

Streets Ahead

Genworth Homebuyer Confidence Index

Genworth 





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Key research findings

Welcome to the fifth edition of the Genworth Homebuyer Confidence Index (Genworth HCI), which measures the sentiment of Australian mortgage holders and would-be mortgage holders about their own mortgage and the overall mortgage market.

In this September issue, the key findings include:

- **National homebuyer confidence reaches post-GFC high:** with the Genworth Homebuyer Confidence Index up 2.2% to 98.4—its highest level since 2007 and 8.0% above its low of 2008.
- **Australians think it's a good time to buy:** nearly half (49%) of Australians believe now is a good time to buy a home, a new high since Genworth started the Index and a 10% increase from March 2012. Queensland is the most positive of the states with 54% of respondents agreeing now is a good time to buy.
- **Mortgage stress eases:** this is the second consecutive survey in which mortgage stress has fallen, with the number of survey respondents confident in their ability to make mortgage repayments at its highest level (82%) since the GFC, up 4% since March 2012.
- **First homebuyers see house prices as less of a hurdle:** in an environment of improved affordability and lower interest rates just 11% of potential first homebuyers (FHBs) surveyed said they were deterred from buying because they were unable to save for a deposit (down from 30% in March 2012) and just 5% said they would be unable to afford repayments (down from 19% in March 2012).
- **Sentiment changes by state:** all states except Tasmania saw increases in the Genworth HCI, with Victoria seeing the largest, up 7.7% from a low of 92.3 in March 2012, overtaking New South Wales and Queensland. Although Western Australia had the smallest increase it held on to its lead.
- **Recent university graduates more property savvy:** recent university graduates (those who have graduated in the last five years) spend less time saving for a deposit and save for smaller deposits than the average Australian. Just 13% of recent graduates spent more than four years saving for a deposit, compared to the recent FHB (those who bought their first home in the past year) and national averages of 16% and 22% respectively.





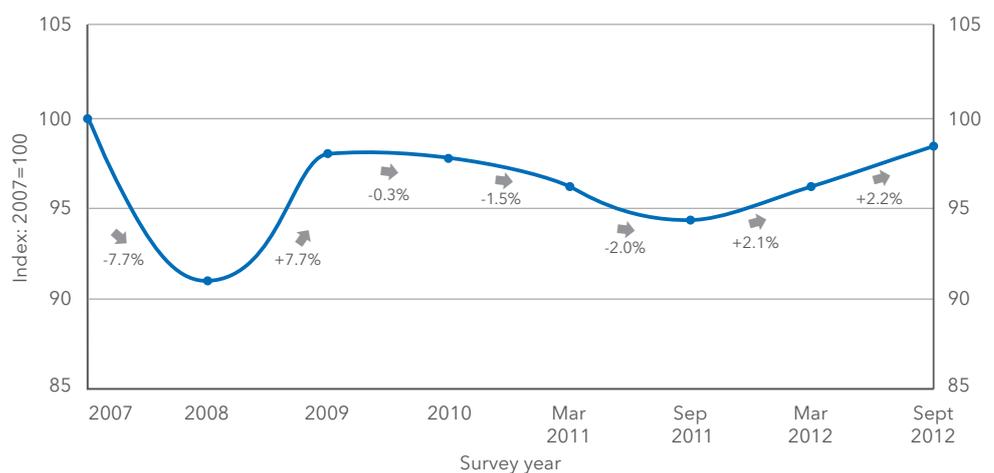
About the Genworth Homebuyer Confidence Index

The Genworth HCI is based on five factors describing the circumstances of respondents:

- The proportion of monthly income used to service debts
- The maximum loan-to-value ratio (LVR) borrowers are comfortable in borrowing
- Their repayment history over the last 12 months
- Their repayment expectations for the next 12 months
- Whether they consider now a good time to buy a home.

Chart 1
Genworth Homebuyer
Confidence Index

Source: Genworth





Main themes

Affordability continues to improve

- Australians are increasingly likely to believe that now is a good time to buy, with one in two (49%) agreeing with this claim, up from 39% in March 2012.
- Improved affordability is likely to be driving this optimism, with the Housing Industry Association Affordability Index rising 1.1% in the June 2012 quarter – up 10.6% from June 2011.
- An environment of improved affordability and lower interest rates means house prices are now less of a hurdle for FHBs. Just 11% of potential FHBs surveyed say they are deterred from buying because they are unable to save for a deposit (down from 30% in March 2012) and just 5% said they would be unable to afford repayments (down from 19% in March 2012).

