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Survey: First homebuyers may be scared off by small rate rises

Reverse trend as more purchase alone and at a later stage in life

If interest rates rise by two percentage points, more than one quarter of Australians looking to buy their first home in the next two years will give up on the purchase, according to results from the 2010 Mortgage Choice First Homebuyers Survey.

This may be because an increasing number of potential first homebuyers intend to buy on their own. The independent online survey found this was the plan for 32% of respondents, compared to 28% in the 2009 survey.

Further, 8% intended to borrow the full purchase price despite 100% home loans being non-existent in today's climate, with females more inclined to want borrow the full amount. On the flipside, close to one in three (29%) will have a deposit of 20% or more to contribute towards their first home purchase.

Despite this, a significant number (78%) were planning to make lifestyle sacrifices in order to purchase, an increase on the 71% in the 2009 survey.

First homebuyers' main motivation to purchase property in the next two years was that they wanted to set themselves up financially for the future (72% of respondents). 58% said that they were keen to get their foot in the property market door and 31% saw more benefit in investments such as property than in the share market. The top two responses were the same across all states.

Mortgage Choice Senior Corporate Affairs Manager, Kristy Sheppard said, "It's terrific to see our survey results showing up-and-coming first homebuyers acknowledge the long-term benefits property investment has to offer. Importantly, the majority understand that good savings and making lifestyle sacrifices get them into good habits and get them through the door sooner."

"Yet we do have mixed results. Although a large portion of first time buyers-to-be are prepared for interest rate rises and appear to be quite knowledgeable about the market, a significant proportion - 28% - say they'll back out of buying if rates increase by up to two percentage points. Savvy mortgage holders give themselves at least that as a repayment buffer each month so these buyers should think very carefully about entering the market.

"The survey results also highlight a lack of consumer awareness regarding changes to lending criteria that now restrict property buyers from borrowing without a deposit. 8% of our respondents intended to borrow the full purchase price.

"Before committing themselves, potential first homebuyers looking to take advantage of market opportunities should health test their budget, review their savings history, speak to a mortgage professional and prepare themselves for the total cost of property ownership. It's not just about making loan repayments but the day-to-day expenses of living in your own home as well as lifestyle costs."

Other key findings

- 65% will purchase their first property with a partner, friend or family member/s in a co-ownership agreement, in comparison to 71% in 2009.
- 52% will purchase an established home, compared to 71% in 2009.
- 51% have 'some idea' about the purchase process; only 12% said they were well informed.
- 53% said their largest concern was the time it takes to pay off the loan and own outright.
- The most common sacrifices being made in order to buy were: cut back on spending (96% this year, compared to 93% in 2009), miss out on a holiday (60% vs. 59%), purchase a less expensive property (31% vs. 33%) and take on an additional job (26% vs. 23%).
- The most popular predicted mortgage size range for these first time buyers is between \$300,001 and \$400,000, as indicated by 33% of respondents.
- The most popular first point of contact for mortgage advice was a mortgage broker at 24%, then parents (22%). In 2009, brokers ranked first at 29% with the internet second at 18%.

Read on for deeper findings...

How will they cope with interest rate rises?

"It was encouraging to find that, when asked to answer with a mortgage interest rate of 7% in mind, almost one quarter - 23% - of respondents said they could afford a rate increase of between four and five percentage points before they would give up on buying their first home in the next two years. Of these, a staggering 61% said they could afford a rise of above five percentage points," said Ms Sheppard.

20% of respondents said they would drop out of entering the market if rates rose 3-4 percentage points, 29% would give up if rates rose by 2-3 percentage points, 21% would if rates rose by 1-2 percentage points and 5% would if rates rose by 0.25-1 percentage points. 2% would give up at the next 25 basis point rate rise – as of Tuesday these people would no longer be looking to purchase their first home.

How will upcoming first homebuyers finance their purchase?

