

# HOME OWNERSHIP IN AUSTRALIA; RECENT TRENDS AND FUTURE PROSPECTS

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Communities of the 21<sup>st</sup> Century

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# INTRODUCTION

- Three key developments that will shape the Australian housing sector in 21<sup>st</sup> Century
- First increasingly insecure 'housing careers'
  - Demographic Change – rise of single person household
  - Structural Change in Labour Markets
  - High Real House Prices
- Home Ownership will be more difficult to attain and **sustain**

# INTRODUCTION

- There is a second parallel development – the increasing indebtedness of Australian home owners at most stages of the life cycle
  - that in part reflects a change in the welfare role of owner occupied housing
  - the 'old' view is that heavily tax subsidised home owners exchange high housing costs today for low housing costs in old age
  - the 'new' view is that housing wealth allows owner occupiers to buffer uninsurable income shocks and acute spending needs at all stages of life. Innovative mortgages
- But this new role increases home buyers risk exposure

# INTRODUCTION

- A third development is the emergence of housing and real estate as a key influence on productivity and economic development
  - attracting and keeping key workers in regional 'hot spots'
  - inflated land and real estate prices displaces other economic activity
  - taxation of land and property is source of inefficiency in land markets
  - regulation of land uses and building standards can impede economic development

# INTRODUCTION

- Document some of these trends drawing on
  - panel data from Household, Income and Labour Dynamics in Australia Survey and the British Household Panel Survey
  - Cross section time series analysis based on the Australia Bureau of Statistics Survey of Income and Housing Costs
  - Australian Census of Population and Housing (drill down to the local)

Consider my first proposition – home ownership will become more difficult to attain and sustain

# HOUSING HAS BECOME LESS AFFORDABLE

**Table 1: Median gross housing affordability ratio (HAR)<sup>a</sup> of households, by housing tenure, 1982-2009, per cent**

Gross HAR	1982	1990	1996	2000	2002	2007	2009
Owner-purchasers	11.5	16.7	16.9	15.1	15.0	17.3	17.5
Private renters	16.6	20.6	21.7	22.3	22.2	20.3	23.6

Source: 1982, 1990, 1996, 2002, 2007 and 2009 surveys of income and housing from the ABS

Notes:

- a. Owner-purchasers' and private renters' housing costs are mortgage repayments and gross rents respectively.

# HOME OWNERSHIP RATES ARE DECLINING IN ALMOST ALL AGE GROUPS

**Home ownership rate, 1982-2009, per cent**

Year	25-34 yrs	35-44 yrs	45-54 yrs	55-64 yrs	65+ yrs	25+ yrs
1982	55.5	75.4	78.3	81.9	74.4	71.3
1990	30.4	67.9	79.7	80.8	79.9	66.6
1996	43.3	70.6	80.7	81.1	80.0	69.0
2000	45.1	69.7	79.2	83.2	82.3	70.1
2002	46.0	69.4	79.9	82.4	81.2	70.3
2007	38.5	63.8	74.6	81.8	82.1	67.3
2009	37.7	62.1	74.5	80.9	81.8	66.4
Percentage point change 1982 to 2009	-17.8	-13.3	-3.8	-1.0	7.4	-4.8

Source: 1982, 1990, 1996, 2002, 2007 and 2009 surveys of income and housing from the ABS

# Busselton: Home ownership Rates and Housing Affordability Ratios.

	<u>2001</u>	<u>2006</u>	<u>2011</u>
Rate of Home Ownership (%)	62.3	61.8	62.2
Median Age	35	38	39
Median Annual Rent <sup>1</sup> (\$)	7280	9360	14040
Median Annual Mortgage Payments <sup>2</sup> (\$)	10404	15084	22572
Median Annual Household Income (\$)	34996	49920	56316
Tenants Housing Affordability Ratio (%)	20.8	18.8	24.9
Home Buyers Housing Affordability Ratio (%)	29.7	30.2	40.1



