# Australia’s new deposit scheme risks inflating house prices amid supply shortages



Prime Minister Anthony Albanese has acknowledged that his government’s new five per cent deposit scheme for first-home buyers is likely to cause a "slight increase" in house prices, despite the policy being promoted as a means to improve housing affordability. The scheme, which allows new buyers to enter the market with a deposit as low as five per cent—while the government acts as guarantor for the remainder of the standard 20 per cent deposit to bypass lenders mortgage insurance—was introduced with the intention of helping younger Australians get a foothold on the property ladder. However, experts have warned that in a housing market already starved of supply, the resulting boost in demand will further fuel soaring prices, essentially disadvantaging the very buyers it seeks to assist.

The scheme comes at a challenging time for the housing sector. The Reserve Bank of Australia (RBA) recently held the official interest rate steady at 3.60 per cent, citing creeping inflation as a concern, which effectively dashes hopes among potential buyers for lower borrowing costs in the near term. RBA Governor Michele Bullock has highlighted persistent supply shortages, noting that while governments are attempting to increase building approvals, any meaningful impact on supply is at least two years away. The stark reality is that housing approvals, particularly for apartments—which are critical for affordable entry-level housing—have actually declined in recent months, with July and August witnessing drops of 8.2 per cent and another 6 per cent respectively. This signals a difficult road ahead for the government's ambitious promise to deliver 1.2 million new dwellings by 2029.

Financial experts and economists widely caution that demand-side interventions, such as the five per cent deposit scheme, tend to simply push prices higher rather than making homes more affordable. According to industry data and Reserve Bank research, such schemes largely benefit sellers rather than first-time buyers, as increased purchasing power bids up property values. The Productivity Commission has similarly noted that policy measures which subsidize demand without addressing supply constraints tend to leak benefits to home sellers through inflated prices. The Australian Greens have estimated that the scheme could add an additional $55 billion to property prices over the next six years, potentially plunging buyers into untenable debt.

The scheme also shifts significant financial risk onto taxpayers by effectively acting as a government-backed mortgage insurer. While lending institutions must technically adhere to responsible lending laws under the National Consumer Credit Protection Act and ensure loans are suitable, experts argue that a government guarantee may encourage lenders to approve riskier loans. This moral hazard reduces the price discipline that usually limits marginal lending, posing potential long-term risks if housing prices stall or fall. Homeowners with minimal equity and large mortgages could face severe financial stress in such scenarios, though the government guarantee would protect lenders rather than borrowers. Such risks are compounded by tight rental markets with vacancy rates at just 1.2 per cent nationally, which continue to drive up rents and attract investors benefiting from tax concessions like negative gearing.

In response, government officials, including Housing Minister Clare O'Neil, defend the scheme as a necessary step to provide immediate assistance to first-home buyers, while the government has committed funds towards building 100,000 new homes exclusively for this group and offering tax incentives aimed at stimulating supply. However, many experts argue that a comprehensive solution to housing affordability requires a stronger supply-side focus—expediting building approvals, easing planning restrictions, reforming negative gearing laws, and considering tax reforms such as replacing stamp duty with a land tax to encourage market fluidity. Build-to-rent models have also been suggested as viable ways to increase affordable housing options.

