

Oh what a dream!

The challenges of home ownership in Australia...



The great Australian dream

Owning your own home has long been the great Australian dream. It dates back to the end of World War II in 1945 when many Australians felt a sense of patriotism and a desire for security. It was further reinforced by favourable economic times and government policy prompting people to put down roots. Home ownership boomed from around 40% in 1947 to 70% by the 1960s where it has remained stable since.

Home ownership is now firmly entrenched as part of the Australian psyche so much so that it has been reinforced in many other well known Australian icons such as the Hills hoist and Victa lawnmower. Many Australian films and TV series such as 'The Castle', 'Kingswood Country' and 'Kath and Kim' have also centred on this theme.

The dream was typified by a red brick three bedroom suburban home on a quarter acre block with a carport and a patch of grass. While the physical attributes of our housing have changed, they still represent the aspirations of Australia. Apart from providing shelter, the dream epitomises the foundations of family and social wellbeing and a place to call 'home'.

The search is on

Alyssa and Brett are weekend house hunters who head out with initial excitement and enthusiasm looking for their first home with ambitions of a modest house in the suburbs. Surely it would not take long to settle into their new home, start painting walls, laying new carpet and buying soft furnishings? Every Saturday they get up early, formulate a list of properties to inspect and jump in the car to rub shoulders with all the other 'wanna-be' property owners.

Soon reality sets in, the excitement deteriorates and it becomes a laborious chore. It seems that everything they would 'love' to buy is well beyond their price range and everything in their price range is semi uninhabitable. They are unwilling to consider looking in unfamiliar suburbs or moving too far away from friends and family.

Sounds familiar? Many first home owners underestimate how hard it is to enter the Australian property market. Not surprising given in a relative sense we live in one of the most expensive countries in the world to buy property.

As a result many first time property buyers become lost and confused.

Initial first alternatives

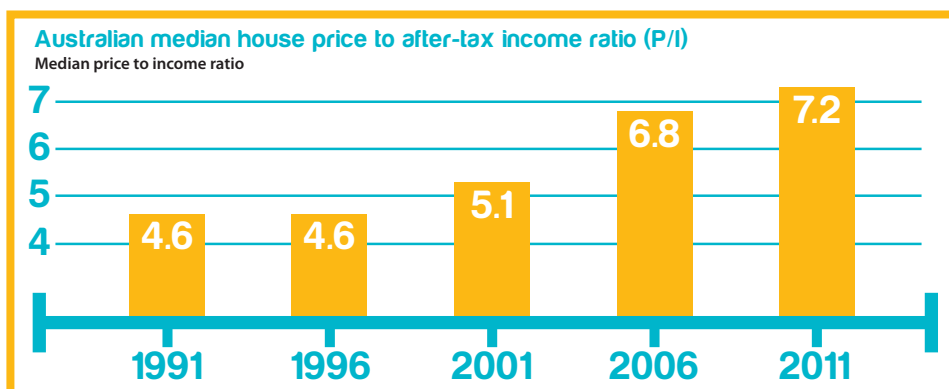
While various levels of government continue to provide incentives for first home buyers these incentives have been reducing over time and are largely now limited to 'off the plan' or new home purchases.

Many first home owners have therefore had to look for alternatives. Most people have a desire to remain close to where they grew up and as result these areas are typically well established.

Prices are normally higher due to established demand and no new supply. Consequently in order to achieve the great Australian dream they may need to move to outer urban areas or settle for smaller, less than 'perfect' accommodation closer to their desired location.

As neither of these alternatives are usually desirable many are forced to rent (or stay at home longer) while saving for their first dream home.

Those fortunate to have parents with adequate lifetime savings and equity in their own home sometimes obtain their parents' help to get their foot in the door with a financial gift or by using the equity in their home.



Source: NATSEM calculations.

There is a solution

Is delaying and continuing to save for the purchase of your dream home the most appropriate strategy to adopt?

Many find that the more they save, the more they need as a deposit because house prices have increased during this time – creating a spiral effect.

So, is delaying an investment in the market the ideal scenario?

Housing affordability data indicates that buying your first home is now beyond the reach of most. With no signs of improvement, many first time home buyers are now looking to make their first property purchase an investment.

Once you determine that your first property will be for investment purposes, all the emotional requirements (floor plan/garage etc) that are required to satisfy your search are removed and the purchase becomes more of a financial decision.

