Research Note R10/1 – October 2010

First Home Buyer Mortgage Pressures Increase in the Noughties

NATSEM research shows that in 2010, almost one in two ‘first home buyer’ (FHB) households devoted more than 30 per cent of disposable income to housing costs. This share represents a modest increase from a decade earlier.

Housing affordability moved to front and centre of the policy debate through the last decade as house prices more than doubled and tenants struggled to keep up with rents. For house purchasers, it is first home buyers who are most affected by high housing costs. Higher house prices mean higher deposits and larger repayments; and high rents restrict entry into the market, reducing the household’s ability to save for a deposit.

Measuring housing affordability
There are many measures of housing affordability including median house prices, the ratio of house price or mortgage repayments to incomes, financial hardship and housing or mortgage stress measures. This research uses Australian Bureau of Statistics survey information to calculate a housing affordability measure based on housing cost to income ratios for FHBs. Snapshots of affordability are taken using the 1999/00 Survey of Income and Housing Costs and the 2007/08 Survey of Income and Housing and aged to 2009/10 using appropriate inflators for income and housing.

Who faces the most mortgage pressure?
A commonly used measure of mortgage pressure is the proportion of households with mortgage costs exceeding 30 per cent of disposable income. Nearly one in two FHB households (47 per cent) met this criterion in 2010, up from 43 per cent at the start of the last decade.

In 2010, FHBs in NSW faced the highest pressure, closely followed by Victoria and...
Queensland. Property price booms in Victoria and Queensland over the last decade pushed housing costs significantly higher while NSW price gains were more subdued. Brisbane’s FHB housing cost pressures moved ahead of Sydney over the past decade with Melbourne following closely behind. Of the five largest states, South Australia has the lowest FHB pressures.

Our research indicates a decline between the two survey periods of around 12 per cent in the number of buyers entering the housing market for the first time, from 330,000 in 1999-00 to 292,000 in 2007-08. Over the same period, the Australian population grew by 12 per cent.

For Australia, over the past decade, house prices have grown by 132 per cent while disposable income has grown by only 64 per cent. The high cost of purchasing is likely to keep many would-be first home buyers in the rental market.

What future for housing affordability?
The unwinding of the first home buyer grant bonuses in 2009, higher house prices and the potential for higher interest rate through 2011 suggest a bleak future for would-be first home buyers. Potential higher interest rates will add to cost of living pressures on current FHB households, many of whom obtained large mortgages arranged at the peak of the housing market in 2009.

To improve housing affordability the Henry Tax Review emphasised the immediate need for government policies encouraging supply of new housing. Once supply impediments are reduced, stamp duty on housing transfers should be abolished and a more neutral tax setting for investment housing applied.

**MORE INFORMATION**

Further publications relating to this programme of research on housing affordability can be found on NATSEM’s website at [www.natsem.canberra.edu.au](http://www.natsem.canberra.edu.au).

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1 The ABS Survey of Income and Housing defines a first home buyer household as a first house purchased over the previous 3 years.

2 RP Data, ABS, Australian National Accounts.

3 The Federal Government introduced the first home buyers boost in August 2008 - $14,000 for new houses and $7,000 for existing dwellings. The boost was halved in September 2009 and removed in December 2009.