## THE EDGES OF HOMEOWNERSHIP

- Part of the explanation for these trends is households falling out of home ownership
- 1.7 million tenures in home ownership ended 2001 – 2009
- 1.2 million of those exiting ownership involved Australians (persons) under 50 years of age
- Over 400,000 were Australians 50 years or older
- Curiously loss of ownership higher in Australia than UK
- These transitions represent the edges of home ownership

# THE EDGES OF HOMEOWNERSHIP

- Are the edges of home ownership fluid?
  - just over 50% ( 769,000) of Australians (persons) regained home ownership by 2009
  - 5% (75,000) did this more than once by 2009

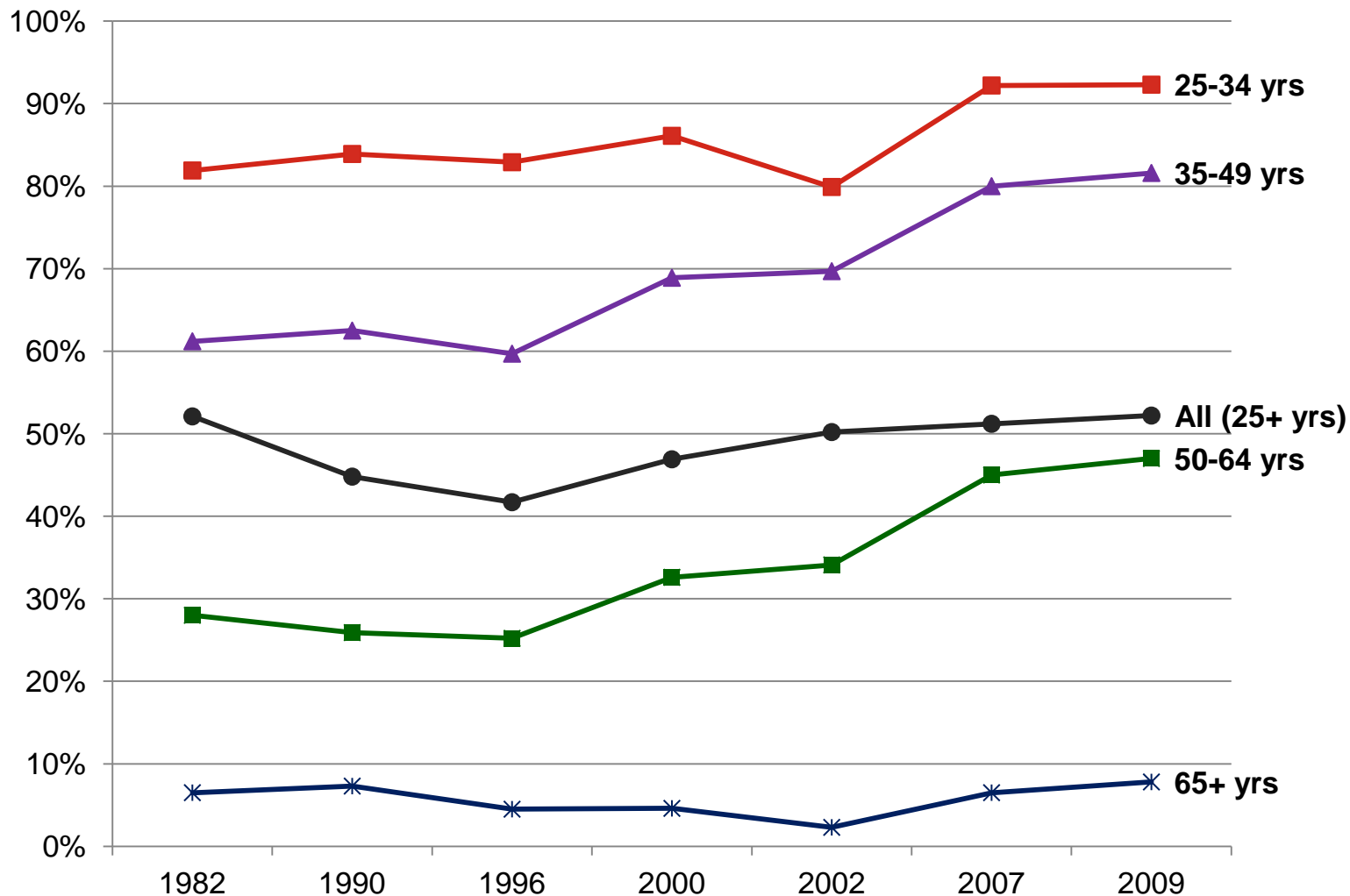
Among those who do not re-enter home ownership

