How do we get more first home buyers into the market?

It's a question that has stumped successive governments and brought out many opinions, theories and remedies by commentators. But while policy makers and industry groups have been consulting on the best approach to help, the younger generation has been working behind the scenes to find innovative new ways of ensuring that they can secure their piece of the Australian dream.

Young property hunters in today's market have changed their buying habits to overcome issues faced in our evolving property markets. And they have adapted the way they buy, use and invest in property to suit the way they want to live and/or to suit their budget and investment strategy.

New and innovative buying habits have seen first home buyers fly under the radar.

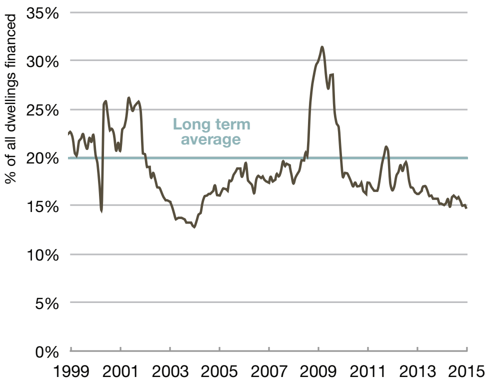
First home buyer activity has been under-reported

Underlying this debate is the fact there is no reliable data that quantifies what proportion of the market is made up of first home buyers. The Australian Bureau of Statistics (ABS) finance commitment data was once seen as the most reliable data source. However, the ABS recently admitted that its figures underestimate the number of first home buyers in the market because, in most cases, lending institutions only record a borrower as a first home buyer if they are using a government incentive. These grants predominately require buyers to be an owner-occupier, meaning that first time buyers purchasing for investment purposes have been excluded from this data set.

The National Australia Bank (NAB) residential property survey also provides a guide of activity levels – this survey found the first home buyers' market share was around 25% of new developments (17% owner-occupation and 8% for investment). In the established property market, first home buyers also accounted for 25% of purchases (16% for owner occupation and 9% for investment).

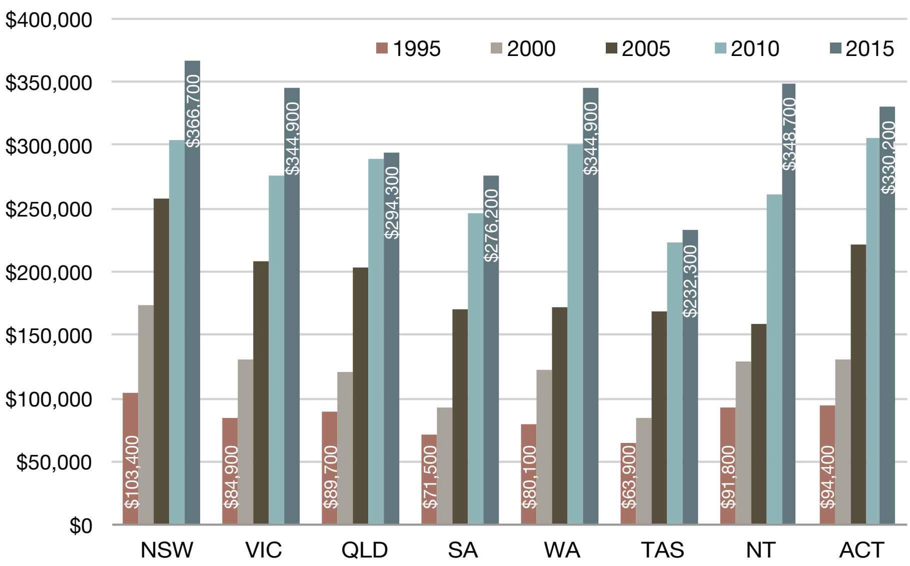
By looking at these two data sets we can estimate that first home buyers account for somewhere between 15% and 25% of property transactions. Higher than what's reported, although below the 31% recorded by the ABS in 2009 when the federal government introduced the First Home Owners Boost.

