



FIRST HOME BUYERS IN AUSTRALIA

MARKET INSIGHT MAY 2016

HIGHLIGHTS

In 2015, First Home Buyers accounted for 15.5% of the total number of residential loans financed across Australia, led by Victoria and NSW—with an average size loan of \$348,000.

The housing affordability issue is rising up policymakers agendas globally; where Australia currently ranks fourth least affordable (OECD). How has this impacted first home buyers?

How do the incentives for first home buyers stack up? Grants available for states and territories; the criteria for eligibility and further stamp duty concessions have been tabled on page 4.

KEY FINDINGS

In 2015, there were **101,354 FHB dwellings financed by loans across Australia**, accounting for 15.5% of all residential loans.

By proportion, **NSW and Victoria continue to dominate total number of FHB loans**; although in the past five years, Victoria has begun to overtake NSW.

Both **Sydney and Melbourne houses became less affordable between 2010 and 2015**—by 34% and 8% respectively. On the other hand, the remaining six capitals became more affordable by an average of 10%.

Grants available across Australian states and territories are tabled on page 4. **NT offers the largest grant at \$26,000** while most of the other states and territories offer a base of \$10,000 when criteria for eligibility is met.



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LACK OF AFFORDABILITY CONTINUES TO OUTWEIGH INCENTIVES FOR FIRST HOME BUYERS

Incentives for First Home Buyers

According to the Australian Bureau of Statistics (ABS), a first home buyer (FHB) is defined as a person entering the home ownership market as owner-occupiers for the first time in Australia.

The First Home Owner Grant (FHOG) is a national scheme introduced, funded and administered by the individual states and territories to offer to FHBs to assist with, in many cases, the largest single transaction the individual has made until this point in time.

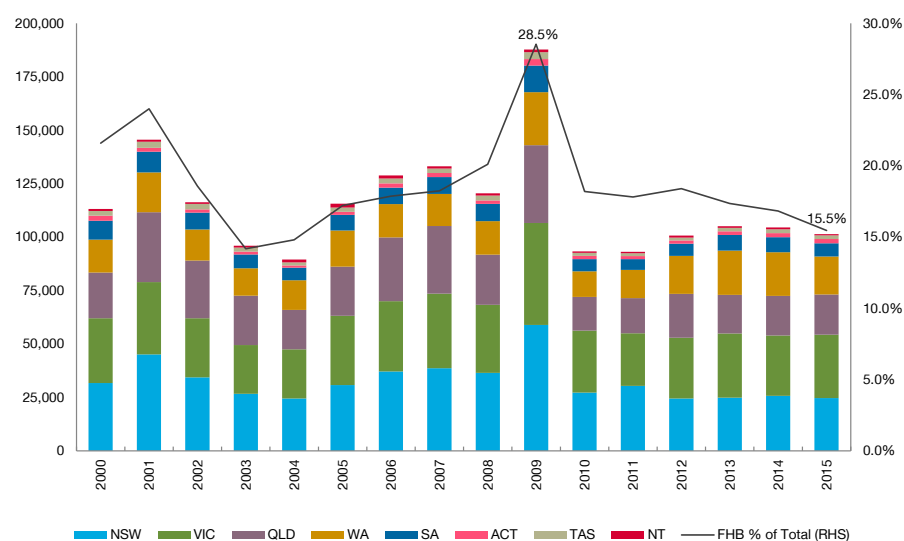
This version of the scheme was introduced on 1 July 2000, with the grant initially applying to both new and established homes, and is available only to Australian permanent residents or citizens.

The FHOG consists of a base amount of \$7,000 across Australia (administered at the state level on behalf of the federal government), however most states and territories provide extra incentives and concessions with the grant.

The Northern Territory (NT) offers FHBs the largest one-off grant, at a substantial \$26,000—followed by Queensland and South Australia (SA) at \$15,000. The remaining five states and territories offer a base grant of \$10,000.

The current criteria and eligibility for FHBs attaining this one-off grant as well as concessions from stamp duty, where available, are tabled on page 6.

