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In a house of credit cards

A mental addiction to credit won't allow the younger generation to save for their first home, writes Catherine Cashmore.

AFFORDABILITY has been the word of the week. It's a timely election '' hot word''. One mention of affordability and everyone puts up their hand because no matter what our earning capacity, we all hold debt and crave the unaffordable.

Throwing away the key: More than half of Gen Ys rent while 16 per cent still live at home.

The one difference between our lives now compared to 30 years ago is our attitude towards money. It was highlighted in the bestselling book Rich Dad Poor Dad. Delve back into the history of finance and you'll see at the turn of the 20th century it was all but impossible for the average person to get a loan — the surge in lending that we've witnessed since the 1980s is the result of a gradual transformation in the socialisation of credit and our inclination towards living on debt.

It was an expansion that had to take place. The natural progression of human evolution into the fastpaced world of 20th-century technology forced us to weave a new horizon of risk into our already overburdened lifestyles.

My father shuddered at the thought of borrowing large amounts of cash for anything other than the requirement to put a roof over our heads — an essential need mankind has had since the beginning of time. Now we've progressed into a world where debt is either the road to wealth creation or, in some cases, a sheer cliff drop into bankruptcy. Either way, our enthusiasm to take advantage of this love for credit isn't waning.

The recent calls highlighting the pain felt by first home buyers unable to save have been strong and forthright. Blame is attributed to everything from foreign investment and immigration to housing bubbles and lack of government spending. However, evidence also points towards an innate inability to sacrifice lifestyle and save.

Back to Rich Dad Poor Dad and the lesson of debt is clear. While borrowing to invest is wholly acceptable, taking on debt for life's ''necessities'' (computer, mobile phone, etc) is never recommended.

Veda Advantage data points out the biggest increase in credit card ownership comes from those aged 18 to 24— the new first home buyer age group. For this cohort, spending on credit this year alone has increased 6.1

per cent and this has been mainly for dining out and entertainment. Going without for our 1980s baby boomers was a marker of everyday existence. And it's worth noting that this age group weathered crippling interest rates.

Generation Y has grown up in a world of two-minute noodles where email now looks like snail mail. It's not that they can't save— for a large proportion, their mental addiction to credit simply won't allow them to save. They want it now — or not at all.

I mention this because the latest market research shows the only way our younger generation feels able to purchase homes is when given a deposit by family or friends.

Roughly 70 per cent of Australians own property; however, the larger proportion of this (80 per cent) is an older generation at the high end of the income stream. More than half of Gen Ys rent, while 16 per cent are still living at home. Therefore, there's clearly an increasing number falling through the net. Results back this up, aside from a few false peaks resulting from the inflationary first home buyer stimulus packages. The Reserve Bank records new home loans falling to a nine-year low in April and further in June. At the same time, applications for investment loans (largely from a 35 year plus age group) have been on the rise. First home buyers are not showing much commitment or inclination to save.

Earlier this year the government launched its national first home buyer deposit savings scheme. It was a high-interest, no-tax saving account set up specifically to assist first home buyers enter the market. If committed to save over a fouryear period, the scheme is well designed and should have been good encouragement for those harbouring the ''Australian dream''. However, take-up has been poor. From a predicted 750,000 accounts there have been just 15,300 created with only $40 million spent out of the $1.2 billion originally allocated.

It's not that there aren't options out there. Although it is true that Australia's house price to debt ratio is substantially up in comparison to 20 or 30 years ago, all figures are based on the overall metro median and in my experience first home buyers rarely make their first purchase at this level. They either opt for apartment living or venture 15 to 20 kilometres outside the city and purchase in suburbs such as Frankston, Seaford, Boronia, Reservoir and Berwick. In fact the latest Valuer-General data shows well over 200 Melbourne suburbs with a median price between $ 300,000 and $ 500,000 — and more if we extend the range upwards from $200,000.

These locations might not sit at the top of the pile when it comes to entertainment and eating out, but they offer more affordable options in areas with a decent level of capital growth to start the process rolling. What's more, unlike previous generations, rarely do today's first home buyers see their first property as their last. The first home is a stepping stone with potential leveraging power to upgrade further down the line. Purchasing in a middle or outer suburb doesn't equate to locking the door and throwing away the key.

Buying requires strict budgeting to save a deposit — something our 21st-century lifestyle rebels against.

If we don't get on top of this, 20 years from now we could be looking at the European model of home ownership, which is on an equal footing with those who rent. Already we're seeing a reduction in the number of Australians who own their home and a gulf forming between the asset-rich and asset poor.

We need to educate first home buyers to save because those entering the market now are set to see a healthy return. Buying and investing in property should be a priority for first home buyers over and above other forms of spending, particularly if they want to reap the rewards for their future ''old age'' lifestyle needs.