

First home buyers in Australia: Pandemic policies may have increased challenges and inequalities

May 26 2023, by Ben Knight



Credit: AI-generated image ([disclaimer](#))

First home buyers (FHBs) in New South Wales (NSW) are finding it more challenging to get into home ownership, and government intervention during the COVID-19 pandemic may be partly to blame.

A recent study of FHBs suggests economic responses during the [pandemic](#) to stimulate recovery may have had an inflationary impact on property prices, making it more difficult for those looking to buy their first home. The research, published recently in the journal *Buildings*, is one of only a few qualitative studies to consider the possible impact of financial stimulus on FHB entry during the pandemic.

For the study, researchers surveyed 61 FHBs in NSW about their experience of entering the [housing market](#) during the pandemic, where significant COVID-19 economic policies were taking effect, including interest rate cuts, superannuation withdrawals, mortgage payment pauses and income supplementary programs.

Around 71% of [respondents](#) said their purchase price range had risen throughout the pandemic, and 83% said the process had become harder and more complex, making it more difficult to access [home ownership](#).

The researchers concluded that the [economic policies](#)—even those aimed at promoting home ownership, such as first home loan deposit schemes—may have been to the detriment of FHBs by consequently driving up the demand for housing and overheating the [market](#).

"The pandemic saw extraordinary economic responses from the government to stabilize the economy and businesses, but they arguably had unintended consequences for FHBs that put them in a more disadvantageous position than before the pandemic," says Associate Professor Chyi Lin Lee, a co-author of the study and discipline director of construction management and property at UNSW Sydney.

Increasing barriers to home ownership

Home ownership in Australia has been on the decline for decades. One of the main barriers to entry for FHBs is a widening deposit gap, which

increased dramatically with rising [house prices](#) during the pandemic, Lee says. Capital city property prices increased by nearly 20%, raising the time and money needed to make a down payment.

"As income to house price ratio continued to expand during the pandemic, FHBs reported taking longer to save up a deposit," Lee says. "Meanwhile, investors, particularly those already in the market who benefited from soaring house prices, can refinance for another purchase and are seen to outbid FHBs easily."

Respondents emphasized inequality in the market as the most significant challenge, with 48% attributing the difficulties to investors and existing home owners' advantages from favorable tax policies when holding or selling property.

"Not only do policies of discount capital gains tax and negative gearing encourage investor activity and further pressure house prices, but [monetary policy](#), such as record low interest rates during the pandemic, may be considered further stimulus to encourage investing," Lee says.

As a result, FHBs noted increasingly relying on the Bank of Mum and Dad, taking on more [financial risk](#), and relocating to regional areas to enter the market.

Just 27% of respondents considered paying a 20% deposit. Meanwhile, 21% of respondents received a gift to assist with their deposit, and around 12% received a guarantee. And 77% also said purchasing any property was more important than finding their ideal home.

"Even before the pandemic, many FHBs were finding it difficult to get into the market, with many predicting the situation will likely get worse," Lee says. "This is driving a fear of missing out, resulting in many taking on higher levels of debt, rushing into purchases without completing

thorough due diligence, relocating for affordability reasons or reducing their expectations for their first property."

Sydney, in particular, has become near impossible to enter without significant assistance and is already the least affordable city in Australia for housing and the second least affordable globally.

Although 72% of respondents were potentially eligible for some form of government assistance, only 30% obtained support. And 70% also said government support was insufficient given [property prices](#).

While many economic responses have since finished, including historically low interest rates, Lee says FHBs may continue to struggle to enter the market with a reduction in borrowing capacities even if house prices soften.

"Policymakers should consider expanding support for FHBs beyond demand-side subsidies and invest more resources into supply-side interventions, primarily introducing more housing into the market," Lee says.

"This would help FHBs who may be disadvantaged by the effects of the pandemic economic stimulus measures long after they've finished."

More information: Mustapha Bangura et al, The Unintended Consequences of COVID-19 Economic Responses on First Home Buyers? Evidence from New South Wales, Australia, *Buildings* (2023). [DOI: 10.3390/buildings13051203](https://doi.org/10.3390/buildings13051203)

Provided by University of New South Wales

Citation: First home buyers in Australia: Pandemic policies may have increased challenges and inequalities (2023, May 26) retrieved 18 June 2024 from <https://phys.org/news/2023-05-home-buyers-australia-pandemic-policies.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.