance, Australia, April 2008 (ABS cat. no. 5609.0); Consumer Price Index, Australia, March Quarter 2008 (ABS cat. no. 6401.0).

(\$155,500). Between July 1991 and March 2008, the average annual real increase in the average first home buyer housing loan commitment by significant lenders ranged from 4.0% in South Australia to 5.5% in Queensland and Western Australia.

Mortgage debt rises as property values rise

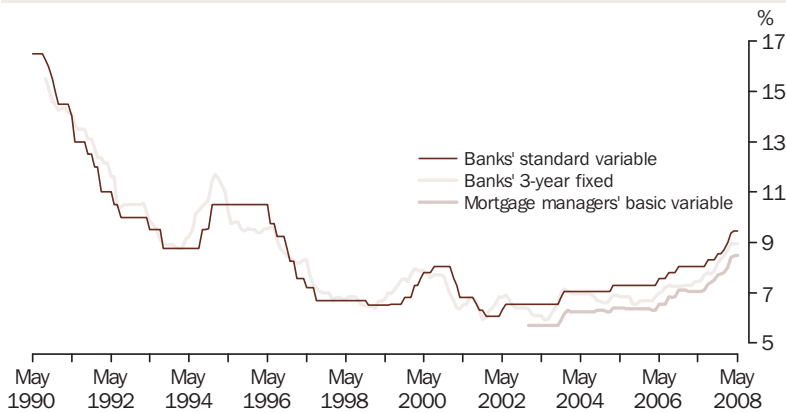
Reflecting the real increases in both property values and loan commitments to first home buyers, the average amount of mortgage debt held by recent first home buyers with a mortgage more than doubled in real terms from \$105,400 in 1995-96 to \$212,700 in 2005-06 (an average annual increase of 7.3%). Over the same period, their average equity in their homes rose in real terms by 5% a year on average from \$59,900 to \$97,300, although in 2003-04 it had been higher at \$108,200. The higher level of equity in 2003-04 was partly due to established house price growth being approximately twice as rapid during the three years to 2003-04 as it had been during the three years to 2005-06.¹

Interest rates and housing costs

Between 1995-96 and 2002-03, falling housing loan interest rates largely offset rising levels of mortgage borrowing, leading to the housing costs of first home buyers with a mortgage remaining steady in real terms. The average weekly outlay (in 2005-06 dollars) by recent first home buyer households with a mortgage on home loan repayments and property rates (general and water/sewerage) was \$299 in 1995-96 and \$304 in 2002-03.

Since 2002-03, these housing costs have increased considerably, as rising interest rates have combined with larger loans to generate

Annual interest rates charged on housing loans



Source: Reserve Bank of Australia Bulletin, June 2008 (Table F5 - Indicator Lending Rates).

higher interest charges and higher mortgage repayments. Between 2002–03 and 2005–06, average housing costs rose in real terms for recent first home buyers with a mortgage by an average of 11% per year to \$415 per week (in 2005–06 dollars).

Combining the average loan size with mortgage interest rates gives an indication of the additional cost from more recent interest rate increases. Those who borrowed the average amount in March 2008 for their first home (\$215,100) at the banks' prevailing standard variable interest rate (9.35%) would have faced initial interest of \$20,100 per annum (in 2005–06 dollars), while those who borrowed at the discounted mortgage managers' basic rate (8.40%) would have begun incurring interest charges of \$18,100 per annum (in 2005–06 dollars). This compares with annualised commencing

interest of \$12,400 and \$10,800 respectively in June 2003, and between \$16,600 and \$14,400 in June 2006.

