



*Final Report*

# **Generational change in home purchase opportunity in Australia**

authored by

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for the

**Australian Housing and Urban  
Research Institute**

at Swinburne University of Technology

November 2014

AHURI Final Report No. 232

ISSN: 1834-7223

ISBN: 978-1-922075-65-9



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<b>Title</b>	Generational change in home purchase opportunity in Australia	
<b>ISBN</b>	978-1-922075-65-9	
<b>Format</b>	PDF	
<b>Key words</b>	Home purchase, housing affordability, housing opportunity, generation y housing	
<b>Editor</b>	Anne Badenhorst	AHURI National Office
<b>Publisher</b>	Australian Housing and Urban Research Institute Melbourne, Australia	
<b>Series</b>	AHURI Final Report; no. 232	
<b>ISSN</b>	1834-7223	
<b>Preferred citation</b>	<p>Burke, T., Stone, W. and Ralston, L. (2014) <i>Generational change in home purchase opportunity in Australia</i>, AHURI Final Report No.232. Melbourne: Australian Housing and Urban Research Institute. Available from: <a href="http://www.ahuri.edu.au/publications/projects/51002">http://www.ahuri.edu.au/publications/projects/51002</a>.</p> <p>[Add the date that you accessed this report: DD MM YYYY].</p>	

## **ACKNOWLEDGEMENTS**

This material was produced with funding from the Australian Government and the Australian state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI comprises a network of university Research Centres across Australia. Research Centre contributions, both financial and in-kind, have made the completion of this report possible.

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# CONTENTS

<b>LIST OF TABLES</b> .....	<b>IV</b>
<b>LIST OF FIGURES</b> .....	<b>V</b>
<b>ACRONYMS</b> .....	<b>VI</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>1</b>
<b>1 INTRODUCTION</b> .....	<b>4</b>
<b>2 METHODOLOGY</b> .....	<b>7</b>
2.1 Burden of risk.....	8
<b>3 CONTEXT</b> .....	<b>10</b>
3.1 Affordability .....	11
3.2 Demography .....	15
3.3 Urban restructuring and changed housing markets .....	16
3.4 Housing policy.....	18
<b>4 FINDINGS</b> .....	<b>21</b>
4.1 Patterns of change.....	21
4.1.1 Trends since 1981 .....	21
4.1.2 Locational variation .....	23
4.1.3 The impact of socio-economic background .....	24
4.1.4 Household type .....	26
4.2 Resilience in the face of hardship: adaptation to affordability pressures.....	28
4.2.1 Housing debt.....	28
4.2.2 Dual income formation .....	31
4.2.3 Deferring, not rejecting purchase .....	32
4.2.4 Keeping up the dream via multi-unit purchase .....	36
4.2.5 Importing home ownership: the role of migration.....	37
4.2.6 'Honey, I gave up the baby for a house': delayed and foregone childrearing .....	38
4.2.7 The fringe dwellers: purchasing on the urban fringe.....	39
4.2.8 Rent to buy, the Australian way.....	42
4.2.9 Keeping it in the family.....	42
<b>5 CONCLUSION</b> .....	<b>43</b>
<b>REFERENCES</b> .....	<b>45</b>
<b>APPENDICES</b> .....	<b>49</b>
Appendix 1: Methods .....	49
Appendix 2: budget standard .....	50

## LIST OF TABLES

Table 1: Housing tenure of Australian households, 2001–2011, Census and SIH validation, percentage of all households .....	8
Table 2: Labour force participation rates among married women aged 20–44, 1971–2011.....	15
Table 3: Australia’s first home owner and eEconomic boost grants, 2000–2011 .....	19
Table 4: Home ownership rates, by age cohorts, 1981–2011.....	21
Table 5: Home purchase by household type, 1981–2011.....	27
Table 6: Number and percentage of purchasing households with residual income affordability problem; all households and lowest 40 per cent of income earners, Australia, 2011–12 .....	29
Table 7: Number and percentage of purchasing households with residual income affordability problem, all households by household type, Australia, 2011–12 .....	30
Table 8: Purchase patterns, various cohorts, showing debt across the life course ....	34
Table 9: Purchasers by first-home buyer and change-over buyer, Australia, 2011–12 in the previous three years.....	35
Table 10: Home ownership by age cohort by dwelling type, 1981–2011 .....	36
Table 11: Home purchase and outright ownership rates of key migrant groups, 1991–2011.....	37
Table 12: Percentage of parenting households (purchasers), 1981–2011, Australia .	39

## LIST OF FIGURES

Figure 1: Home ownership rates for Australian households, 1976–2011 .....	5
Figure 2: Established house prices compared to household disposable income, Australia, 1986–2011. Nominal data .....	12
Figure 3: Ratio of owner occupied Housing debt to annualised household disposable income 1981–2012 .....	13
Figure 4: Mortgage interest rates and unemployment rates, Australia, 1981–2013 ...	13
Figure 5: Commonwealth Bank Index of affordability, Australia, 1985–2013 .....	14
Figure 6: Median house prices in Melbourne corridor, 1981 and 2011 .....	18
Figure 7: First home purchases: number of dwellings financed and percentage of all dwellings financed, Australia, 1991–2013 .....	20
Figure 8: Home purchase rates, Australian cities, 1991–2011, 25–34 year-olds .....	24
Figure 9: Home purchase rates, Australian cities, 1991–2011, 35–44 year-olds .....	24
Figure 10: 25–34 age cohort home purchase rates by income quintile, 1981–2011 ..	25
Figure 11: 35–44 age cohort home purchase rates by income quintile, 1981–2011 ..	25
Figure 12: 45–54 age cohort home purchase rates by income quintile, 1981–2011 ..	26
Figure 13: Percentage in outright ownership, 55–64 year-olds, 1981–2011 .....	26
Figure 14: Median mortgage as percentage of median household income, 1981–2011 .....	29
Figure 15: Percentage of purchasing households that are dual or single-income households, 25–34 and 35–44 year-olds, 1981–2011 .....	32
Figure 16: Home purchase rates by age cohort over time. Generation of 1981, 1991 and 2001 .....	33
Figure 17: Home purchase rates by decade movements, 1981–1991, 1991–2001, 2001–2011, 2011–2021 .....	35
Figure 18: Location of home purchasers, Melbourne urban area, detached houses and flats, 2011 .....	40

## **ACRONYMS**

ABS	Australian Bureau of Statistics
AHURI	Australian Housing and Urban Research Institute Limited
AIFS	Australian Institute of Family Studies
CURF	Confidentialised Record File
FHOB	First Home Owner Boost
FHOG	First Home Owner's Grant
GFC	Global Financial Crisis
GST	Goods and Services Tax
HES	Household Expenditure Survey
HIA	Housing Industry Association
NATSEM	National Centre for Social and Economic Modelling
NHSC	National Housing Supply Council
RBA	Reserve Bank of Australia
REIA	Real Estate Institute of Australia
SIH	Survey of Income and Housing

## EXECUTIVE SUMMARY

There has been considerable media exposure in recent years to the contracting opportunities for younger people to become home owners, just as there was at the turn of the millennium. Rising dwelling prices were a problem then as they are now. The language of crisis often flavours such writing, with commentary linking the problematic housing future of the young with the more favourable environment faced by their parents, the baby boomers. This short report is designed to provide current evidence around the topic, with the particular research objectives of identifying:

1. The degree to which younger households, particularly the cohorts aged 25–44 years, have experienced a contraction in home purchase over the last 30 years.
2. The adaptive responses this generation has made to circumvent obstacles to ownership, particularly that of declining housing affordability.
3. Which younger households have been most disadvantaged in terms of home purchase opportunity—and whether factors such as income and household type, have been influential in this regard.

This paper is a quantitative study and relies for its findings on 30 years of Australian Bureau of Statistics (ABS) data, most notably from the census. The methodological approach and related issues are discussed in Chapter 2.

### Context

Chapter 3 reviews the changes in the economic, social and policy context over the last 30 years and argues that these changes have created circumstances in which the ability to purchase became more constrained over this period. Affordability has worsened considerably, although factors influencing the changes in affordability are complex and declining affordability is not simply due to a continuing increase in dwelling prices in relation to household income.

### Findings

A key finding of the report is that, for younger households, there has been decline in home ownership over the 30 years between 1981 and 2011 (from 61.4% to 48.4% for 25–34 year-olds and from 74.3% to 65.3% for 35–44 year-olds).

However, much of this decline was in the decade 1981–91, and contraction since then (when affordability has been much worse) has been somewhat less. Purchase rates, as distinct from outright ownership, have actually *increased* since 1991 (by 4.3% for 25–34 year-olds and 12.7% for those aged 35–44). What has changed the most has been the ability to achieve outright ownership at an early age, which has decreased markedly. The problem in drawing any conclusions from this is complicated by the changed nature of the mortgage instrument over this period. Prior to the mid-1980s a mortgage could only be used for dwelling purchase. But subsequent to deregulation in the mid-1980s finance institutions developed new mortgage products and become more flexible in lending conditions. This meant a mortgage could also be used to finance a car, white goods, a rental property or even to pay private school fees. So one of the factors contributing to increased purchase rates and contracting rates of outright ownership is that households were increasingly paying off more than just a dwelling, and were effectively using the housing loan as a form of cheap finance—most notably so in the 2000s when interest rates fell.

While purchase rates since 1991 have held up (in part for the reason above), it is clear the context has not been kind to certain types of younger households. Single-income households and low to moderate-income households are being progressively pushed out of the home purchase market. Whereas in 1981 the home purchase market was almost split 50-50 between single and dual-income households, by 2011 over 80 per cent were dual-income households

and this was the case for both age cohorts. Not quite as dramatic, but still substantial, has been the fall in the ability of low to moderate-income households to purchase. In 1981, among 25–34 year-olds, over 60 per cent of households in both the lowest and second lowest household income quintiles were purchasers. By 2011 the purchase rate was down to just over 30 per cent for the lowest quintile and just over 40 per cent for the second lowest quintile. For the 35–44 age cohort the decline in rate of purchase was not as great, but still dropped by some 15 percentage points for the lowest income quintile (and about 5% for the second lowest). Like other markets, such as the labour market, the home purchase market is becoming a mechanism for reinforcing inequality: lower and single-income households are being locked out of the opportunities for wealth building and secure occupancy that has historically been offered by home ownership.

## **Adaptive responses**

In principle, given the context, the decline in home purchase should have been much worse (and more in keeping with the ‘crisis’ image presented in the media). In reality it has arguably held up much better than expected given the major declines in affordability. In Chapter 3, the concept of ‘resilience via adaptation’ is used to explain how the value of home ownership is so strong in Australia that there appears to be considerable resilience in the tenure, with households responding in various adaptive ways to achieve purchases in the face of quite difficult barriers. Potential adaptive responses discussed and empirically tested in the report include:

*Borrowing more.* Historically, up to the mid-1980s, there was a tendency for households to rarely borrow more than a quarter of household income, a process reinforced by more restrictive regulation on finance providers. Post deregulation, households could borrow more (in some cases up to 100% of dwelling value) and that has certainly been a major response. Whereas in 1981 the median mortgage for the 25–34 age group was 16.7 per cent of household income, by 2011 it was 26.8 per cent and for the 35–44 age group the figures were 12.5 per cent and 25.2 per cent respectively. The 2011 figures are quite remarkable, indicating that the median mortgage to household income ratio is actually higher than the 25 per cent affordability benchmark, a level thought to be one where there is housing stress.

*Dual income formation.* As the large change in the proportion of dual-income relative to single-income households suggests, one way of purchasing is to form a dual income household or, if already a dual income household, to remain one when that may not have been the intention. By 2011 this had become a necessity for most households.

*Home purchase deferral.* Households may not cease purchase altogether but simply defer purchase to a later time, when household circumstances enable it. The four census years provide a limited time series cohort analysis by analysing what happens to the 25–34 cohort in the next 10-year period and so on for each cohort. This analysis does suggest that home purchase deferral is an adaptive strategy.

*Deferring or not having children.* Having children is expensive and so is home purchase. If one prevents the other, hard decisions may have to be made, with some households deferring or deciding not to have children in order to purchase a dwelling. The analysis in Section 4.2.6, however, suggests that this has not been one of the adaptive responses as the trend in the number of children of purchaser households appears to be more linked with those of changing fertility rates than any housing trends.

*Purchasing a different product, that is flats and townhouses.* Historically, Australians have preferred to purchase detached dwellings rather than flats or apartments, which were typically bought by investors for rental. Flats and apartments tend to be a cheaper form of accommodation, so another way to become a home purchaser is to acquire such accommodation. Section 4.2.4 provides clear evidence that a large proportion of younger people were able to achieve ownership through purchasing a flat or apartment. In 1981, of

those who were purchasing, 93.4 per cent of 25–34 year-olds were buying a house, but by 2011 this had fallen to 78.8 per cent. For the other age group, 34–45 year-olds, the comparable figures were 94.8 per cent in 1981, down to 87.2 per cent in 2011. Whether this switch in consumption patterns was a response to affordability versus lifestyle decisions cannot be concluded, but whatever the reason it has had the effect of helping to maintain home ownership rates in the face of affordability pressures.

*Importing ownership.* Another way in which tenure can be influenced is through migration. For example, potential home purchase decline may be countered if there is an intake of more migrants from societies with a home ownership culture, and where there may be access to the resources of extended family and pre-existing wealth if a business migrant, for example Chinese and Indian households. But, as outlined in Section 4.2.5, the evidence about this effect in Australia is to the contrary. Whereas in the 1950s to 1980s migrants had higher rates of home purchase than the Australian born, the three largest recent migrant groups as of 2011 (Chinese, Indian and New Zealander) all had purchase rates below the Australian born. They were, in effect, a drag on the purchase rate, not an accelerator.

*Moving to more affordable locations.* There are always cheaper housing submarkets in which to purchase and thus some households may purchase in locations which previously were not part of their awareness space. The evidence, although based on Melbourne only, is that young purchasers are moving to outer and fringe suburbs.

There are two other potential adaptive responses: *inter-generational assistance* through either direct purchase, provision of loans or acting as guarantor, or inheritance upon death; and *renting at the same time as purchasing a rental property* so that some form of property equity can be achieved, with the hope this enables transition into ownership at a later date. In the absence of relevant Census data, neither of these responses are able to be tested empirically in the current analyses. References to further reading are however provided.

## Conclusions

The statistical evidence would suggest that some of the populist commentary on the decline of home ownership, particularly for younger households, is premature. Despite decline, the bulk of which was in the 1980s, home ownership rates have held up better than might have been expected.

The reason for this can be found in a set of adaptive responses that, in combination, have enabled the purchase rates to be greater than they may otherwise have been. This is not a result to be sanguine about however: we have to acknowledge that the rate of overall ownership is in slow decline. But, perhaps more importantly, the adaptive responses have their own, and potentially significant, problems. These are:

- High levels of debt with unknown implications for family and personal relations.
- Risk of arrears problem if any economic downturn.
- Carriage of debt into retirement years causing major affordability problems and putting pressures on income support systems.
- Concentration of first home buyers (mainly families) in outer urban areas of poor infrastructure and weak labour market access.
- Equity implications of those households increasingly locked out of ownership (single and lower income households).

In 1976 British housing expert David Donnison pointed out that '*Australians are among the best housed people in the world and they are perhaps the most equally housed*' (Donnison 1976, p.21). Given the direction that home purchase is taking in Australia today, any visiting housing expert could no longer come to the same conclusion. Home purchase today is fraught with problems, both for households and potentially for the wider economy and society.

# 1 INTRODUCTION

Each housing market boom, such as the one of late 2013 to early 2014, prompts considerable media reporting on the difficulties faced by younger households seeking to buy a home. Some of this media coverage has tended to be quite acrimonious, with younger generations blaming baby boomers for their plight and older generations saying younger people are just unwilling to make the compromises that previous generations have made.

Headlines such as *Young buyers find home owning dream a nightmare to fund* in the *Sydney Morning Herald* (Johanson, 16 November 2013) '*Hey mum, Can I have the keys to the house?*' in the *Sydney Morning Herald* (Elder, 6 July 2013), and '*Great Australian home ownership dream becomes a fantasy*' in *The Guardian* (Jericho, 25 November 2013) imply a crisis situation, signalling a major social change and a threat to one of the core values—the goal of home ownership—that underpin social relations in Australia.

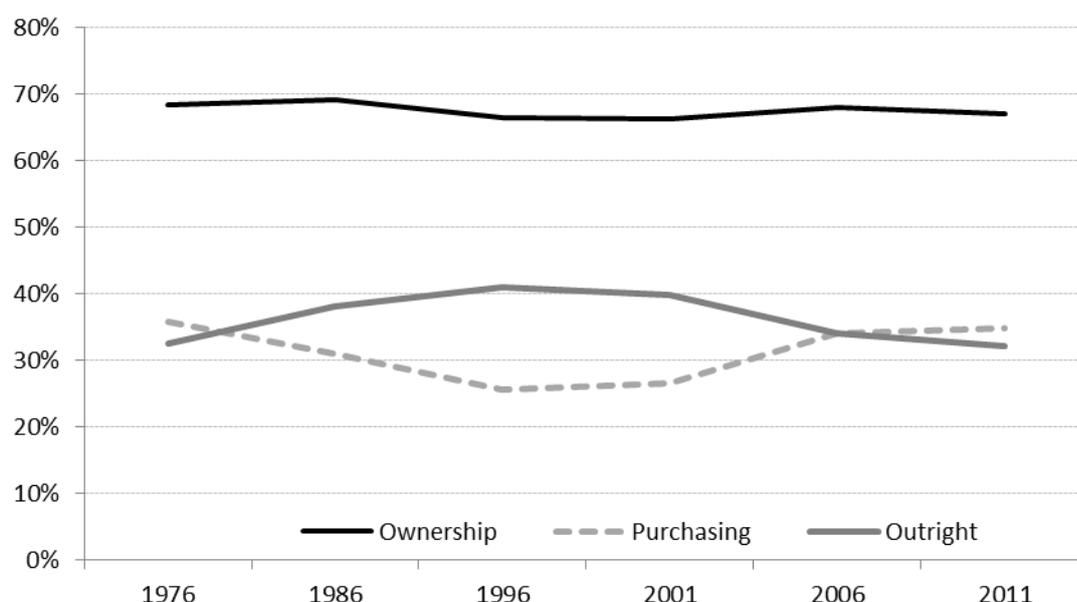
But interest in, and concern about, the ownership opportunities for younger households wax and wane. The late 1990s and early 2000s was another such period, when similarly provocative headlines were accompanied by an upsurge in research and policy inquiry. By contrast the more recent attention given to the topic has not as yet generated the same amount of substantive research although there have been some important contributions. This short report is designed to provide current evidence around the topic, with the particular research objectives of identifying:

1. The degree to which younger households, particularly the cohorts aged 25–44 years, have experienced a contraction in home purchase over the last 30 years.
2. The adaptive responses this generation has made to circumvent obstacles to ownership, particularly that of declining housing affordability.
3. Which younger households have been most disadvantaged in terms of home purchase opportunity—and whether factors such as income and household type have been influential in this regard.

