

**7<sup>th</sup> Pacific Rim Real Estate Society Conference**  
**Adelaide**  
**21<sup>st</sup> –24<sup>th</sup> January 2001**

**Implications of Labour Market Change for First Time Homebuyers**

**Early Findings**

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## **Implications of Labour Market Change for First Time Homebuyers Early Findings**

### **Abstract:**

This paper seeks to establish how access to home ownership has been or is being affected by recent changes in the Australian labour market. This is an important research question given the evidence suggesting that the traditionally high proportion of homebuyers in Australia – as distinct from outright owners within the population has fallen by about ten percent over the last decade (Yates 1997, 1999). The research is based on a national survey of first time homebuyers in South Australia, New South Wales and Western Australia and this paper reports on the preliminary findings. The Australian Housing and Research Institute, (AHURI) Melbourne has supported the research.

**Key Words:** housing market, homebuyers, labour market

## Introduction

A recent newspaper article in the *Adelaide Advertiser* (16<sup>th</sup> February 2000) ran the heading “No jobless fears, say those in work”. The article cited the recent ABS report entitled *Forms of Employment, Australia* (ABS 2000) and suggested that the 1998 survey upon which the report was based, showed that the overwhelming majority of Australia’s 8.4 million workers were not worried about losing their jobs going into the next century. Instead, the article suggested, the survey showed that 88 percent of Australian workers including the self employed, were confident they would still be with their current employer or business 12 months after the survey. However the same survey reveals also that in terms of job permanency, only 38 percent of employed persons had worked for their current employer/business for over five years. Twenty one percent of employed persons had worked for their current employer/business for less than one year and a further 21 percent had worked for their current employer/business for only one to two years. The majority of self identified casual workers and other employed persons had worked for their current employer/business for two years or less. While the media article described the expectation of employment with the same employer beyond the next 12 months as “no jobless fears” this ABS survey reveals that security of employment beyond 2 years does not exist for over 40 percent of the Australian workforce.

Other ABS findings (1998, 1998a, 1998b) also indicate that of this workforce some 14 per cent change their job or business, or the locality of their workplace approximately every 12 months. And that of this group some 25 percent are represented by those between the ages of 20 to 24 years. As of 2000, 50 per cent of all jobs are expected to be in part time employment with 30% of the population expected to be working part-time. Some 30 per cent of all part-time workers want more hours and 19 per cent of all part-time workers want full time hours. There has been an increased need for mobility in terms of job location and job type particularly for those under 30 years. School leavers into 2000 can expect to change their career, not just their job, three times in their working life. A graduate can expect to change jobs seven times and four of these will be involuntary (Kemp 1996).

What are the implications of such changes for home ownership in Australia? Doogan (1996) suggests there have been few systematic attempts to establish the interrelationships between labour and housing markets. As well limited theoretical work suggests that the links to be in both directions. Labour markets both affect and are affected by housing market conditions.

More than two million households in Australia are actively repaying mortgages. Of the 300,000 households who have bought their first home in the last two years, almost 90 percent require a loan in order to purchase their home. Homeowners with mortgages face risks. Their loan periods are often protracted during which household relationships may change; equity may disappear through property value collapse; interest rates both variable and fixed may rise and finally employment, in terms of place and security, may alter. Writers such as Yates (1999, 2000) and Mudd et al (1999) have begun to document the implications of increased demand for labour market flexibility and mobility on this type of long term commitment. Home ownership levels may be compromised if households begin to perceive the risks of home ownership in a changing job market, as exceeding the long held tenets of capital gain, security of tenure, and inflation hedge. Hughes (1996) suggests that in the US housing is no longer regarded an infallible savings machine” and that there appears to be a much more conservative outlook on home ownership’s financial and investment potential”. King and Baekgaard (1996) also identify for Australia a significant increase in the number of households in young age groups with no housing wealth.

## Policy Implications

Since the 1980s there has been a shift in Australian housing policy away from home ownership and public housing towards direct rental assistance (Yates 1999) with the emphasis on reducing the disparity between subsidies for public and private tenants (Wulff & Evans 1998, DSS 1996). However the structuring of rent subsidies may deter tenants from earning additional income. Increased earnings results in lower subsidies, which may result in lower disposable income and provide no incentive for economic independence (DSS 1993). Some believe such assistance could act as a significant deterrent to those considering home ownership for the first time.