- The more durable transitions out of homeownership are a matter of constraint rather than choice.

# AUSTRALIAN HOME OWNERS AND DEBT

- More Australians approach retirement age with outstanding mortgage debt
  - the steepest increase is among the proportion of 50 – 64 year old owners with mortgages - climbed from 28% in 1982 to 48% in 2009
- Those with mortgages are more highly leveraged
  - the steepest increase in average LVRs is among 25 – 34 year old mortgagors – average LVRs climb from 41% in 1990 to 63% in 2009
  - but there are also sharp increases in all age groups

# Figure 1: Percentage of home owning households with a mortgage, by age band, 1982-2009



Source: Authors' calculations from the 1982, 1990, 1996, 2000, 2002, 2007 and 2009 Surveys of Income and Housing (See Wood and Ong, April 2012)

## Table 3: Mean LVR among those with loans secured against their homes, by age band, 1990-2009

Age band	1990	1996	2000	2002	2007	2009
<b>25-34 yrs</b>	40.9%	55.1%	55.2%	52.1%	57.1%	62.9%
<b>35-49 yrs</b>	28.7%	40.0%	38.6%	38.0%	38.9%	42.7%
<b>50-64 yrs</b>	21.2%	33.3%	28.9%	28.1%	27.1%	30.1%
<b>65+ yrs</b>	7.5%	22.5%	16.1%	10.5%	17.8%	14.7%
<b>Total</b>	28.9%	41.9%	39.8%	38.2%	37.8%	40.9%

Source: Authors' calculations from the 1990, 1996, 2000, 2002, 2007 and 2009 Surveys of Income and Housing (See Wood and Ong, April 2012)

# ASSET BASED WELFARE AND HOUSING EQUITY WITHDRAWAL

- Higher real house prices will have played a role in driving these trends in indebtedness
- But the changing role of owner occupied housing wealth following deregulation of housing finance markets is also likely to be important
- Its traditional role allowed home owners to exchange high housing costs today for low housing costs in old age
- This role supported by tax concessions that are larger in the later years of life

# ASSET BASED WELFARE AND HOUSING EQUITY WITHDRAWAL

- Mortgage product innovation transformed housing into a liquid asset that home owners can dip into to buffer income shocks and meet pressing spending needs
- This in situ equity borrowing has introduced an extra dimension to housing asset based welfare – the ‘new’ role
- We estimate that in Australia and the UK homeowners ‘borrowed’ from their housing equity once every five years

# ASSET BASED WELFARE AND HOUSING EQUITY WITHDRAWAL

- Equity Borrowing amounts were non-trivial – averaging (2001 – 2008) \$26,000 in Australia (£8000 in UK)
- We estimate that gross equity borrowing unlocked A\$370b of housing equity in Australia 2001 – 2008
- And unlocked £380b of housing equity in the UK 2001 – 2008
- This adds 9.5% (7.7%) to annual household incomes in Australian (UK) personal sector (Ong et. al, 2013 *Housing Studies*)



# ASSET BASED WELFARE AND HOUSING EQUITY WITHDRAWAL

- The evidence suggests that in situ equity borrowing is used to smooth income fluctuations and meet pressing spending needs.
- Equity borrowing is used to unlock housing wealth at all stages of the life cycle. For example, 24 – 44 year old home owners in Australia and UK equity borrow around once every three years.
- This ‘new’ asset based welfare role of owner occupied housing may support wellbeing
- But equity borrowing adds to investment and credit risks. Investment risks cannot be hedged.