FIGURE 1
First Home Buyer Dwellings Financed
Number of, Calendar Year



Source: Knight Frank Research, ABS

Market Drivers

In 2015, there were 101,354 FHB dwellings financed by loans across Australia according to the ABS[^]—with an average size loan of \$348,000 being financed. Over the year, FHB loans accounted for 15.5% of the total number of loans financed (inclusive of both FHB and non-FHB). Victoria and New South Wales (NSW) held 29.2% and 24.4% of this share in volume respectively.

Comparatively, 2009 saw 187,674 FHB dwellings financed by loans across Australia—with an average \$293,000 loan being financed. In 2009, FHB loans financed accounted for 28.5% of the total number recorded; being the peak year since 2001.

This sudden spike in volumes was in response to the Federal Government's doubling of the FHOG base amount from \$7,000 to \$14,000 in both 2008 and 2009—in an attempt to combat the Global Financial Crisis—however returned to its original \$7,000 from 2010 onwards.

Additionally, an economic stimulus package under the Rudd government occurred in 2009, consisting of \$2.7 billion in small business tax breaks and \$12.7 billion in cash bonuses, including a \$950 lump sum payment to all Australian taxpayers that earned less than \$80,000 in the 2007/2008 financial year.

Both NSW and Victoria continue to dominate the proportion of total FHB dwellings financed. Victoria, by proportion, has consecutively outstripped NSW over the past four years as shown in Figure 1.

Affordability & Market Performance

Housing affordability, or the lack of it, is rising up policymakers' agendas globally. Affordability continues to be a rising concern in the Australian residential market with many FHBs citing this being the main reason they are unable to purchase their first home; outweighing the government's incentives on offer.

According to the latest data from the OECD, which measures house prices

against incomes for 24 of its 34 members, Belgium and New Zealand are currently the world's least affordable markets.

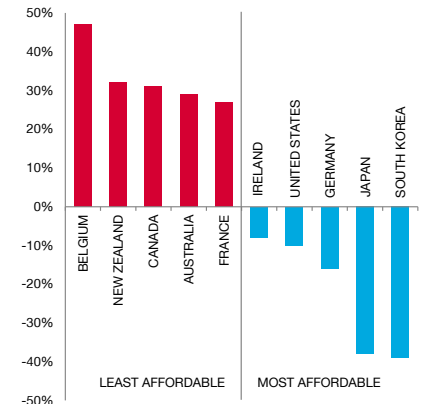
The OECD currently ranks Australia fourth least affordable, at 29% over-valued relative to the long-term average, as shown in Figure 2.

When indexed to the FHB loan finance volume peak of 2009, house capital values for the eight capital cities have grown an average of 21% as shown in Figure 3.

Sydney and Melbourne experienced the strongest capital value growth, at 69% and 36% (to medians of \$1,065,000 and \$737,000 respectively). The remaining six states experienced an average 10% growth over the same period.

Rents, in comparison, have grown an average of 20% across the eight capital cities—almost identical to that of capital value growth. Sydney and Brisbane