If home ownership is declining then this will have an impact not only on those who would traditionally have entered this tenure but also upon the people whom they may displace in other housing tenures (Wulff & Evans 1998). Single income households finding it increasingly difficult to purchase as housing prices and borrowing arrangements reflect the purchasing power of the dual income household. When home ownership become less attractive the demand on the private rental sector increases which usually triggers a rise in rental housing costs and a lowering of vacancy levels. This in turn displaces those at the lower end of the rental market, which increases pressure on public housing. Public housing tenants in turn may not be keen to move for casual or insecure job opportunities or to take on home loans even with incentives (DSS 1993). Anecdotal evidence in Adelaide suggest a level of misgiving among households who have been assisted out of public rental into home ownership via low interest loans or rent to buy schemes.

Maclennan (1996, 1997) believes that the volatility of the labour market should in fact force a rethink of the merits of home ownership. He suggests that “blindly pushing for higher rates of owner occupancy is questionable given the long term labour market trends towards short term and less secure employment contracts” (Maclennan *ibid* p1863). Instead the need for increasing mobility and flexibility should allow for a large and efficient private rental sector. Maclennan (1996) argues that a housing market which facilitates employment needs will create opportunities for economic growth and thus for employment growth. Based on work in the UK and Europe, he stresses that while economic change shapes the housing system, there are links back from housing to the economy.

Issues of employment, job mobility and security, and costs attached to career changes, retraining and the upgrading of tertiary qualifications, are particularly significant in states such as SA which has struggled with economic restructuring compounded by public sector cutbacks, resulting in considerable job losses and discernible out migration. SA has one of the fastest ageing populations with some 28 percent of its population over the age of 50. Declining propensities for home ownership are significant in a welfare system that has been premised on the notion that most people will enter old age owning their own home (Kupke, 2000).

## Aims

The study seeks to investigate the purchaser behaviour of first time buyers with a view to identifying the significance of employment related factors in their purchase. The study is based on a postal survey of homebuyers who bought in Adelaide, South Australia (SA) Perth, Western Australia (WA) and Sydney, New South Wales (NSW) between January and June 1999 i.e. before the announcement of a GST (Goods and Services Sales Tax) which is anticipated to increase housing construction costs. The survey sought to determine first time buyer profiles in terms of items such as employment, expectations and attitudes to job security, and if and how, this had influenced the timing, location or borrowing arrangements, associated with the purchase of a home. The survey data will eventually be linked to residential sales history

information already obtained from the SA, NSW and WA Valuation Offices in order to identify associated property characteristics.

## **Methodology**

The main research instrument was a postal survey of purchasers. In SA identification of potential first time homebuyers was via the SA Real Estate Sales History File (Department of Administration and Information Services SA). Purchasers in SA whose names have not appeared on the Sales History File before are given a Purchaser Number. This purchaser number can be used to identify first time buyers with an approximate success rate of 70 percent. For NSW and WA sales were selected from suburbs where prices were on or below the metropolitan median price, which also showed significant intercensal population growth between 1991 and 1996 and where significant percentages of households were paying substantial mortgages (ABS 1996). Purchasers were surveyed on the basis of strict confidentiality, no access to data by any third party and aggregation of all findings.

Typically some six percent of Australian households have purchased their first home within the last 3 years (ABS 2000). For Australia this represents at least 400,000 households. For NSW some 140,000 households have bought their first home over this period. In SA and WA approximately 30,000 households in each state have bought for the first time in the last three years (ABS 2000). This represents approximately 4000 sales per month to first time buyers in NSW and 850 sales per month to first time buyers in WA and SA. This provides a potential population of about 30,000 sales for the six-month period of the survey. However identifying first time buyers is an uncertain science. It was decided that initially a weighted sample of 1750 purchasers would be selected. Given at least a 30 percent response rate to the postal survey and dependent on the first time buyer hit, 500 returns could represent up to about two percent of the first time buyer population. A pilot survey based on a sample of 50 was undertaken followed by a full survey with one follow up letter.

