

The Evolving Great Australian Dream

2018 Whitepaper

June 2018



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Foreword

Owning a property has long been a cornerstone of the Great Australian Dream however with the growth in house prices, especially in metropolitan areas, the dream is evolving to encompass more options than the traditional freestanding home on a quarter-acre block.

After a happy healthy family and the financial freedom to do what they want in life, Australians dream most about owning a house.

In a bid to understand Australians' new attitudes to the *Evolving Great Australian Dream*, we partnered with CoreData to survey more than 1,000 Australians, investigating their thoughts and opinions on getting into the property market and exploring the paths they are prepared to take to secure a property.

Our study revealed this deep cultural connection to property and financial security is so embedded in our culture that Australians are prepared to make long term sacrifices and tread new pathways in a bid to achieve home ownership.

For many first time buyers, the biggest hurdle they face is saving a sufficient deposit that amounts to 20% of the purchase price, and this has been made even harder by strong property price growth, which has outpaced wage growth over recent years.

To put the challenge into perspective, today Australians need to save and sacrifice for many years to put down a deposit of \$100,000 to secure a median priced home at \$556,384. They would also need to have additional funds to cover costs such as legal fees and stamp duty.

This is at a time when wages have stagnated and interest rates aren't rewarding savers.

However, there's never been a better time to buy, with the Reserve Bank of Australia holding the official cash rate at the record low of 1.5%, which is lowering the cost of mortgage repayments.

But as our whitepaper finds, homeowners should not grow too comfortable with rock-bottom rates and should be prepared for mortgage repayment increases when interest rates increase in the longer term.

Our research highlighted that less than a quarter (23%) of first home buyers purchased a property by themselves, compared to 76% who said they bought with a family member, partner or friend.

Another important area we look at in our whitepaper is the type of property Australians are choosing to live in.

Over the last few years, we have seen a dramatic surge in the number of people embracing apartment living, especially in metro centres where many new blocks offer a significant lifestyle upgrade with facilities such as pools and gyms.

But while a lot of Australians are happy to buy and live in an apartment, the data continues to suggest others are only choosing apartments because they believe they can't yet afford the traditional dream of a free-standing home.

With little in the way of assistance for property purchasers in the recent Federal Budget and persistently high entry costs in a low wage growth environment, we explore what the Evolving Great Australian Dream looks like today, and how with a few money hacks it is still possible to achieve your property dreams.

Key Take Outs

This year we saw shifting attitudes toward living in apartments.

Almost **9 in 10** Australians believe it is increasingly difficult for people to achieve the traditional 'Australian Dream' of owning a free standing house with a backyard



Lifestyle is the most important factor in deciding which property to buy



Won't consign to the past the dream of a free-standing house



An apartment doesn't carry the same sense of home as a free-standing house

Key Take Outs

A deeply ingrained cultural connection to property has driven the 'Evolving Great Australian Dream'. Yet our research revealed holding onto the dream of purchasing a home requires a number of sacrifices. A significant number of Australians are willing to compromise by moving to more affordable suburbs or a smaller property.

It's understandable then why Australians are adjusting their expectations

More than **4 in 5** prospective buyers still feel that they will be forced to make a compromise when buying their first home, including buying a smaller property or a more distant suburb than they would like

Identified savings, term deposit accounts & reduced spending as key strategies



Used a guarantor i.e. a parent

Will need to pay LMI to get into the property market



The Path To Purchasing

Despite cooling property prices, nine in ten Australians feel it's tough to get into the property market. In an increasingly complex lending environment, more home buyers are seeking the expertise of professional mortgage brokers first when they purchase a home or investment property.



28% saw a mortgage broker first when they purchased a home or investment property (up from 16% in 2017)



44% younger Australians (aged 25-45) saw a mortgage broker first when buying a property (up from 30% in 2017)



44% saw their current bank or financial institution first (down from 61% in 2017)



Australians are recognising the value that brokers offer and this is likely to grow

Australians are recognising the value that brokers offer and this is likely to **GROW**

Over 9 in 10 prospective home buyers feel it is hard to get into the property market



Buyers & Sellers Dislike Auctions

Our research identified that most Australians think property auctions are stressful and tend to create pressured sales and purchases.