The age cohorts comprising 25–44 year-olds do not fit neatly into either of the commonly accepted age labels or brands, notably Gen X or Gen Y, but actually embrace both. Gen X are understood to be those born between 1963 and 1980, now aged from their early 30s to 40s, while Gen Y are those born between 1981 and 1994 and now aged 20 to their early 30s. Thus these terms are not used here, and we will report on the age cohorts 25–44 under the simple and non-pejorative title 'younger households'.

Despite concern about the capacity of younger households to achieve ownership and the belief that declining affordability has constrained their opportunities to purchase, an initial impression from looking at broad national data is that this problem may have been overstated. Figure 1 below charts the changes in the overall ownership rate, further disaggregated into outright ownership and home purchase, for Australia from 1976 to 2011. Equivalent data is not available before this period.

**Figure 1: Home ownership rates for Australian households, 1976–2011**



Source: ABS Census, unit record files, selected years

There is a remarkably stable rate of ownership overall, falling only slightly from 68.4 per cent in 1976 to 67.0 per cent in 2011. In terms of purchasing, as distinct from outright ownership, the decline has been even smaller, from 35.8 per cent in 1976 to 34.9 per cent in 2011. There was, however, a large dip in this rate of purchasing between 1976 and 1996, although it lifted again thereafter, and by 2011 returning to levels much as they were in 1976. If younger households were unable to access purchase, why has the overall purchase rate shown such resilience? And, just as puzzling, the return to higher rates of purchase has occurred in the period when affordability problems were most severe. What has been going on?

A decline in home purchase opportunity in Australia has been a concern for over two decades. Neutze and Kendig (1991), drawing from a national life history survey carried out in 1986–87, argued that their findings suggested that access to home ownership in the future would be increasingly limited to young adults having high household incomes. A number of studies in the early 2000s seemed to indicate that Neutze and Kendig's prediction had partial substance, although the studies were often contradictory, with inconsistent findings (Productivity Commission 2004, pp.32–34; Yates 1999; Mudd et al. 2001). There was some evidence that among younger age cohorts home ownership rates had fallen, but the degree to which that was the case depended on the data sources used (see further discussion in Chapter 2). There was also debate as to whether the falls in rates of home ownership were a response to housing market conditions, notably declining affordability, or simply reflected broader social and demographic trends. Baxter and Macdonald (2004) and Mudd et al. (2001) argued, for example, any apparent decline in ownership rates merely represented a deferral of purchase, largely related to demographic changes.

These various studies were based on large ABS data sets including the census, and are now more than a decade old, in some cases older. There have been few subsequent studies looking at tenure trends among younger households. Beer and Faulkner (2009), analysing a much smaller purpose-designed survey (and therefore not comparable with the larger ABS data sets) found little evidence of a contraction in the ownership rate of younger households. However, a chart prepared by Yates in Eslake (2013, Chart 5), which was updated to include 2011 census data, did reveal a marked decline in ownership rates among younger households compared to earlier decades (showing a drop of more than 10% between 1981 and 2011). But these studies have not made any distinction between purchasing and outright ownership. Nor

has there been any attempt to identify who, among younger households, was or was not failing to achieve the dream of home ownership. There have also been important contributions on the future of home ownership (Wood & Ong 2012) where issues of younger household opportunity are discussed but without any data details. This short report is intended to both update the earlier studies and to add more detail.

The report begins with a description of the methodology adopted for the analysis of the data (Chapter 2) and moves on to a discussion of the broad context in which home purchase decisions have been made over the last 30 years (Chapter 3). This includes a brief overview of the key organising concept, that of 'resilience through adaptation'. The section examines the hypothesis that declining affordability has created the potential for a weakening in levels of home ownership among 25 to 44 age cohorts. But after reviewing the economic, demographic and social contexts impacting on home purchase, it can be argued that the affordability barrier to ownership may not be as substantial as it first appears. Various adaptive behaviours may have enabled many households to circumvent this barrier. Chapter 4 then looks at the results of the analyses to see whether the evidence confirms or contradicts this hypothesis, while Chapter 5 draws out the implications.

## 2 METHODOLOGY

Data for this study are taken from Australian Bureau of Statistics (ABS) sources. These sources can vary in their estimates of the same variable—in the current case, that of housing tenure—because of differences in data definition, collection methods, including how questions around tenure are asked, and sample size.

The *Census of population and housing* is the longest established source of data on tenure, and has the advantages of both relatively good consistency over time and availability on a spatial basis. A weakness is that in the census some households do not complete all the questions, and ownership may be under-reported compared to other ABS surveys where more rigorous questions are asked. However, this characteristic is consistent over time, meaning that trend data on tenure from the census does not suffer from survey design bias. More problematic, as noted by Baxter and Macdonald (2004, pp.2–3), is that the census question asked on tenure changed slightly in 1991, so that respondents may have reported differently since then. Nevertheless this was some time ago, and the questions were the same in 2001 and 2011. Another problem with census data is that there is no distinction in the ‘purchasers’ category between first and subsequent home buyers, making it difficult to estimate the barriers to first home purchase using this data source.

Compared with the census, the Household Expenditure Survey (HES) and the Survey of Income and Housing Survey (SIH), dating from the 1980s, have the advantage, via a broader range of questions including those around first home purchase, of enabling more nuanced analysis. However, unlike the census, the HES and SIH data are derived from samples of the population, so that spatial analysis is very constrained and numbers related to any variable much smaller. For more detailed discussion of differences between data sources and methods, see Mudd et al. (2001), Baxter and Macdonald (2004) and Bessant and Johnson (2013).

One conclusion that might be drawn from these reports is that ABS survey data is limited in its ability to tell us anything about the home purchase situations of young people as the story has now become so complex that the data cannot convey that complexity. There are of course limitations in surveys that are snapshots in time: for instance, they cannot capture the process of people moving into and out of ownership, perhaps related to marital breakdown and/or re-partnering. Such surveys do not give an adequate understanding of the reality of household behaviour—for example, whether a decline in home ownership rates is a ‘real’ process or just an artefact of the effect of growing relationship breakdown (Beer & Faulkner 2009).

However, we do not want to throw the baby out with the bathwater. While interpretation of ABS data requires caution, the overall reliability of ABS census and other survey data such as HES and SIH is much greater than probably all other surveys in Australia. Moreover the different ABS surveys can be used to triangulate findings: results from each can be cross checked, so that when there is consistency in findings there is a high degree of confidence in them. In addition, access to unit record files enables more fine grained analyses, including the creation of new variables to overcome issues such as data comparability. More importantly we can, perhaps mistakenly, exaggerate the qualities of smaller scale purposive surveys or qualitative research, which rarely ever have the response rates and representativeness of the ABS data.

Table 1 below provides an example of the triangulation of survey results, recording the tenure patterns in 2001 and in 2011 derived from three sources: the Australian Census, the unit record files of the census, and the unit record data of the Survey of Income and Housing (SIH). A unit record file is a Confidentialised Record File (CURF) of ABS variables taken from a small random sample of census or other survey data (typically 1%) of unidentified private households, associated persons, and a small random sample of persons in non-private dwellings. Unit record files allow for deeper data interrogation than standard ABS outputs.

There are differences between the three data sources but all show the same general levels of tenure, and the same directions of changes over time. We can therefore be confident that the unit record data of the census and the SIH sample file are adequate for this research. The data sources used in this analysis are also in unit record format, enabling detailed interrogation. In this paper we will move between all three sources depending on the appropriateness of the data to the research questions.

**Table 1: Housing tenure of Australian households, 2001–2011, Census and SIH validation, percentage of all households**

	1981			1991			2001			2011		
	Full Census	Sample file	1982 SIH	Full Census	Sample file	1990 SIH	Full Census	Sample file	SIH	Full Census	Sample file	SIH
Outright owner	33.2	33.4	38.3	41.1	39.9	42.2	41.7	41.8	40.2	31.1	30.9	30.9
Purchaser	34.9	34.8	36.3	27.7	26.7	29.3	27.8	28.3	33.0	34.9	33.6	36.6
<i>Home owners</i>	68.1	68.2	74.6	68.8	66.6	71.5	69.5	70.1	73.2	67.0	64.5	67.4

Source: ABS Census of population and housing, and ABS Survey of income and housing, 1981, 1991, 2001, 2011

One of the problems in all three data sets is that estimates of rates of ownership are for the household reference person. This has two implications: in some cases the household reference person may not be the actual home owner, and it does not allow for comparisons by gender as men are much more likely to nominate as the head or reference person (Baxter & McDonald 2004, p.3). If there is bias here it would be in the later census years where it would be more likely, compared to the past, that more women would be home purchasers or outright owners. If anything this could slightly understate ownership rates in more recent years, thus reinforcing the story of resilience of home purchase, not undermining it.

A further issue is that, in the case of the 1981 census unit record files, there is no descriptor or variable for the household reference person, and thus one had to be constructed from the identifying attributes of the household. This may be the cause of some minor difference compared with subsequent years. Other statistical issues to be confronted in the analyses included the creation of equivalised income data; this is explained where relevant in the text or the appendices.

Where there are only small percentage differences over time or between variables we acknowledge it may be difficult to draw any conclusions from the data and we will not do so. In this study we are therefore looking to identify and analyse any larger scale statistical changes of the type that may be explained by changes in the economic, social and demographic context and not just statistical constructs.

## 2.1 Burden of risk

Large scale shifts in economic and demographic stability and migration and settlement are symptomatic of what some sociological commentators call a liquid modernity, or 'risk society' in which the taken-for-granted pillars of society and private lives associated with previous eras have been transformed.

The three decades following World War II was an unprecedented period of economic prosperity. It was a period in which there was an unwritten social contract between citizens, government and industry, with a shared economic and social purpose and with labour market and housing market stability part of this contract. Citizens accepted the major social changes that characterised the era and were rewarded by job security and the opportunity for home ownership. It was an era of more regulated labour markets, financial markets and indeed

housing markets, wherein the regulation, in part, contributed to economic stability, social cohesion and relatively fair income distribution. By and large this informal social contract was accepted by all players as rapid and stable economic growth meant all were happy with their share. By the standards of subsequent decades it was a relatively risk free society.

Things began to change in the 1980s, with long-term repercussions. Economic growth slowed in the second half of the seventies and inflation increased. The informal social contract weakened and industry, government and citizens no longer shared a common interest to the same degree.

A new neo liberal society emerged in which stability was replaced by risk. As a way of regenerating economic growth it was believed the economy and society had to be deregulated, and more freedom given to markets. Labour markets, financial markets, exchange rates, international trade and urban planning were all progressively deregulated (Henderson 1995). And the basis of public policy shifted away from principles of universalism to transferring responsibility for welfare and security to the family, community and individuals at one level, while increasing opportunity for investment and wealth gain at another.

For ordinary households these changes meant there was no longer job security, the workplace became more casualised, and housing finance opened up not just for ownership but for investment. For most individuals and households the future became more uncertain but for others, principally higher income earners and those with existing wealth, it presented market opportunities that hitherto had been limited by a more regulated environment.

Potential, and unintended, consequences of a risk society are to weaken the opportunities for home ownership by affecting home purchase affordability (see Section 3.1) and also to weaken employment opportunity and security, the latter likely to be important for getting a loan. However, the overall *impact* of factors likely to affect the capacity of households to purchase a home are not evenly distributed among the population, as both housing affordability and employment opportunity differ spatially, socially and economically. Moreover, on top of the impact of broad social processes, factors such as family formation or breakdown, good or bad health and a range of other household specific issues can affect overall housing pathways and ultimately the access to opportunity and good quality of life.

This study focuses on two age cohorts, 25–34 year-olds, and 35–44 year-olds. While concentrating on these two age groups, other age groups will be considered where they throw light on the situation of younger households, or if the issues faced by younger households are transferred to older households at a later date. For example if, because of deferred ownership among younger households, a much greater number and proportion of households are not purchasers or still have a sizeable mortgage at the time of retirement, then Australia has a problem: there will be major pressures on the income support system and/or substantial after housing poverty. In this way, younger households may be seen as the canary in the coalmine, with their circumstances acting as an early warning system for major income support and housing affordability problems in Australia's future.

### 3 CONTEXT

The research for this report is framed around the concept of 'resilience via adaptation'. It is a concept drawn from the broader resilience literature and is used here to capture the idea that, in order to achieve ownership, households make adaptive responses to increasing affordability barriers. Originally used to describe how ecological systems adapt to changing environmental circumstances (Holling 1973; Longstaff 2009), resilience has become more widely applied as a concept to explain how individuals and communities cope with difficult circumstances and overcome adversity. For the purposes of this research paper, and consistent with popular mythology, it can be argued that younger households encounter a context of adversity because their home ownership opportunities have been severely reduced by the barrier of declining affordability overlaid on other risk factors such as a casualised labour market; in short by the emergence of a risk society.

Nevertheless, the desire for home ownership in Australia is so strong that there appears to be considerable resilience in the tenure, with households responding in various adaptive ways to become purchasers. As a result, the rate of decline in ownership may not be as great as might be suggested by the scale of the affordability barriers and other economic and social changes.

The potential adaptive responses include:

- Home purchase deferral—households may not cease purchase altogether but simply defer purchase to a later time, when household circumstances enable it.
- Increasing household income by formation of two income households or higher rates of workforce participation.
- Borrowing more—historically, up to the mid-1980s, there was a tendency for households to rarely borrow more than a quarter of household income, a process reinforced by more restrictive regulation on finance providers.
- Deferring or not having children—having children is expensive and so is home purchase; if one prevents the other, hard decisions may have to be made, with some households deferring or deciding not to have children in order to purchase a dwelling.
- Purchasing a different product, that is flats and townhouses—historically Australians tended to buy detached dwellings rather than flats or apartments, which were typically purchased by investors for rental; flats and apartments tend to be a cheaper form of accommodation, so another way to become a home purchaser is to acquire such accommodation.
- Moving to more affordable locations—there are always cheaper housing submarkets in which to purchase and thus some households may purchase in locations that previously were not part of their awareness space.
- Parents assisting children into ownership through either direct purchase, provision of loans or acting as guarantor, or inheritance upon death.
- Renting but at the same time purchasing a rental property so that some form of property equity can be achieved, with the hope this enables transition into ownership at a later date.

Adaptive responses by households are not of course made in a vacuum. They are enabled and constrained by the wider institutional context, that is, what is allowed by the economic, social and political environment of the times. So while there have been major changes in affordability, which in principle limits home purchase, the 1980s have seen other changes. Changes that have created a risk society can have the effect of both weakening and improving opportunities for purchase, in effect shaping household decision-making in the housing market. And this raises the issue of an alternative adaptive response to those identified above. This is the one of some younger people making an alternative lifestyle decision to that of the lineal leaving home 'home purchase young family' one that historically has characterised younger persons housing

careers. More likely to have casualised work and more mobile, including internationally, some younger households opt for an unencumbered 'being in the here and now' lifestyle (Wyn & Woodman 2006). In terms of housing choices this typically means private rental with its greater flexibility than home purchase. This response, however, is not the subject matter of this report where the focus is on those who still opt for the latter.

The ability to purchase is conventionally reduced by economists to a number of factors: price and household income (creating an affordability variable), savings (necessary for a deposit), lending conditions (availability and cost of finance) and the cost of substitutes, which in the Australian context is that of the private rental sector. But behind these factors sit more complex institutional relationships which impact on each of them either separately or collectively.

Thus, household income can be affected by whether it is a single or two-income household, and rates of change in the formation of such households. It can also be affected by the regularity of income and indeed the overall level of economic growth and the distribution of income related to that growth. Similarly the availability of substitutes can be equally multi-faceted. An adaptive response to the high cost of detached dwellings could, as previously mentioned, be the purchase of an apartment rather than a house, which for various reasons outlined in Section 4.2.4 might not have been possible in the past.

The following discussion briefly reviews the major changes that have implications for home purchase, beginning with affordability. There is now a growing literature on all of these areas so the discussion of each one here is kept short, with directions to the broader literature. One of the problems in such analysis, regardless of whether it is brief or extensive, is that the categories of the changes discussed, such as economic, demographic, and social, are never mutually exclusive and are often interdependent. This creates the dilemma of where to locate certain points of the analysis, but where possible duplication is avoided and interdependencies are noted.

### **3.1 Affordability**

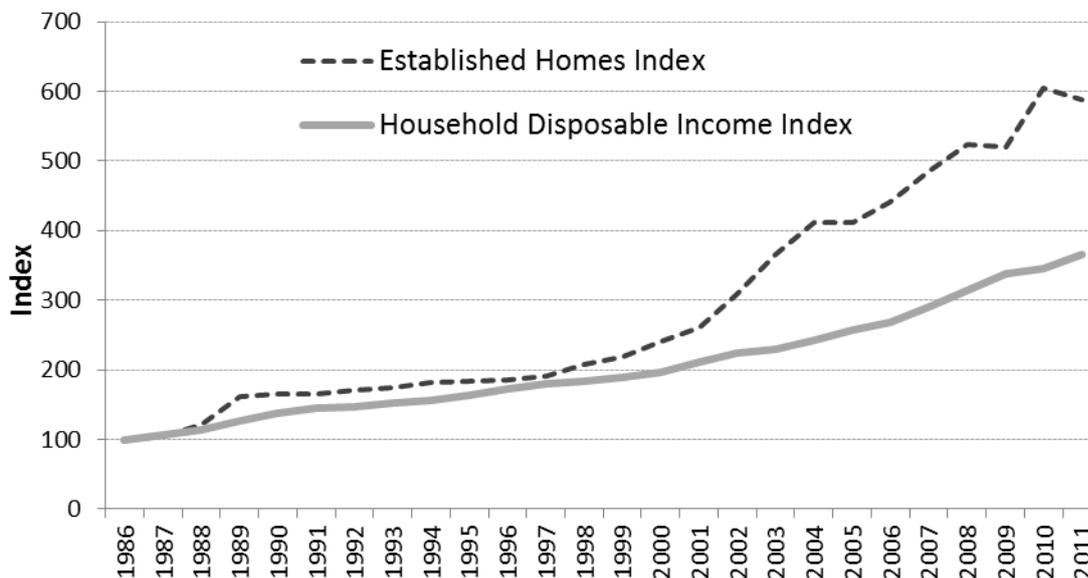
The concern for declining home ownership opportunity for younger households is inevitably linked to affordability, with the argument that dwelling prices have been pushed to levels where younger households simply cannot afford them. A plethora of government, industry and AHURI reports have documented the scale and nature of the problem (Productivity Commission 2004; Berry & Dalton 2004; Yates & Gabriel 2006; Yates & Milligan 2007; Yates et al. 2007; Tanton et al. 2008; Burke et al. 2011; HIA 2014). Perhaps the most popular from a media perspective (but perhaps the most unreliable) is Demographia's annual comparison with other countries where Australian cities always figure among the most expensive (Demographia 2014).

