

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

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 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.