As such, the vast majority of Australians said they would prefer to buy via a private sale as opposed to an auction. Surprisingly, the majority of property sellers said they would prefer a private sale as opposed to an auction.

Most Australians would prefer to buy or sell property via a private sale as opposed to an auction

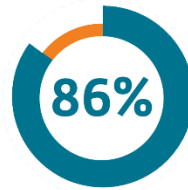
/// (CLOSE TO 9 IN 10 AUSTRALIANS BELIEVE THAT;



Auctions are stressful for prospective buyers



Auctions tend to create pressured sales and purchases



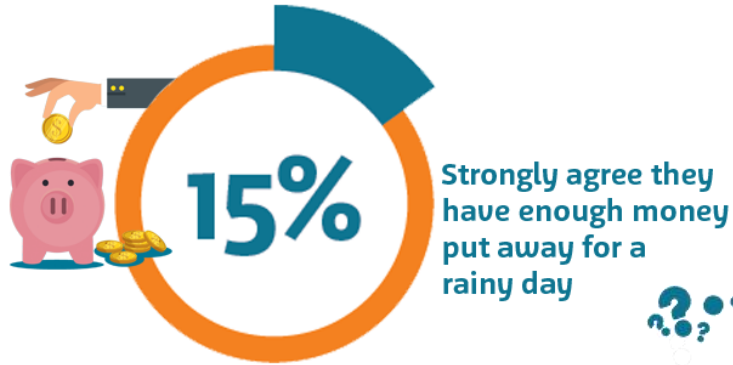
Auctions are stressful for vendors



Furthermore, the majority would prefer if the auction system was a thing of the past

Holistic Wealth

Worrying about money is impacting on Australians' financial wellbeing with 26% saying they worry about money each week and 23% worry every day. Less than one in six (16%) say they rarely or never worry about money and 54% said they sometimes worry about what their family would do if something happened to them.



Financial wellbeing means a life free of money worries which aids all areas of our lives including peace of mind, physical and mental health, family life and work satisfaction



Get Money Smart

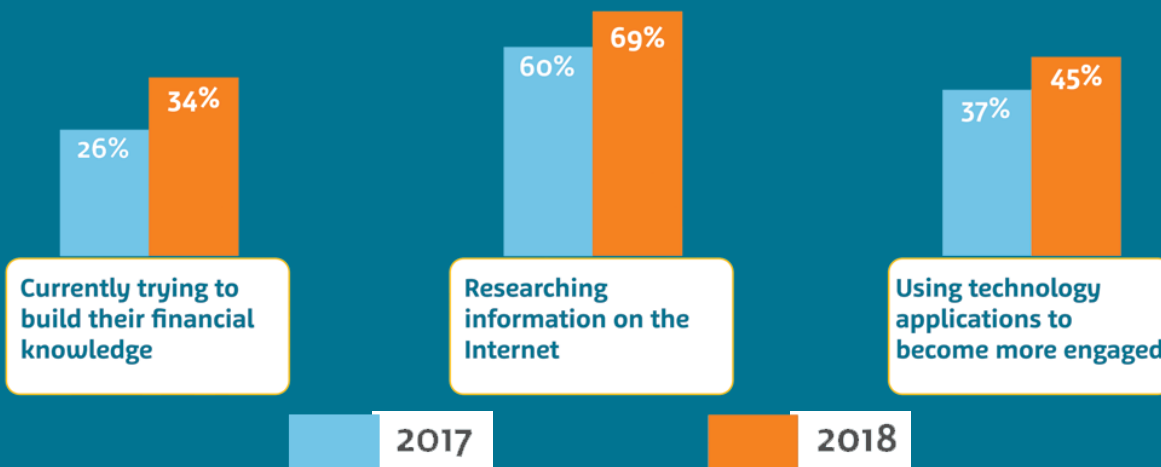
Most Australians (90%) think if they don't get 'money smart' they will get left behind. This has increased by 18% on last year. The good news is that fewer Australians (27%) are preferring to ignore financial decisions altogether (last year 33% couldn't face their finances).