Most of these affordability measures are detailed snapshots in time (using ABS Census or SIH data) and some, such as those that use dwelling price to income ratios, ignore changing costs of finance and lending conditions. All have their strengths and weaknesses (see Gabriel et al. 2005; Abelson 2009; Burke et al. 2011 for discussion), but there is little doubt that the collective story is the same. Australia does have an affordability problem! What can be contested however is the degree to which affordability represents a solid versus a permeable barrier to ownership—that is, one that cannot be got around or one that can be circumvented in various ways and for various reasons.

A few charts hint at the potential stories. Figure 2 below shows the ABS index of established house prices compared to the index of disposable household income over the 30 years and clearly reveals a growing gap between the two. In the late 1980s there was a housing boom which took the index of dwelling prices to a rate higher than that of household disposable income. House prices then fell back, and, while remaining slightly higher than income, the two kept in broad relationship up to the late 1990s. From that time on dwelling prices, despite some up and downs, accelerated compared to household income. Overall the gap between

household income and dwelling prices is much wider than three decades ago and thus there is prima facie evidence of an entry barrier to home ownership.

**Figure 2: Established house prices compared to household disposable income, Australia, 1986–2011. Nominal data**

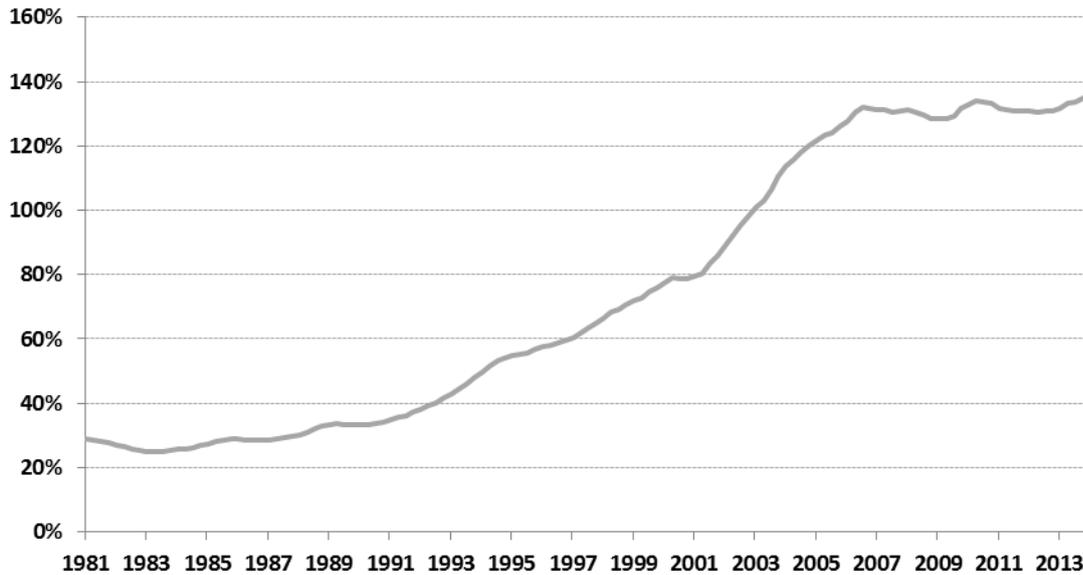


Source: ABS (2014a), *Australian national accounts: National income, expenditure and product*, (March 2014), ABS cat. no. 5206.0; ABS (2014b), *Residential property price indexes: Eight capital cities*, (March 2014), ABS cat. no. 6416.0

However, one way to overcome such entry barriers is to borrow more than hitherto, even if this risks a worsening ongoing affordability problem, as distinct from entry affordability problems. It is now common knowledge, with the GFC having drawn attention to the issue, that the levels of debt per household (most of it housing) soared in most western countries in the last two decades, with Australia having some of the largest increases in debt (DeBelle 2008, Graph 9).

Figure 3 below shows the ratio of owner occupied debt to household disposable income and reveals the large increase in household debt following the deregulation of the finance system in the mid-1980s. Debt jumped from about 25 per cent of income to around 130 per cent in 2011. The relationship between the trend line in household debt (Figure 3) and that of dwelling prices (Figure 2) is a close one suggesting much of the increased borrowing manifested itself in higher dwelling prices. How a different debt environment plays out for younger households, 25–34 year-olds and 35–44 year-olds, is explored in Section 4.2.1.

**Figure 3: Ratio of owner occupied Housing debt to annualised household disposable income 1981–2012**

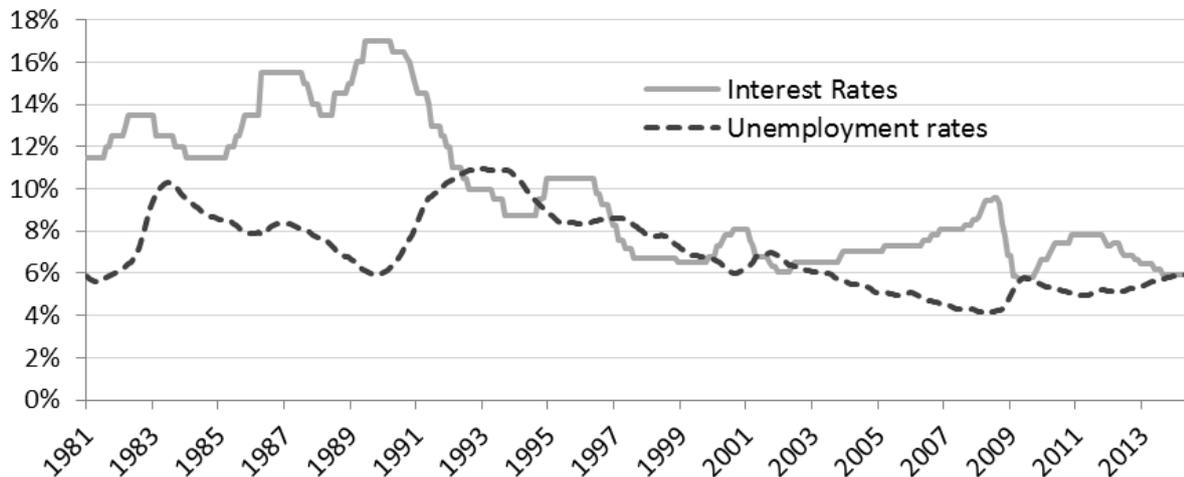


Source RBA household finances—selected ratios—Table E2, 2014, column F

Two other factors related to affordability are mortgage interest rates and employment rates. The former has a direct relationship as it affects the level of mortgage payments. But the second has both a direct and an indirect influence in that unemployment can reduce household income and thus worsen affordability (the direct relationship), while fear and uncertainty created by an environment of weaker employment conditions can undermine confidence in purchase (the indirect relationship).

Figure 4 below charts, for the study period, mortgage interest and unemployment rates. It suggests that the affordability story is more complex than that provided by income to house price ratios. Mortgage interest rates have largely gone in the opposite direction to dwelling prices (see Figure 2 above) and thus to some extent has negated the affordability problem created by higher dwelling prices. Unemployment rates have also reduced over time, creating an environment in which more households have increasing incomes and the confidence to purchase.

**Figure 4: Mortgage interest rates and unemployment rates, Australia, 1981–2013**

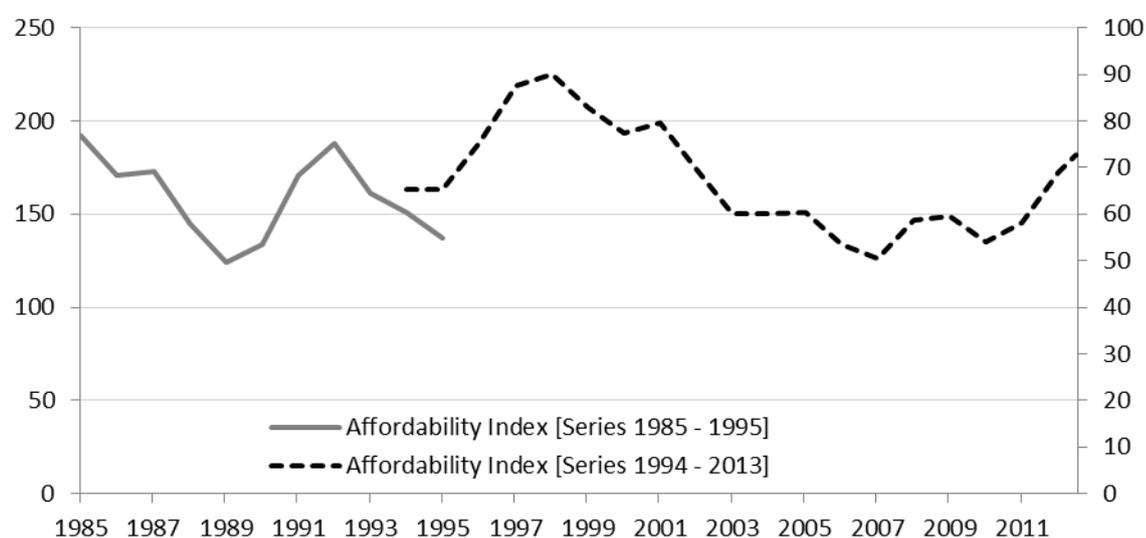


Source RBA (2014), *Indicator lending rates—Table F5 (Mortgage interest rates)*; ABS (2014c), *Labour force, Australia* (June 2014), ABS cat. no.6202.0.

Together, the trends in unemployment and interest rates combined to make the 1980s to mid-1990s a period of difficult economic conditions, but these improved substantially thereafter. Not even the Global Financial crisis produced economic indicators as poor as those of the 1980s.

Thus Figure 5 below suggests that the barriers to home ownership may not be consistently forbidding as affordability has waxed and waned in severity over the decades as dwelling prices and interest rates change over time. This shows the Commonwealth Bank Index of Housing Affordability which is based on Commonwealth bank home loans and the eligible incomes of their borrowers and factors in interest rates to the affordability equation. It indicates that, despite the high house prices of the 2000s, in this decade housing affordability improved considerably largely due to a large fall in interest rates. The worst period of affordability, taking into account household incomes, interest rates and dwelling prices, was from the mid-1990s to the beginning of the 2000s. This, however, is an index and just shows the direction of affordability. It does not mean even for periods such as 1989, 2007 and 2011 when affordability conditions were relatively better that there was not an affordability problem for many households. This is taken up further in Section 4.2.1.

**Figure 5: Commonwealth Bank Index of affordability, Australia, 1985–2013**



Source: HIA 2014, *HIA/Commonwealth Bank Affordability index*, HIA Canberra, available monthly by subscription

In terms of wider economic conditions, the 30 years covered by this study encompassed a period of sustained economic growth, but with two distinct patterns. The first was 1981 through to the end of the 1990s, during which growth was more subdued, accompanied by higher than average levels of unemployment and two periods of marked slowdown (the early 1980s and early 1990s) when unemployment peaked at around 10 per cent (as shown in Figure 4 above). The second period, broadly 2000 to the present, was one of strong growth and low unemployment (bottoming at 4% in 2008) with, unlike in other countries, the GFC having only marginal impact.

All other factors constant, affordability for example, the period in which one might expect any negative affect on housing opportunities would therefore have been the earlier period, when higher rates of unemployment may have had both a dampening effect on confidence and would also have affected more households in their capacity to actually purchase. But overlaid on the uncertainty and more subdued growth of this period (in fact causally linked) were the mortgage interest rates of these years, peaking at 18 per cent (and parallel with a house price boom) in the late 1980s. The decade 1981 to 1991 was thus one in which the ability of younger households to purchase may have been more constrained by economic factors than in later years, when affordability was worse.

### 3.2 Demography

Changing demography is another factor potentially affecting home purchase. For example, more single people may mean, given they are one-income households, that there is a reduced ability to afford purchase, while later marriage/family formation may defer the desire or need to purchase. Both of these demographic trends have been occurring over the last 30 years, with the proportion of singles rising from 17.5 per cent to 24.3 per cent over the decades 1981 to 2011 and the median marriage age for women pushed out from 23.3 years to 28 years by 2011 (AIFS 2013; ABS 1988, 1983, 2012). These factors may be seen as negatives in terms of home purchase potential. On the other hand there were other changes which were likely to be more positive. One, a fusion of demographic and economic, is the increased rate of dual income household formation.

In the first few post-war decades, when home ownership grew from 53 per cent (in 1947) to 70 per cent (in 1971), the bulk of home purchasers were single income households. This reflected a demographic characteristic of that era, when the dominant household type was generally a couple with children. And this was overlaid with the social norm in which the male worked and the partner stayed at home looking after the children. However, in part this was facilitated by the fact that, in that era, house prices were at such a level that it only required a single income in order to purchase a dwelling.

As the post-war years progressed demographic changes saw a lessening of the predominance of the conventional family. But among those families the proportion in which the partner also worked increased dramatically, to the extent that by 2011 the participation rate for married women in the 25–34 year-old cohort was just under 70 per cent in 2011, compared to 45 per cent in 1981, while for 35–44 year-olds the respective figures were 74 per cent and 55 per cent (see Table 2 below).

The addition of a second income earner to many households raises the capacity to afford more housing. It also begs the question as to what degree the increased house prices of the last four decades represent the capitalised value of additional earnings of the second (largely female) income earner. However, there is an issue of causation: an alternative question is to what extent has the increase in dwelling prices been a factor in creating a drive for more and more married women to seek employment and thereby become a dual income household? Whatever the direction of the relationship, one of the reasons that the rate of home purchase may not have fallen as it might otherwise have, given the barriers, is that second income related increases in household income enabled many households to continue purchasing. Those that did drop out of the purchase race were more likely to be single-income households, whose incomes increasingly diverged from median house prices. This is taken up in more detail in Section 4.2.2.

**Table 2: Labour force participation rates among married women aged 20–44, 1971–2011**

	1971	1981	1991	2001	2011
25–34 years	33.0%	44.7%	57.0%	64.8%	69.3%
35–44 years	41.3%	54.9%	67.9%	69.4%	73.5%

Source: ABS Census, 1971, 1981, 1991, 2001 and 2011; ABS 2014c, *Labour force, Australia* (June 2014), ABS cat, no,6202.0

Another demographic process with the potential to effect ownership rates of households, and one not really significant until the 1970s, was household dissolution through divorce. Household dissolution typically means that one or both persons move out of the family home. Given that, in most cases, dissolution weakens the wealth and household income of both partners this may mean dropping out of ownership and/or inability to enter ownership. Thus an increase in the divorce rate in any given period may explain a reduction in purchase. There are

two qualifications. The first is that a large percentage of divorcees remarry (around about 75%) and some will re-partner without marrying, thereby negating the housing market impact of marital separation. The second, and one that relates to the study period of this report, is that the major growth in divorce was prior to the study period. In 1976 there were 63 230 divorces, reducing annually to 41 412 in 1981, with slow growth back to 48 935 in 2011. The divorce rate fell from 4.5 per cent in 1976 to 2.8 per cent in 1981, 2.6 per cent in 1981 to 2.2 per cent in 2011 (ABS 1983, 2012). Thus, while divorce is an important factor shaping individual housing careers it does not appear likely to have been a major factor shaping overall tenure trends in Australia over the time period of this study. For more detailed discussion on marital dissolution and housing impacts, see Flatau et al. (2004, pp.31–39).

Another important demographic process is immigration. As immigration creates new households it necessarily increases demand for housing. If demand is not matched by supply—and evidence from the National Housing Supply Council (NHSC 2013) suggests this has occurred—it can be a contributing factor to house price pressures and declining affordability. However, this paper is not about causes of the affordability problem but responses to it, and the important point about migration is that migrants historically have had a higher purchase rate than native born Australians. While there may be time lags in this process, the last two decades have seen a change in the composition of permanent migration, with more business migrants who are most likely to move into home ownership quickly.

Moreover, an increasingly large proportion of migrants over the last 30 years, and particularly the last 20, have been of Chinese and Indian backgrounds. While there has been little Australian research on the topic, US research has found in the case of the Chinese, there is a cultural predisposition to purchase and, with practices of the extended family, the ability, at least in principle, to overcome purchase barriers by family assistance (Painter et al. 2003). As the last 20 years has seen sharp growth of migration to Australia from home-owning cultures, this may have played a role in sustaining home purchase rates in the face of adversity.

### **3.3 Urban restructuring and changed housing markets**

Australian cities have changed markedly in the last 30 years, with major implications for housing markets and housing affordability. There is one constant however, which is that Australia's metropolitan cities are geographically self-contained so that, in terms of the home purchase decision-making, households are relatively less likely to consider other cities as substitutes in order to make an affordable purchase. And all are large (excluding Hobart) in both population and geographical area, meaning multiple submarkets and clear differentiation in submarkets in terms of transport access, infrastructure, labour market strength and associated dwelling prices. As the cities have grown over the last 30 years, the submarkets have become more differentiated, and the deviation in price ranges across submarkets much greater.

In addition there have been, particularly in Sydney, Melbourne and Brisbane, a major remaking of the housing stock with a large growth in (mostly inner city) apartments, many of them high rise—the latter a building form that, aside from a few public housing developments, was very rare in Australia up until the late 1980s. There was a round of inner city multi-unit development in the late 60s and 70s in the form of two and three-story walk up flats (euphemistically called 'six packs'). Although largely built for rental purposes, as a consequence of changes to strata title legislation from 1970 onwards, more and more of these became available for individual unit purchase from the late 1970s onwards (Randolph & Easthope 2007). The combination of new construction, much of which was small and two-bedroom dwellings, and the increased purchase availability of the old stock, created a much larger inner city home purchase market of the type that in the early post-war years was either not available or not desired.

Up to the 1970s a symbiotic relationship between home ownership and car purchase emerged in Australian cities in such a way that most newly forming households could buy both a car and

a new house. For most households, this was their first experience of both, and the ownership of a car meant greater housing choice. This in turn facilitated the emergence of car-dependent suburbs, with these suburbs becoming the location, and lifestyle, of choice. This trend was reinforced by growth industries such as manufacturing and warehousing also moving to the suburbs.

A consequence of the suburbanisation of households and of employment was that the inner suburbs of Australian cities experienced a reduction in employment and population during the 1960s and 1970s (Neutze 1977, Ch 3), but the decline was short-lived. Over the next four decades, the combination of inner city economies becoming the heartlands of the new 'knowledge economies' and the growing congestion costs and lack of public transport access in the suburbs made the inner city a much more desirable place to live. This ignited a cycle of gentrification and rising house prices that gathered momentum as the decades went on (Logan 1985; Burke & Stone 2014). Whereas the inner city had once been the spatial domain of affordable housing it has become increasingly unaffordable. And for families who need a larger dwelling, that is three bedrooms, apartment accommodation, had limited appeal.

