

For immediate release
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Low interest rates lock young buyers out of the housing market

Low interest rates appear to be doing little to help first-time buyers to break into the housing market, with the number of first home buyers sitting at near record lows according to Australian Bureau of Statistics (ABS) figures.

The most recent housing finance data released by the ABS today reveals the percentage of first home buyers financing properties dropped to 13.1% in September 2016, only .2% above the lowest level recorded in the last decade.

HomeStart Finance CEO, John Oliver, said the figures highlighted that low interest rates may actually be making it harder for young Australians to break into the market, with investors and Baby Boomers reaping the benefits instead.

“We have a situation where low interest rates are making property more appealing for investors and Baby Boomers, which in-turn is driving up property prices making it more difficult for first home buyers,” he said.

“Low interest rates result in menial returns on money sitting in the bank, but the property market on the other hand becomes more appealing because of lower repayments and the promise of steady, long-term growth.

“Investors and Baby Boomers may already have an advantage over first-time buyers because of equity in their existing property, so property is an obvious choice for them.”

He said September’s figures were only comparable with a short period in late 2003 and early 2004, but at that time the RBA cash rate was 5.25% compared with 1.25% today.

Mr Oliver said research continually highlights that the biggest challenge for first-time buyers is saving enough money to cover the upfront costs, not the affordability of the mortgage repayments.

“Housing may become more affordable when there are low interest rates because of lower repayments, but this has no impact on young Australians if they can’t save enough to be eligible for a home loan to break into the market,” he said.

“In 2008 and 2009, during the Global Financial Crisis, there were various grant incentives introduced, such as the \$14,000 First Home Owner Grant in South Australia, which resulted in an increase in the percentage of first home buyers breaking into the market – between 18% - 30%.

“During this time, the cash rate averaged 4.9%. More first home buyers were able to break into the market not because repayments were lower, but because they could overcome the deposit barrier.”

HomeStart makes home ownership a reality for more South Australians in more ways. We are a statutory authority that reports to the Minister for Housing and Urban Development. We were created in 1989 and since then have helped over 67,000 households into home ownership.

Mr Oliver said the other drawback of low interest rates is that first-time buyers earn less interest on their savings, making it harder to save for a deposit and the associated fees and charges of buying a home.

He added that many lenders had also tightened their lending criteria in recent times, which has meant borrowers have to find even larger deposits.

Mr Oliver said HomeStart Finance, which represents 1 in 8 South Australian first home buyers, had been highly successful because its products were designed to address the main barriers to home ownership.

“Since HomeStart was established in 1989, it has helped almost 70,000 South Australians into ownership,” he said.

“HomeStart has been able to create solutions to the main home ownership barriers, such as our Low Deposit loan where you can get started with as little as 3% deposit, an alternative to costly Lenders’ Mortgage Insurance, or our Breakthrough loan, which enables home buyers to borrow up to 30% more.

“Our role is to help first home buyers to get a foot in the door of the property market, sooner. Once they are in, they have the opportunity to build equity and either refinance to another lender, or upgrade to another property, as their financial circumstances change.”

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