Ultimately, the scheme may prove politically popular and provide short-term headline grabbers, but its economic effectiveness in addressing Australia’s deep-rooted housing affordability crisis remains highly questionable. Without a significant increase in housing supply, the policy could exacerbate price inflation, undermine financial stability for vulnerable buyers, and place greater fiscal risk on taxpayers—all while failing to deliver on the promise of more accessible home ownership.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.dailymail.co.uk/news/article-15150821/Albanese-housing-homes-ONSELEN-mortgage-deposit.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[4]](https://ministers.treasury.gov.au/ministers/clare-oneil-2025/media-releases/albanese-government-delivers-5-deposits-all-first-home), [[7]](https://theabj.com.au/2025/08/24/labor-5-percent-first-home-deposit-scheme-australia/)
* Paragraph 2 – [[1]](https://www.dailymail.co.uk/news/article-15150821/Albanese-housing-homes-ONSELEN-mortgage-deposit.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[5]](https://www.abc.net.au/news/2025-04-12/election-2025-labor-five-per-cent-deposits-first-homebuyers/105169984), [[7]](https://theabj.com.au/2025/08/24/labor-5-percent-first-home-deposit-scheme-australia/)
* Paragraph 3 – [[1]](https://www.dailymail.co.uk/news/article-15150821/Albanese-housing-homes-ONSELEN-mortgage-deposit.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[2]](https://greens.org.au/news/media-release/labors-5-percent-deposit-scheme-will-add-billions-property-prices-0), [[7]](https://theabj.com.au/2025/08/24/labor-5-percent-first-home-deposit-scheme-australia/)
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* Paragraph 5 – [[1]](https://www.dailymail.co.uk/news/article-15150821/Albanese-housing-homes-ONSELEN-mortgage-deposit.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[2]](https://greens.org.au/news/media-release/labors-5-percent-deposit-scheme-will-add-billions-property-prices-0), [[4]](https://ministers.treasury.gov.au/ministers/clare-oneil-2025/media-releases/albanese-government-delivers-5-deposits-all-first-home), [[5]](https://www.abc.net.au/news/2025-04-12/election-2025-labor-five-per-cent-deposits-first-homebuyers/105169984)

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## Bibliography

1. <https://www.dailymail.co.uk/news/article-15150821/Albanese-housing-homes-ONSELEN-mortgage-deposit.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://greens.org.au/news/media-release/labors-5-percent-deposit-scheme-will-add-billions-property-prices-0> - The Australian Greens have criticised the Albanese Government's First Home Buyers Scheme, claiming it will add $55 billion to property prices over the next six years. They argue that the scheme will drive up house prices, making home ownership less affordable for first-time buyers and potentially plunging them into deep debt. The Greens advocate for addressing the housing supply issue rather than subsidising demand.
3. <https://theabj.com.au/2025/08/25/five-per-cent-deposit-scheme-expansion-raises-concerns/> - The Australian Business Journal reports on concerns regarding the expansion of the five per cent deposit scheme. Experts warn that while the scheme aims to make home ownership more accessible, it carries risks such as high debt levels for buyers and potential increases in property prices due to heightened demand. The article highlights the need for a balanced approach to housing affordability.
4. <https://ministers.treasury.gov.au/ministers/clare-oneil-2025/media-releases/albanese-government-delivers-5-deposits-all-first-home> - The Australian Government has announced the early launch of the 5 per cent deposit scheme for all first home buyers, effective from 1 October 2025. The scheme allows buyers to purchase homes with a lower deposit and avoid Lenders Mortgage Insurance. Property price caps will be adjusted to reflect average house prices, providing access to a greater variety of homes for first-time buyers.
5. <https://www.abc.net.au/news/2025-04-12/election-2025-labor-five-per-cent-deposits-first-homebuyers/105169984> - ABC News reports on Labor's proposal to allow all first home buyers to purchase with a 5 per cent deposit, avoiding lenders mortgage insurance. The plan includes a $10 billion commitment to build 100,000 new homes exclusively for first home buyers and introduces a $1,000 instant tax deduction from 2026-27. The initiative aims to tackle housing affordability and support young voters ahead of the federal election.
6. <https://stockhead.com.au/experts/be-warned-small-home-deposits-are-very-risky/> - Stockhead highlights expert warnings about the risks associated with small home deposits. The article discusses how first-home buyers with a 5 per cent deposit are exposed to financial stress if market conditions change, as they have minimal equity in their homes. It also notes that banks may charge higher rates for borrowers with smaller deposits, potentially leading to less favourable loan terms.
7. <https://theabj.com.au/2025/08/24/labor-5-percent-first-home-deposit-scheme-australia/> - The Australian Business Journal discusses the potential impact of Labor's 5 per cent First-Home Deposit Scheme on housing prices. While the government forecasts a modest increase, experts suggest that the scheme could lead to a more significant rise in property prices due to increased demand. The article also addresses concerns about the scheme's effectiveness in addressing the underlying housing supply issues.