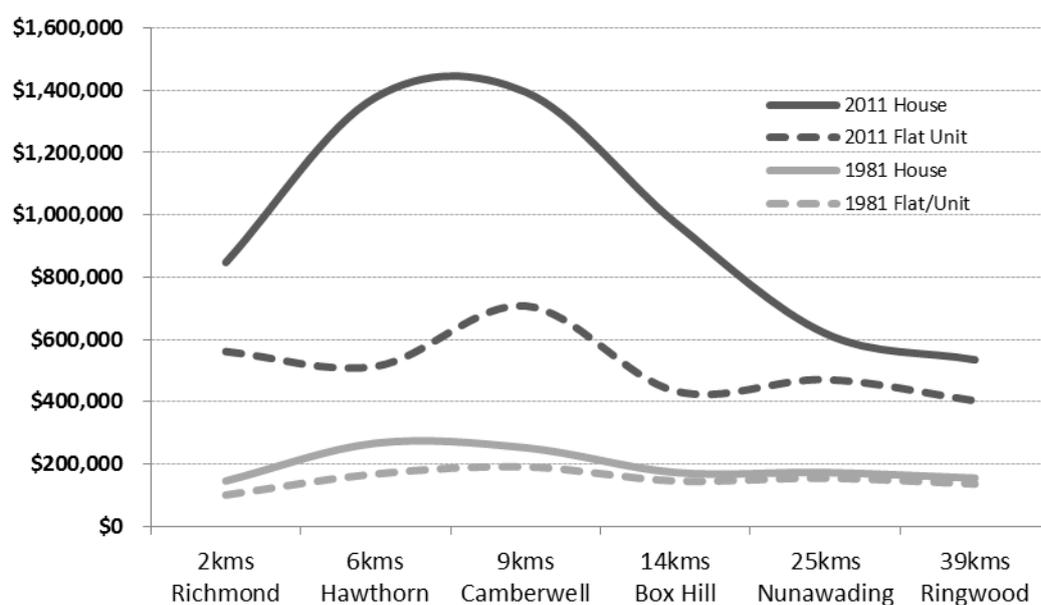
As a result of all of these processes, from the 1980s onwards households not only confronted a declining number of submarkets that were affordable in the metropolitan cities but an overall ratcheting up of prices generally. Although there were differences from city to city, with Sydney being the most expensive and Hobart the cheapest, all in real terms are much more expensive now than two or three decades ago (REIA various years).

To illustrate the relative and absolute changes in prices, Figure 6 below shows the median prices in 1981 and 2011 for one corridor of Melbourne, highlighting how:

1. those areas closest to the CBD have become much more expensive
2. how the overall level of prices is so much higher for all locations
3. how the relative affordability of apartments has improved compared to houses.

While other Australian cities will have submarket differences shaped by different geographies and amenity attributes, a similar pattern would be likely: declining prices the further away from the city centre. What this means of course is that affordability is greatest in the outer suburbs and on the urban fringes of Australian cities. And what are being built in the new suburbs are contemporary versions of the car-based suburbs of the 1960s and 1970s; large to very large detached dwellings with rarely any multi-unit accommodation. While large (200–250 square metres), they are as affordable as, or more affordable than, many inner city apartments one-third of that size. As Figure 6 shows, 30 years ago inner city apartments were more affordable than an outer urban house (this point is expanded on in Section 4.2.4).

**Figure 6: Median house prices in Melbourne corridor, 1981 and 2011**



Source: Victorian Valuer General (various years), Property sales statistics Victoria.

The contraction of submarket opportunities is analysed in some detail, for low to moderate-income home purchasers in Melbourne by Hulse et al. (2010). They highlighted, for example, that in 1981–82 low-moderate income purchasers could afford to buy houses in 69 of the 78 statistical local areas in Melbourne, with a choice of between 20 and 100 per cent of properties sold. In other words, they had the choice of 88 per cent of Melbourne’s areas. By 2007–08 this had been reduced to 8 per cent of Melbourne’s areas and all of these are outer urban or growth zones (Hulse et al. 2010, pp.91–92). Whether purchasers actually adapted to this constraint in ways that affected the total rate of overall purchase was not examined or where they actually located was not researched.

### 3.4 Housing policy

Since World War II there have always been a range of direct and indirect policies in Australia to support home ownership, including indirect policies of exemption of owner occupied dwellings from capital gains tax, from imputed rent tax and from welfare eligibility asset consideration. In terms of home purchasers' decision-making the indirect policies are more or less taken as a given or a backdrop. It is the scale and timing of direct assistance, most importantly the First Home Owner Grant (FHOG), that is most important in affecting the timing and scale of home purchase.

For example, in 2000 the Federal Government reintroduced assistance for first home buyers (previously abolished in 1993) in the form of a non-repayable grant, the FHOG. Initially this was intended to offset the impact of the new Goods and Services Tax (GST) on home ownership, in particular on the purchase of newly constructed homes. Since then the amount of FHOG has gone up and down depending both on changing perceptions of the problems faced by first home buyers and the economic environment. For instance, the level was substantially increased (the First Home Owner Boost (FHOB)) at the height of the GFC to maintain employment in the residential construction sector. And a number of states had their own FHOB programs.

Table 3 below lists the changing characteristics of the assistance scheme from 2000 to 2011. It shows how at certain times, for example in 2008–09, it was possible to get up to \$21 000 of Commonwealth funds if buying a newly constructed dwelling, by accessing the \$7000 FHOG

and \$14 000 FHOBBoost. In some states, such as Victoria, when the Boost was reduced at the national level, it was made up, not necessarily to the full amount, by a state specific grant, and for designated regional areas another \$3500 was possible in the case of Victoria.

**Table 3: Australia’s first home owner and eEconomic boost grants, 2000–2011**

Housing type	Scheme type	Eligibility dates	Grant amount
Established	First home owner grant (FHOG) (Commonwealth)	1 Jul 2000–1 Jul 2013	\$7,000
New construction	First home owner grant (FHOG)	1 Jul 2000–1 Jul 2013	\$7,000
New	FHOBBoost (Commonwealth)	13 Oct 2008–30 Sep 2009	\$14,000
New	FHOBBoost (Commonwealth)	1 Oct–31 Dec 2009	\$7,000
New and established	FHOBBoost (Victoria)	1 May 2004–31 Dec 2005	\$5,000
New and established	FHOBBoost (Victoria)	1 Jan 2006–30 Jun 2009	\$3,000 (est.) \$5,000(new)
Established and new	FHOB (Victoria)	1 Jul–30 Jun 2010	\$11,000 (new) \$2,000 (est.)
New	FHOB (Victoria)	1 Jul 2010–30 Jun 2012	\$13,000
New and established	FHOBBoost (NSW)	1 Oct 2008–Jan 2010	\$3,000
New	FHOBBoost (NSW)	1 Oct 2009–30 Mar 2010	\$10,000
Established	FHOBBoost (Commonwealth)	1 Oct–31 Dec 2009	\$3,500

Source: Commonwealth and state FHOG websites

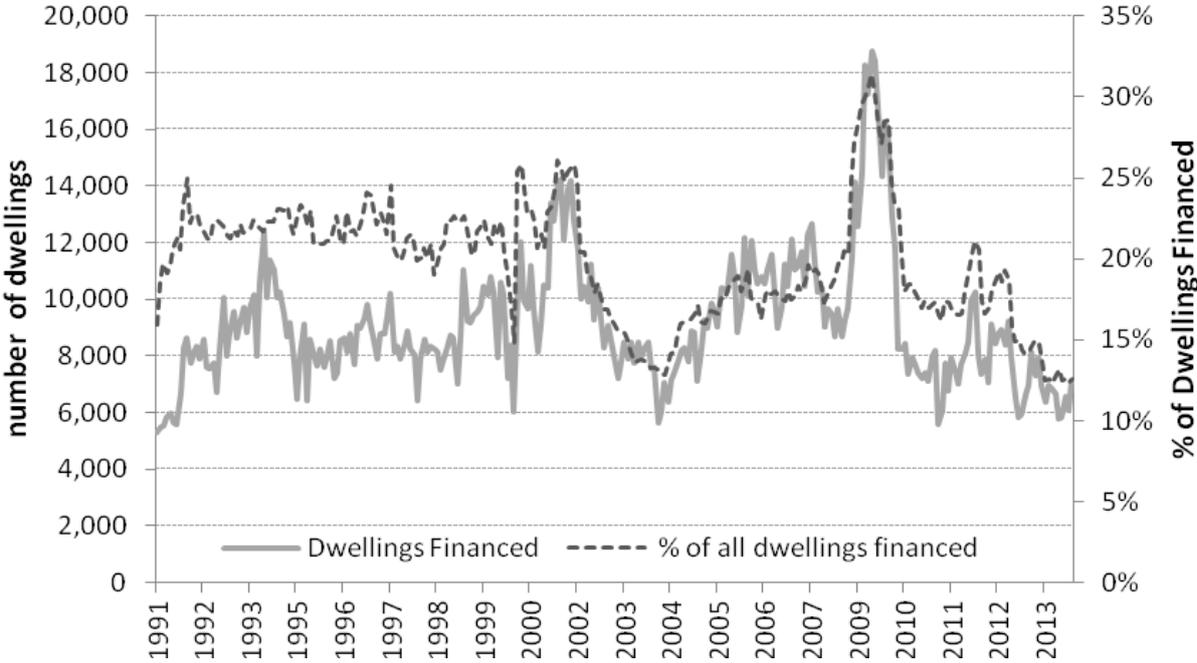
The scale of FHOG in the late 2000s was clearly a major factor in the huge leap in first home purchases seen in Figure 7 below. This chart shows the number of first home dwellings financed from 1991 to 2013, as well as the share of all dwellings financed that first home purchases comprised. As first home purchasers are concentrated in younger households the data is indicative of the pattern of young people’s purchasing rates. The chart reveals that, in the years leading up to the 2001 and to the 2011 census, the numbers of first home purchasers increased markedly, both periods preceded by major changes to FOHG.

It is difficult, however, to argue that because of these two peaks, both related to the timing of FHOG, the rate of purchase in these two census periods was higher than it otherwise would have been. This is because it seems that much of the FHOG related purchases were simply ones brought forward, as take up rates drop sharply after the peaks. Financial assistance to first home buyers does not appear, therefore, to be a factor in explaining the high purchase rates of these years, with the high rates largely countered by the lows.

Although more research is necessary, this data would suggest that, over a lengthy period of time, FHOG has had little impact on overall levels of first home purchase. For the 20 years shown in Figure 7 the average number of dwellings financed in the period 1993–2000, when there was no FHOG, was not much lower than in the period 2000–2011 when assistance was provided. In fact, given the rapid household growth of the 2000s, the number of first home purchases should have been a lot higher than for the 1993–2000 period. Therefore, while FHOG may be questioned as a form of housing assistance, the responsiveness of households to changes in the level of FHOG indicates it is an important economic stimulator when such stimulus is required. The data would appear to reaffirm the views of Randolph et al. (2013) that FHOG may be questioned as to its role as a form of housing assistance but less so as an

important economic stimulator when such stimulus is required. Whether this is a justification for FHOG as a continuing program is more doubtful.

**Figure 7: First home purchases: number of dwellings financed and percentage of all dwellings financed, Australia, 1991–2013**



Source ABS 2014d, *Housing finance, Australia*, April 2014, ABS cat. no. 5609.0—Table 8.

## 4 FINDINGS

This section is structured in two parts. The first part uses ABS unit record census data spanning 30 years (1981–2011) to provide answers to the two research questions posed at the outset: that is, the degree to which younger households, notably the age cohorts 25–44, have experienced a contraction in home ownership, and which younger households, if any, have been disadvantaged in terms of ownership opportunities.

In the second part of this section, the various adaptive responses which, collectively or separately, could help to explain the overall resilience of home ownership among younger households are empirically tested, with data drawn from a range of sources.

### 4.1 Patterns of change

#### 4.1.1 Trends since 1981

Table 4 below records the changes in home ownership for several age cohorts across selected census years between 1981 and 2011. The proportions of households who are in home ownership comprise those who are outright owners and those who are purchasers with a mortgage.

**Table 4: Home ownership rates, by age cohorts, 1981–2011**

Years	Age cohorts	Owner	Purchaser	Home ownership	Households
1981	25–34 years	9.7%	51.7%	61.4%	1,046,500
1991		14.1%	39.0%	53.1%	1,318,800
2001		11.3%	40.0%	51.3%	1,159,100
2011		5.1%	43.3%	48.4%	1,202,100
1981	35–44 years	21.6%	52.7%	74.3%	906,000
1991		27.2%	42.2%	69.4%	1,389,300
2001		23.3%	45.9%	69.2%	1,452,800
2011		10.4%	54.9%	65.3%	1,530,900
1981	45–54 years	39.6%	38.7%	78.3%	765,300
1991		46.6%	29.4%	76.0%	1,024,000
2001		42.3%	35.7%	78.0%	1,356,500
2011		24.9%	49.1%	74.0%	1,549,600
1981	55–64 years	57.2%	23.4%	80.6%	702,300
1991		66.8%	12.3%	79.1%	818,500
2001		66.7%	15.9%	82.6%	953,500
2011		48.0%	32.2%	80.2%	1,324,400

Source: ABS Census, unit record files, 1981, 1991, 2001, 2011.

Over the last three decades there has been a decline in the overall rate of home ownership among both the age cohorts that are the focus of interest in this report. The decrease was greater for 25–34 year-olds (from 61.4% in 1981 to 48.4% in 2011) than among 35–44 year-olds (from 74.3% to 65.3%). For the two age groups, much of the fall occurred in the first decade, between 1981 and 1991, with a slower rate of decline during the following 20 years.

The overall home ownership rate is made up of a combination of purchase and outright ownership, with different patterns over time for each. For both age groups rates of outright ownership rose between 1981 and 1991, but fell subsequently, collapsing between 2001 and 2011. Purchasing rates increased slightly for the 35–44 cohort over the 30 years, whereas for 25–34 year-olds there were long-term declines in both purchasing (51.7% to 43.3%) and outright ownership (9.7% to 5.1%). However, despite this longer term trend, since 1991 the rate of purchase has actually increased for both age cohorts (from 39.0% to 43.3% for 24–35 years-olds, and from 42.2% to 54.9% for 35–44 year-olds).

Interpreting these trends is not easy as the data is capturing different processes over time. In 1981 the regulated finance system meant a home loan could only be used for purchase of a dwelling. Bank deregulation in the mid-1980s meant households could borrow additional funds on their existing home loan (equity loans) without taking out a separate loan. This circumvented the need to take a personal loan (at a higher interest rate) to purchase a car, a second dwelling, or fund a holiday. Thus much of the increase in debt in the 1990s and 2000s was not just about large new housing loans but the extension of existing loans. A loan taken out in 1981, for example, could be repaid at the negotiated original amount, whereas many loans thereafter would be added to, effectively constraining the ability of many households to pay their loan off early. Borrowers thus remained purchasers longer than equivalent households in earlier eras—hence, arguably, causing a reduction in the rate of outright ownership, most notably in the period 2001 to 2011.

The increase in ownership rates between 1981 and 1991 may also relate to the difference between the housing and financial environments. Many households who took out a 25-year loan in the regulated environment of the late 1970s and 1980s did so in an environment of rapid inflation, both of incomes and housing. The effect was, for many households, to enable repayment of loans much earlier than they would have anticipated.

Consider the example of a 24 year-old person on average weekly earnings (AWE) of \$7750 who in 1977 purchased a dwelling at the median price in Melbourne (\$37 000). This would have been a 25-year loan on a 25 per cent deposit, and thus would have been for an amount of \$27 800. By the time of the 1991 census (when the individual was then a 39-year old) the dwelling would have been worth \$127 000 and his income (assuming no promotion and still on AWE) would have been \$32 000. The annual loan repayment would have been \$3432, only 10 per cent of income. If the loan repayments were increased in 1991 to just 20 per cent of income, another five years would have seen the loan repaid. If repayments had progressively been increased to average 20 per cent of income over the duration of the loan it would have been repaid much earlier than 1991. In short, inflation created the opportunity for many households to achieve outright ownership status in this period. Although inflation eased in the 1990s, the higher rates of the 1980s still meant that many households could become outright owners in the 1990s. The effect of inflation on the capacity for early loan repayment had completely gone by the 2000s. This, along with the equity borrowing factor, are probably the major explanations of the collapse in outright ownership by 2011.

One of the paradoxes revealed by the data relating to outright ownership is that the median income of outright owners was lower than it was for purchasers across all four census years and for both age groups. For example, in 1981 the median household income (in 2011 dollars) of outright owners in the 25–34 age group (and this is a very young age to have paid off a mortgage) was \$85 904 compared to the purchasers' median household income of \$103 168. In 2011 the respective figures were \$84 656 and \$110 344. How do we explain lower income households having the capacity to pay off a mortgage before higher income households, and at a very young age? A possible explanation is that these are households in which there has been family support, either by actually buying the dwelling or by assisting with such a large deposit that the actual mortgage was small and easily paid off.

There has been considerable discussion in recent years of the concept of inter-generational transfer and whether this is a mechanism to assist the young. A study by Olsberg and Winters (2005) found, in interviews with older households, evidence to suggest that while there is a need, there is growing reluctance on the part of older generations to provide such assistance because they may need the money themselves, and also because there is some sense that younger households are not deserving (Olsberg & Winters 2005, pp.87–91). Where there may have been greater assistance in the past (explaining the higher early age outright ownership) this may be less the case at present, hence the collapse in outright ownership by 2011. Inheritance is another form of intergenerational transfer although research by O'Dwyer (2001) on probated estates in South Australia found the sums were small and the arguments about the importance of inheritance exaggerated. It is interesting in terms of debates about intergenerational transfer that the rates of outright ownership fell markedly by 2011. If it was a factor in assisting outright ownership in earlier decades its role has weakened considerably.