First homebuyer confidence dips slightly

- Although half (54%) of surveyed FHBs believe it is a good

time to buy a home, up 2% from March 2012 and 30% from 2010, FHB confidence fell marginally (0.5%) from March 2012, to 98.5, remaining just ahead of the national average of 98.4 (see Chart 2).

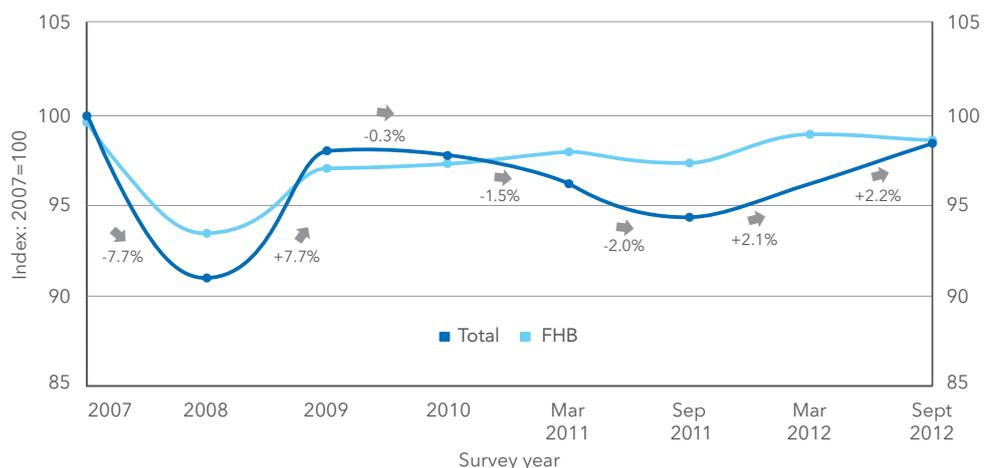
- The proportion of surveyed recent FHBs who had experienced mortgage stress in the last 12 months fell from 16% in March 2012 to 13% in September 2012, but the proportion expecting difficulty in the coming year rose from 16% to 18%. Recent FHBs are more likely to expect to be affected by changing family circumstances (illness, injury, divorce, maternity leave), as well as high debt levels, than average in the next 12 months.

Compromise and affordability in FHBs

- When asked whether they would be willing to pay more to stay in their desired area, almost three quarters (71%) of surveyed FHBs say they would, with the median extra amount they would consider paying being between \$20,000 and \$30,000.

Chart 2
Genworth Homebuyer
Confidence Index (FHB)

Source: Genworth





- Changes to FHB incentives in some states could be affecting FHB confidence more broadly. New South Wales, where the FHB stamp duty waiver on existing homes was removed in December last year, has one of the lowest proportions of FHBs who think that now is a good time to buy a home (50%). On the other hand, in Victoria and Queensland, where new stamp duty waivers have been introduced, the proportion of FHBs who believe it is a good time to buy is at 61% and 55% respectively.
- Around one third (32%) of potential FHBs say that the changes to the FHB grant in NSW would make them more likely to consider or buy a new property, rather than an existing property.

Recent graduates are property savvy

- Surveyed recent university graduates spend less time saving for a deposit and, in addition, save for smaller deposits than the average Australian. Just 13% of recent graduates spent more than four years saving for a deposit, compared to the recent FHB average of 16% and the national average of

22%. One in five surveyed graduates had a deposit of more than 20% when buying their first home, compared to 22% of other FHBs and 27% nationally.

- Despite spending less time saving for a deposit, recent graduates are not seeing high levels of mortgage stress, though they are more stressed than most other FHBs. Almost one in five (19%) surveyed recent graduates had experienced difficulty meeting repayments in the past year, above the FHB average of 13%. Recent graduates do have lower levels of debt, with 26% spending more than 50% of their income on debt compared to the FHB average of 28%.
- When it comes to buying property, recent university graduates are particularly likely to be interested in investing. Among surveyed graduates, 12% say they own only an investment property, while the overall national average is just 5%.