For example when looking for your own home you are likely to want to live in a particular area, but when the property is for investment purposes the location becomes less relevant to you personally and more dependent on the likely ability to find a tenant. This could even be in a different state as you

are not likely to ever live in it. You are therefore more likely to find a property that is within your budget.

Financially, it also usually makes more sense. Firstly you are likely to be able to enter the property market earlier as you will not necessarily need to spend as much money to satisfy all your emotional requirements. The sooner you get your foot in the property market the sooner you have an appreciating asset and less likely to be caught in the savings/deposit spiral.

As the property will be rented out, you will have an additional income (the rent) that will be included in your loan application, hopefully making it easier to obtain a loan approval.

As the property will be utilised for investment purposes the interest and other operating expenses, such as council rates, water rates and maintenance, will be tax deductible. As a result the Tax Office will bear a proportion of these expenses making it more affordable for you to own a property than if you had purchased it as an owner occupier.

This financial good sense will more than likely allow you to go and rent your ideal home in the neighbourhood that you desire.

Being in the market is the first step to securing your future with property. As the equity in the investment grows and you make further savings your first home is likely to be closer than you think.

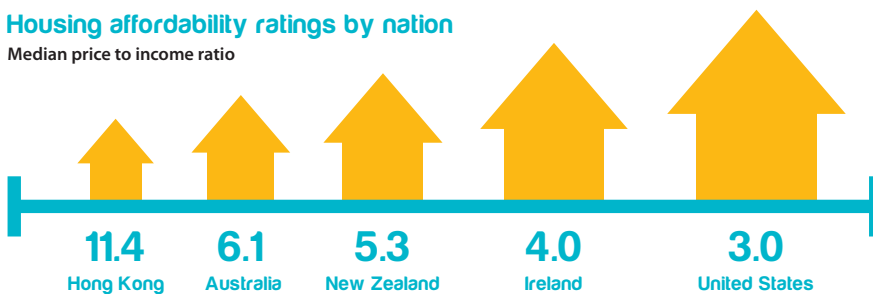
Having your first property as an investment is a challenging concept for most. Not just for you, but also your friends and family. It is not a decision to consider lightly. You need to ensure you are listening to the right people and obtaining advice from people who have experience with this concept.

As your credit advisor, we see many people 'talked out' of property opportunities because their family and friends aren't comfortable or educated about this process and the many strategies now available to reduce the risk for you and your investment.

We encourage you to do your research and talk with experts like us, your lending specialist, who help people every day determine the correct approach, strategy and structure based on your short and long term requirements.

Housing affordability ratings by nation

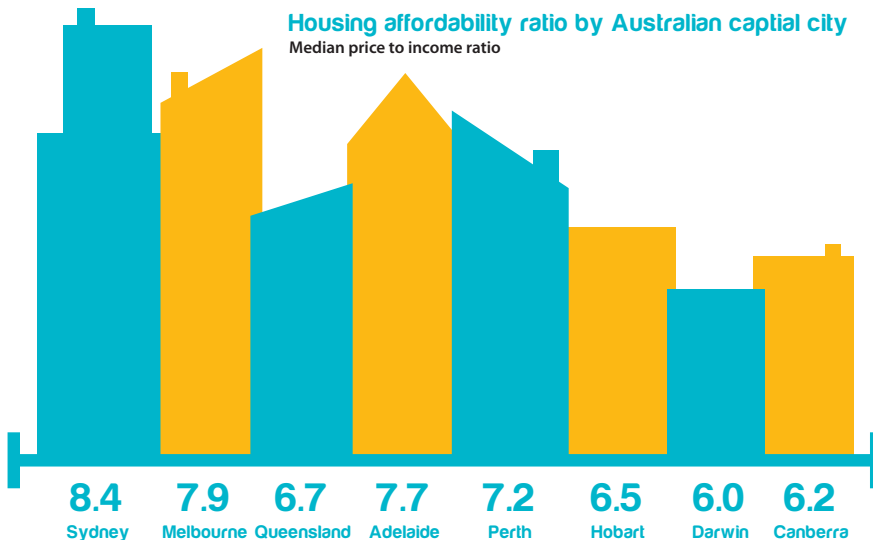
Median price to income ratio



Source: Kotkin, 2011.

Housing affordability ratio by Australian capital city

Median price to income ratio



Source: NATSEM calculations from RP Data.

*Disclaimer: This article is generic in nature. All investment decisions should be considered wisely and based on your personal and financial circumstances. Seek proper advice before committing to any course of investment action. This is not deemed as advice.



For more information about this strategy, contact the office for our article 'Should my first property be an investment property?'