A vast majority of Australians see themselves as 'money smart' and are confident in making most financial decisions. However, Mortgage Choice research also revealed that overall Australians rate their financial knowledge as average or below average.

SO WHAT ARE WE DOING ABOUT IT?

Encouragingly, Australians are increasingly doing a range of things to help make their dreams come true

COMPARED TO LAST YEAR, MORE AUSTRALIANS SAY THEY ARE;



An increasing number of Australians now understand the mortgage and refinancing options available to them

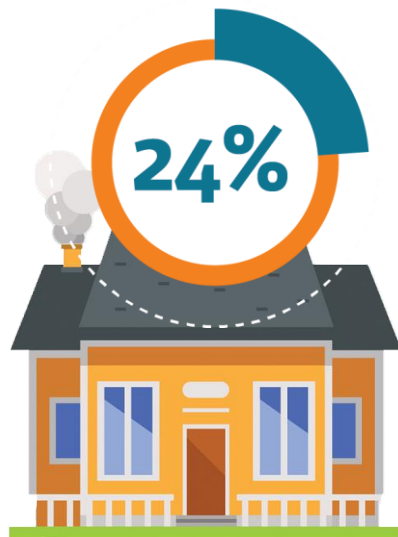


Furthermore, Australians tend only to follow a 'rough' budget or have no budget at all. They also admitted to avoiding key financial decisions on how much they should save or how they will pay off debts.

The Value of Advice

Today we lead financially complex lives in an unpredictable economic environment and we tend to have bigger aspirations than those of our parents and grandparents. To enjoy their money and avoid worry, over a third of Australians (36%) said they were seeking professional advice to improve their financial wellbeing.

4 in 10
said they sought advice because
they were approaching
retirement



WERE BUYING A HOUSE



WANTED A REGULAR REVIEW
OF THEIR FINANCIAL SITUATION

14^{PERCENT} WERE DRIVEN BY TAX IMPLICATIONS

AMONG THOSE
SEEKING PROFESSIONAL
ADVICE,
MORE THAN 2 IN 3
FEEL GETTING ADVICE
WAS EXTREMELY OR
VERY WORTHWHILE



2019 Interest Rate Hikes

In a historic low interest rate environment, Australians not in the habit of reviewing their mortgage, may be caught out by mortgage repayment increases in 2019.

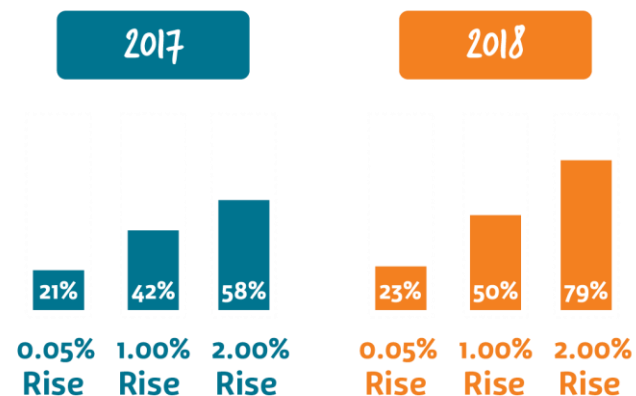
While a third of Australians feel that interest rates will increase steadily, almost a third thought they would remain the same, or go south.

In one of the more worrying findings, we found that a 2% increase in mortgage interest rates would have a considerable impact on 79% of Australians.