Chart 3
Percentage of potential FHBs who find each property type appealing

Source: Genworth

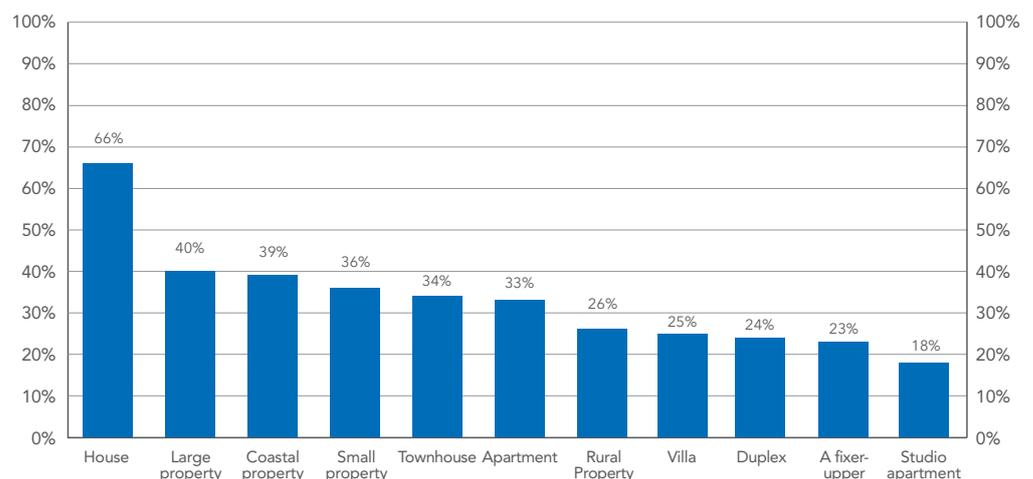


Chart 4
Percentage having difficulty meeting repayments in all or some months

Source: Genworth



Mortgage stress eases

- On the back of a decrease in mortgage stress in March 2012, mortgage stress fell again in September, likely driven by falling interest rates easing the pressure on households. The proportion of surveyed mortgage holders who experienced difficulty meeting repayments in the last year fell from 22% in March 2012 to 18%, with the proportion of borrowers expecting difficulty meeting repayments in the coming year falling from 22% to 19% over the same period (see Chart 4).
- Despite high profile public debate around the carbon tax, the cost of living is less likely to be causing stress now than in March 2012. It does, however, remain the leading cause of stress, followed by other factors such as interest rates (see Chart 5).

Victoria rebounds but Western Australia stays ahead

- All states bar Tasmania saw increases in the Genworth HCI in September 2012 (see Chart 6). Tasmania went against the trend and decreased from 98.5 as at March 2012 to 94.6 in September 2012.

- Victoria saw the largest increase in the Genworth HCI, up 7.7% from a low of 92.3 in March 2012, overtaking New South Wales and Queensland (see Chart 6). Victorian borrowers are among the least likely to be experiencing mortgage stress, and among the most likely to believe that now is a good time to buy a home (see Chart 7). Lower cost of living increases in Victoria, as well as new additions to FHB incentives in the state and falling prices, could be contributing to improved sentiment there.
- South Australia saw a 3.3% increase in the Genworth HCI, the second highest among the states, to 99.4, the same as Victoria (see Chart 6). South Australians are among the least likely to have experienced mortgage stress in the past year, at 17% (down from 23% in March), and are more likely to believe it is a good time to buy a home than in March 2012.
- Although Western Australia had the smallest increase in confidence it held on to its lead, with surveyed Western Australian borrowers being the least likely to have experienced, or to be expecting, difficulty meeting repayments in September 2012.

Chart 5
Top five drivers of mortgage stress (percentage of those expecting difficulty meeting repayments)