First home buyer – % of all dwellings financed



Source: ABS

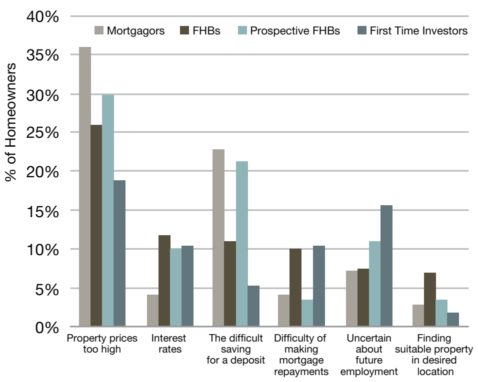
First home buyer – Average loan size



Source: ABS

A number of factors have influenced property hunters under the age of 30 to explore non-traditional ways of buying property. These include affordability, lifestyle, location, income and employment.

Biggest barriers to buying a first home



Source: Genworth

Demographic characteristics

Research by realestate.com.au has found that the proportion of property hunters under 30 steadily increased over the last four years from 17% in 2010 to 29% in 2014.[1]

This same report also found around 40% of buyers aged between 18 and 30 had a household income of more than $100,000 per year. The household composition of this buyer group is also important as it predominantly dictates their main property of choice; the largest group is 'single person' making up just over 40%, followed by 'couple with no children' and then 'families with children'.

Factors affecting buying decisions

Affordability

The biggest driver changing buying habits of those under 30 and first home buyers has been the rising cost of property over the past few years, especially in Sydney. This has driven the national average loan size for a first time buyer up to $326,000 as of March 2015; a growth of 14% over the past 5 years and 58% since 2005.

Buyers have resorted to a mix of financing options and more affordable locations/property types in order to get into the market. One area which has held back young buyers entering the market has been the time it takes to save up for a deposit, especially when factoring in recent price growth. This has seen a rise in the number of buyers looking at alternative ways to access a deposit such as personal loans, credit cards or borrowing from parents.

Lifestyle choices

Declining affordability has seen young buyers weigh up their lifestyle choices. Some delay the purchase of a property until later on preferring to have the means to travel. Others have changed their buying requirements and looked to keep their lifestyle by buying a smaller, cheaper property or a property in a cheaper location than they would have normally chosen. Young buyers have also looked to try to fund their current lifestyle by becoming investors, searching for positively geared properties to boost their regular income.

Location

Many location factors are important to those under 30 or first time buyers. Social amenities such as nightclubs, cafes, pubs and entertainment are particularly important; inner city locations are the first choice but are also the least affordable. Access to public transport is also therefore a major driver of choice.

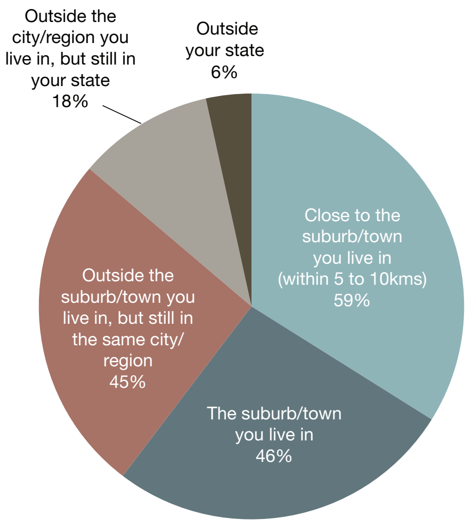
For some first home buyers family is the factor which determines the location. For instance, young families prefer a townhouse or house close to their wider family. Single income buyers, however, may not determine this to be a factor and instead buy close to where they currently rent or an investment property in another city.

Income and employment

Rising levels of youth unemployment and low levels of wage growth since 2009 have not matched recent strong property price growth seen in capital cities. This has inhibited even those with secure employment from wanting to purchase their first property due to job security concerns and an inability to save for a deposit as fast as property prices have risen.

[1] www.realestate.com.au Residential Consumer Property Seeker Report 2010 & 2014.