Almost 2 in 5 have not reviewed their home loan since they got it

Owners are also increasingly wary of considerable financial impact from future rate rises



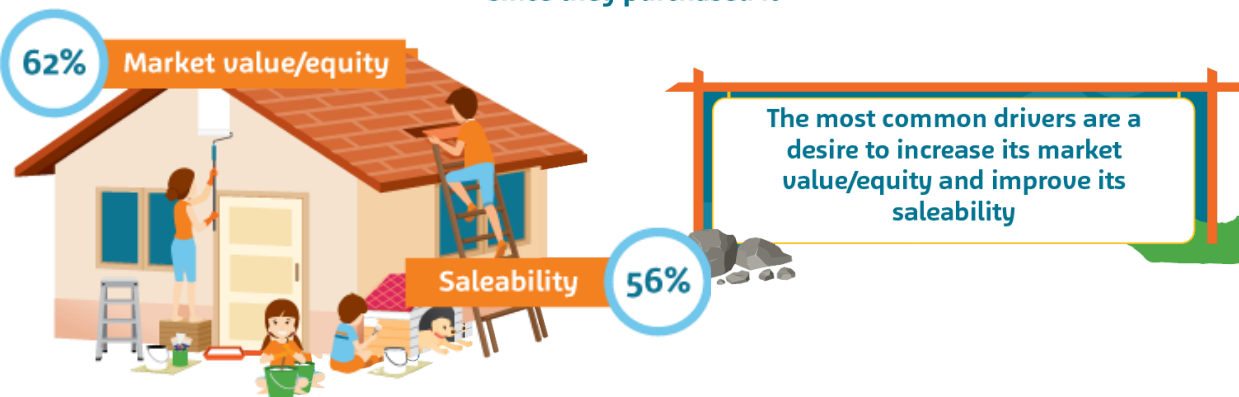
Renovating To Add Value

A desire to increase their property's market value/equity and improve its saleability was the most common driver to renovate.

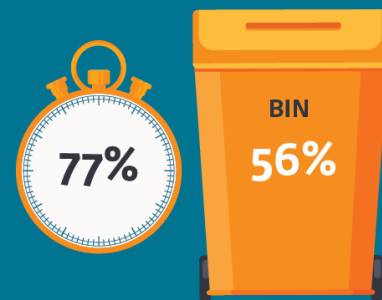
Nearly a fifth (19.6%) considered moving or selling their home or investment property before opting to renovate. Over half (51%) said liking their current location was the biggest factor in their decision to stay put and renovate.

The most popular renovations Australians undertake are kitchens and bathrooms because of the increased value they bring. However, Australians find renovations are rarely stress-free and the majority are being exposed to frustrations or 'pet peeves' such as delays in starting and/or finishing a job and dirt and mess.

More than half of owners have renovated their property since they purchased it



The majority are also exposed to range of frustrations including everything taking much longer than expected and excessive ongoing mess



TOP TIP

Renovation can be a great way to build equity in your home but remember to carefully consider the potential costs and when is the best time to do it

Renovations are rarely stress-free, with more than 1 in 3 renovators admitting to going over their planned budget

Case Study

LMI opened the door to our dream family home sooner, rather than waiting to save the required deposit.

Two in five first home buyers don't understand what Lenders Mortgage Insurance (LMI) is but for Mortgage Choice customers, Lenka Mrkvickova and Miro Mrkvicka it opened the door to a dream family home on the Gold Coast.

After having rented in Mudgeeraba, on the Gold Coast, Lenka decided it was time to buy a family home. Upon seeing a number of open homes, she fell in love with a two-storey townhouse in a gated community complete with a pool and tennis court.

Luckily the home was within their price range and the couple felt they would not be stretching themselves too thin with loan repayments.

"We decided to see a mortgage broker as we had no previous experience with buying a property and we felt that discussing our options with a professional was the right choice for us".

The couple knew before speaking to the broker that they may need to use LMI to secure their loan and allow them to get into their home now rather than wait, to save the required deposit.

"The entire process was very positive and our broker factored in LMI, so we knew what our options were," said Lenka.

The broker kept Lenka and Miro in the loop every step of the way. All they needed to do was provide some documentation and the broker team did all the leg work.

Lenka says they chose not to go straight to a lender as they are too busy working and juggling busy lives, and felt it would be too much work to assess different lenders' policies and products themselves.