Housing costs and income

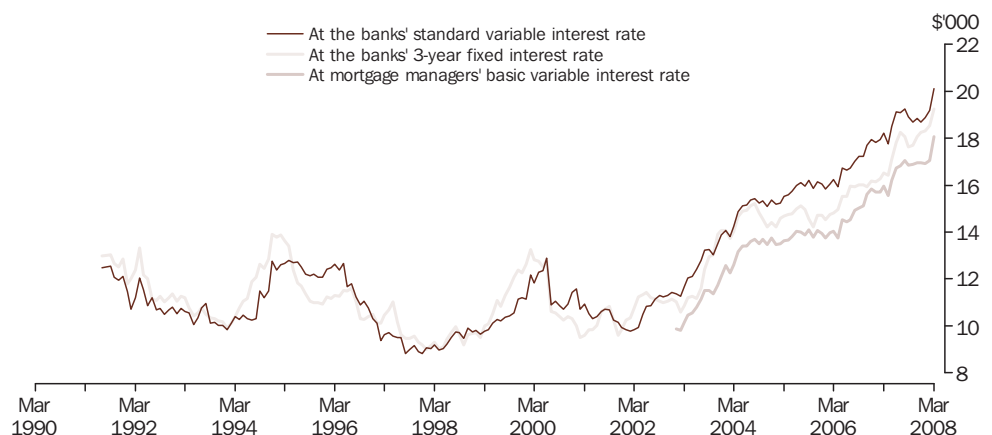
In 2005–06, the housing costs (i.e. home loan repayments and property rates) of recent first home buyer households with a mortgage accounted for 27% of their gross weekly household income. This was similar to the proportion they paid in 1995–96 (26%), but higher than intervening years such as 1997–98 and 1999–2000 when their housing costs represented 20% of their gross weekly income.

After deducting housing costs, average weekly disposable household income of recent first home buyers with a mortgage in 2005–06 was \$800. While this level of after housing costs disposable income was 27% more in real terms than it had been in 1995–96 (\$629), it was no higher than what it had been in 1999–2000 (\$807).

High income recent first home buyers with a mortgage tend to have higher absolute but lower proportional housing costs than those on low incomes. In 2005–06, first home buyer households with a mortgage in the highest equivalised disposable household income quintile had average weekly housing costs of \$501 (22% of their gross income), leaving them with average weekly disposable income after housing costs of \$1,200.

Low income first home buyers with a mortgage (i.e. those in the second and third deciles of the equivalised disposable household income distribution) had much lower housing costs (\$278 a week) which accounted for a larger proportion of their income (36%), leaving them

Real average annual interest payable by first home buyers with a mortgage(a)



(a) At the commencement of an average-sized owner-occupier housing loan to a first home buyer. Not all scenarios are covered by the Reserve Bank's indicator housing lending rates series (e.g. honeymoon rates and 5 year fixed interest rates).

Source: *Housing Finance, Australia*, April 2008 (ABS cat. no. 5609.0); Reserve Bank of Australia Bulletin, June 2008 (Table F5 - Indicator Lending Rates); *Consumer Price Index, Australia*, March Quarter 2008 (ABS cat. no. 6401.0).

Quintile distribution and housing costs(a): first home buyers with a mortgage

Equivalised disposable household income quintiles	Distribution across income groups		Housing costs(a) as a proportion of gross household income	
	1995–96	2005–06	1995–96	2005–06
	%	%	%	%
Lowest quintile	7.2	6.8	61.9	66.0
Second quintile	13.3	10.8	35.1	33.1
Third quintile	18.3	22.0	26.9	30.7
Fourth quintile	24.4	27.8	25.2	28.5
Highest quintile	36.7	32.6	22.4	22.1
All first home buyers with a mortgage	100.0	100.0	25.6	26.9
Second and third deciles	9.8	8.9	40.6	36.2

(a) In this table and its explanatory text, housing costs are limited to mortgage or unsecured loan payments for the purpose of buying, building, adding to, or altering the home, plus general rates and water/sewerage rates.

Source: *Housing Occupancy and Costs, Australia, 2005–06* (ABS cat. no. 4130.0.55.001); ABS 1995–96 and 2005–06 Surveys of Income and Housing.

with average weekly disposable income after housing costs of \$398. Two-thirds (67%) of all low income first home buyers with a mortgage allocated more than 30% of their gross income to meet their housing costs in 2005–06.

Demographically stable

The demographic profile of recent first home buyer households with a mortgage differed little in 2005–06 to what it had been in

1995–96. For example, the average age of the household reference person remained in the early 30s.

Partnering commonly precedes home buying, although people living alone comprised around one-fifth of all first home buyer households with a mortgage in both 1995–96 and 2005–06. In both years more than two-thirds of all first home buyer households with a mortgage were couple family households, and about half of those households included dependent children.

In both 1995–96 and 2005–06, recent first home buyer households with a mortgage had an average of around 1.6 employed members, with the majority having at least two employed members.

Changing profile of first homes

It is unclear whether the quality of housing occupied by recent first home buyers with a mortgage in 2005–06 was superior to that inhabited by comparable first home buyers in 1995–96. For example, between 1995–96 and 2005–06, the proportion of recent first home buyers with a mortgage who bought a new home declined from 23% to 14%. Over the same period, the proportion living in medium or high density housing increased from 15% to 27%. These shifts away from new dwellings and separate houses towards established dwellings and higher density housing may reflect the availability of housing stock as well as changing lifestyle and locational preferences among first home buyers with a mortgage.