# HOME OWNERSHIP AND THE WELFARE STATE

- Some reason that high home ownership societies will have less generous social welfare programmes (see figure 3 and table 5 )

# POLICY CHALLENGES

- Is the era of high and sustainable home ownership rates over?

- Perhaps too early to say; but the cost to government budget positions of sustaining high levels of ownership will climb as population ages
- Tax preferences to home owners and housing assistance largely benefit the elderly
- Governments will need to intervene to help those on the edges of home ownership and unable to transition into 'mainstream ownership'
- Or address the inflationary bias in land and housing markets



# POLICY CHALLENGES

- Asset-Based Welfare and managing risks

Increasing numbers of home owners tap into their housing equity with governments tempted to help them

Credit (repayment) and investment (negative equity) risks may now be a greater burden but can they be better managed with different mortgage contracts?

For example, can we invent products that allow home owners to swap future capital growth for lower mortgage payments

## Appendix : Mean recurrent housing tax and transfer assistance including CGT exemption, by age and equivalised disposable income quintile, 2006

Age (years)	Equivalised disposable income (Y) quintile (\$'000)					All
	Y<=37	37<Y<=58	58<Y<=81	81<Y<=114	Y>114	
	<i>Dollar value (\$)</i>					
<b>25-34</b>	1981.3	1526.9	442.8	-48.3	-131.4	544.5
<b>35-49</b>	2615.2	2348.6	2142.3	1867.1	3923.6	2551.7
<b>50-65</b>	3376.1	4758.0	3983.3	4634.7	6090.5	4696.6
<b>&gt;65</b>	4345.2	7335.6	6792.3	11309.4	11628.7	6688.3
<b>All</b>	3468.1	4424.6	2925.5	3102.2	4405.4	3681.7
	<i>Per cent of income</i>					
<b>25-34</b>	9.1	3.2	0.6	0.0	-0.1	0.6
<b>35-49</b>	10.2	4.9	3.1	2.0	2.3	2.9
<b>50-65</b>	15.4	10.0	5.7	4.8	3.4	5.1
<b>&gt;65</b>	13.3	16.0	10.1	12.0	6.3	11.6
<b>All</b>	12.7	9.4	4.2	3.2	2.5	4.4

Source: Authors' calculations from the 2006 HILDA Survey

# Appendix : Equity borrowing: life course dimensions

Age & Family Type	Equity Borrowers			
	Australia		UK	
	n	% <sup>1</sup>	n	%
Age				
15-24yrs	74	36.3	94	33.8
25-34yrs	946	38.9	1,219	35.4
35-44 yrs	1,717	33.6	1,712	31.4
45-54 yrs	1,204	25.5	1,081	23.2
55-64 yrs	440	11.6	381	8.3
65+yrs	125	2.4	118	1.8
Total	4,506	21.0	4,605	18.5
Family Type				
Couple family without children	1,023	12.9	1,180	12.1
Couple family with dependant children	2,692	34.2	2,397	32.9
Couple family with independent children	203	15.3	377	16.2
Lone parent with dependant children	192	31.3	199	31.5
Lone parent with independent children	43	12.7	77	14.0
Single person	334	10.1	340	8.4
Other hh	19	20.9	35	12.3
Total	4,506	21.0	4,605	18.5

Note: 1 Percentages represent the proportion of all episodes in which homeowners of different age and family types equity borrow. Age and family groups with percentages above 21% of Australia and 18.5% for the UK indicate an increased likelihood of borrowing whilst percentages below these amounts reveal a decreased likelihood.