## **Early findings**

### **Household Characteristics**

At the time of writing a total of 360 surveys had been returned representing 140 households in Adelaide, 130 households in Sydney and 90 in Perth. About 70 percent of the households were first time buyers. The preliminary results in this paper are based on data entry for 96 respondents of whom 64 were first time buyers. Fifty-one of the respondents were from Adelaide, 15 from Perth and 30 from Sydney. At this stage results are descriptive only. No significant testing has been attempted. Although only a small set of the survey data is reviewed, significant areas, which will be expanded upon in a later report, are covered in this paper. Households represented by the results so far include 28 percent singles, 23 percent couples with no children and 32 percent couples with dependent children. Sixty percent of respondents were under 35 years of age, 30 percent had a bachelor degree or higher and 33 percent were either studying or had a partner studying, the overwhelming majority on a part time basis. Seventy three percent of respondents were Australian born. Some 50 percent had rented their previous dwelling while 22 percent had lived formerly with their parents on a nominal or rent free basis.

### **Employment**

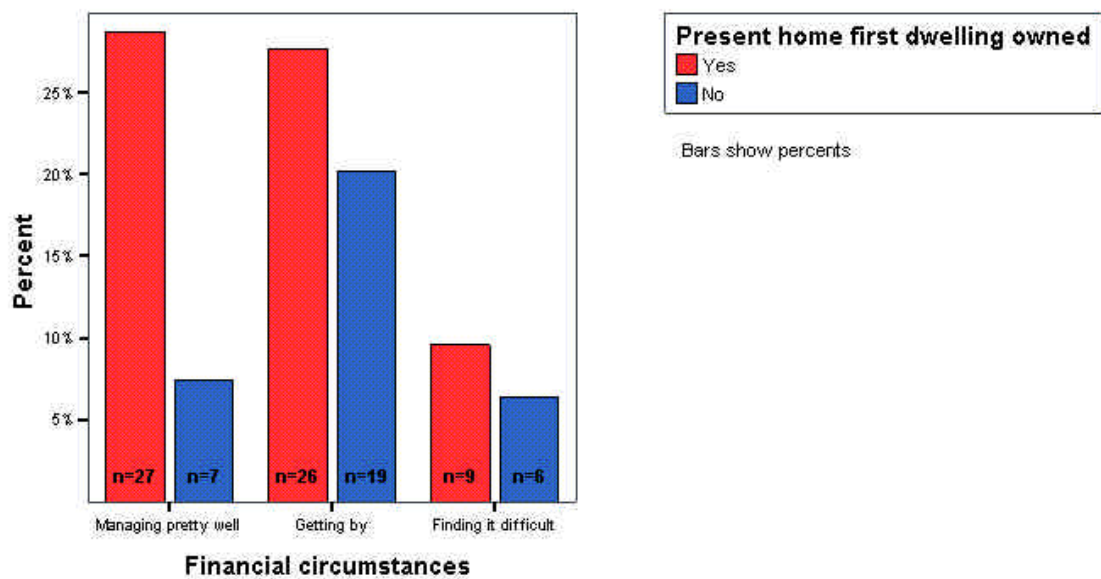
Some 70 percent of respondent's were salary earners with 12 percent self-employed. Forty four percent had a minimum gross weekly income of \$700 a week. The majority of respondents (42 percent) were employed in a professional or semi professional capacity. In line with ABS estimates (ABS 2000b) some 38 percent of respondents have held their present job for less than two years while about 60 percent have held their present job no longer than four years. Some 38.5 percent have held at least two full time jobs in the last five years. In the short term some 69 per cent of respondents were either "not at all concerned" or

considered job security a minor concern over the next 12 months. In general existing homeowners expressed greater concern about their job security than first time buyers, particularly over the next 5 years. Overall 38.6 percent of respondents were either “quite concerned” or “very concerned” about their job security over the next 5 years.

### Financial circumstances

From a sample of 94 respondents, 36 percent considered themselves to be “managing pretty well” financially, 45 percent described themselves as “getting by” while 16 percent were finding it difficult financially (Figure 1). Of the 36 percent that were managing pretty well, 28 percent were first time buyers and only seven percent existing owners. First time buyers would appear to consider themselves to be managing better on the whole than existing purchasers. Overall some 43 percent of first time buyers described themselves as “managing pretty well” compared to 21 per cent of existing owners. Such a result is to be expected given that first up home purchase is normally predicated upon financial well being. Another 41 percent of first time buyers described themselves as “getting by” financially (Figure 1). At the same time about 40 percent of respondents had enjoyed an increase in income over the previous 12 months. This group represented both first time buyers and existing homeowners.