Aged 18-30 - Location sought



Source: Realestate.com.au

Buying intentions

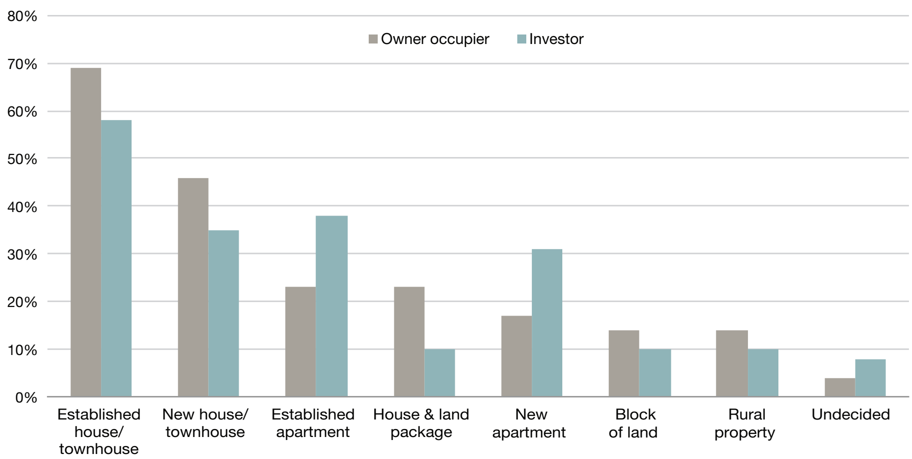
Younger buyers encompass a broad range of buying intentions and search for a wide variety of property types in various locations. By looking at their intentions we can also see that there has been a shift in the reasons why they are looking to purchase a property.

Many first home buyers and those under 30 are looking for property that will play a big part in their long-term investment portfolio rather than just a place to live. The latest consumer research from Realestate.com.au shows that 23% of those under 30 searching for property were investors[2]. In addition, 16% of first time home buyers are looking to buy an investment[3], and 50% of renters who don't currently own an investment would consider becoming an investor in the future.[2]

The Media & Purchase Intentions Study from Realestate.com.au also found that buyers under 30 have a preference for purchasing property within 5 to 10 kilometres of where they live. But they're also quite mobile with 45% indicating they would buy outside their suburb and 6% even willing to buy outside their home state.

As with the majority of real estate buyers across Australia most under 30s are looking to purchase a stand-alone established house. While this is the first choice for all buyer types, the preferences then divides depending on whether they are buying the property as an owner-occupier or an investor. For owner-occupiers, space is the key factor determining property choice with the newly built house/townhouse coming in second, and house and land package coming in third. On the other hand, for those first home buyers looking for an investment property an established apartment is a preferred second choice over a newly built house/townhouse, followed by a newly built/off-the-plan apartment.

First Home Buyers - Type of property sought



Source: Residential consumer satisfaction study (realestate.com.au)

[2] Residential Consumer Property Seeker Report 2014 (Realestate.com.au)
[3] Housing Affordability & Sentiment Index Study, May 2014 (Realestate.com.au)

1. rentvester
2. Team up
3. Mr & Mrs fix it
4. Build it up
5. Buy now pay later
6. Thanks mum & dad

New buying trends emerge

The various economic, social and demographic shifts has resulted in a number of non-traditional buying trends emerging for those under 30.

Trend 1. rentvester®

The most common new buying habit, first identified in LJ Hooker's The (new) Australian Dream white paper, is that of the rentvester® This buyer is currently renting and loves their lifestyle and doesn't want to relocate from the area where they are presently living. The problem is that they can't afford to buy in this area. Rather than disrupt their current lifestyle these buyers purchase a property in a more affordable part of the city or country, and rent that property out while they remain as tenants in their current location.

Name: Ricky Briggs

Property location: Cooranbong, Lake Macquarie, NSW

Background: Ricky is a new breed of an investor, he rents in Sydney but owns a property just south of Newcastle in the Lake Macquarie area. The 24-year-old, first home buyer and young professional saw an opportunity to get a foot on the property ladder by purchasing a 650sqm block of land in a new estate at Cooranbong. However not wanting to give up the convenience of the city he remains a renter in Sydney's Inner West. Ricky plans to build a duplex on his estate and rent each property out.

Trend 2. Team up

Younger buyers have looked to overcome the affordability challenge by splitting and sharing the cost involved in purchasing a property. They have done this by teaming up with a family member, friend or business partner in order to buy a larger property to co-inhabit or as an investment. The major decision here is how to structure the ownership arrangement. The two most common are as tenants in common or joint tenancy.

