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House price bounce leaves first home buyers behind

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By business reporter Michael Janda

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If you're a wannabe first home buyer, especially in Sydney and Melbourne, you've probably got that feeling right now.

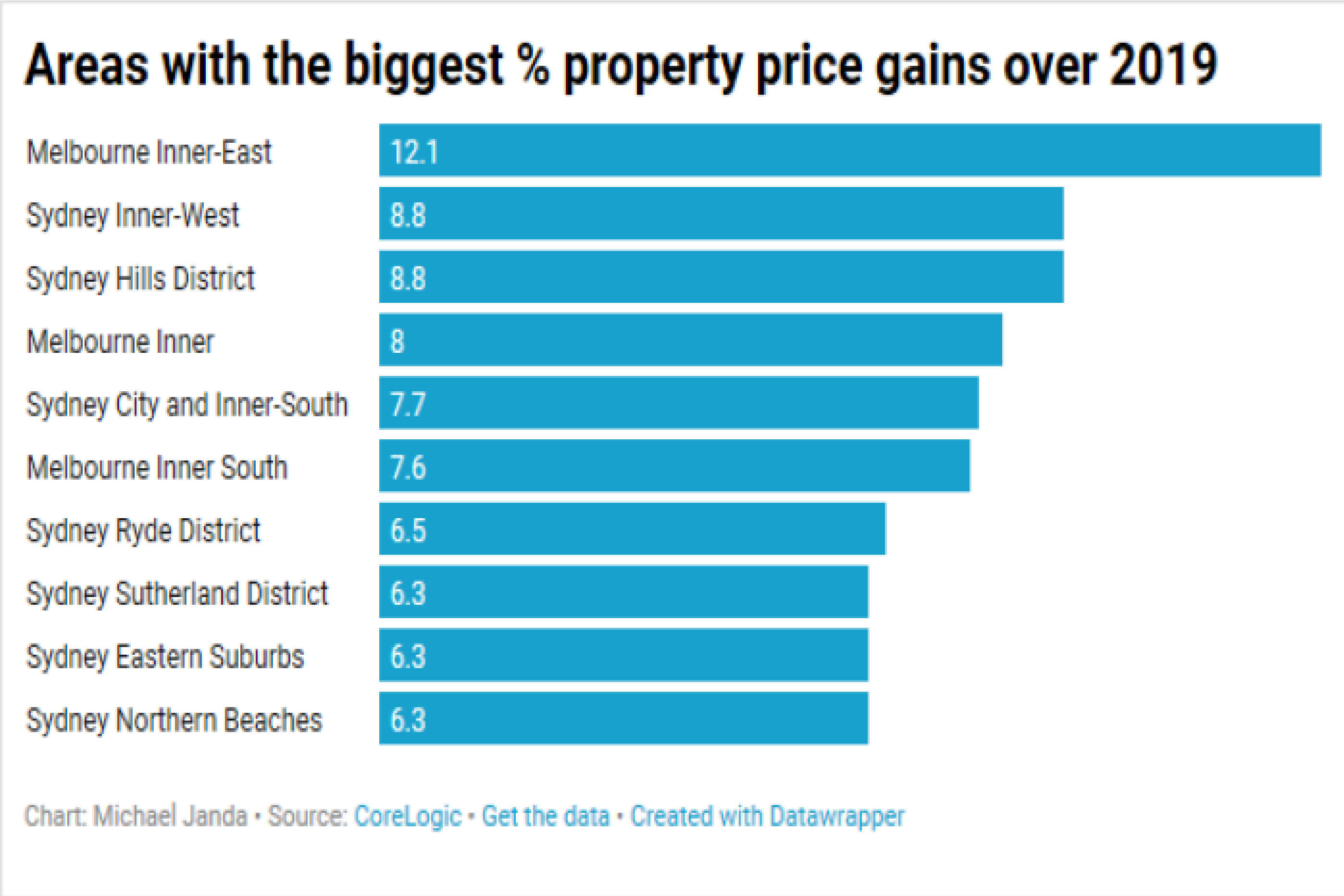
Just when significant property price falls of around 15 per cent in Sydney and more than 10 per cent in Melbourne gave some prospective purchasers a sniff of breaking in, those markets turned around and launched higher again.

In fact, the last three months of 2019 saw the fastest quarterly property price growth in a decade, according to CoreLogic's numbers.
Nationally, home prices rose 4 per cent during the fourth quarter, with increases of more than 6 per cent in both Sydney and Melbourne.

While Sydney and Melbourne, as well as the national average, are still below their 2017 peaks, at the current pace of growth those record price levels are set to be broken by March this year.

Data on vendor asking prices for houses from SQM Research also has them back around record levels, with Sydney again above $1.3 million and Melbourne above $1 million.