**Figure 1 Financial circumstances**



### Satisfaction with house purchase

Eighty percent of respondents felt that their most recent house purchase reflected what they had been looking for. There did not seem to be any evidence of compromise in the purchase. When offered various suggestions about differences between actual purchase and what purchasers had anticipated buying, most were rejected. These included items with respect to price, location and dwelling type.

## Renting versus buying

It has been suggested that attitudes to tenure may be changing in Australia. As a significant proportion of first time buyers had rented privately before purchase attitudes to both tenures were sought. These attitudes were then compared to existing homeowners. It is recognised that in home purchase, first time buyers are already identifying strongly with the advantages of the tenure. In terms of average scores based on a 5 point Likert scale ranging from “strongly disagree” to “strongly agree”, the only significant difference between groups would appear to be in their attitude to purchase for others to rent. First time buyers on average agreed more strongly than existing homeowners, that buying for others to rent was a good idea. The majority of respondents (35 percent) “strongly agreed” with buying a home as soon as you could afford to, while 54 percent “disagreed” or “strongly disagreed” that buying a home really ties you down. However most (40 percent) “agreed” or “strongly agreed” that owning a home does tie up your money though the majority of householders (36 percent) were uncertain about whether renting allowed you to invest your money in other ways. Sixty six percent believed that buying was cheaper than renting over time though some 28 percent of respondents “agreed” or “strongly agreed” that buying a home was a substantial risk. This presents a somewhat mixed picture of attitudes to housing investment. On the whole householders would seem to still consider house purchase to have significant advantages over renting though these may not lie in the realm of financial return. At the same time there were a number of respondents, masked by this statistical overview, who expressed great concern at their recent house purchase but felt financially compelled to stick with their decision.

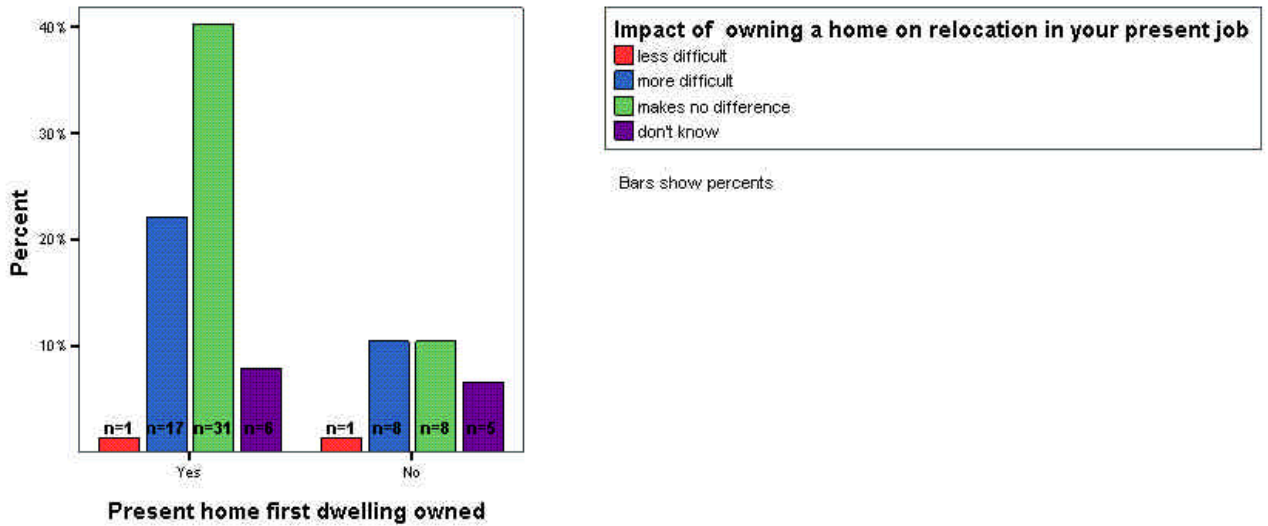
## Timing of last move

Respondents were asked to explain the timing of their most recent move. Based on a 5 point semantic differential scale of “not important” to “very important” both first time buyers and existing owners considered price affordability a “very important” issue (61 percent) as well as nominal low interest rates (46 percent) and more flexible lending arrangements (37 percent). For first time buyers on average the saving of an adequate deposit was “important”. For the group as whole employment related items such as relocation (90 percent), pay rise (77 percent) or new employment (77 percent) were on average “not important”. At the time of the survey the introduction of a GST was considered “not important” by 71 percent of respondents with respect to the timing of their home purchase. Overall for the majority of respondents explanations for the timing of their recent purchase were centred on a desire to have their own place, to own a home or, to have more space. As might be expected access to schools and a wish to upgrade were “important” items for existing owners. A proportion of existing owners moved to achieve lower housing costs. Overall job relocation (93 percent of responses) and change in employment (82 percent of responses) was considered “not important” by householders in the timing of their recent purchase.