Source: Genworth

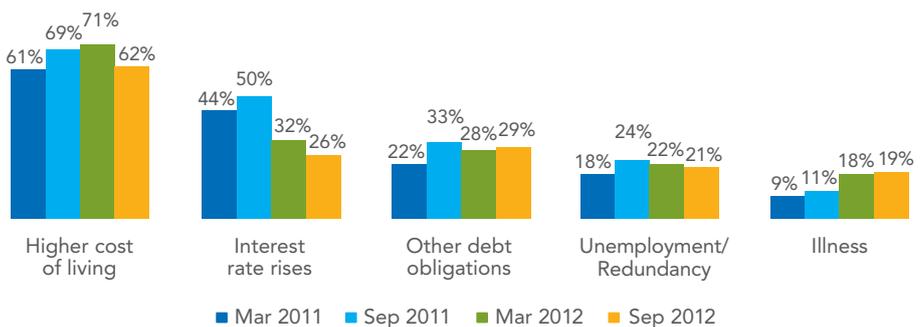
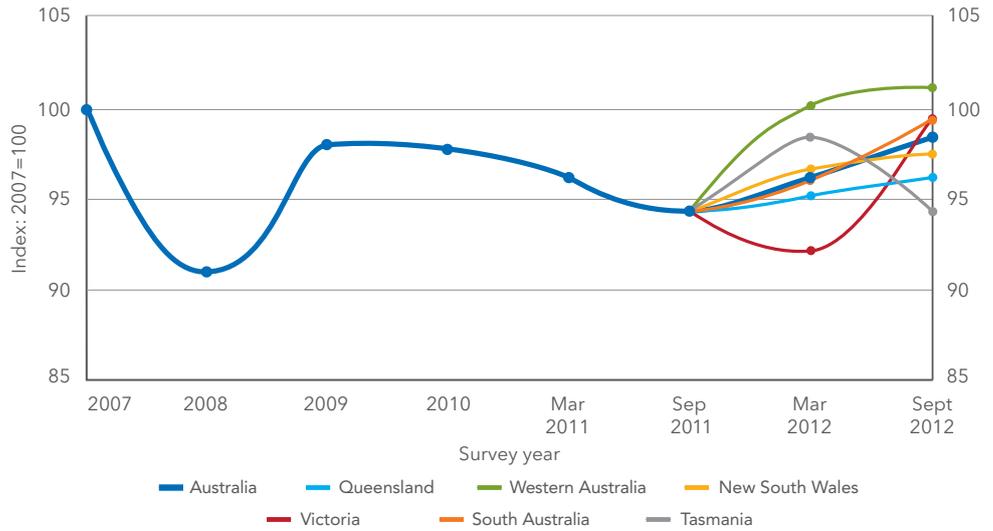


Chart 6
Genworth Homebuyer Confidence Index by state

Source: Genworth



- Queensland residents, on the other hand, have the lowest levels of confidence after Tasmania (see Chart 6). Surveyed Queenslanders have the highest debt levels—with one third spending more than 50% of their income on servicing debt—and the highest expectation of difficulty meeting repayments (23%). While Queensland borrowers are the most likely to believe that now is a good time to buy a home (54%, see Chart 7), high debt levels are likely to deter Queenslanders from taking advantage of this.
- However, Queensland has the highest affordability, according to HIA’s Housing Affordability Index. It is also the state with the highest proportion of FHBs who expect to need a deposit of more than 20% (see Chart 8). Improved affordability may make saving for a larger deposit more achievable in this state.
- Among potential FHBs, New South Wales residents are the least likely to expect to need a deposit of less than 10%. New South Wales is also the state with the lowest affordability. The combination of low affordability coupled

with the perceived requirement of large deposit sizes is likely to be placing a strain on FHBs from this state.

- Tasmania is the only state to experience a decline in confidence (see Chart 6), driven by a decrease in Tasmanian borrowers’ expectations about their ability to make repayments over the next 12 months (down from 81% to 78%). While still high, this goes against the trend in a falling interest rate environment, most likely due to unemployment in the state peaking at over 7.5% during 2012.

Chart 7
Percentage of borrowers, by state, who believe that now is a good time to buy

Source: Genworth

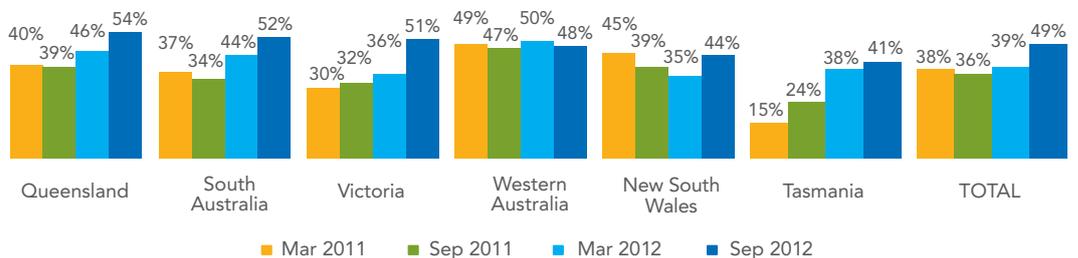
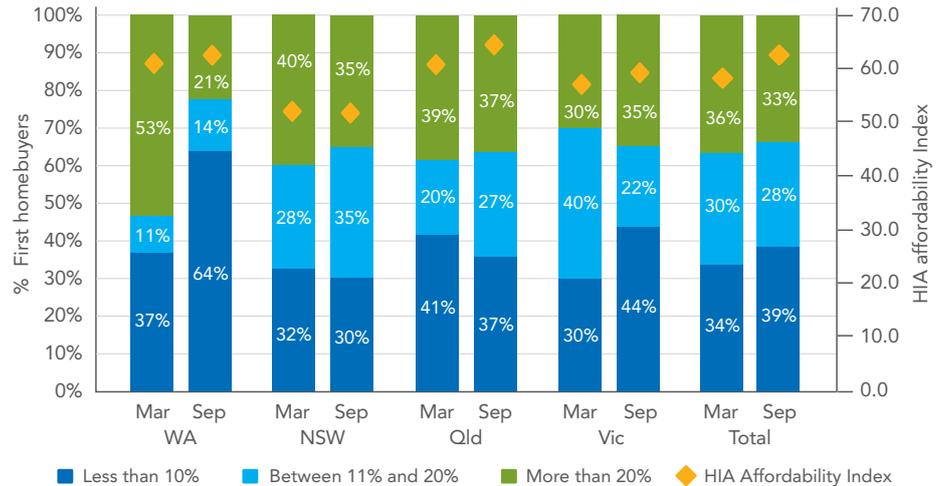