"We didn't want to take our chances by going it alone, and preferred to speak to someone qualified who had industry experience who would maximise our chances of a home loan approval".



Lenders Mortgage Insurance (LMI) is designed to protect the lender in case of mortgage default and is required if the buyer has less than 20% deposit and has no guarantor

- However, **only 2 in 5** owners correctly understood LMI
- Among those who actually paid LMI, **less than 3 in 5** correctly understood it
- This drops to **only 1 in 3** among prospective buyers who are likely to need it



Top Tips for Property Buyers



Your mortgage broker is on hand to answer any of your questions relating to home loans and property purchase but here we have compiled a list of top tips to help you get onto the property ladder.

✓ Achieving your property Dreams:

If you haven't saved a sufficient deposit that amounts to 20% of the purchase price consider engaging a guarantor or paying Lenders Mortgage Insurance (LMI), to help you get into the property market.

Remember that LMI protects the lender not you the borrower, so be sure to research the ramifications should you not be able to keep up with your mortgage payments.

✓ Get Money Smart

Don't put off financial decisions about how much you should be saving or investing. Make your money work harder for you now.

Take control and consider how you are going to pay off your debts and build your capital.



✓ Don't pay too much:

Mortgage rates are changing all the time, so keep on top of your home loan interest rate to ensure you get a competitive deal.

Consider how rate increases may affect you and undertake an annual review of your home loan - it could save you thousands of dollars a year.

✓ Track your Finances

Build your financial knowledge by researching on the internet or seeking independent financial advice.

Try using an online tool or app to track your finances and establish goals.



Top Tips for Property Buyers

✓ Renovations

If you plan to put your property on the market in the near future, consider renovating your kitchen or bathroom just prior to sale, to create the greatest financial gain. Stick to a budget and don't get swept away by emotion while renovating. Remember renovations are stressful and can test any relationship, so consider hiring professional tradespeople.

✓ Buying at Auction

Private treaties are an important alternative to buying or selling property at auctions so make sure you explore your options and find out what works for you. Remember to do your due diligence (building & pest inspections) before auction day - it's too late once the hammer falls.

✓ Keep the Dream Alive

Be prepared to make sacrifices to get into the housing market, including budgeting and savings schemes, coupled with moving to affordable suburbs or smaller properties. Consider all your options such as engaging a guarantor, or paying Lenders Mortgage Insurance to make up for the shortfall on your 20% deposit.



About the whitepaper

Mortgage Choice's '*Evolving Great Australian Dream*' whitepaper surveyed 1,013 Australian women and men in March 2018 about their experiences with property. It is the second of two whitepapers that explore the ongoing alignment Australians have between the great Australian dream and their real life experiences with home ownership.

Respondents to the survey were aged 18 and upwards and several demographic subgroups have been analysed including first home buyers, home owners, owner occupiers and investors. We also identified generational cohorts from Millennials, Gen-Y, Generation X and Baby Boomers. Data was also analysed by other variables such as gender, income and geographical location.

Respondents were not only asked whether or not the Australian dream still existed, but were asked to identify how the Australian dream had evolved and where it was headed. In addition, the whitepaper sought to investigate what the term 'financial wellbeing' meant to Australians.

The Evolving Australian Dream whitepaper provides invaluable insights into how the Australian dream had evolved and where it was headed amidst a sea of cultural, political and economic change.

In addition, the whitepaper sought to investigate what the term 'financial wellbeing' or a life free of worry meant to Australians; and how Australians' attitudes towards money and property has evolved over the past few years.

Notably, the whitepaper shows the concept of home ownership continues to be deeply embedded within the Australian mindset and is directly linked with achieving the great Australian dream.

Furthermore, it found Australians are willing to try different methods in order to achieve their dream of home ownership.

However, as per the research, the vast majority of respondents believe the great Australian dream is under pressure and has evolved to include different types of property ownership and property purchasing methods – and these provide a pathway to financial security.

Mortgage Choice aims to support more Australians achieve their dreams by helping them make better choices for a better life.