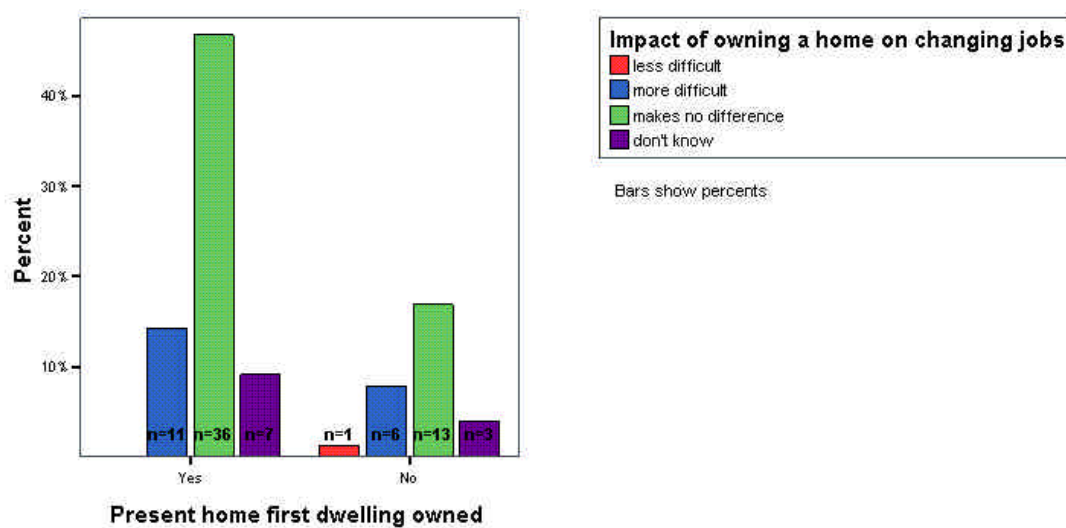
## Impact of home ownership on job relocation

Explicit questions were asked about the impact of home ownership generally on relocation in an existing job or on changing jobs. Most existing and first time buyers believed it made no difference to job relocation (Figure 2) or changing of employment (Figure 3). These findings tend to support earlier responses with regards to timing and reasons for house purchase.

**Figure 2 Impact of home ownership on relocation**



**Figure 3 Impact of home ownership on changing jobs**



**Impact of job security on home ownership**

However when asked about the influence of job security on items such as the size of loan that was borrowed (Figure 4) or purchase price paid (Figure 5) most suggested job security had some or even significant influence on these decisions.