Tighter lending criteria is forcing all borrowers, not just first homebuyers, to meet tougher requirements such as providing evidence of genuine savings over consecutive months. The majority of first homebuyers-to-be are taking this advice on board and saving good-sized deposits before purchasing.

When it came to property financing, these were the responses:

- 8% will borrow the full purchase amount (compared to 12% in 2009).
- 19% will contribute 5% deposit and borrow the remaining (22%).
- 34% will contribute 10% deposit and borrow the remaining (25%).
- 8% will contribute 15% deposit and borrow the remaining (9%).
- 17% will contribute 20% deposit and borrow the remaining (14%).
- 12% will contribute more than 20% deposit and borrow the remaining (14%).

Females were more likely to plan to borrow the full purchase price than males (10% of females vs. 6% of males), and less likely to contribute a large deposit or 20% or more (25% vs. 32%).

"Happily, our survey shows most upcoming first homebuyers are aiming for deposits that should meet today's lending criteria. What is surprising though, is 8% were naively optimistic that they could borrow the full purchase price, seemingly unaware 100% home loans are no longer available. This highlights why, for many reasons, visiting a reputable mortgage broker before embarking on the property hunt is very handy," said Ms Sheppard.

What is motivating first homebuyers to purchase?

Appetite for first home purchases has noticeably steadily declined over recent months. The Australian Bureau of Statistics reports 21% of all owner occupied housing finance approvals in December 2009 were for first homebuyers, compared to 26% in October. Traditionally, the average is around 20%.

The 2010 Mortgage Choice First Homebuyers Survey found the top 10 motivations to purchase were:

1. To set myself up financially for the future (72% of respondents).
2. I want to get a foot in the property market door while I can (58%).
3. I see more benefit in investments such as property than I do in the share market (28%).
4. Low interest rates (23%).
5. Advice received from family, friends or a financial advisor (22%).
6. The benefits of the current property market (19%).
7. I have researched the property market and feel property investment will enable me to achieve my financial goals sooner/better (15%).
8. High rental yields (14%).
9. Capital gain (13%).
10. Reading and/or hearing of others' success (12%).

"While incentives for first homebuyers have been scaled back there is still strong motivation from this group to make their move in the next two years. Our survey results show a long-term goal of financial security is the most popular motivation for first time homebuyers to purchase before 2012. Almost a quarter - 23% - are still focused on relatively low interest rates," said Ms Sheppard.

How high are first homebuyers aiming?

As property prices rise, so to does the size of mortgages. According to Mortgage Choice's February 2010 loan approvals data, the average mortgage size for owner-occupiers (including first homebuyers) was \$328,422 nationally. Unsurprisingly, the most commonly stated mortgage size for survey respondents was between \$300,001 and \$400,000 (33%).

A further 26% expected to borrow between \$200,001 and \$300,000. 15% were planning between \$400,001 and \$500,000. 6% were aiming high at between \$500,001 and \$600,000 and 4% were

hoping to borrow \$600,001 or more (this price range was the most popular in NSW, at 6% of the state's respondents). 13% were unsure at this point of how much they would borrow.

"While some lenders are often willing to allow first homebuyers significant borrowing power, it's important to base your loan amount on your ability to repay the loan while living an affordable yet comfortable lifestyle. The key is to stay in control of your finances and be realistic about your budget expectations and spending before taking on a first home purchase," said Ms Sheppard.

How are potential first homebuyers expecting to finance large loans?

In recent years there has been a steady increase in the number of buyers sharing the financial responsibility of property ownership by purchasing with someone but this year, that has reversed.

"Having recently lived through an economic crisis, potential first time buyers seem to be more cautious of making a financial commitment with another person," said Ms Sheppard.

"The survey results show a rise in first homebuyers considering purchasing on their own, with 32% of respondents nationally indicating they plan to commit unaccompanied, compared to 28% in 2009. WA first homebuyers are the most independent property buyers, with over one third - 37% - planning to purchase their first home solo. South Australians were least likely to do so, with 23%."