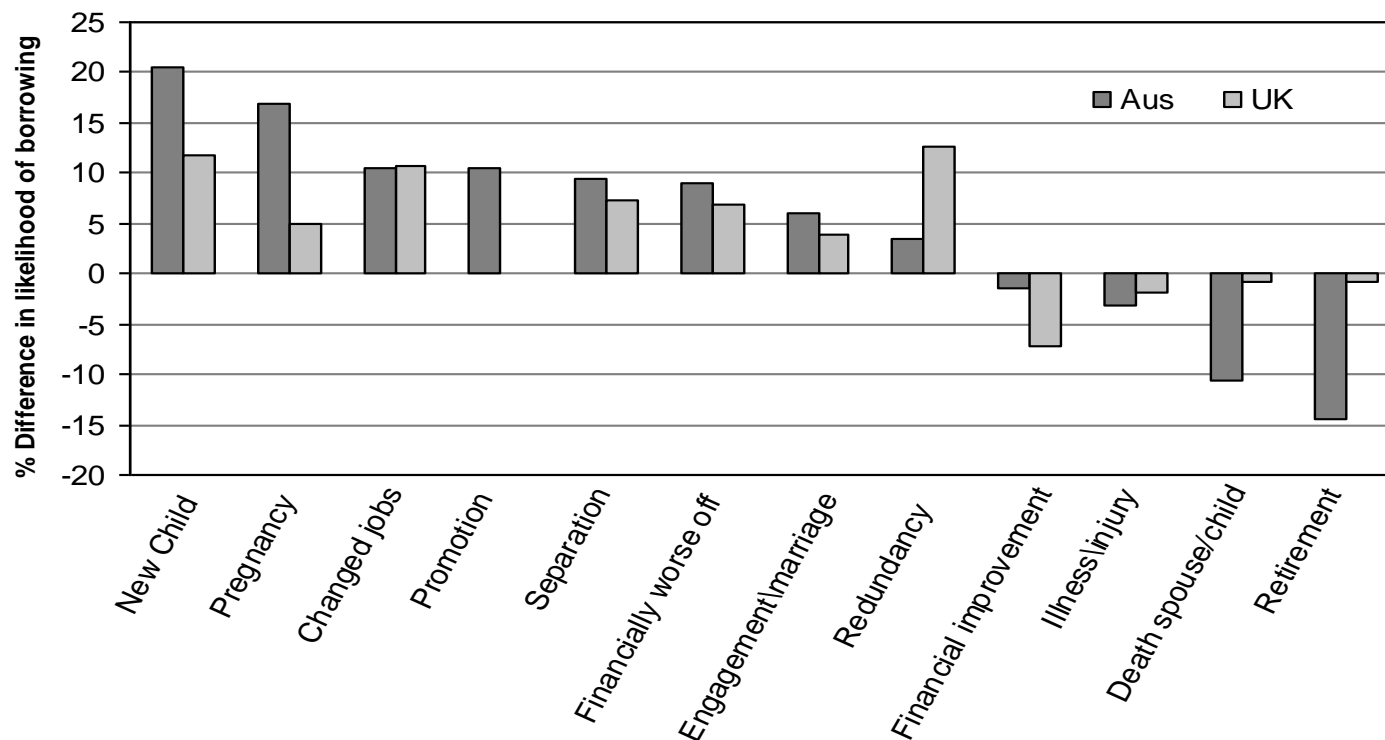
# Appendix: Home owner survival rates, Australia and UK

Year of Spell as Owner	Australia		UK	
	Time Frame 2001 – 2006	Time Frame 2001 – 2009	Time Frame 2001 – 2006	Time Frame 2001 - 2008
0	1.000	1.000	1.000	1.000
1	0.945	0.937	0.985	0.983
2	0.911	0.901	0.973	0.971
3	0.884	0.871	0.964	0.961
4	0.860	0.845	0.955	0.952
5	0.840	0.824	0.947	0.945
6		0.809		0.935
7		0.795		0.928
8		0.779		

Source: Authors' calculations from the 2001-09 HILDA Survey and the 2001-08 BHPS See Wood and Ong, Final Report No. 187, Australian Housing and Urban Research Institute, April 2012.