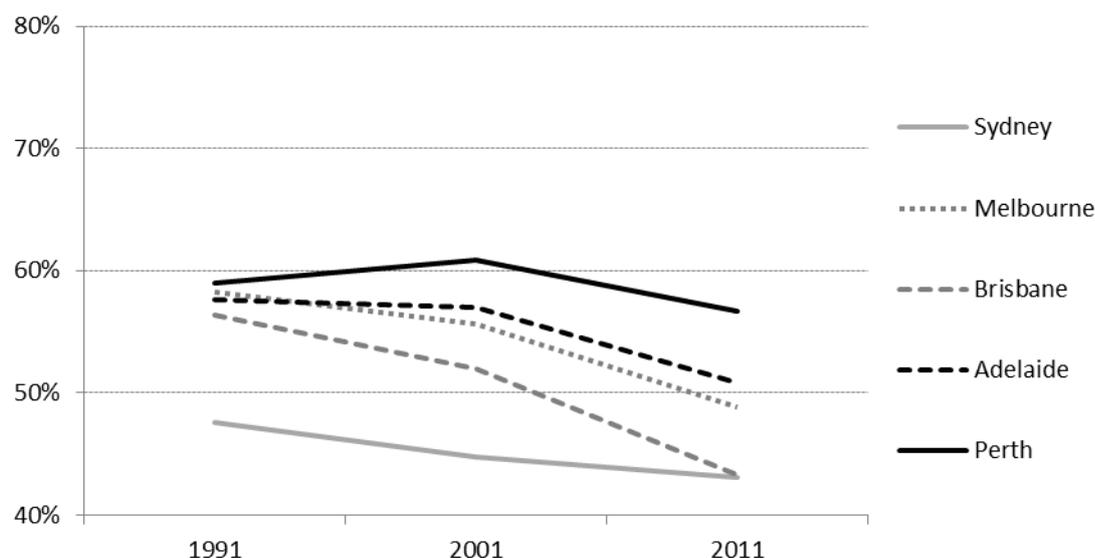
One explanation for the rapid fall in home ownership in the period 1981–91 is the differences in the state of the economy. Despite there being in many respects a worse affordability problem in the late 1990s and 2000s, the economic environment at that time was much better, so that the decline in purchase that had occurred between 1981 and 1991 was largely arrested. The poorer economic environment of the 1980s would have affected purchaser confidence. This was a period for which many households had no precedent or preparation; they, and their parents, had grown up in the low risk, long boom period of the post-war era, where interest rates and unemployment rates, as they were experiencing in the 1980s, were unheard of. By the 2000s and beyond the economy had improved, but households had also probably adapted their values and behaviours to a more risk society.

#### *4.1.2 Locational variation*

To what degree are there differences in rates of purchase across Australia's metropolitan areas, and how have these varied over time? There are data limitations when attempting to address this question. Unfortunately the 1981 unit record data does not include metropolitan area as a variable, and thus has to be excluded from any analysis. Moreover, continued urban growth means that metropolitan boundaries have changed across time, making comparisons more difficult. The anomalies however are ones that are more or less consistent across all cities, that is the locations where there are boundary changes are largely growth suburbs, made up predominantly of detached housing. There is also no separate data for Hobart as this is buried in total Tasmania data.

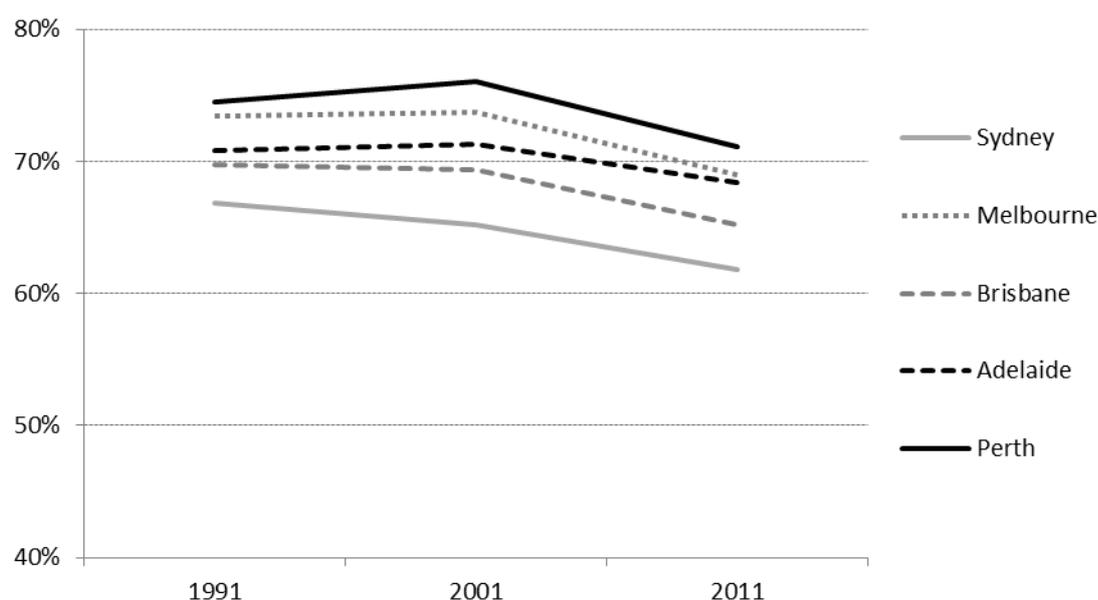
A starting hypothesis would be that the least affordable cities (i.e. Sydney and Melbourne) would have the lowest purchase rates and the most affordable (Adelaide and Perth—at least before 2011 in the case of the latter) the highest. As Figures 8 and 9 below show, this appears to be the case, with Sydney and Melbourne averaging the lowest purchase rates over the three decades. Looking at the overall home ownership rate, in Sydney this fell the least over the two decades (falling from 47.6 % to 43.1% for those aged 25–34) while for the same age group in Melbourne the rate fell by almost 10 percentage points, in Brisbane by 13.2 percentage points, in Adelaide by 6.9, and Perth by 2.3 percentage points. The result is that, by 2011, the gap between Sydney and the other cities has been greatly reduced to the degree that Brisbane has almost the same purchase rate for both 25–34 year-olds and 35–44 year-olds. It is almost as if Sydney has been the canary in the coal mine, with the lack of affordability in that city affecting purchase rates there earlier, but as the affordability problem widened to embrace all Australian cities rates of purchase elsewhere dropped to finish up closer to those in Sydney.

**Figure 8: Home purchase rates, Australian cities, 1991–2011, 25–34 year-olds**



Source: ABS Census, unit record files, 1991, 2001, 2011

**Figure 9: Home purchase rates, Australian cities, 1991–2011, 35–44 year-olds**



Source: ABS Census, unit record files, 1991, 2001, 2011

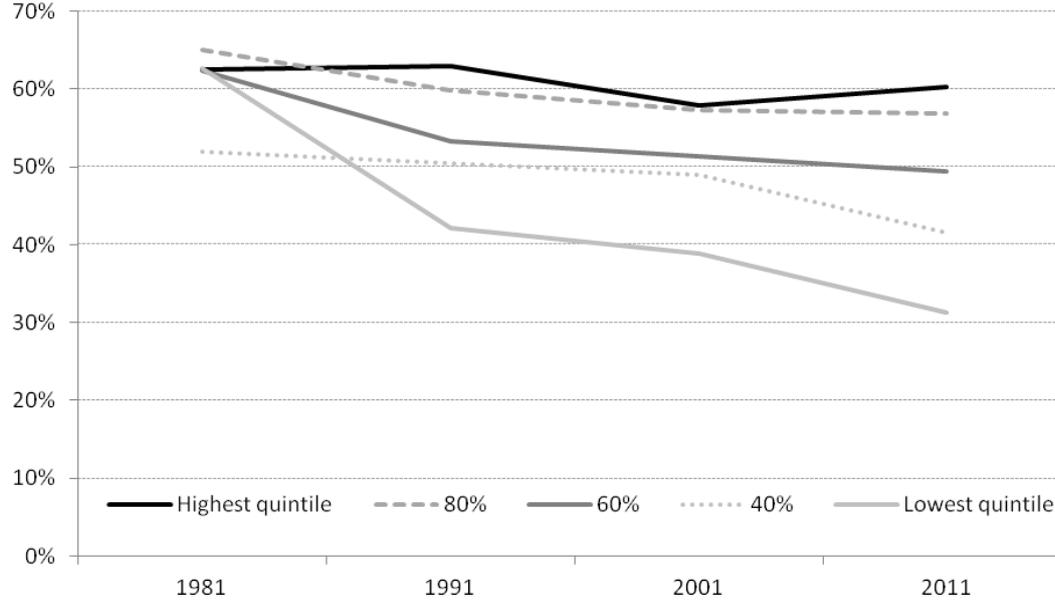
The falls in overall ownership rates are largely explained by the collapse in rates of outright ownership, with Adelaide and Brisbane having the largest falls across both age groups.

#### 4.1.3 The impact of socio-economic background

We now turn to consider the socio-economic backgrounds of young home owners. One obvious hypothesis is that decline in home purchase opportunity will be mainly experienced by those households on lower incomes, as they will have less opportunity to overcome the deposit and mortgage cost barriers. And this is clearly the case, as Figures 10, 11 and 12 below demonstrate. These chart home purchase rates for each of the three age cohorts, 25–34, 35–44 and 45–54, and in all three cases shows that the steepest declines in purchase rates were in the bottom two income quintiles. To remove the effect of changes in household composition on changes in income over the four time periods, household incomes have been equivalised (see Appendix 1).

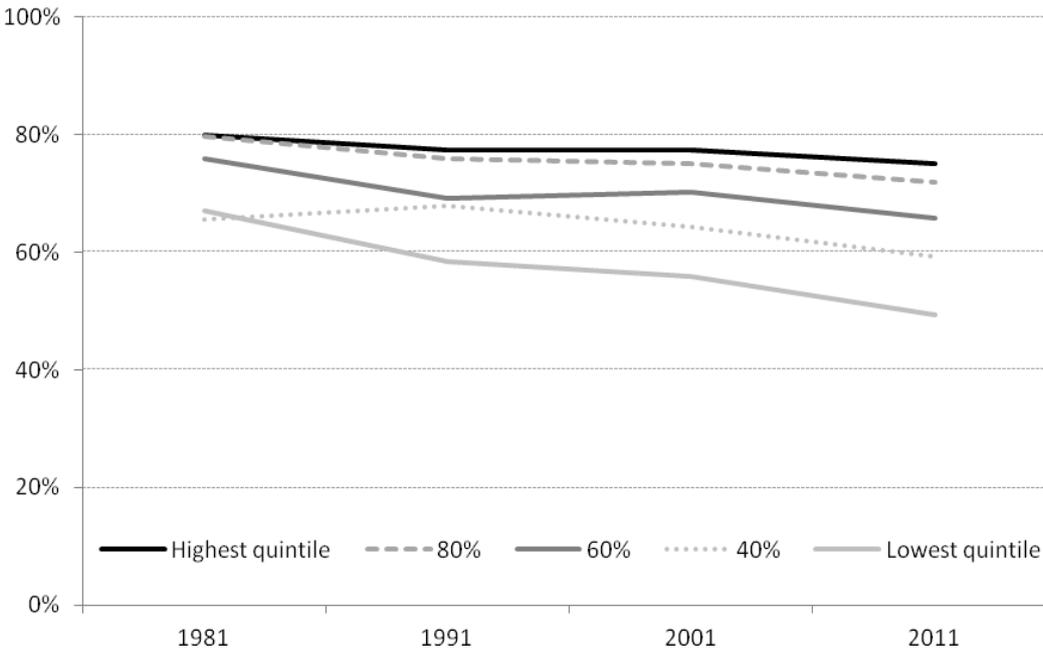
Looking at the 25–34 age cohort, which is the group that has experienced the most dramatic decline, Figure 10 shows that the rate of purchase for those in the lowest household income quintile halved between 1981 and 2011, falling from 62.7 per cent to 31.3 per cent. The purchase rate among the second lowest income quintile dropped by a smaller amount, from 52.0 to 41.6 per cent, while for the two highest income groups purchase rates also fell, but by much less. These patterns were reproduced, but not as dramatically, for the 35–44 age cohorts and for the 45–54 year-olds. In the latter age cohort the rates of decline were even more subdued, again with the biggest decline (12.8%) being for the lowest income quintile. The consequence of sharply contracting rates of purchase among lower income groups is a much higher rate of rental for them.

**Figure 10: 25–34 age cohort home purchase rates by income quintile, 1981–2011**



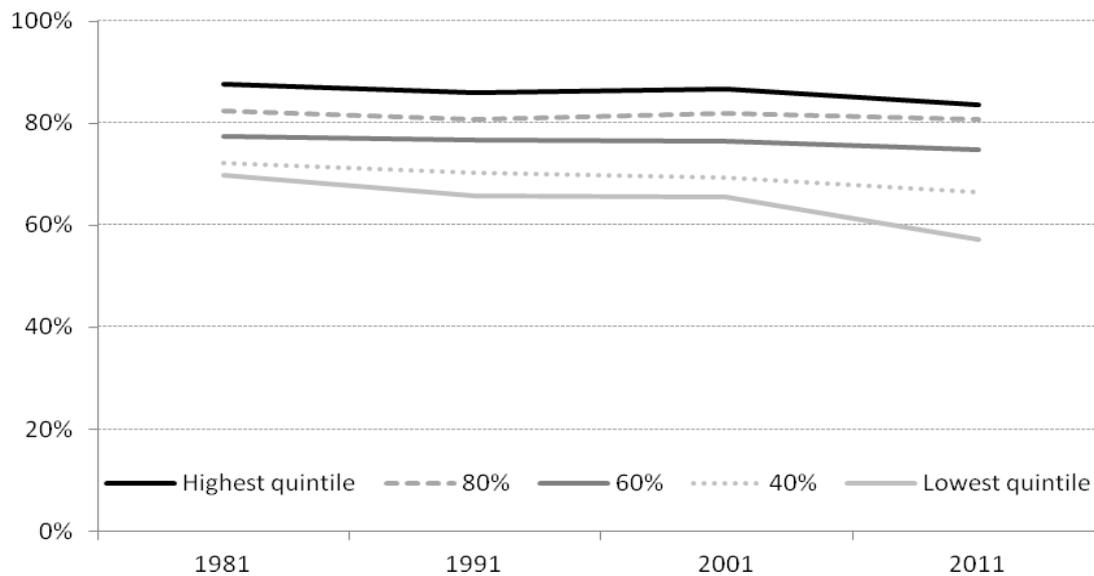
Source: ABS Census, unit record files, 1981, 1991, 2001, 2011

**Figure 11: 35–44 age cohort home purchase rates by income quintile, 1981–2011**



Source: ABS Census data, unit record files various years

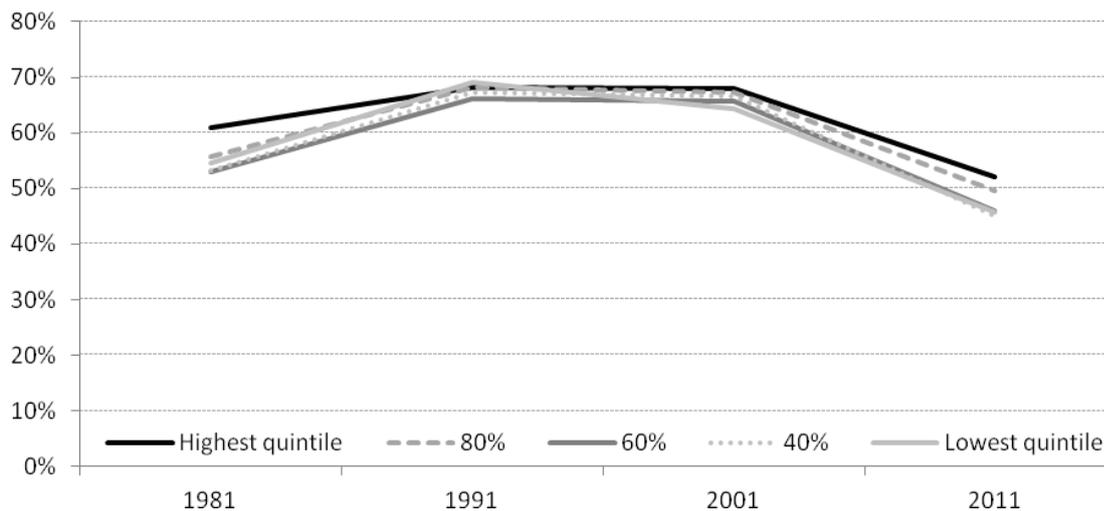
**Figure 12: 45–54 age cohort home purchase rates by income quintile, 1981–2011**



Source: ABS Census, unit record files, 1981, 1991, 2001, 2011

The declining rate of purchase, particularly among lower income groups, also raises longer term implications for income support if more households are unable to become outright owners (given that the pension system more or less assumes this) by the time they retire. It is therefore of interest to look at the percentage of those in the pre-retirement age group (55–64 years) who were outright owners. Figure 13 below shows the somewhat surprising results. All income groups (equivalised incomes) within this age group have experienced a fall in outright ownership, with similar patterns of outright ownership rates rising from 1981 to 1991, stable to 2001, and rapid decline thereafter.

**Figure 13: Percentage in outright ownership, 55–64 year-olds, 1981–2011**



Source: ABS Census, unit record files, 1981, 1991, 2001, 2011

#### 4.1.4 Household type

We now turn to household composition and, focusing on purchasing only, review the changes over the 1981–2011 period. Table 5 below shows that couples with children now account for a lower proportion of 25–34 year-old purchasers than in the past, their share of all purchasers in the age group falling steadily from 62.4 per cent in 1981 to 44.6 per cent in 2011. This trend did

not occur among the 35–44 age group, where couples with children comprise about two-thirds of all purchasers in that cohort across the 30 years.

Whether this change among the younger cohort reflects a more general trend in the population or a response to housing pressures cannot be determined. It is interesting however that the two most rapidly growing household types in Australia over the last 30 years (singles and sole parents) do not have a large role in purchasing. The explanation is no doubt related to these two household types lacking dual incomes (see further discussion below, in Section 4.2.2). The household type that has assumed a much larger share of home purchasers is that of childless couples, rising from 18.5 per cent to 30.8 per cent among 25–34 year-old purchasers, and from 5.5 per cent to 10.3 per cent of 35–44 year-olds. These figures perhaps reveal a trend to either not have or defer having children as a trade-off for home purchase (see Section 4.2.4 below).