Figure 4 Job security and size of loan

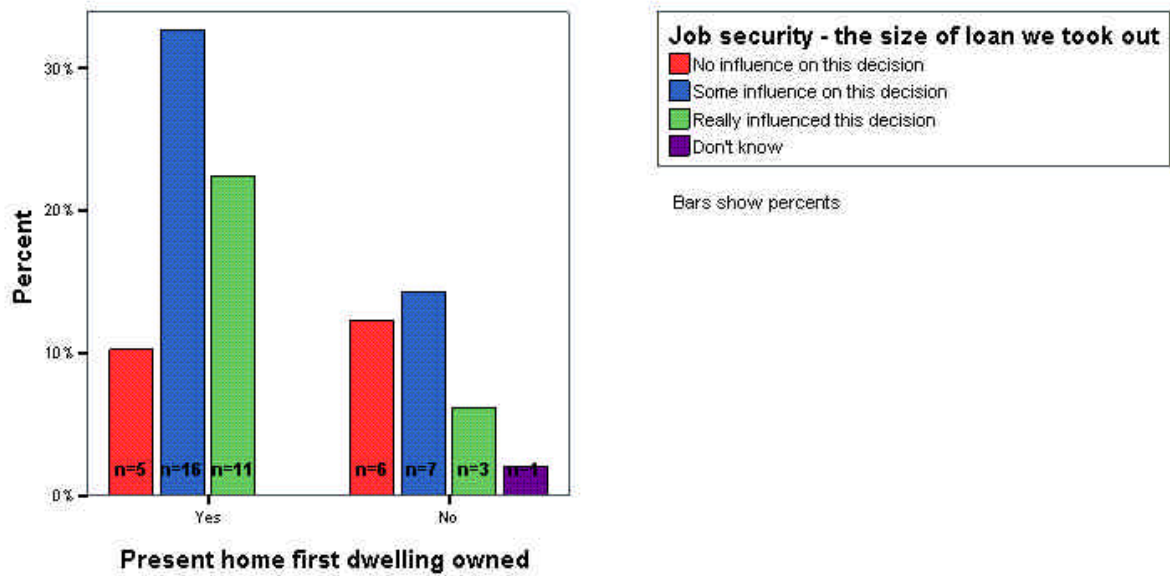
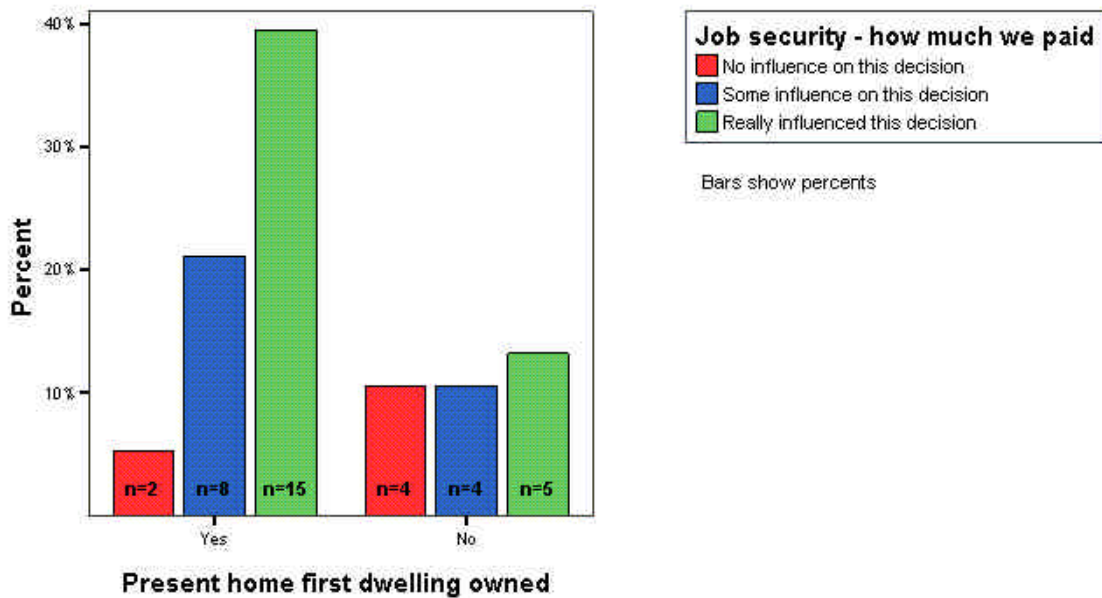


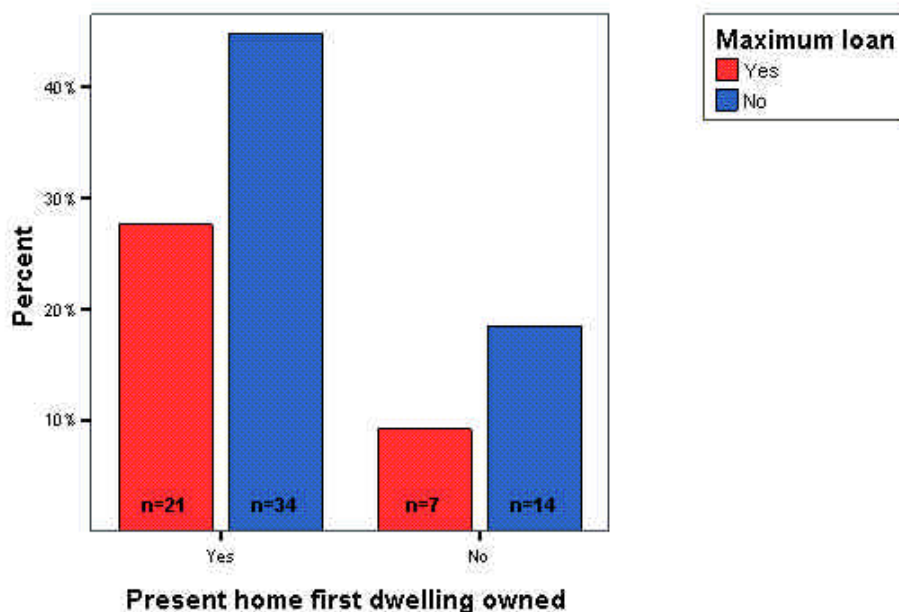
Figure 5 Job security and house purchase price