The shift from new to established dwellings does suggest a shift to lower priced housing, given that established dwellings occupied by

Selected characteristics of first home buyer households with a mortgage

	1995–96	2005–06
	%	%
Family composition of the household		
Non-family households		
Lone person	17.4	20.0
One family households		
Couple only	32.0	33.5
Couple family with dependent children	36.6	34.6
All first home buyer households with a mortgage(a)	100.0	100.0
	no.	no.
Average number of persons in the household	2.60	2.50
Average number of employed persons in the household	1.57	1.60
Average number of children under 15 in the household	0.65	0.58
	years	years
Average age of household reference person	32	33
	'000	'000
Total number of first home buyer households with a mortgage	318.2	303.3

(a) Includes other household compositions not listed among the preceding categories.

Source: *Housing Occupancy and Costs, Australia, 2005–06* (ABS cat. no. 4130.0.55.001); ABS 1995–96 and 2005–06 Surveys of Income and Housing.

Selected characteristics of the homes occupied by first home buyers with a mortgage

	1995–96	2005–06
Structure of dwelling(a)	%	%
Separate house	84.7	72.3
Semi-detached, row, terrace or town house	7.9	15.2
Flat, unit or apartment	7.4	11.5
Total	100.0	100.0
Whether home was new or established when bought		
New	22.7	13.5
Established	77.3	86.5
Total	100.0	100.0
Average number of bedrooms in dwelling	no.	no.
	2.88	2.94
	'000	'000
Total number of homes occupied by first home buyers with a mortgage	318.2	303.3

(a) The three listed categories may not sum to the total because some first home buyers occupy other dwelling structures such as caravans, cabins, houseboats and commercial premises.

Source: *Housing Occupancy and Costs, Australia, 2005–06* (ABS cat. no. 4130.0.55.001).

recent first home buyers with a mortgage in 2005–06 were, on average, worth less than new ones (\$302,200 compared with \$360,100). However, the move from freestanding dwellings to higher density housing does not indicate a flight to cheaper homes. In 2005–06, the difference between the average value of separate houses occupied by recent first home buyers with a mortgage (\$309,900) and the homes of their counterparts in higher density housing (\$311,700) was not statistically significant.

There was also no statistically significant difference between the average number of bedrooms in the homes of recent first home buyers with a mortgage in 1995–96 (2.88) and 2005–06 (2.94). This stability occurred despite the shift to higher density housing, partly because the average number of bedrooms in medium density housing (semi-detached, row, terrace and town houses) occupied by recent first home buyers with a mortgage increased between 1995–96 (2.24) and 2005–06 (2.58).

Looking ahead

The increase in interest rates since 2005–06 might be expected to have lifted current mortgagors' housing costs relative to their household incomes. If sustained, increased interest rates may alter the socio-demographic profile of first home buyers who bought since 2005–06, or affect the type of homes they are buying, and the location of these homes.

On the other hand, house price rises may slow in a climate of higher interest rates, and there have been several policy responses in the past year to the widely perceived decline in housing affordability. Some governments are identifying land to be released more quickly for the construction of new housing, and the Australian government intends to introduce superannuation-style First Home Saver Accounts and a Housing Affordability Fund designed to reduce the cost of new housing by lowering infrastructure charges and the holding costs associated with planning delays.^{2,3,4}

Endnotes

- 1 Australian Bureau of Statistics 2008, *House Price Indexes: Eight Capital Cities, March Quarter 2008*, cat. no. 6416.0, ABS, Canberra.
- 2 The Canberra Times, 13 November 2007, *Naval station to be home to hundreds*.
- 3 Senate Committee on Housing Affordability in Australia, June 2008, *A good house is hard to find: Housing affordability in Australia*, viewed 4 July 2008, <http://www.aph.gov.au/SEnate/committee/hsaf_ctte/report/report.pdf>.
- 4 Australian Government 2008, *Making housing affordable again*, viewed 4 July 2008, <[http://www.facsia.gov.au/internet/facsinternet.nsf/v1A/housing_affordable/\\$File/making_housing_affordable_again.pdf](http://www.facsia.gov.au/internet/facsinternet.nsf/v1A/housing_affordable/$File/making_housing_affordable_again.pdf)>.

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