**Table 5: Home purchase by household type, 1981–2011**

**5a. Household types as a proportion of all purchaser households, percentage**

Age group	Year	Single	Couple	Couple with children	Sole parent	Other family	Group	Total	Households
25–34 years	1981	10.6%	18.5%	62.4%	4.7%	2.8%	1.0%	100%	540,700
	1991	9.2%	25.7%	53.6%	4.8%	2.7%	3.9%	100%	514,600
	2001	12.5%	28.6%	49.4%	5.6%	1.2%	2.7%	100%	464,200
	2011	13.8%	30.8%	44.6%	5.2%	1.6%	4.0%	100%	520,500
35–44 years	1981	6.0%	5.5%	64.0%	5.5%	15.1%	3.9%	100%	477,800
	1991	6.6%	8.1%	70.4%	8.8%	4.6%	1.5%	100%	586,800
	2001	10.0%	9.7%	67.4%	10.5%	1.1%	1.3%	100%	666,600
	2011	10.0%	10.3%	68.3%	8.5%	1.9%	1.0%	100%	840,100

Source: ABS Census, unit record files, various years

**5b. Proportion of household types who are purchasers, percentage**

Age group	Year	Single	Couple	Couple with children	Sole parent	Other family	Group	Total
25–34 years	1981	28.2%	55.2%	60.0%	30.9%	51.7%	27.2%	50.2%
	1991	26.7%	47.6%	49.3%	19.3%	17.5%	21.2%	39.0%
	2001	26.3%	47.0%	53.2%	18.2%	25.9%	15.1%	39.3%
	2011	34.6%	47.0%	55.0%	21.6%	33.3%	20.4%	42.6%
35–44 years	1981	30.3%	48.9%	58.3%	42.3%	49.7%	39.3%	51.5%
	1991	25.6%	41.5%	49.4%	33.0%	27.9%	26.4%	42.2%
	2001	28.9%	45.3%	54.3%	31.8%	28.8%	25.4%	45.0%
	2011	37.2%	56.7%	65.6%	32.2%	38.2%	23.4%	54.1%

Source: ABS Census, unit record files, various years.

Table 5b above presents the household data in a different way and shows the degree to which for each household type home purchase has held up (or not). What it reveals is that the big losers (not surprisingly given their single income position) are sole parents of which 30.9 per cent of the 25–34 cohort were purchasers in 1981 but only 21.6 per cent by 2011. For the 35–44 age cohort the fall was 42.3 per cent to 31.8 per cent. Couples with children in both age

cohorts also fell in another way highlighting the growing problem of balancing having children with home purchase.

## **4.2 Resilience in the face of hardship: adaptation to affordability pressures**

The data presented in Section 4.1 suggests that, since 1991, home purchase for young households (low-income and single-income households excepted) has held up well, despite affordability and other pressures. In other words the tenure sector that is home ownership shows strong resilience. Chapter 3 had previously outlined a range of responses that were potential ways that households might have adapted to the difficult purchasing environment. This Section 4.2 now tests the evidence as to whether these adaptive responses have occurred, examining the available data relating to each possible response in turn.

### *4.2.1 Housing debt*

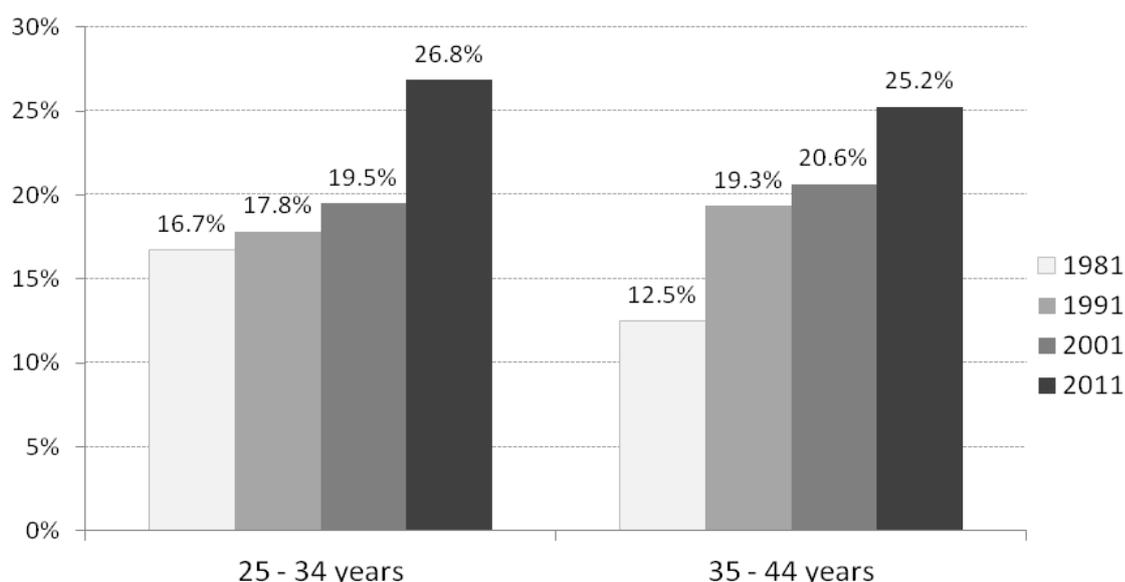
An obvious adaptation to such pressures is to borrow more than was traditionally the case. This is suggested by Figure 3 in Section 3.1, which charts the increase in Australian housing debt. That figure showed aggregate debt and thus included borrowing for investment, for second and subsequent ownership, and for all households across all age groups. What degree of debt did younger households take on?

How much can be borrowed is both a function of what the household is willing to take on and of the lender to push the boundaries of risk and offer more. In 1981 the financial system was much more regulated and this meant lenders rationed loans in a cautious way. Deposits were typically 25 per cent, meaning a loan to valuation ratio of 75 per cent. The system was deregulated in mid-1980 and already by the late 1980s loan to value ratios were more variable and typically around 80 to 90 per cent (Yates 1988, Table 4.1). By the 2000s, the figure was commonly 90–100 per cent. In these earlier years a loan of no more than 30 per cent of income was standard practice. But by the 2000s there was no standard, and given the intense competition for market share there is evidence (Tomlinson & Burke 2012) that banks were no longer using a percentage rate but some method of residual income, with the amount slightly above the poverty line being the amount that households were left to live on after meeting mortgage costs. In short, households could achieve ownership, but by taking on a much larger mortgage and probably a more constrained expenditure lifestyle than previous generations. As an unintended side effect the cumulative effect of all this borrowing was to have much of it internalised into increased house prices accentuating affordability problems.

And what does the data show? The findings fit the hypothesis. Figure 14 below displays the median mortgage for each of the two age groups as a percentage of their median incomes, and reveals a consistent increase in the size of the mortgage. It is important to remember that the data is for all purchasers in these age cohorts, including those who had taken out a mortgage just before the census date and those who had taken out one up 10 years previously. It is thus the median for households in a range of different mortgage positions.

In 1981 the median mortgage for the 25–34 year-olds was 16.7 per cent, but by 2011 it was 26.8 per cent; for the 35–44 age group the respective figures were 12.5 per cent and 25.2 per cent. The 2011 figures are quite remarkable, indicating that the median mortgage is actually higher than what was once the 25 per cent affordability bench mark, although the latter has now been commonly replaced by 30 per cent. For medians of this level, many households would need to have mortgages well into the 40 per cent or more of income. Mortgages of this scale explain why various affordability studies of the last decade show an increase in the number of home purchasers with affordability problems (Yates & Milligan 2007; Tanton et al. 2008; Burke et al. 2011).

**Figure 14: Median mortgage as percentage of median household income, 1981–2011**



Source: ABS Census, unit record files, various years

One way of getting a better understanding of the affordability implications of debt is via the residual income affordability method. This calculates for different households how much is left over for housing after relevant expenditure as measured by some budget standard is taken into account. For this exercise we used the modest cost budget standard of Social Policy Research Centre (SPRC) updated to 2011–12. (see Appendix 2 for details). The modest budget standard was then applied to the mortgage circumstances of households using the ABS SIH 2011–12. This enables an assessment of the degree to which households after meeting other budget necessities and mortgage costs have an affordability problem.

Table 6 below shows for all purchaser households and those on the lowest 40 per cent of Income the percentage above and below the modest budget standard and highlights the degree to which debt is creating an affordability problem. For both 25–34-year and 35–44-year households, over a quarter have housing costs that does not leave them enough for a modest standard of living. This represents around 350 000 households. For purchase households in the lowest 40 per cent of incomes a much higher percentage were experiencing affordability stress (84.9% for 25–34 and 78.1% for 35–44). Affordability pressures of this scale strongly suggest why the lowest 40 per cent of income earners are withering away as home purchasers in Australia.

**Table 6: Number and percentage of purchasing households with residual income affordability problem; all households and lowest 40 per cent of income earners, Australia, 2011–12**

	Living <i>below</i> residual income	Living <i>above</i> residual income	Total	Households
25–34 years (all h/holds)	26.8%	73.2%	100%	495,290
25–34 years (lowest 40%)	84.9%	15.1%	100%	130,585
35–44 years (all h/holds)	27.8%	72.2%	100%	813,829
35–44 years (lowest 40%)	78.1%	21.9%	100%	256,210

Source: ABS Survey Income and Housing 2011–12, unit record files

Where a residual income method is more useful than a 25 or 30 per cent benchmark method is in its ability to capture the different affordability scenarios of different household types as it recognise different household types have different expenditures.

**Table 7: Number and percentage of purchasing households with residual income affordability problem, all households by household type, Australia, 2011–12**

Age group	Household type	Living <i>below</i> residual income	Living <i>above</i> residual income	Total	Households	
25–34 years	<i>Single</i>	30.6%	69.4%	100%	83,473	
	<i>Couple</i>	9.1%	90.9%	100%	178,036	
	Couple + 1	24.9%	75.1%	100%	94,723	
	Couple + 2	38.0%	62.0%	100%	85,782	
	Couple + 3	65.6%	34.4%	100%	30,348	
	Couple + 4	64.0%	36.0%	100%	6,837	
	<i>Couple with children</i>	37.0%	63.0%	100%	217,690	
	Single + 1	64.6%	35.4%	100%	9,542	
	Single + 2	64.8%	35.2%	100%	6,549	
	<i>Single with children</i>	64.7%	35.3%	100%	16,091	
	<b>Total</b>		<b>26.8%</b>	<b>73.2%</b>	<b>100%</b>	<b>495,290</b>
	35–44 years	<i>Single</i>	11.3%	88.7%	100%	90,564
<i>Couple</i>		12.4%	87.6%	100%	97,587	
Couple + 1		18.4%	81.6%	100%	146,205	
Couple + 2		27.5%	72.5%	100%	269,687	
Couple + 3		45.9%	54.1%	100%	129,453	
Couple + 4		64.1%	35.9%	100%	29,708	
<i>Couple with children</i>		31.2%	68.8%	100%	575,053	
Single + 1		46.4%	53.6%	100%	26,845	
Single + 2		49.7%	50.3%	100%	23,781	
<i>Single with children</i>		47.9%	52.1%	100%	50,625	
<b>Total</b>			<b>27.8%</b>	<b>72.2%</b>	<b>100%</b>	<b>813,829</b>

Source: ABS Survey of Income and Housing 2011–12, unit record files

Table 7 above shows the percentage below the budget standard for various household type and shows how affordability stress is greatest for large families and sole parents and least for couples and for those smallish numbers of singles, who do have the income to make it into purchase. The data is consistent with that of Section 4.1.4 which revealed that the household type that has assumed a disproportionate share of home purchasing is that of childless couples. The challenges facing large families in Australian home purchase are obviously considerable and, along with other social changes, suggests why family sizes are getting smaller.

The low rates of mortgage arrears and actual default in Australia (Berry et al. 2009, p.31; Fitch Ratings 2011, 2014) suggest however that while clearly facing financial stress most households are managing. Many households have made the judgment that in the interests of purchase they have to put themselves in a situation of financial hardship, and rely on sustained stability of household income to manage this. One of the factors enabling this system resilience is a tradition in Australia for financial institutions to have no penalties for paying off a mortgage

early. Thus many Australian households effectively make prepayments on their loans giving many households the ability to weather temporary shocks such as loss of, or reduction in, income or interest rate increases.

There are two qualifications to mortgage prepayment reliance. One is that those with the most severe affordability problems will not have the capacity for prepayment and these will tend to be recent first-time purchasers, mostly younger households. The second is that prepayments only give capacity for dealing with short term shocks. Areas where for example higher rates of employment, associated with economic down turn or restructuring, are sustained over time will have higher rates of mortgage default and potential for reductions in rates of home ownership.

The resurgence in purchase rates by younger households since 1991 may have been possible because of the strong state of the economy from the mid-1990s onwards, when, generally, households had the experience of (and confidence in) the growth of household income. The risk of high debt was, arguably, facilitated by this economic climate, and if so raises the question of what might happen to both the ability to manage debt, and confidence to take on debt for future purchase, if the Australian economy slows down.

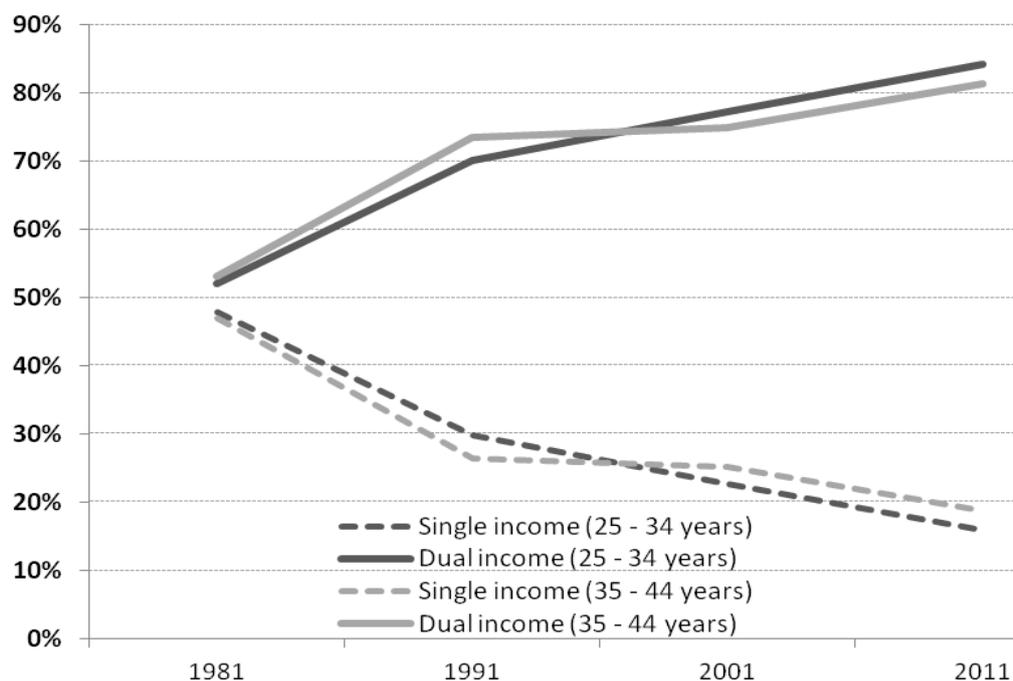
While some describe the affordability problem as a crisis (Sheehan 2013; Yates et al. 2007), at this point it is probably more one at the individual level, but with the potential to become a wider social and economic crisis if economic realities change. It is significant that in Fitch Rating's mid-2014 year study of mortgage arrears, suburbs in Sydney's west and Melbourne's north-west along with Hobart and the Geelong areas of Victoria had the highest rates of arrears. All have weaker labour markets, and certainly the Sydney and Melbourne suburbs are ones of younger first-home buyers than the national average and suggest that, if and when, unemployment rates rise more generally (as they did in the 1980s) the relationship between high debt, affordability and home purchase problems may warrant a crisis label.

#### *4.2.2 Dual income formation*

As noted in Section 3.2, a major potential adaptation to housing affordability is to form or create a dual income household. There is uncertainty, however, about whether this is cause, effect or even incidental to the issue of affordability, as a number of processes may be operating. First, higher dwelling prices might be a response to the additional earnings of dual income households, which as Table 2 showed, would have greatly increased in number as more married women joined the workforce. Second, reduced affordability might have required the creation of a two-income household in order to enable purchase, and third, the growth of two-income households might simply reflect the changed socio-economic environment of greater female workforce participation and have no relationship to housing market dynamics in any way.

Figure 15 below throws some light on this question, although the direction of the relationship cannot be determined, Since 1981, among purchasers in both of the younger age cohorts, the proportion of dual-income households has risen substantially—an increase much greater than could be explained solely by growth in female workforce participation. The corresponding fall in the proportion of single-income households is telling, given this period has seen substantial growth in sole-person households. In 1981, the ratio of dual to single-income households among purchasers aged 25–34 was not that different, with dual-income households accounting for 52.1 per cent of purchasers and single-income households comprising 47.9 per cent. Thereafter the gap has widened markedly over the three decades, so that in 2011, among 25–34 year-olds, dual-income households accounted for 84.2 per cent of purchasers and single-income households only 15.8 per cent. The pattern for those aged 35–44 is almost the same. The data would appear to confirm the popular belief that you have to be a dual-income household to purchase!

**Figure 15: Percentage of purchasing households that are dual or single-income households, 25–34 and 35–44 year-olds, 1981–2011**



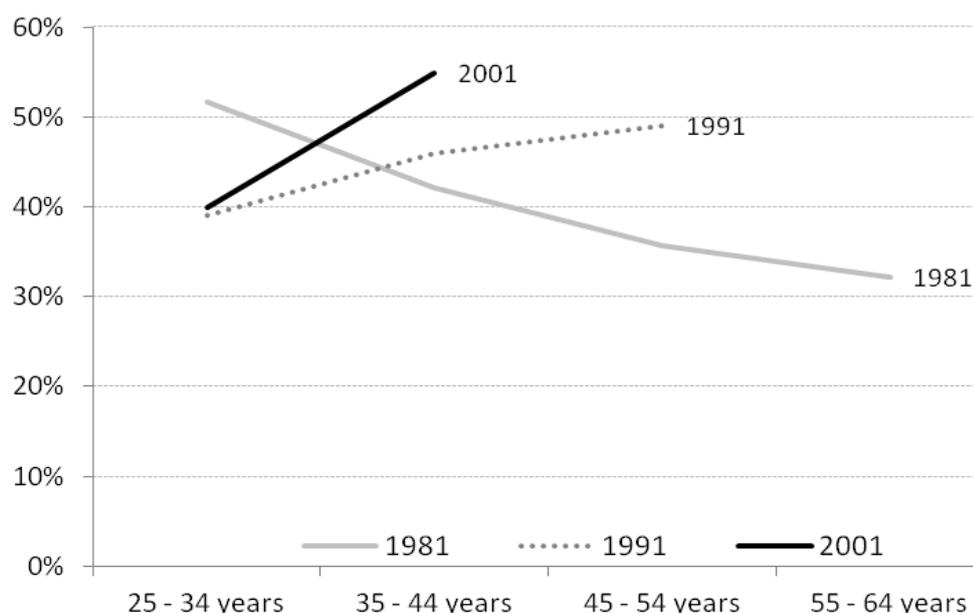
Source: ABS Census of population and housing, unit record files, various years

#### 4.2.3 *Deferring, not rejecting purchase*

A 2004 AHURI study of home ownership trends by Baxter and McDonald also found resilience in home purchase by younger households and argued that much of the relatively small fall in ownership rates was due to delays in relationship formation, especially the delay of marriage (Baxter & McDonald 2004, p.19). A corollary of the delayed effect argument is that while younger households (25–34 year-olds) may have lower rates of purchase (for the reasons identified by Baxter & McDonald), these households simply catch up by purchasing later, thus still achieving home ownership.