Under joint tenancy both people own the property equally. In addition, if one of them dies, the other one automatically gets the deceased owner's share of the property. A tenancy in common is most suitable when the buyers are friends, business associates or relatives and each of them has contributed money to buy the property. Tenants in common can own the property equally or in some other share, usually reflecting how much money each one contributed.[4]

[4] State of New South Wales through NSW Land and Property Information.

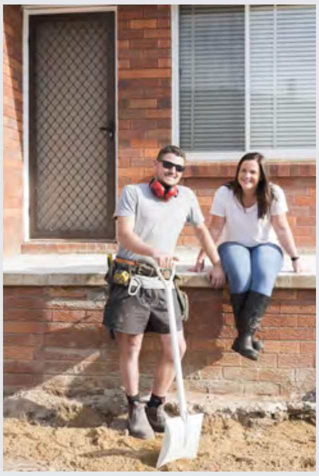
Trend 3. Mr & Mrs fix it

Young families have looked to get into a larger house in their preferred area by purchasing an older smaller home which usually sits at the bottom of the price scale for the area. Generally, these properties are in need of major renovation; however, they allow buyers to add rooms and levels as their families grow.

Name: Courtney Leggatt and Michael Jones

Property location: Seven Hills, North western Sydney, NSW

Background: When Michael and Courtney started looking to purchase their first home they knew getting into the overheated Sydney market would be hard, their plan instead was to buy an affordable home they could renovate. After an exhaustive search they purchased a property at Seven Hills in Sydney's West, they were drawn to the area by its proximity to all major roads and the ongoing development in the Parramatta CBD. They are now planning major renovations, including moving the kitchen and extending the back of the house. As Michael works as a builder the young couple will be doing a lot of the renovation themselves.



Trend 4. Build it up

Another more affordable way for young families to get into a new house is for young buyers to move out of their local area and into a newly built suburb. This has seen demand for house and land packages in new estates rise considerably over the past few years. For those not willing to compromise on location, purchasing a vacant lot and building from the ground up has also been a way to remain within their preferred area.

Name: Liana Tagliaferri and Daniel Petrillo

Property location: Beaconsfield, Southern Perth, WA

Background: Liana and Daniel extensively researched property, but found most existing homes in their price range didn't suit. Building in a land estate outside of Perth didn't suit their lifestyle, as they wanted to be close to friends and family in Fremantle. They found a vacant block of land in neighbouring Beaconsfield, which they purchased, with a view to building over time. Because of the narrow configuration of their block, they needed to find a builder which could produce a two storey design within a First Home Buyers' budget.

Trend 5. Buy now pay later:
Purchasing off the plan for extended settlement

Capital city markets have seen strong growth in the number of new developments being approved; this rise has been in line with an increased popularity of apartment living. Purchasing "off the plan" allows a buyer to put down a deposit now and not have to deal with the mortgage repayments until construction is complete. This has been popular with the under 30s as it allows them to keep saving or maintain their lifestyle in the short term until they move into their new property. This has also been popular for the younger generation of investors who want to lock in today's price and capture the capital growth over the construction period.

Trend 6. Thanks Mum & Dad:
Using parents' equity

Parents have ridden the property cycle over the past few decades providing many with a hefty equity uplift or outright ownership of their homes. This has in turn allowed them to use their financial position to go guarantor on their children's mortgage or stump up some cash to help out with the deposit.

Recent research by the NAB shows that first home buyers are increasingly turning to their parents for help in order to get into the property market. They found that 6.7% of first home buyers now use the NAB Family Guarantee; up from 4.8% per cent in 2010. While some have called these buyers KIPPERS (Kids In Parents' Pockets Eroding Retirement Savings) for the majority of first home buyers this is the quickest, most secure and best long-term financial solution to get a foot on the property ladder.

Looking forward

As markets move through the various stages in the property cycle they will inevitably throw up new opportunities and present different challenges for existing and first time buyers. Access to more comprehensive property market information combined with innovative financing arrangements will ensure that younger buyers continue to adapt their buying habits to overcome issues faced in our ever evolving property markets.