The proportion of those purchasing property with someone else as a co-owner has dropped to 65% from 69% in 2009's survey. Respondents planning to purchase with a partner has also fallen, to 58% from 64% in 2009. However, the proportion purchasing with friends has increased to 2%, from 1% in 2009. The percentage of respondents purchasing with some type of assistance from family members (family as part/joint owner at 5%, family acting as guarantor at 2% and family providing a monetary gift at 1%), has increased to 8%, from 5% in the 2009 survey.

"Sharing the financial responsibility of home ownership means buyers can pool their financial resources to help increase their deposit and/or serviceability, enabling them to enter the market sooner. This could be helpful for those buyers struggling to meet tighter lending criteria. This strategy also reduces the long-term financial burden as all associated costs are shared," said Ms Sheppard.

How clued up are first homebuyers?

The percentage of potential first homebuyers admitting to having no idea about the property purchase process has doubled, rising to 6% of respondents from 3% in 2009. One in two (51%) felt they had some idea (compared to 28% in 2009), while 31% knew the essentials (42% in 2009). The most surprising result is only 12% considered themselves well informed, well down from 27% in 2009.

"Unfortunately, the 2010 Mortgage Choice First Homebuyers Survey shows a decline in informed buyers-to-be and a rise in those with little or no knowledge about the property purchase process," said Ms Sheppard.

"It is worrying to see an increase in first homebuyers who are uninformed about the property purchase process. Without solid knowledge of the huge commitment they are entering into, these buyers are much more likely to choose an unsuitable loan or get caught out by the fine print."

For those who are making the effort to research mortgages, the favoured first point of contact for advice was a mortgage broker, at 24%, compared to 29% in 2009. This was followed by:

- Parents at 22% (15% in 2009).
- Lender (bank, building society, credit union, etc) at 17% (equal in 2009).
- Internet at 13% (18%).
- Friends at 11% (8%).
- Financial advisor at 9% (7%).

"It is terrific to see today's first homebuyers trust and value the guidance of their mortgage broker. Parents can be a good starting point for general questions about the property purchase process but the mortgage market is constantly changing so it's crucial to get up to date information. A reputable mortgage broker can help borrowers navigate the mortgage minefield and find a loan tailored to their situation, prepare for lending requirements, process their loan application and advise of any concessions that may be available. They'll then help them with any changes, questions or home loan 'health checks' in the future," said Ms Sheppard.

"Well informed borrowers can make the most of their circumstances by utilising every resource available, then possibly enter the market sooner using strategies such as saving a larger deposit, preparing for rate rises sooner and sharing the responsibility of home ownership."

What are first time buyers concerned about?

When purchasing their first home, Australians are most concerned about the length of time it takes to pay off a home loan, for 53% of respondents (compared to 52% in 2009). New South Welshmen were the most likely to worry about the length of time it takes to pay off a home loan, at 55%, while Queenslanders and South Australians were the least likely to worry about this (50% each).

“There are plenty of tips out there that help borrowers repay their mortgage sooner. For example, rounding up or increasing the regular repayment amount, paying additional lump sums where possible or even increasing the frequency of repayments from say, monthly to fortnightly,” said Ms Sheppard.

Other concerns respondents had about purchasing were:

- Being committed to such a large financial obligation for so long, at 51% (45% in 2009).
- Not being able to afford repayments, at 46% (47% in 2009).
- The amount of money I will have paid by the end of the loan term, at 40% (equal to 2009).
- Buying the wrong home, at 28% (equal to 2009).

What age is the average first homebuyer?

The majority (55%) of Australia's first homebuyers-to-be will be aged 30 years or older when they purchase their first home and 8% of these will be 50 years or older. 45% will be aged between 18 and 29 years.

WA and QLD bucked this age-at-purchase trend. In those states, the age category with the highest percentage of respondents was those planning to buy their first home before the age of 30 years.