The four census years selected for this study enable a limited time series cohort analysis, for instance by looking at what happens to the 25–34 year-old cohort from 1981 in the following decades. Figure 16 below suggests there is a process of deferred purchase that has occurred more recently. For those who were aged 25–34 in 1981, there was a steady decline in purchase rates over subsequent years, from a high point of 52 per cent in 1981, down to 32 per cent three decades later, in 2011, when they were then in the 55–64 age group. By contrast, the trend for those aged 25–34 in 1991, and for the same age cohort in 2001, have upward trajectories—that is, while as 25–34 year-olds they had lower rates of purchase than the same age cohort in 1981, over the ensuing decades their purchase rate increased, to be level with and then higher than the rates for the 25–34 cohort of 1981. For instance, the home purchase rate among 25–34 year-olds in 1991 was 40 per cent, but a decade later, among 34–45 year-olds, it was 45 per cent, and two decades on, among 45–54 year-olds, the rate was close to 50 per cent. In short, the preliminary evidence indicates a process of deferral, not actual cessation of purchase. The potential problem with this trend is whether these later purchasing cohorts will have paid off their mortgage by retirement age, or whether deferred purchase means an income support problem in future years.

**Figure 16: Home purchase rates by age cohort over time. Generation of 1981,1991 and 2001**



Source: ABS Census, unit record files, various years

While not the direct focus of this research, but of interest because of the long-term implications of the finding, and of its policy importance, is the high percentage of older households (55–64 year-olds and 65–74 year-olds) who in 2011 are still purchasers, compared with the percentages in past years. And, given the evidence of deferred purchase for younger households, this is an issue that will be carried into the future.

Table 8 below shows the pattern of purchasing for various age groups, right through to the 65–74 year-old cohort. The interesting trend is the progressive increase in the purchase rate, and decline in the outright ownership rate: in 2011, there were 10.6 per cent of households in the 65–74 age category who still had a mortgage. The big changes are in the younger cohorts, which mean that their impact will take time to be felt. But, for example, the 45–54 age group in 2011 (i.e. those who had been in the 25–34 age group in 1991) had a purchase rate almost 20 percentage points higher compared to the same age cohort 20 years previously. And for the 55–64 age group, the difference compared with 1991 was 18 percentage points.

**Table 8: Purchase patterns, various cohorts, showing debt across the life course**

Age group	Year	Owner	Purchaser	Home ownership	Households
25–34 years	1981	9.7%	51.7%	61.3%	641,800
	1991	14.1%	39.0%	53.1%	700,300
	2001	5.1%	43.3%	48.4%	581,600
	2011	11.3%	40.0%	51.3%	594,600
35–44 years	1981	21.6%	52.7%	74.4%	673,900
	1991	27.2%	42.2%	69.4%	964,400
	2001	23.3%	45.9%	69.2%	1,005,100
	2011	10.4%	54.9%	65.2%	998,600
45–54 years	1981	39.6%	38.7%	78.3%	599,300
	1991	46.6%	29.4%	76.0%	778,500
	2001	42.3%	35.7%	77.9%	1,057,200
	2011	24.9%	49.1%	74.0%	1,146,800
55–64 years	1981	56.4%	24.3%	80.7%	566,800
	1991	66.8%	12.3%	79.1%	647,400
	2001	66.7%	15.9%	82.6%	787,500
	2011	48.0%	32.2%	80.1%	1,061,500
65–74 years	1981	68.4%	10.6%	79.0%	413,900
	1991	71.5%	7.9%	79.4%	559,800
	2001	78.4%	4.1%	82.5%	593,800
	2011	72.4%	10.4%	82.8%	725,000

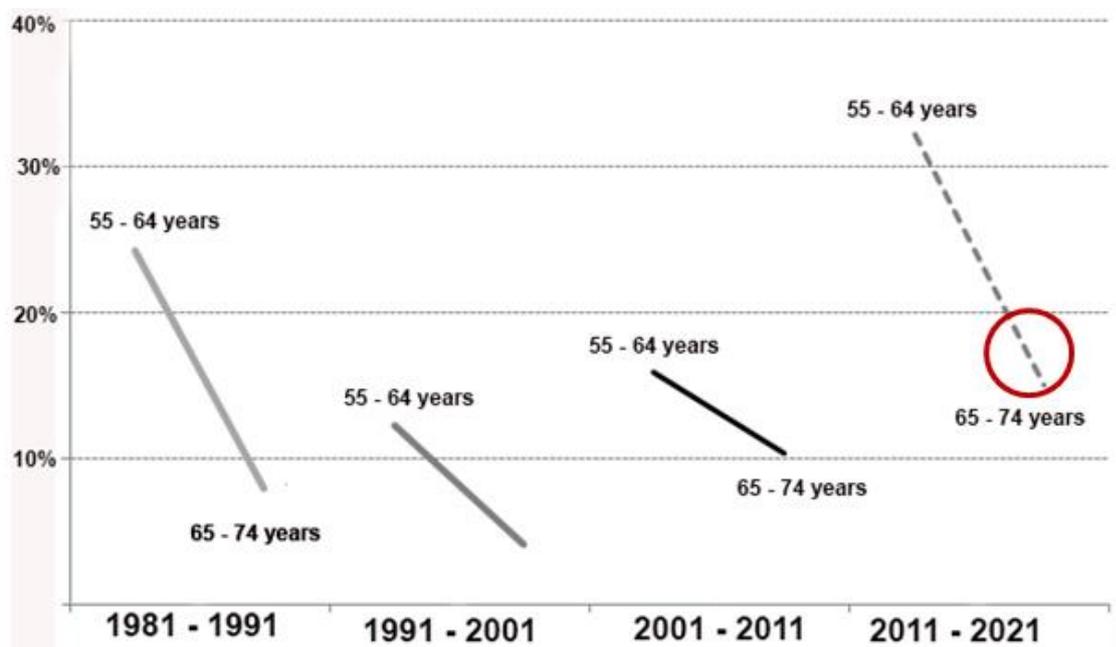
Source: ABS Census, unit record files, various years

Looking at the 65–74 age group, however, reveals that, on moving into the retirement age cohort, a large proportion discharge their mortgage—but the proportion doing so is largely related to the scale of purchase a decade before.

Figure 17 below shows how the purchase rate of those in the 55–64 age cohort affects the rate in the next decade. In 1981, 24.3 per cent of 55–64 year-olds were still purchasers; a decade later, that is, among 65–74 years olds in 1991, this rate had fallen to 7.9 per cent. A lower percentage who were purchasers in the 55–64 year cohort in 1991 (12.3%) declined to a purchase rate of only 4.1 per cent in 2001 for the 65–74 age group.

In 2011, a very high 33.2 per cent of the 55–64 age group were still purchasers, suggesting that by 2021 (based on a simple extrapolation of past patterns) perhaps 15 to 20 per cent could remain purchasers when in their retirement years.

**Figure 17: Home purchase rates by decade movements, 1981–1991, 1991–2001, 2001–2011, 2011–2021**



Source: ABS Census, unit record files, various years

Some additional information on this point is provided by the Survey of Income and Housing (SIH) although only for 2011. Table 9 below shows for purchasers the proportion that were first-time or change-over buyers across a range of age cohorts. Surprisingly a good proportion (30.6%) of the youngest cohort are change-over buyers not first-home buyers meaning fairly rapid turnover of their first home purchase. At the other end of these age groups, there is quite a high percentage of first-home buyers where the chances of paying off the mortgage before retirement are substantially reduced. Thus 17.4 per cent of the 45–54 age cohort are first-time purchasers and 8.3 per cent of 55–64 year-olds.

**Table 9: Purchasers by first-home buyer and change-over buyer, Australia, 2011–12 in the previous three years**

Age group	First-home buyer	Change-over buyer	Total	Households
25–34 years	65.2%	34.8%	100%	309,263
35–44 years	30.6%	69.4%	100%	276,497
45–54 years	17.4%	82.6%	100%	158,152
55–64 years	8.3%	91.7%	100%	115,019

Source: ABS Survey of Income and Housing 2011–12, unit record file

While these findings reinforce other recent AHURI research pointing to older age housing debt (Ong et al. 2013), the scale of this problem cannot be extracted from the data. It may be that more households now have retirement income (e.g., from superannuation rather than pensions) to carry these mortgage costs, in which case housing debt may not be a serious problem. It may be that more households now have retirement income (e.g., from superannuation rather than pensions) to carry these mortgage costs, or that the residual amount of mortgage is so small that it can be carried even on a relatively low income. But if many do not have the retirement income to cover their mortgage, then there is a major problem. This raises the policy question of whether there should be some form of housing

assistance, akin to Commonwealth rental assistance, for households in the latter position. How this could be designed to avoid the moral hazard of people deliberately extending loans in the knowledge of the availability of such assistance would also have to be worked through.

#### 4.2.4 Keeping up the dream via multi-unit purchase

Another adaptation in the face of affordability pressures is to substitute a different product. In the 1950s through to the late 1970s most younger home buyers purchased a detached dwelling. As pointed out in Section 3.3, this was both a factor of choice and of constraint. Most people chose the suburban lifestyle as that was the expectation of the time, and the suburban lifestyle meant a detached dwelling. This was because planning regulations ensured that multi-unit developments were limited in most suburban areas of Australian cities, and even where they were built they were for rental not owner occupation. In addition to that constraint, finance institutions offered cheaper interest rates for newly constructed detached dwellings than for older houses or apartments. Financial and planning deregulation in the 1980s created new dwelling products, and the ability to purchase these new dwelling forms may have enabled some households to achieve ownership in the face of growing and otherwise insurmountable affordability barriers.

Figure 6 in Section 3.3 showed how, over time, and most notably in the inner and middle ring suburbs of Melbourne, the differential between the median priced dwelling and the median priced apartment has widened considerably. While house purchase may have been enormously constrained for many households, purchasing an apartment may still have been a possibility. For example, in Camberwell, a 'leafy' middle ring suburb of Melbourne (12 kilometres from the CBD), the median priced apartment was 40 per cent of the median priced house in 2011. While there will be some differences between Melbourne and other capital cities, the broad pattern of cost difference is likely to be the same, meaning that one obvious adaptation is to substitute purchase of an apartment or flat for a detached house.

**Table 10: Home ownership by age cohort by dwelling type, 1981–2011**

Age group	Dwelling type	Tenure 1981			Tenure 2011		
		Owner	Purchaser	Ownership	Owner	Purchaser	Ownership
25–34 years	House	95.6%	93.4%	93.7%	80.5%	78.6%	78.8%
	Other	4.4%	6.6%	6.3%	19.5%	21.4%	21.2%
	Total	100%	100%	100%	100%	100%	100%
	<i>Households</i>	<i>97,000</i>	<i>533,300</i>	<i>630,300</i>	<i>60,100</i>	<i>520,300</i>	<i>580,400</i>
35–44 years	House	95.5%	94.8%	95.0%	85.7%	87.2%	87.0%
	Other	4.5%	5.2%	5.0%	14.3%	12.8%	13.0%
	Total	100%	100%	100%	100%	100%	100%
	<i>Households</i>	<i>191,400</i>	<i>471,500</i>	<i>662,900</i>	<i>156,900</i>	<i>838,300</i>	<i>995,200</i>
45–54 years	House	94.6%	94.0%	94.3%	90.7%	89.5%	89.9%
	Other	5.4%	6.0%	5.7%	9.3%	10.5%	10.1%
	Total	100%	100%	100%	100%	100%	100%
	<i>Households</i>	<i>297,300</i>	<i>292,100</i>	<i>589,400</i>	<i>380,500</i>	<i>759,300</i>	<i>1,139,800</i>

Source: ABS Census, unit record files, various years

Table 10 above provides clear evidence that a large proportion of younger people were able to achieve ownership through purchasing an apartment or flat. Whether purchase or outright ownership are considered, the increases between 1981 and 2011 are substantial. In 1981, of those who were purchasing, 93.4 per cent of 25–34 year-olds were buying a house but by

2011 this had fallen to 78.8 per cent. For the other age group, 35–44 year-olds, the comparable figures were 94.8 per cent in 1981, down to 87.2 per cent in 2011. The figures were very similar for outright ownership. Whether this switch in consumption patterns was a response to affordability versus lifestyle decisions (flats are largely in the café new economy location of the inner city) cannot be concluded, but whatever the reason it has had the effect of helping to maintain home ownership rates in the face of affordability pressures.

#### 4.2.5 Importing home ownership: the role of migration

One hypothesis that could be drawn from demographic changes that have occurred in Australia is that potential home purchase decline may have been thwarted by the arrival of migrants with a home ownership culture, and access to the resources of extended family and pre-existing wealth if a 'business' migrant, principally Chinese and Indian. Table 11 below shows the home purchase and outright ownership rates for key migrant groups to Australia from 1991 to 2011 and finds no evidence to support this hypothesis. (Data for 1981 is not presented as the sample numbers were too small to be reliable.)

For Chinese and Indian born, the purchase rates from 1991 onward, for both age cohorts, are less than the rates for Australian born. Both of these overseas born groups had particularly low purchase rates among younger age cohorts in 1991. For those from China, home purchase has increased subsequently, so that by 2011 the rates (41.5% for 25–34 year-olds, and 53.9% for 35–44 year-olds ) were much closer to, although still lower than, the Australian born rates (47.6% and 57.4% for the respective age groups). Indian home purchase and outright ownership is well below the Australian rate for both age cohorts, while Chinese born (perhaps reflecting their role in business migration) have an outright ownership rate much higher than the Indian rate.

**Table 11: Home purchase and outright ownership rates of key migrant groups, 1991–2011**

Age group	Country of birth (household head)	Tenure 1991		Tenure 2001		Tenure 2011	
		Owner	Purchaser	Owner	Purchaser	Owner	Purchaser
25–34 years	Australia	15.2%	40.7%	11.3%	42.0%	5.3%	47.6%
	New Zealand	6.0%	28.8%	5.3%	25.4%	1.9%	31.3%
	Vietnam	9.2%	36.7%	18.1%	37.7%	9.3%	55.1%
	China	14.7%	16.9%	10.5%	31.6%	11.0%	41.5%
	India	10.0%	25.0%	11.8%	24.4%	2.1%	23.5%
	Born elsewhere	11.3%	36.0%	11.4%	33.6%	4.4%	32.4%
	Total	14.1%	39.0%	11.3%	40.0%	5.1%	43.3%
<i>Sample numbers</i>		<i>185,700</i>	<i>514,600</i>	<i>130,400</i>	<i>464,200</i>	<i>61,100</i>	<i>520,500</i>
35–44 years	Australia	29.0%	42.6%	23.4%	47.5%	11.1%	57.4%
	New Zealand	9.0%	46.8%	12.6%	42.2%	5.1%	44.2%
	Vietnam	16.8%	46.2%	38.8%	31.3%	14.8%	56.2%
	China	25.0%	33.6%	38.6%	31.9%	12.5%	53.9%
	India	12.7%	46.0%	17.9%	44.0%	3.3%	46.9%
	Born elsewhere	24.9%	41.0%	22.7%	42.9%	8.9%	48.8%
	Total	27.2%	42.2%	23.3%	45.9%	10.4%	54.9%
<i>Sample numbers</i>		<i>377,600</i>	<i>586,800</i>	<i>338,500</i>	<i>666,600</i>	<i>158,500</i>	<i>840,100</i>

Source: ABS Census, unit record files, various years

New Zealanders in both age cohorts have purchase and outright ownership rates well below the rates of Australian born, perhaps reflecting some ambiguity as to whether they see themselves as permanent Australian residents, while the Vietnamese have higher rates (64.5% for 25–34 year-olds, and 70.9% for 35–44 year-olds in 2011) than the Australian born. While this is an area for much more research, the tentative conclusion from these data is that migration has not been one of the factors explaining the relative resilience of home ownership rates among younger people. In fact it may have been one of the factors dragging the rate of ownership down: the three largest recent migrant groups as of 2011 (Chinese, Indian and New Zealander) all had rates below the Australian born. The experience of Vietnamese migrants, however, may provide another aspect to the story: it may take time to build up home purchase capacity. The Vietnamese came to Australia much earlier than the Chinese and Indians (beginning in the 1970s) and they too had relatively slow starts to home purchase, particularly by younger households, but built ‘success’ progressively so that by 2011 they have considerably higher home ownership rates.

#### 4.2.6 *'Honey, I gave up the baby for a house': delayed and foregone childrearing*

Given the high costs of having children and of home purchase, it would not be surprising if households had to make trade-offs, deferring either children or purchase or perhaps not having one or the other. The cost, for a middle-income household, of bringing up two children from birth to age 24 has been estimated by NATSEM (Philips 2013, p.17) at \$812 000 which is probably not that much different to a median price Australian house on a 25-year mortgage. For many households what is effectively a cost of around \$400 a week for two children severely limits the amount available for a mortgage.

Burke et al. (2011) used a residual income or budget standard approach to determine, for different household types, their affordability capacity after meeting all other budget necessities, factoring in taxes and benefits. For example, in 2010 a single person on \$75 000 (close to the Australian median household income) could afford housing repayments of between \$600 and \$800 a week. By contrast, a couple with two children could only afford between \$300 and \$600, a greatly reduced capacity to purchase. Such differences may result in households deferring having children.

We might therefore assume that, as housing affordability eroded (although with ups and downs) over the 30 year period, there might have been a fall in the proportion of purchasers having children. The degree to which any housing effect has however to be separated from any general social trend of having fewer children, a reduction in the fertility rate. In the period of study, the downward trend in the fertility rate that had begun in the 1960s bottomed at 1.7 children per women in 2001 then recovered to 1.9 children per woman in 2011, the same as it had been in 1981.

Table 12 below records the percentages of purchaser households with dependent children. It shows a decline for both age groups from 1981 to 2001 with the decline more marked for the younger cohort: among 25–34 year-olds it fell from 69.7 per cent to 57.4 per cent and for 35–44 from 85.8 per cent to 79.8 per cent. In both cases there was recovery by 2011 but still 6 percentage points down in 1981 for the younger age cohort but only 2.4 percentage points for the older cohort. Given the pattern parallels the timing of the fall and rise in fertility rates, we cannot conclude with any confidence that there is any affordability effect and it is more likely related to overall fertility trends. The data would not appear to support any argument that households may be trading off having children for home purchase.