# Appendix: Equity borrowing, biographical disruptions and financial shocks



Note: Life events and MEW activity for Australian figures commence from 2002-2005, whilst UK events were only available for 2001 and 2004. The graph shows the difference in the frequency of equity borrowing as calculated by subtracting the overall sample frequency of equity borrowing (21.1%) from the frequency of equity borrowing among the subgroup that have experienced the indicated event. For example amongst Australian home owners that got married between 2001 and 2005 the frequency of borrowing was 27.2%, which is 6.1 percentage points higher than the overall sample frequency of 21.1%.

Source: Parkinson et al 2009 International Journal of Housing Policy

# Appendix: Characteristics of stayers, leavers and churners in 2009

Characteristics		Australia			
		Stayers	Leavers	Churners	All
Mean age (yrs)		55.3	49.8	49.7	54.4
Age band	Under 35 yrs	7.4	17.2	13.4	8.7
	35-49 yrs	29.2	37.7	42.3	31.2
	50+ yrs	63.4	45.1	44.3	60.1
Marital status	Married	74.2	37.1	59.4	70
	De facto	6.8	12.1	11.8	7.7
	Separated	1.9	11.4	3.4	2.8
	Divorced	4.4	12.9	10.8	5.7
Presence of children	Yes	45.6	37.5	50.3	45.5
Labour force status	Employed full-time	41.9	44.9	53.6	43.3
Personal income (disposable income in \$'000 for Aus)		40.5	44.1	47.5	41.5
Sample		4892	518	695	6105

Source: Authors' calculations using confidentialised unit record files of the HILDA Survey Waves 1-9 See Wood and Ong, Final Report No. 187, Australian Housing and Urban Research Institute, April 2012.

## Appendix. Incomes and mortgage debt: all home owners (Australia)

	Equity Savers			Equity Borrowers		
	n	Gross Income A\$	Debt Ratio	n	Gross Income A\$	Debt Ratio
<b>2002</b>	2,059	33,919	0.3	2,127	45,034	<b>1.9</b>
<b>2003</b>	2,059	34,663	0.2	2,127	46,012	<b>2.2</b>
<b>2004</b>	2,059	35,365	0.2	2,127	48,358	<b>2.2</b>
<b>2005</b>	<b>2,059</b>	<b>36,560</b>	<b>0.1</b>	<b>2,127</b>	<b>51,630</b>	<b>2.4</b>

Note: 1 Equity borrowers have increased their mortgage debt in one or more waves. Equity savers have reduced their mortgage debt in every wave.