The situation is even worse for those hoping to live somewhere close to the major cities' CBDs, with Melbourne's inner-east and Sydney's inner-west leading the price rises over the past year, while other inner-urban and more prestigious suburbs filled out the remainder of the top 10 highest annual growth rates.



From a personal perspective, the 8.8 per cent jump in prices across Sydney's inner-west over the past year means I would no longer be able to afford the home I purchased and moved into late last year.

I wasn't the only first time buyer taking advantage of the downturn to get into home ownership — with new first home buyer loans averaging close to 10,000 a month over the past couple of years, the highest numbers since peaks of up to 17,000 seen during the Rudd government's first home buyer boost payments from late-2008 to late-2009.

But many others, who weren't fortunate enough to be in a position to buy while the market was down, are again finding themselves locked out of locations with good access to transport, amenities and jobs … or simply priced out of home ownership altogether.

First home buyer triple whammy

These prospective buyers have been hit with a triple whammy of factors good for those who already own property, but bad for those wanting to buy — lower interest rates, looser mortgage lending restrictions and the retention of negative gearing and the 50 per cent capital gains tax discount.

Let's go through each.

The absence of a change in federal government and, therefore, in these property related taxes has drawn more buyers into the market, including a return of investors who had largely been on the sidelines ahead of the election.

Having more than halved from May and June 2017 to a record low of $4.12 billion in January 2019, the value of new investor loans had partially recovered back to $5.46 billion in October.

More buyers generally equals higher prices, especially when there's limited stock on the market.

While looser lending restrictions would seem to make things easier for first home buyers, they too have contributed to the rise in prices by allowing people to borrow and offer more.

Those with existing home equity are better able to take advantage of this rise in borrowing capacity because the value of their existing assets is also rising, meaning they have enough security to be able to access a bigger loan.

But it's the reduction in interest rates that has arguably had the worst effect on prospective first home buyers.

While lower interest rates are great for those currently paying off a mortgage, they are a disaster for many people trying to save for a deposit.

The best ongoing savings account interest rates out there are just above 2 per cent, which means a first home buyer's deposit is shrinking relative to purchase prices.

The only way to escape this trap would be to have invested in something like shares, which have also been boosted by record low rates and posted an average 18 per cent gain last year on the Australian market.
But share investments come with risk — unlike a Government-guaranteed bank deposit, your house deposit savings could just as easily sink 18 per cent as increase by that margin — and the money isn't immediately available when you might need it, you have to sell the shares first.

Low deposit loans no panacea

Just before the election, the Federal Government announced a policy intended to help reduce the burden on first home buyers of saving for a deposit.

The First Home Loan Deposit Scheme, which came into existence on January 1, will provide a government guarantee to the banks that will allow up to 10,000 first home buyers a year to purchase a property with as little as a 5 per cent deposit.
It sounds good, but many experts say it won't help the people who need the assistance the most.

CoreLogic's head of residential research Australia, Eliza Owen, said the capped scheme is likely to be dominated by higher income first home buyers who will find it much quicker to save up the 5 per cent deposit.

For an individual at the upper income limit of the scheme ($125,000) it will take just 18 months to save 5 per cent of the value of a median-priced dwelling ($27,610), but 27 months for someone on typical full-time earnings of $78,000 — and that's assuming they can both save 20 per cent of their after-tax income, much easier for the higher earner.

Ms Owen pointed out that there were more than 10,000 new first home buyer loan commitments made in the month of October alone, meaning the 10,000 places could run out very quickly, with those on higher incomes or who have already saved a lot towards a deposit most likely to take advantage of the scheme.

Vadim Taube, the chief executive of financial comparison website InfoChoice, pointed out there's another disadvantage of the scheme, which is that a smaller deposit necessarily means a larger loan with higher monthly repayments.

For someone buying a $600,000 property under the scheme, he said the extra repayments added up to more than $5,000 a year.

Someone has to lose for first home buyers to win

The other problem with this kind of assistance, as with previous first home owners grants, is that they increase the number of people able and trying to buy without increasing the number of properties available for sale — therefore, prices tend to go up.

This was particularly apparent after the Rudd government introduced the first home buyers boost to try and underpin the Australian housing market during the global financial crisis.

It was wildly successful at doing that as first home buyers flooded into the market, but it was therefore also successful at lifting prices by much more than the value of the grant and locking others out of home ownership.

In the end, it is only a fall in property prices relative to incomes that will genuinely improve long-term housing affordability for first home buyers.

That is only likely to happen through an increase in the number of properties for sale and/or a reduction in the number of existing property owners buying more real estate.

Basically, until you make it less attractive for existing owners to buy more property, or even give them a reason to dump some of their current holdings, first home buyers are not going to see a genuine improvement in affordability.

One of the most logical ways to achieve this is to remove the tax breaks that currently make it feasible and attractive for investors to buy and hold loss-making properties in the hope of future capital gains.

But such changes to negative gearing or capital gains tax look further off than ever after May's election result.