The Bank of Mum & Dad – Intergenerational Transfers and First-time Homeownership in Australia

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Like a number of other countries, homeownership is the dominant form of housing tenure in Australia with around 70 per cent of Australians residing in owner occupied housing. While the period since the Second World War had been generally characterised by increasing home ownership rates, the experience of the past two decades suggests that this trend has stagnated, particularly among younger Australians. Recent data suggest that the proportion of first-time buyers is at historically low levels (Australian Bureau of Statistics (ABS) 2016). There are a variety of demographic and socio-economic reasons for changes in rates of homeownership across cohorts. Younger Australians are attaining increasingly higher levels of education and delaying partnering and fertility decisions. In turn, the formation of independent households is occurring later in the life-cycle as children spend longer periods residing in the parental home (Cobb-Clark and Gorgens 2014). Another potentially important consideration is the relatively high cost of housing in Australia with the period since the mid-1980s characterized by cycles featuring steep increases in house prices that then plateau at successively higher real levels.

From a policy perspective, the significance of home ownership in Australia is shaped by its central role in the retirement income system and the wealth accumulation process more generally. Owner-occupied housing represents the single largest asset in the household portfolio and declines in home ownership potentially have a number of important implications. Tax and transfer policy settings in Australia provide explicit and implicit subsidies that favour ownership as a form of tenure. Unlike other asset classes owner-occupied housing does not attract capital gains tax and imputed rental income does not form part of assessable income. Moreover, homeownership is central to the sustainability and adequacy of the retirement incomes system. While transfer policies including the age pension are means-tested and targeted to those in need, owner-occupied housing is exempt from the asset test that is applied to such transfers. Owner occupied housing has been viewed as an important part of wealth creation and retirement planning over time. If younger Australians find it increasingly difficult to attain homeownership this may have important consequences for the accumulation of wealth and the sustainability of tax and transfer programs (Yates & Bradbury 2010).

One development that has gained increasing attention in light of the decline in the proportion of first home buyers is the potential for parental transfers to facilitate entry into the housing market. It is this development that is examined in this paper. Parental or intergenerational assistance may take a number of forms including direct transfers in the form of inter vivos gifts or bequests. While there is some evidence that parental transfers have become more important vehicles to facilitate entry into home ownership, the evidence remains limited. In general there is little evidence available about the frequency and size of intergenerational transfers or their impact, especially in the context of housing careers. To the extent that there is empirical evidence, it is largely anecdotal, somewhat dated and relies on data that arguably cannot be generalised to the Australian population (Anonymous 2014; Drury 2014; O'Dwyer 2001; King and McDonald 1999; Yeates 2015).

The contribution of this paper is to consider how intergenerational transfers in the form of bequests and inter vivos gifts from parents impact on transitions into first homeownership. While transfers may change the timing of entry into homeownership, it may have other impacts around the size of the down payment required to be accumulated through saving, the value of housing purchased or the size of any loan used to finance a housing purchase (Engelhardt and Mayer 1998). This paper uses a rich longitudinal dataset that includes information on the receipt and value of transfers received in the form of bequests and inter-vivos tranfsers from parents. Using information on the timing of transition into first time homeownership, the analysis in this paper sheds light on how transfers impact on first time homeownership.

The empirical analysis indicates that the receipt and value of bequests accelerate the transition into first-time homeownership. In contrast, inter vivos transfers from parents appear to be used more strategically to facilitate homeownership. Moreover, there is evidence that recipients of transfers borrow less than non-recipients for the purchase of their first home, and, purchase higher priced homes than non-recipients.