Chart 8
FHB deposit expectations vs. affordability by state

Source: Genworth



Property the preferred investment for super funds

- Purchasing property through Self-Managed Super Funds (SMSFs) is an increasingly popular investment option. As of September 2012, 17% of respondents hold an SMSF, and among those who don't 17% intend to set one up in the next two years.
- Over half (53%) of SMSF holders find residential property an attractive investment (Chart 9) and many are willing to actively pursue property investment through their SMSFs, with 43% saying they would consider investing in residential property through the fund, and around a quarter (26%) unsure whether they would do so.

Online application

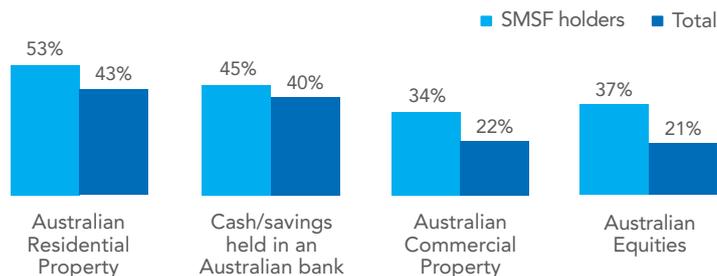
- Only 6% of homeowners surveyed applied for their home loan over the internet, but 18% of potential FHBs surveyed say they would most prefer to apply through this channel, in-line with 19% in March 2012.
- Almost half (45%) of homeowners surveyed, and 37% of potential FHBs, said the optimal online mortgage application

experience would be 'online in conjunction with an in-person meeting.' But preferences are changing, with the proportion of potential FHBs who want to apply 'online only' increasing slightly from 15% in March 2012 to 17% in September.

- Around a third of homebuyers (32%) applied for their home loan through a mortgage broker in both March and September 2012. As a group, investment property owners were slightly more likely to have applied through a broker, at 35%, in September 2012. Mortgage brokers were particularly popular with homeowners aged 25-34, who are likely to be more time-poor, with 38% of them using a broker to apply for their home (compared to the average of 32%).
- The branch remains the most popular channel and, in fact, increased in popularity in September 2012, with 50% of potential FHBs saying they would prefer to apply through a branch, compared to 42% in March. Forty-eight percent of all homeowners say they applied this way in September 2012.

Chart 9
Percentage who find investment vehicles attractive

Source: Genworth





Economic indicators

- Most economic indicators improved between March and September 2012, with the cash rate, unemployment, oil prices and inflation falling and affordability improving.
- Housing affordability improved despite an increase in the average FHB loan size, as interest rates fell and wages increased.
- Altogether, economic factors have meant that more Australian homebuyers are likely to believe that now is a good time to buy than since 2008.

