WHEN THE PRICE OF HOUSING OUTPACES YOUR SAVINGS...

The challenge of saving for a home deposit in Australia has become increasingly daunting.

In January 2024, the national median asking price for a combined dwelling was **$760,000**. If you are aiming to save a 20% deposit you need to save $152,000.

Fast forward to December 2024 and that median price rose to **$812,933**, pushing the required 20% deposit to **$162,586**.

This represents a staggering increase of **$52,933** in property prices and an additional **$10,586** in deposit requirements over less than a year.

The reality of saving for a deposit

With the average combined salary in Australia sitting at **$120,660**, and assuming a savings rate of **15%** (approximately $18,099 annually), it would take nearly **9 years** to save a 20% deposit for a home at this price.

This situation makes it feel nearly impossible for many Australians to enter the property market.

Lenders' changing attitudes towards deposits

Fortunately, recent data from the prudential regulator indicates that lenders are becoming more open to providing loans with smaller deposits.

While this is encouraging news for prospective buyers struggling to save enough, entering the market with less than a 20% deposit typically incurs lenders' mortgage insurance (LMI). This can create an additional significant financial burden.

Understanding lenders' mortgage insurance – is it the devil we think it is?

LMI is often misunderstood. While insurance is generally seen as beneficial, in this context it protects the lender in case the borrower defaults on their loan - not the borrower.

The cost of LMI can range from **1-5%** of your home loan amount. For instance, if you place a 10% deposit on a home priced at **$812,933**, you could end up paying around **$14,633** in LMI. Since LMI benefits the lender rather than the borrower, it's often viewed unfavourably.

Weighing your options - wait or act now?

The crucial question for buyers is whether to wait and save for a full 20% deposit or to enter the market sooner with LMI. If you can meet certain conditions – for example, entering the market one year earlier and experiencing a capital growth of 4-5% – using LMI could be financially advantageous.

Strategic use of lenders' mortgage insurance

Borrowers should adopt an open minded approach towards LMI and consider its strategic use.

Many lenders now allow buyers to include LMI into their loan amounts, freeing up cash for emergencies or renovations.

However, it's important to note that if LMI is added to the loan, interest will also accrue on that amount. For example, adding a $14,633 LMI fee to your loan could increase the total interest owed by approximately $30,126 over 30 years.

Exploring first home grants

First home buyers should check their eligibility for state or federal government grants and subsidies. This may alleviate some costs associated with LMI and stamp duty.

However, these grants often come with strict income or property value thresholds that can be challenging for young buyers to meet.

The balancing act of saving

With rising living costs making it harder to save for a deposit, many prospective buyers find themselves weighing whether to save for an additional six months or more or pay LMI and purchase now.

Understanding how close you are to different thresholds can help to clarify your decision making process.

Negotiating with lenders

Depending on various factors such as income and location, negotiation with lenders may be possible.

Some banks are now assessing LMI exemptions at the postcode level, favouring affluent suburbs. High income professionals such as lawyers and doctors may find that some major banks will waive LMI altogether for loans in specific high value areas such as Sydney's Rose Bay or Melbourne's Toorak.

The rise of rentvesting

Another trend among first home buyers is 'rentvesting' where individuals purchase investment properties in more affordable markets while continuing to rent in their preferred locations.

This strategy allows them to leverage LMI while entering the market with less than a 20% deposit. Additionally, because these properties are investments, the cost of LMI becomes tax deductible.

Making informed decisions

Navigating the current Australian property market requires careful consideration and strategic planning.

With rising property prices and changing lending practices, prospective buyers must weigh their options thoughtfully.

Whether considering LMI as a stepping stone into homeownership or exploring alternative strategies such as rentvesting or government grants, being informed will empower you to make decisions that align with your finance goals.

In this evolving landscape, working with an experienced finance team – such as ours – may provide valuable insights and support tailored to your unique situation. This may help you turn your homeownership dreams into reality.

Contact us to read **'Parents – How to help your kids'.**

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