FIGURE 2
Global Housing Affordability
House value vs Income

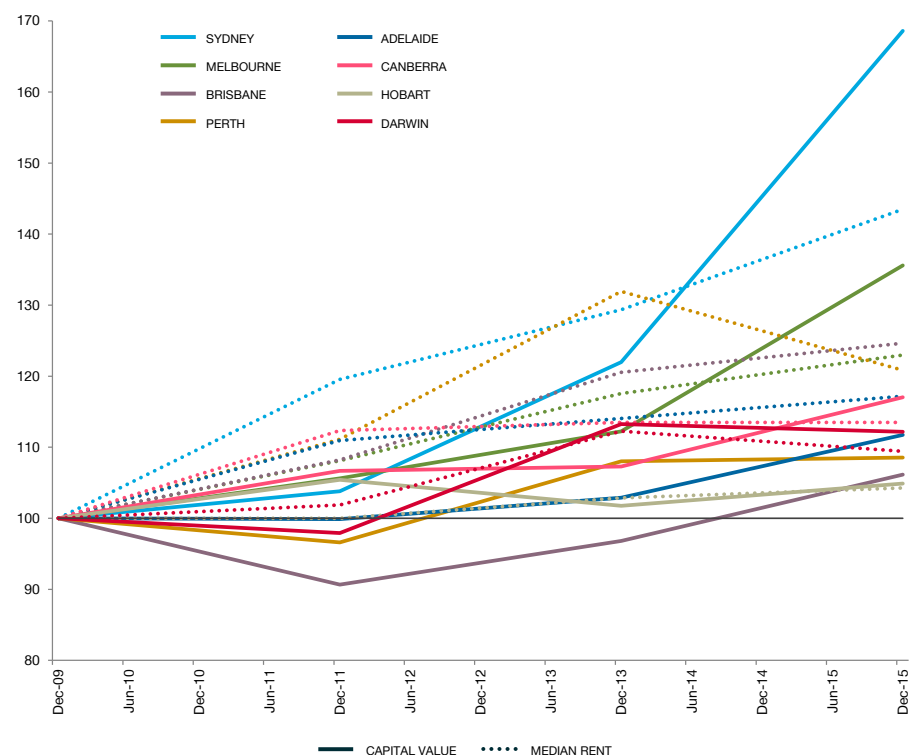


Percentage over/under valuation relative to long-term average.

Source: Knight Frank Research, OECD

FIGURE 3
Annual Change in Median Capital Values & Median Rents

Houses, by Greater City Region
Indexed, 100 = Dec 2009



Source: Knight Frank Research, Residex

“In 2009, by volume, 28.5% of residential properties were financed to first home buyers.

By 2015, this was significantly down to just 15.5% of the total.”

experienced the strongest rental growth over the six years—at 43% and 25% (to \$660 and \$455 per week respectively). The remaining six states experienced an average 15% growth over the same period.

Evidently, Sydney, Melbourne, Canberra, Hobart and Darwin experienced stronger capital value growth than rental growth, while Brisbane, Perth and Adelaide experienced the opposite trend; stronger rental growth than capital value growth.

When reviewing state-based average weekly earnings in preparation to calculate an estimated affordability guide for Australia, it was evident in the five years leading to 2015, the resource-rich NT and WA experienced the greatest earnings growth at 27% and 25%, to \$1,704 and \$1,861 per week respectively (see Figure 4).

At the other end of the range, Queensland and the Australian Capital Territory (ACT) saw the least growth, both at 14% to \$1,564 and \$1,797 per week respectively.

Both Sydney and Melbourne houses became less affordable between 2010 and 2015, that is, house capital values grew significantly greater than wage growth. Affordability in these two capital

FIGURE 4
Average Weekly Earnings
Adult, Fulltime, Public & Private Sector combined

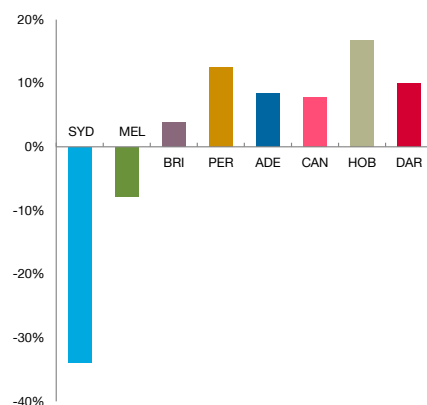


Source: Knight Frank Research, ABS

cities dropped by 34% and 8% respectively, as represented in Figure 5.

On the other hand, the remaining six capital cities became more affordable by an average of 10%. Hobart was the most affordable at 17% followed by Perth (at 13%) and Darwin (at 10%).

FIGURE 5
Australian Housing Affordability
House value vs Income
% change from Nov 2010 to Nov 2015



Based on Average Weekly Earnings for an adult, full-time in combined public and private sectors

Source: Knight Frank Research, ABS, Residex

“When indexed to the FHB loan finance volume peak of 2009, house capital values for the eight capital cities have grown an average of 21%.”