Source Parkinson et al 2009 *European Journal of Housing Policy*

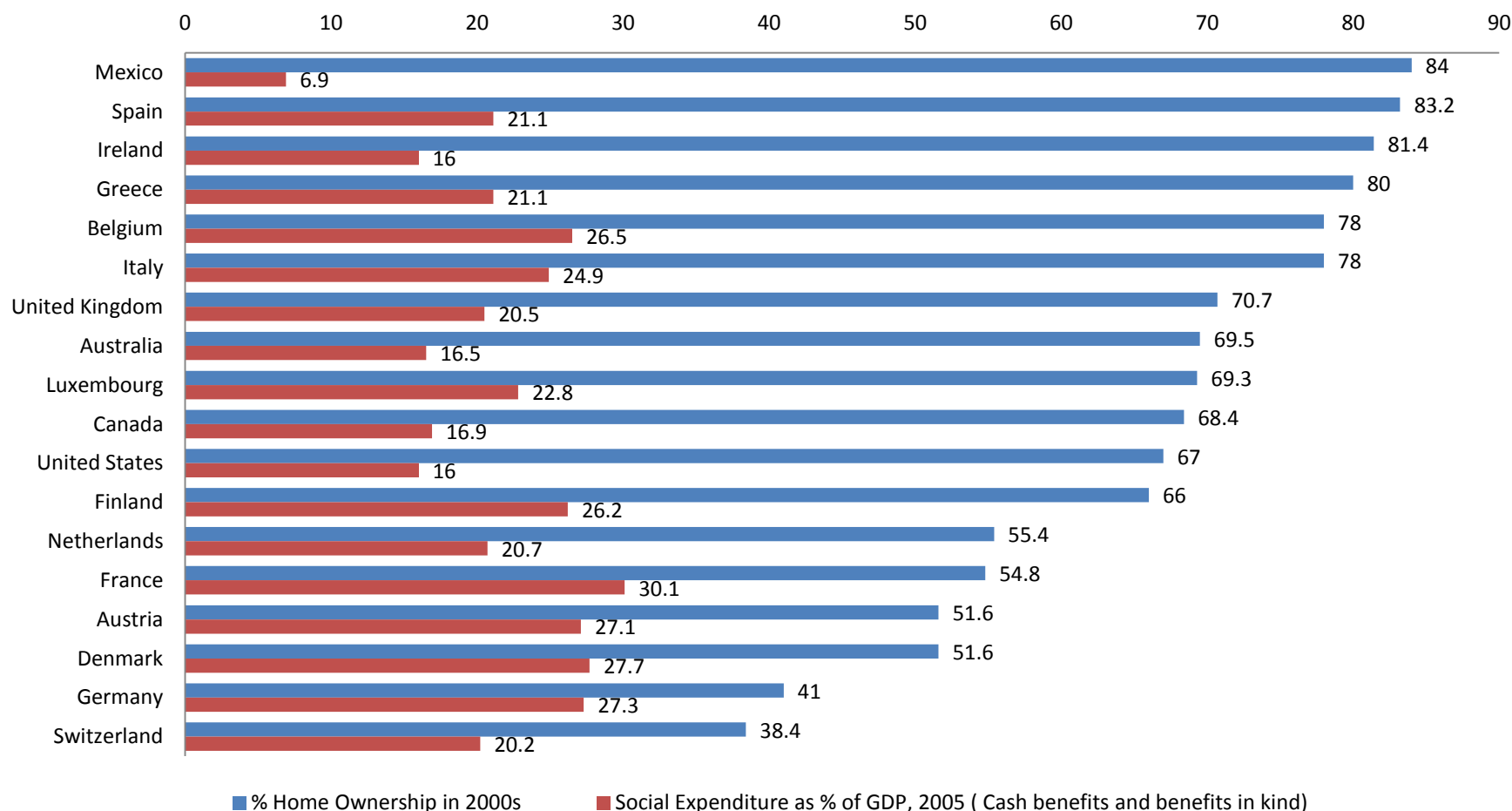
## Table 4b. Incomes and mortgage debt: all home owners (UK)

	Equity Savers			Equity Borrowers		
	n	Gross Income £	Debt Ratio	n	Gross Income £	Debt Ratio
<b>2002</b>	2,118	15,496	0.5	1,294	18,797	<b>2.4</b>
<b>2003</b>	2,118	16,771	0.4	1,294	21,950	<b>2.1</b>
<b>2004</b>	2,118	17,188	0.4	1,294	23,127	<b>2.1</b>
<b>2005</b>	<b>2,118</b>	<b>17,346</b>	<b>0.3</b>	<b>1,294</b>	<b>24,164</b>	<b>2.0</b>

Note: See note 1 table 4a

Source see table 4a

## Appendix Homeownership Rates and Social Expenditure in Selected OECD Countries



*Source:* Data on homeownership rates adapted from Table 1 in Andrews, Dan and Aida Caldera Sanchez (2011), 'The Evolution of Homeownership Rates in Selected OECD Countries: Demographic and Public Policy Influences', OECD Journal: Economic Studies, Vol. 2011/1 and The Cato Institute's policy discussion titled 'The Death and Life of Affordable Housing'. Data on Social Expenditure figures were obtained from OECD Stats Extract database.

## Appendix: Correlation Coefficient Estimates: Homeownership rates and Social Expenditure

	Social Expenditure (% of GDP), 1995	Social Expenditure (% of GDP), 2005
% Homeownership 1990s	-0.4418*	N/A
% Homeownership 2000s	N/A	-0.4760**
No. of observations	18	18

Note: \*\*Significant at 5%; \* Significant at 10%