

A SUBMISSION TO THE PRODUCTIVITY COMMISSION

FIRST HOME OWNERSHIP

INTRODUCTION

The way into home ownership is to become a “First Home Buyer”. This is a simplistic statement but one that needs to be stated. Sometimes “ownership” can come by an inheritance or by winning a lottery or home competition. I would not classify these as First Home Buyers as the persons involved do not have the costs of mortgage, stamp duty and other costs that usually have to be saved for and repaid over a period of time.

So my definition is a person or persons who by their own effort save for a deposit and costs and borrow up to, say 90% of the purchase price to be repaid by their own efforts.

A FEW COMPARISONS

There is nothing better than a real life example.

In 1968 our attempt to purchase a property floundered because of two things:-

1. Not enough deposit
2. Not enough borrowing capacity

So by completely saving one of our wages over the next 2 years we were able to come up with the 10% required and legals.

These figures including the original from 1970 in 2004 look small but it is all relative.

Average Weekly Earnings	Price of House/Land	Land Value	10% Deposit	FHOG	
Jan 1970	74.00	13500	3500	2700	500
Jan 2004	734.00	420000	42000	7000	
or	930.00	420000	42000	7000	

Increase by					
X times	10/12.5 x	31	15.5	14	

It is clear that the borrowing capacity for the AWE is nowhere near keeping up with the price of homes.

How has this been “overcome” since 1970?

1. By taking TWO incomes into account and
2. By the lending institutions taking a more liberal view on Loan to Valuation Ratio (LVR)
3. By the interest rate drop in recent years

Even so on a 90% loan of \$12150 on the 1970 figures means a repayment of approx \$66 pm at 6.5%.
In 2004 the 90% loan would be \$378000 and at 5.25% would mean repayments of interest only of \$1654 pm

This is 25 times the 1970 figure at a slightly lower interest rate.
So in this instance the Purchase price has escalated well above other movements.

In most cities and large towns this would be true.

So the question of how do we lower price and keep the increases under control to enable what we need to answer the First Home Buyer into the market is the question to be answered.

A reading of the documentation of the “Terms of Reference” seems to imply that no schemes have been tried by the Private or Public Sector.

There have been substantial loans made from various Governments and their instrumentalities since about 1936 to overcome the deposit gap, or the price mechanism.

This includes Low Interest Loans, Government Guaranteed Loans and various State Government loans for purchasers with small deposits or minimum deposits who if in Rental Accommodation are able to purchase this property at a concessional rate of interest, subsidised by the State/Commonwealth.

As one who has been involved in both Permanent Building Societies (from 1973 to 1983) and Co-operative Housing Societies (terminating Housing Societies) from 1973 to 1996 these very societies have evolved to fill the gap in the normal bank financing. To some degree the “Aussie Home Loans” and other similar Mortgage tied to the money market have taken over some of the roles of both Building Societies and Banks however they are tied to market forces insofar as interest rates are concerned and can be volatile.

Possibly one of the most successful of the Co-operative type schemes was the Starr-Bowkett type Society where the members actually helped each other to get their dream.

Maybe someone should help people to think that the best way to help is to actually get together and realise it together. One realises that this is a hard concept to push in an individualistic age and ***we are yet to see someone forego their capital gain when selling their property so that the young “first home buyers” can afford the price.***

With the situation in the greater Sydney Region (that is including the Central Coast, Newcastle and the South Coast to at least Nowra) land supply is always behind what is required which has the effect of keeping the price up and the market reasonably buoyant. The fact that over 50000 (maybe 100000) people move into the area and more housing is required by the population for various reasons seeking single accommodation means that the only way is either up or out. As many of these would have to be first home seekers translating to buyers then the basic question of affordability has to be addresses and the price rises of 31 times over 33 years compared with a 10 to 12.5 times increase in the AWE noted earlier in this submission show that affordability is the key with probably land prices (and land component for units etc.) the driver of the upward spiral.

I trust that this submission is acceptable,

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