Outlook

- Saving the desired 20 per cent deposit to enter the property market has simply become unachievable for many potential FHBs in markets that have experienced significant capital growth in recent years.
- As capital growth has outpaced rental growth in many cities, potential FHBs are now considering investing their 'not-quite-there' deposit into a more competitively priced residential market as an investor; foregoing the opportunity of the FHOG on offer. This way, they can continue renting in more desirable locations in the city of their choice, close to employment and amenity hubs—instead of making a sacrifice when moving into a more affordable property as an owner-occupier.
- The Australian Prudential Regulatory Authority (APRA) has recently introduced new regulations to enforce tighter lending standards among banks for property investment loans—dampening investor demand in an already low interest rate, high demand climate.
- Contentious policies surrounding negative gearing as well as the affordability of homes have been proposed by both major parties in the Federal Parliament—with the Liberal party believing no change is required, and the Labor party purporting the reform of negative gearing and capital gains tax, primarily targeting investors.
- The Australian Government Budget 2016/17, handed down on 3 May, did not include any relief on the issue of housing affordability. Earlier the same day, the Reserve Bank of Australia cut the official cash rate by 25bps to 1.75% to help strengthen the economy and inflation, with all major lenders passing on the rate reduction.
- It's not likely this further spark for investors will aid housing affordability in the already heated residential markets on the east coast, but it could certainly provide an opportunity for FHBs in those markets that have already begun to rebalance. The future of the FHOG and affordability will become clearer in the lead up to the next Federal election, scheduled for 2 July 2016.
- Across Australia, the state governments review the FHOGs on offer in response to changing market conditions. The ACT government is expected to reduce the FHOG to \$7,000 by 2017—in addition to the recent reduction of the grant from \$12,500 to \$10,000 in January 2016.
- Also in January 2016, the NSW government cut the FHOG from \$15,000 to \$10,000 in a bid to cool-off buying activity in the Sydney residential market.
- Further amendments to the FHOG will become more clear once all the state budgets are released for 2016/17.



Incentives for First Home Buyers in Australia

New South Wales	Victoria	Queensland	Western Australia
First Home Owner Grant Where dwelling is new (unless specified), minimum age is 18 years, at least one applicant is a natural person and an Australian permanent resident or citizen			
Scheme First Home Owner Grant (FHOG) New Homes	First Home Owner Grant (FHOG)	Great Start Grant	First Home Owner's Grant (FHOG)
Grant (one-off) \$10,000	\$10,000	\$15,000	\$10,000
Property Value Threshold \$750,000	\$750,000	\$750,000	\$750,000 (location is south of the 26th parallel of south latitude) & \$1,000,000 (location is north of the 26th parallel of south latitude)
Criteria for Eligibility			
<ul style="list-style-type: none"> <input type="checkbox"/> The contract date must be on or after 1 January 2016. <input type="checkbox"/> You or your spouse (including de facto spouse) have never held a relevant interest in any residential property in Australia prior to 1 July 2000. <input type="checkbox"/> You need to live in the home for a continuous period of at least six (6) months. 	<ul style="list-style-type: none"> <input type="checkbox"/> You have not owned a home in Australia, either jointly or separately, prior to 1 July 2000. <input type="checkbox"/> You have not lived in a home in Australia in which either of you owned or part-owned on or after 1 July 2000, for a continuous period of at least six (6) months. <input type="checkbox"/> You (or at least one applicant) must intend to live in the home as your Principal Place of Residence for at least 12 months, commencing within 12 months of settlement or completion of construction. 	<ul style="list-style-type: none"> <input type="checkbox"/> You or your spouse has not previously owned property in Australia 	<ul style="list-style-type: none"> <input type="checkbox"/> Each applicant and/or their spouse cannot have owned residential property anywhere in Australia before 1 July 2000. <input type="checkbox"/> Each applicant and/or their spouse cannot have previously owned residential property anywhere in Australia on or after 1 July 2000 and occupied that property as a place of residence before 1 July 2004. <input type="checkbox"/> Each applicant and/or their spouse cannot have previously owned residential property anywhere in Australia on or after 1 July 2000 and occupied that property as a place of residence for a continuous period of at least six (6) months that began on or after 1 July 2004. <input type="checkbox"/> Each applicant must occupy the home as their principal place of residence for a continuous period of at least six (6) months, commencing within 12 months of completion of the eligible transaction.

Stamp Duty Concessions

Dwellings

If the first home is valued at less than \$650,000, purchasers may be eligible for a stamp duty reduction and exempt from stamp duty if valued under \$550,000 for new dwellings.	If the first home is valued at less than \$600,000, purchasers may be eligible for a stamp duty reduction of up to 50% for both new and established dwellings.	If the first home is valued at less than \$550,000, purchasers may be eligible for a stamp duty reduction, although the more paid for the dwelling, the smaller the concession available.	If the first home is valued at less than \$530,000, purchasers may be eligible for a stamp duty reduction and exempt from stamp duty if valued under \$430,000.
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This information was derived from the respective state revenue websites^ listed below - please contact directly for further information.