### Housing loan arrangements

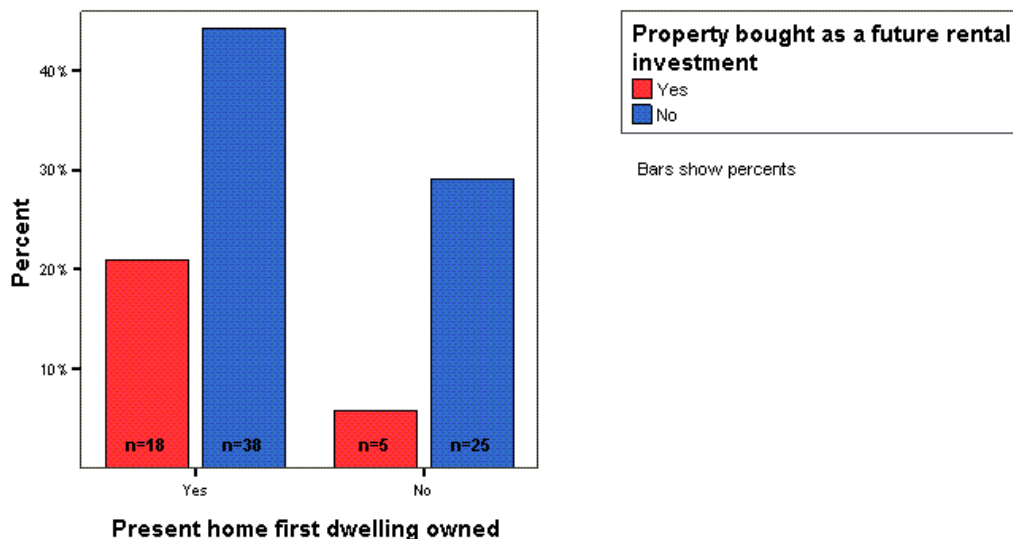
Sixty percent of households had obtained their housing loan from a bank, the next largest group (15 percent) from a mortgage manager. The majority (45 percent) had taken out a loan based only on variable rates. Almost 16 percent had taken out a loan for 15 years or less, though the majority (54 percent) had taken out a 25-year loan. Seventy one percent of households had only one contributor to the mortgage. When asked whether they had taken out the maximum loan available to them 63 percent of respondents had not (Figure 6). Explanations offered by both new home buyers and existing owners included not needing to, not wishing to, wanting to travel, wanting to invest in other areas. This supports earlier responses with regard to attitudes to renting over home ownership in terms of risk and tying up of money.

**Figure 6 Maximum loan**



Of interest is the proportion of buyers who anticipate renting out their present dwelling. Over one quarter of respondents suggested their property had been bought as a future rental investment (Figure 7).

**Figure 7 Property as a future rental investment**



## Conclusion

The existing sample size does not allow for significant comparison to be made between first time buyers and previous homeowners. As well a larger data set will allow for disaggregation of results based on state. There is the expectation of substantial differences in outcomes between Sydney and the other two cities. For now it would appear that on the whole, employment related items such as job security are not considered as important in terms of when and if to purchase a home, as current interest rates, affordable prices and the ability to raise a deposit. However consideration of risk by purchasers is apparent in terms of amounts borrowed, prices paid and debt to equity ratios. Some of these issues will probably be the most interesting to explore. For a proportion of first time buyers house purchase is seen as a means of future income. On the whole householders do not believe their job mobility to be compromised by home ownership. Nor do they believe their recent house purchase to be less than expected despite greater insecurity of income.

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