“According to the survey, a high percentage of respondents are purchasing their first home in their thirties, forties and some even in their fifties. This could be due to increased affordability in older age as people earn higher incomes and/or have been saving a deposit for longer so are able to meet tighter lending requirements and can repay a mortgage more comfortably. It may also be linked to a higher number of people choosing to settle down later in life,” Ms Sheppard said.

What are first homebuyers prepared to sacrifice in order to get into the market?

In order to purchase their first home, 78% of respondents intended to make sacrifices to various aspects of their lifestyle, which is an increase on last year's 71%. Western Australians were the most likely to sacrifice, in comparison to 2009, when they were the least likely. Queensland replaces them as the least likely to make sacrifices this year.

The top sacrifices for first homebuyers-to-be were:

- 96% will cut back on spending (93% in 2009).
- 60% will miss out on a holiday (59%).
- 31% will purchase a less expensive property (33%).
- 26% will take on an additional (23%).
- 21% will remain in their current job rather than move on (24%).
- 20% will purchase property in a non-ideal location (23%).
- 18% will delay having children (20%).
- 17% will move back in/stay living with their parents or in-laws to save on rent (12%).
- 16% will change jobs for higher income even though they are happy where they are (12%).

“The survey results highlight an increase in potential first homebuyers willing to change their expectations, invest more energy and/or make a range of cutbacks in order to achieve their dream of home ownership. As housing prices and interest rates rise, and housing undersupply continues to tighten, making sacrifices is becoming more of a necessity than a choice,” said Ms Sheppard.

What type of property are first homebuyers most likely to shop for?

Australia's upcoming first homebuyers are more likely to purchase an established home (52%) than they are a new home (13%) or land to build on (5%). 30% are unsure. Western Australians are the most likely to choose a new home than any other state (at 20%).

Call the customer service centre on 13 MORTGAGE, visit www.mortgagechoice.com.au or www.facebook.com/MortgageChoice or <http://twitter.com/MortgageChoice>.

For further information, statistics or to arrange an interview, please contact:

Belinda Williamson, Mortgage Choice, 02 8907 0472, belinda.williamson@mortgagechoice.com.au

About the Survey

Mortgage Choice, Australia's largest independently-owned mortgage broker, commissioned the independent online nationwide survey in late February 2010, asking a range of questions about first home purchase plans. The last first homebuyer survey was conducted in February 2009.

About Mortgage Choice

Mortgage Choice, Australia's largest independently-owned mortgage broker, has a national network of hundreds of franchises and loan consultants supported by Group and State Offices. It provides loan advice on, and choice of, products offered by an extensive panel of Australia's leading lending institutions.

A number of the company's consultants provide a broader service offering, also helping customers source personal and commercial loans, asset finance and risk insurance.

Importantly, Mortgage Choice head office pays franchisees the same commission rate for home loans they write, regardless of the rate paid by the lender selected by a new customer - and has been doing so for most of its 17-year history. The company has no products of its own and works in each customer's interests to source a loan that suits their individual needs.

Mortgage Choice has no balance sheet or funding risk, and consistently delivers strong profits and attractive yields. The company listed on the Australian Stock Exchange in August 2004 (ASX sign: MOC) and is a member of the Mortgage & Finance Association of Australia (MFAA).

Recent awards/recognition: 2009, 2008, 2006 and 2005 MFAA Awards *Retail Aggregator/Originator of the Year*; 2009 and 2008 BRW *Fast Franchises* list; No.1 spot on *Top 25 Brokerages* list by Mortgage Business magazine; 2009 Australian Banking & Finance Awards *Best Financial Institution Employer*; 2009 Great Place to Work® Institute *Best Companies to Work For* list; 2009 and 2008 10 Thousand Feet *Top 10 Franchise* list; 2008 MFAA Awards *Best In Mortgage & Finance Industry*.

Visit www.mortgagechoice.com.au or call the customer service centre on 13 MORTGAGE.