<http://www.osr.nsw.gov.au/>

<http://www.sro.vic.gov.au/>

<https://greatstartgrant.osr.qld.gov.au/>

<http://www.finance.wa.gov.au/>

^As at 29 April 2016

Incentives for First Home Buyers in Australia

South Australia

Australian Capital Territory

Tasmania

Northern Territory

First Home Owner Grant

Where dwelling is new (unless specified), minimum age is 18 years, at least one applicant is a natural person and an Australian permanent resident or citizen

Scheme

First Home Owner Grant (FHOG)

First Home Owner Grant (FHOG)

First Home Owner Grant (FHOG)

First Home Owner Grant (FHOG)

Grant (one-off)

\$15,000

\$10,000

\$10,000

\$26,000

Property Value Threshold

\$575,000

\$750,000

\$0

\$0 (new home or land for new home)

Criteria for Eligibility

- | | | | |
|--|---|---|---|
| <ul style="list-style-type: none"> ❑ The applicant(s) or their spouse (s)/domestic partner(s) must not have previously owned a residential property anywhere in Australia prior to 1 July 2000. ❑ The applicant(s) or their spouse (s)/domestic partner(s) must not have owned a residential property anywhere in Australia on or after 1 July 2000 and occupied that property continuously for six (6) months or more. ❑ All applicants must occupy the home purchased or built as their principal place of residence for a continuous period of at least six (6) months commencing within 12 months after completion of the eligible transaction. | <ul style="list-style-type: none"> ❑ Not have previously owned or held a relevant interest in a residential property anywhere in Australia prior to 1 July 2000. ❑ Not have occupied a residential property in which they acquired a relevant interest anywhere in Australia on or after 1 July 2000 but before 1 January 2004. ❑ Not have occupied, for a continuous period of at least six (6) months, a residential property in which they acquired a relevant interest anywhere in Australia on or after 1 January 2004. ❑ Lodge an application within 1 year after completion of the eligible transaction.* ❑ Ensure each person holding a relevant interest in the property is an applicant. ❑ Ensure at least one applicant must reside in the home as their principal place of residence for a continuous period of at least one (1) year, with the period of occupation starting within one (1) year after completion of the eligible transaction. | <ul style="list-style-type: none"> ❑ Not have owned a home in Australia before 1 July 2000. ❑ Not have owned and occupied (for more than six [6] months) a home in Australia after 1 July 2000. ❑ Occupy the home as your principal place of residence for a continuous period of six (6) months commencing within 12 months of the date the occupancy certificate is issued for the property. ❑ Not have entered into a contract to purchase or build a home before 1 July 2000, or not commenced construction as an owner builder prior to that date. | <ul style="list-style-type: none"> ❑ Each applicant and their spouse/de facto partner is a person who has never held a relevant interest in a residential property, either jointly, separately or with some other person, before 1 July 2000 in any state or territory of Australia. ❑ This is the first time each applicant and/or their spouse/de facto partner will receive a grant under the First Home Owner Grant Act 2000 in any state or territory of Australia. ❑ At least one applicant will be occupying the home as their principal place of residence for a continuous period of six (6) months commencing within 12 months of the completion date of the eligible transaction. |
|--|---|---|---|

Stamp Duty Concessions

Dwellings

No concessions or exemptions available.

If the first home is valued at less than \$562,000, purchasers may be eligible for a stamp duty reduction if the dwelling is new or substantially renovated.

No concessions or exemptions available.

No concessions or exemptions available.

This information was derived from the respective state revenue websites[^] listed below - please contact directly for further information.

<http://www.revenuesa.sa.gov.au/>

<http://www.revenue.act.gov.au/>

<http://www.sro.tas.gov.au/>

<http://www.treasury.nt.gov.au/>

[^]As at 29 April 2016



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^ These figures were quoted from the ABS as at May 2016. In 2015, the ABS announced it would make adjustments to the Housing Finance data series, and will periodically update these figures as more lenders report correct First Home Buyer figures.

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