Key economic indicators

Economic indicators*	2007	2008	2009	2010	Mar 2011	Sep 2011	Mar 2012	Sep 2012
Official cash rate ¹	6.25%	7.25%	3.00%	4.50%	4.75%	4.75%	4.25%	3.50%
Inflation ²	2.4%	4.5%	2.5%	3.1%	2.7%	3.6%	3.1%	1.2%
Unemployment ³	4.3%	4.3%	5.8%	5.1%	5.0%	4.9%	5.2%	5.1%
Oil prices per barrel US\$ ⁴	\$66.30	\$127.76	\$67.73	\$75.69	\$96.97	\$91.96	\$109.77	\$96.47
HIA Affordability Index ⁵	52.9	48.7	69.5	52.5	53.5	56.2	58.5	62.5
Average FHB loan ⁶	\$238,600	\$243,100	\$270,200	\$283,300	\$280,800	\$280,200	\$283,100	\$289,400
Genworth HCI¹	100	91.1	98.1	97.8	96.3	94.4	96.3	98.4
Change in Genworth HCI ⁷	- [^]	-8.9%	+7.7%	-0.3%	-1.5%	-2.0%	+2.0%	+2.2%
Key drivers in Genworth HCI ⁷	- [^]	Rising interest rates heading into the GFC	Recovering from the GFC and interest rate cuts	Rising interest rates and expectation of mortgage stress	Disasters leading to increased stress and reduced comfort with debt	Rise in cost of living, experience and expectation of mortgage stress	Increasing comfort with debt and declining mortgage stress due to interest rate cuts	Increasingly see now as a good time to buy due to rising affordability

*As at June each year or the most recent at time of writing, in March 2011 figures are as at February 2011, March 2012 figures are as at February 2012 or the most recent available at time of writing. [^]2007 is the baseline year for the Genworth HCI. Sources: ¹RBA. 2007-2010 as at June of that year. Mar 2011 and Mar 2012 as at March of that year. Sep 2011 and Sep 2012 as at September that year. ²RBA. 2007 as at March 2007. 2008 as at June 2008. 2009 as at March 2009. 2010 as at June 2010. Mar 2011 as at December 2010. Sep 2011 as at June 2011. Mar 2012 as at December 2011. Sep 2012 as at June 2012. ³ABS. 2007-2010 as at June of that year. Mar 2011 and Mar 2012 as at January of that year. Sep 2011 as at June 2011. Sep 2012 as at August 2012. ⁴Nymex. 2007 as at April 2007. 2008 as at May 2008. 2009 as at August 2009. 2010 as at August 2010. Mar 2011 as at February 2011. Sep 2011 as at June 2011. Mar 2012 as at February 2012. Sep 2012 as at August 2012. ⁵HIA-Commonwealth Bank Affordability Report. 2007-2010 as at June of that year, figures based on figures published in December 2010. Mar 2011 as at December 2010. Sep 2011 as at June 2011. Mar 2012 as at December 2011. Sep 2012 as at June 2012. ⁶ABS. 2007-2008 as at May of that year. 2009 as at June 2009. 2010 as at August 2010. Mar 2011 as at December 2010. Sep 2011 as at June 2011. Mar 2012 as at December 2011. Sep 2011 as at June 2012. ⁷Genworth. Analysis conducted by RFI.



Future outlook

Recent rate cuts coupled with improving affordability have helped to boost consumer sentiment in the second half of 2012. As a result, mortgage holders are finding it easier to meet repayments, and homebuyers see it as a good time to enter the market. Despite media concerns over the introduction of the carbon tax and the mining tax, households are optimistic and less concerned about cost of living pressures, with low inflation offsetting taxation concerns.

Amid all this positive sentiment, the Genworth HCI shows that the dream of property ownership is still going strong. Those who are deterred from buying their own home are still investing in property, either because they see it as an attractive investment option or to bring them one step closer to their dream home in their dream neighbourhood. As SMSFs increase in popularity, property investment is becoming even more important.



About Genworth

Genworth Australia is a leading mortgage insurance expert and thought leader in the Australian residential mortgage market, actively engaging on residential mortgage policy development with the key lending institutions, government bodies, local and international regulators and industry bodies. Genworth works in close partnership with over 100 lenders, including three of the four major Australian banks, and has been an important part of the Australian residential mortgage market for many years. Genworth has A\$3.4 billion of investments under management in Australia.

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About RFi

RFi is a strategic research business that delivers research and analysis by identifying and formulating projects within the arena of retail finance. RFi's business model is underpinned by B2B and B2C primary research, a factor which enables RFi to determine the key issues affecting any market.

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Disclaimer

The report is based on a survey of 2000 adults within Australia and while the information contained in this report is current as at the date of publication, it may change without notice. Genworth is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Genworth does not take any responsibility for any reliance on the information contained in this report or for its accuracy and completeness.

Notes

Notes



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