**Table 12: Percentage of parenting households (purchasers), 1981–2011, Australia**

Age group	Parental status	1981	1991	2001	2011
25–34 years	No children	30.3%	37.4%	42.7%	47.3%
	Children	69.7%	62.6%	57.3%	52.7%
	<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>
	Households	520,300	480,500	446,100	491,000
35–44 years	No children	14.2%	15.6%	20.2%	20.9%
	Children	85.8%	84.4%	79.8%	79.1%
	<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>
	Households	387,100	550,800	650,600	815,600

Source: ABS Census, unit record files, various years

The fact that home purchase and child bearing is still possible for so many households however does raise the question of how households are managing this. Perhaps the answer is hinted at in the income data discussed in Section 4.1. The steady decline in the percentage of lower income households who are purchasing might not be solely due to the barrier of purchase affordability, but also because of child bearing and rearing costs. Families who want children but cannot manage the costs of both home purchase and children are constrained to live in private rental. This would be consistent with research showing that in the private rental sector there is a growing number of families (about one-third of all households or 600 000 in total) with dependent children (Hulse et al. 2012, p.25).

#### 4.2.7 *The fringe dwellers: purchasing on the urban fringe*

Another way of purchasing in the face of affordability constraints is to buy in locations that are perhaps not a preferred location but one where housing is the cheapest. Where Figure 6 Section 3.3 showed that in 1981 affordability was more or less the same across metropolitan Melbourne (there were of course peaks in specific submarkets) by 2011 the inner and middle rings were highly unaffordable for those interested in purchasing a house but somewhat better for flats. The most affordable locations in Melbourne are now the outer suburbs and metropolitan fringe with this pattern most likely reproduced for all large Australian cities. Buying in outer areas has always been a persistent feature of Australian home purchase (hence the sprawl) and was not necessarily seen as a compromise of location. As the urban area expanded residential development has become stretched beyond the boundaries of public transport and increasingly disconnected from strong labour markets (Rawnsley & Spiller 2012, pp.145–51) As a result, purchasing in such locations may today be seen as more of a compromise than in the past.

Figure 18 below shows the location of purchasers (houses and flats) for the two age groups in 2011 for urban Melbourne. The outer boundaries are for the metropolitan area which includes areas as yet un-built on and/or zoned non-residential while the inner boundary is for the built up areas. It shows the count of home purchases by suburb scaled for 25–34 year-olds from areas where there is nil, through 1–200 up to a maximum of 1000 plus. For 35–44 year olds the scale is 1–50 to a maximum of over 300 per suburb. The darker the colour the higher the rate of purchase.

The figure clearly shows minimal house purchase in the inner ring for both age groups as well as in the middle ring for the younger age group. The bulk of purchase is in the outer urban and fringe suburbs with a few suburbs on the very fringe accounting for the bulk of purchases. In fact, for the 25–34 age cohort, 10 per cent of suburbs of Melbourne’s 519 suburbs (all outer and fringe) accounted for 50.3 per cent of all purchases. And 20 per cent of the suburbs (again

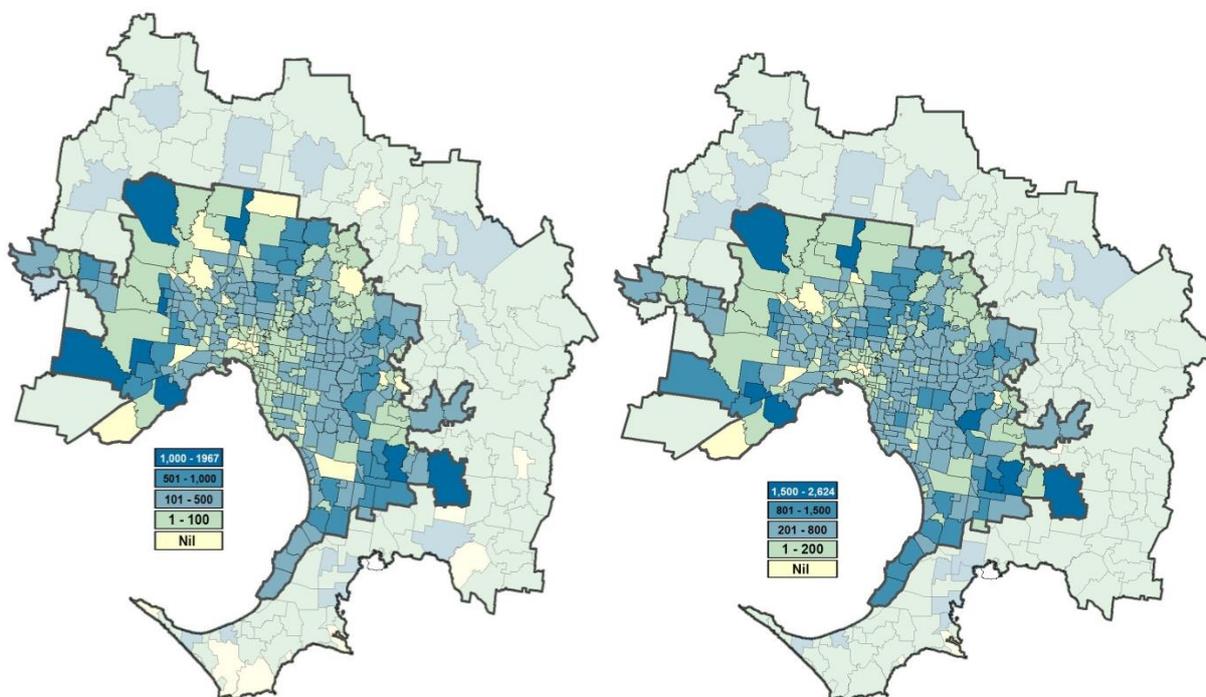
all outer) accounted for 68.5 per cent of all purchases. The figures were slightly lower for 35–44 year-olds but still 20 per cent of suburbs accounted for 60 per cent of all purchases.

It is a very different story for flats with the bulk of the purchasers in the inner and middle ring irrespective of age group. This is, of course, where most of the multi-unit stock is located and builds on the story outlined in Section 4.2.4, that is, the growing importance of flats in the home purchase market. Younger households have a choice of buying a house in the outer suburbs or a flat in the inner one. Most, however, would not be in the financial position to buy a house in the inner suburbs and thus for those who aspire to a house, or whose family size is such that a house is a necessity (few Australian flats have three bedrooms), the outer suburbs is where the home ownership dream must be realised. And for the bulk of house purchases this is the case. But given the lack of infrastructure, job accessibility and transport costs it may turn out to be problematic for many households (see Dodson et al. 2006; Burke & Stone 2014). Equivalent data for earlier years was not available.

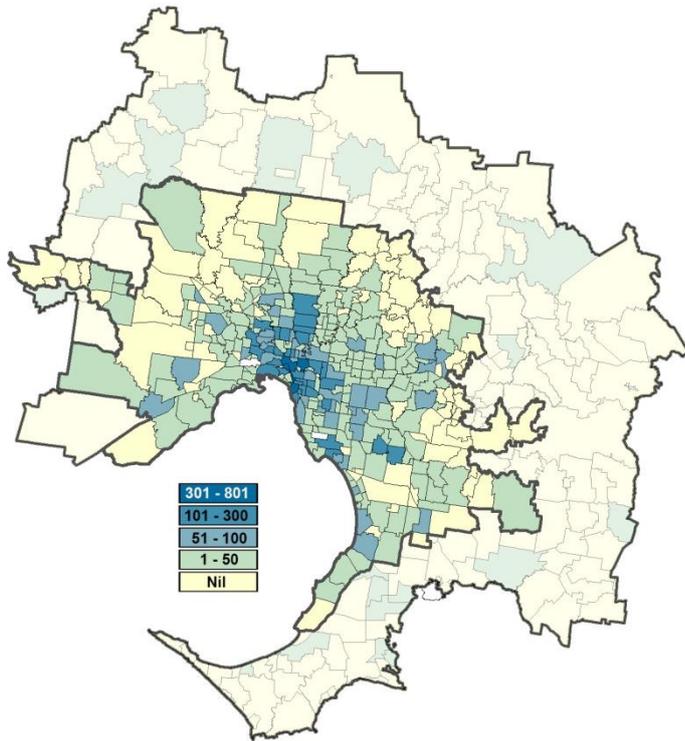
**Figure 18: Location of home purchasers, Melbourne urban area, detached houses and flats, 2011**

**a. House, 25–34 years**

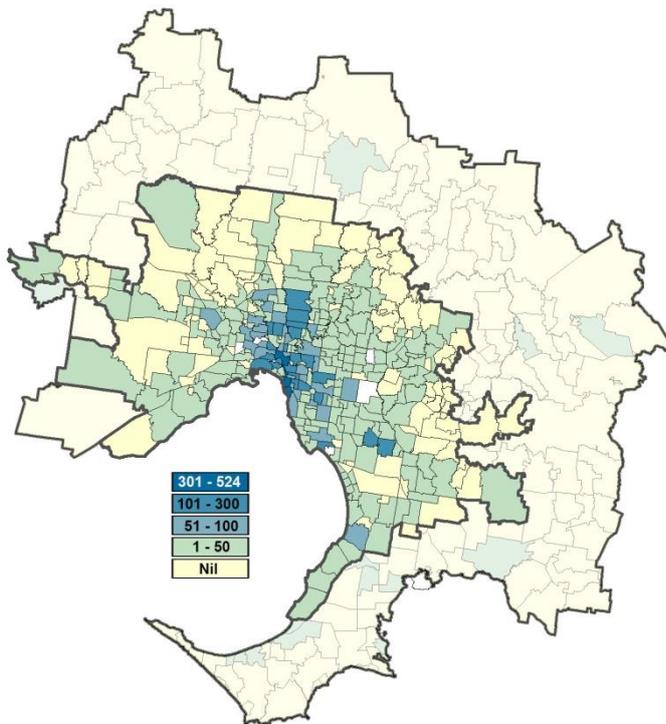
**b. House, 35–44 years**



**c. Flat/unit, 25–34 years**



**d. Flat/unit, 35–44 years**



Source: ABS Census, customised data tables, 2011

#### *4.2.8 Rent to buy, the Australian way*

Another adaptation, but one which would not actually show up in any ABS aggregated data on tenure, is that of renters who are also purchasers. In the immediate post-war decades a dwelling was seen by most households as a consumption item, that is, somewhere to live and in which to raise a family. In more recent years home purchase has been as much about investment as consumption. Households are more conscious of the returns that property can provide, and therefore buy with both consumption and investment in mind. Building equity through residential property is now part of the Australian mind set and the huge growth in rental investment reflects that. One of the concerns of those unable to achieve ownership is that they will be locked out of equity accumulation, based on the belief that 'renting is dead money'. However, given that renting is in most cases cheaper than purchasing and that rental investment (particularly aided by negative gearing) need not mean substantial ongoing outlays, it is possible that the savings from renting can be put to the purchase of a rental property. Renting in this case can mean equity building. While not the subject of empirical investigation for this paper, a related research study by Hulse and McPherson (2014) using the 2010 SIH unit record files, found that some 12.5 per cent of all private renters either owned or were purchasing a rental property. Moreover interviews with the 'renter owners' showed that a large proportion had a longer term objective of moving into the property. In effect this is a deferred ownership strategy whereby 'renter owners' receive the investment benefits of ownership but not the consumption benefits.

#### *4.2.9 Keeping it in the family*

In developing countries 'intergenerational transfers' is about issues around, and mechanisms for, younger persons providing financial and other support for an ageing population. In the most affluent developed countries, such as Australia, debates and practices of intergenerational transfers are about the opposite direction—from asset rich parents to asset poor children. In the case of home purchase, younger households can be assisted by parents by helping with a deposit, repayments or outright purchase of a property. And such assistance could be provided by the immediate family or in some cases by extended family.

The degree to which these practices operate in Australia and how it has changed over time is not well researched in Australia. Olsberg and Winters' 2005 AHURI study, as briefly discussed in Chapter 4, found evidence of a growing reluctance of older generations to provide such assistance but the study had no data on actual transfer practices (Olsberg & Winters 2005, pp.87–91). A recently commissioned study (Whelan, forthcoming) will provide much more information on intergenerational transfer but at this stage little is known and the large ABS data sets have no direct information on the topic although indirect information such as the fall of outright ownership by the youngest age cohort in this study may have connections to changes in transfer practices.

## 5 CONCLUSION

In the face of the conventional wisdom that there has been a substantial decline in Australian home purchase in the last decade—an intensification of a longer term trend—this paper presents mixed results.

On one hand we have shown that, despite significant social, economic and demographic change in Australia—changes which, taken together, can be summed up as the transition to a risk society—the rate of home purchase among younger people has not been as adversely affected as we might expect. While there has been a drop in overall ownership (by 13% over the three decades for 25–34 year-olds) a good proportion of this was in the period 1981–91 and since then the rate of decline has continued but at a much slower rate, for both 25–34 and 35–44 age groups.

The reality is that ownership is in slow decline for these age cohorts with some of the effects expected to flow through to future home purchase rates, with a 10 to 20-year lag. We say ‘some’ because not all of the reduction in purchase for these age cohorts is permanent. Cohort projection analysis indicates that much of the reduction in purchase is deferred to subsequent years, where it shows up in increased purchase rates (and then outright ownership rates) in later age cohorts.

The fall in ownership has particularly hit two socio-economic groups, notably lower to moderate income households (i.e. the lowest 40% household income group) and single-income households. Ownership rates among lower income households fell steeply for the 25–34 cohort, especially in the period 1981–91. For the 35–44 age group there was a steadier downhill trajectory. If this trend is not arrested the income profile of home purchasers will become even more skewed, with ownership becoming the preserve of higher income earners. Beyond simple value tests of fairness, what the implications of an increasingly income-polarised home ownership market is unknown, but is an interesting research question.

The other clear trend has been the near disappearance, for both age cohorts, of single-income households who are becoming home owners. There was powerful evidence of a decrease in the single-income purchaser. In 1981 there was little difference between the proportions of single and dual-income households among purchasers, but by 2011 the latter accounted for 80 per cent of all purchasers. Some of this is explained by the broader social trend of greater workforce participation by women, and particularly married women. But on the other hand it occurred in the face of rapid growth in lone person and single-parent households, which by definition have only one income. Dual incomes is now a necessity for home purchase, which is highly problematic given both the growth in single-adult-headed households and increasing rates of deferred marriage (being single for longer) and relationship breakdown.

However, and notably in the last two decades when affordability problems have been most severe, the data indicates higher rates of ownership have been maintained than could have been anticipated. While the media might talk in terms of crisis we are not there yet. A number of adaptive processes appear to have enabled more households than might have been expected to sustain ownership, including dual income household formation, incurring greater debt, buying a different type of dwelling and purchasing in more affordable locations. Other possible adaptive behaviours that were tested against the data, for instance, not having children, or relying on migration from cultures in which home purchase is favoured, do not have empirical support, perhaps surprisingly in the case of the latter.

The important point is that the adaptive processes all have their own inherent problems and although they may have helped to sustain better rates of home ownership than otherwise anticipated, the hang over effect from these processes could be substantial.

First, as many other studies have shown, taking on high levels of debt can and has created affordability problems for many households. While Australian households have managed these

problems in such a way as to avoid risk for the finance industry and the economy generally, many are probably absorbing substantial stress, with unknown impacts on personal relationships, health and quality child rearing. Moreover, if the economy worsens and unemployment increases, a number may well fall into arrears shifting a personal problem to a societal problem.

Second, as discussed in Section 3.1, the period in which purchasing rates fell most dramatically, the 1980s, was one characterised by higher levels of unemployment and economic and social uncertainty than the subsequent decades. If, for whatever reason, we return to a period of higher unemployment and economic uncertainty, and with many households already under debt stress, the likelihood of major social problems (and a decline in rates of home ownership) is high.

Third, the deferral of purchase to later years carries with it the risk, already alluded to in other recent AHURI studies, of a growing number of households carrying mortgage debt into their retirement years. With an income support system premised on outright ownership this will create both household hardship and pressures for expensive income support reform.

Fourth, the push for purchase on the urban fringe (for many households the only affordable option) raises questions about polarised cities with lower income households (most being families) in the outer urban areas and higher income households in the inner and middle ring. This would not be problematic if outer urban areas had the infrastructure and access to employment opportunities typical of more mature parts of the city. But the evidence is that they do not, and will not. The qualification to the above is that many households now have the choice, which they did not have in the past, of buying an inner city or middle ring flat or apartment and achieving ownership and locational advantage in that way. The potential problem of that strategy is the longer term suitability of some of this accommodation, given issues with small size and, in some cases, quality.

More broadly is the problem associated with those households who simply cannot make the adaptive responses, the single-income and lower income households where the evidence clearly shows a trend to being locked out of home purchase. In 1976 British housing expert David Donnison pointed out that 'Australians are among the best housed people in the world and they are perhaps the most equally housed' (Donnison 1976, p.21). Given the direction that home purchase is taking in Australia today, any visiting housing expert could no longer come to the same conclusion. Home purchase today is fraught with problems, both for households and potentially the wider economy and society.

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# APPENDICES

## Appendix 1: Methods

1. All households data is from the ABS Census and the Survey of Income and Housing. Most from the confidentialised unit record files.
2. All household data (except for Figure 18) is based on the household reference person in a private dwelling with the household head aged between 18 and 65 years.
3. Where income equivalisation was required, equivalisation was based on six household types (singles, couples, couple with children, sole parents, other family types and group households). For each household type the income distribution was identified and assigned to the relevant quintiles.
4. All indexation except for the Budget Standard (Table 6) used standard CPI index (all groups).
5. Table 12 on parenting households counted no children as singles and couples and households with children as couples with children and sole parents. Other family types and group households were excluded as it is difficult of distinguish parent arrangement. Children were defined as dependent children under 15 and dependent students 15–24.
6. Figure 18: 'Location of home purchasers, Melbourne urban area, detached houses and flats, 2011' was calculated from reference person in private dwelling of family and non-family households who owed a mortgage. Data was for the Greater Melbourne Statistical area.
7. In Figure 2 the index for established house prices is taken directly from the ABS publication, but that of household disposable income is constructed from RBA data on aggregated household disposable income and ABS census data on number of households. This is only available for census years. For the years in between the census, household numbers is interpolated on the basis of the average growth between census years. This enables a household disposable income per household (not aggregated) which is then indexed.

## **Appendix 2: budget standard**

The basis for formulating the budget standard for this paper was the indicative budget standards by the Budget Standards Unit of the Social Policy Research Centre (SPRC) at the University of New South Wales (Saunders et al. 1998). They established two budget standards, 'modest but adequate' and 'low cost' and did so for some 20 household types. Building on the methods used in previous AHURI research study (Burke et al. 2011) using this method, the modest budget standard was updated to 2011–2012 using a composite index made up of 50 per cent of the CPI all groups minus housing and 50 per cent of the per capita household disposable income index, the latter being the same index as used by the Melbourne Institute of Applied Economic and Social Research (2013) for the construction of its poverty line. The budget standard was then applied to the mortgage circumstances of households using the ABS SIH 2011–12. Unfortunately, this data is not in a format that allows for comparison with earlier years. For greater detail on the method see Burke et al. 2011, Appendix 1.

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