

Why is the rate of home ownership falling in Australia?

FALLS IN HOME OWNERSHIP RATES AMONG YOUNG AUSTRALIANS RECORDED UP TO THE YEAR 2000 ARE STRONGLY RELATED TO CHANGING PATTERNS OF FAMILY FORMATION, PARTICULARLY DELAYED MARRIAGE.

KEY POINTS

- This study confirms analysis of the Census that more recent birth cohorts have not entered into home ownership as quickly as previous cohorts.
- Younger people tend to catch up to levels of previous cohorts by the time they reach their mid-30s, but the evidence is inconclusive.
- The most significant factor associated with home ownership is marriage (meaning formal marriage).
- Delayed marriage and family formation across different cohorts are particularly important in reducing home ownership rates among young Australians.
- Once delays in marriage and family formation are taken out of the equation, there is no indication of falls in home ownership across birth cohorts.
- The likelihood of home purchase falls as the number of children born increases.
- Isolating the causes of declines in home ownership has important policy implications for the likely success of policies designed to support home ownership. It is important that we know whether factors such as demographic change and/or housing affordability are the key determinants.

CONTEXT

Home ownership underpins welfare and housing policies in Australia – it is the cornerstone of the Australian welfare state. For example, the aged pension has historically been set at a relatively low level when compared with other countries. This is possible because of the relatively low housing costs that the majority of older people have as they own their homes outright.

Recently, debate has arisen about the extent to which a fall in rates of home ownership observed among Australians aged less than 35 is due to changing housing affordability rates or to demographic change.

This research, by Jennifer Baxter and Peter McDonald at the Australian National University, examines the impact of population changes on falling home ownership rates among Australians aged less than 35.

The implication of changing affordability rates is that, in the future, a much higher percentage of Australians will never be able to afford to purchase a place of their own. Alternatively, delays in family formation among young Australians may imply that those who wish to become home owners will be able to do so later in life, at least to the same levels as previous generations of Australians.

METHODOLOGY

This study provides analysis of data from two surveys: the 1999 ABS Australian Housing Survey (AHS) and the 1997 and 2000 waves of the Negotiating the Life Course Survey (NLC).

The NLC Survey is a national random panel survey of Australians who were aged 18-54 years in 1997. The sample is re-interviewed once every three years. The second round interviews were completed in 2000 (there are 2,231 valid responses for this analysis). The year of first home purchase is asked of all individuals in the survey at each round. Comparison of the results from NLC with those from AHS provide an evaluation of the reliability of both data sets but especially of NLC which is used intensively in further analysis.

These data collections have obtained information from people on whether they have ever owned a residential property and, if so, when they first purchased a residential property. From these data, the proportion of successive birth cohorts that have ever purchased a house by each single year of age is examined.

This analysis attempts to go beyond some of the limitations of Census analyses. It should be noted that in doing so it uses a different measure of the achievement of home ownership. Whereas Census analyses measure rates of home ownership at a point in time (the Census years, e.g. 2001, 1996), this analysis uses a measure of the proportion that has ever entered home ownership, not the proportion that is currently in home ownership.

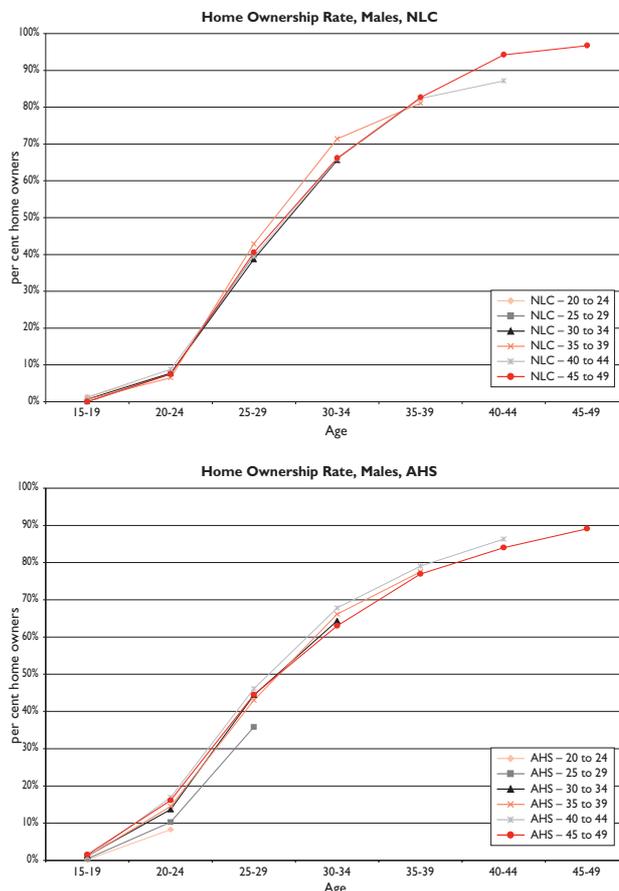
The NLC data are analysed using a life history approach. In this analysis, various characteristics of the person are controlled, especially their family formation characteristics, while their rates of home ownership are examined according to the year of birth of the person.

FINDINGS

A FALL IN THE HOME OWNERSHIP RATE OR A TEMPORARY DELAY?

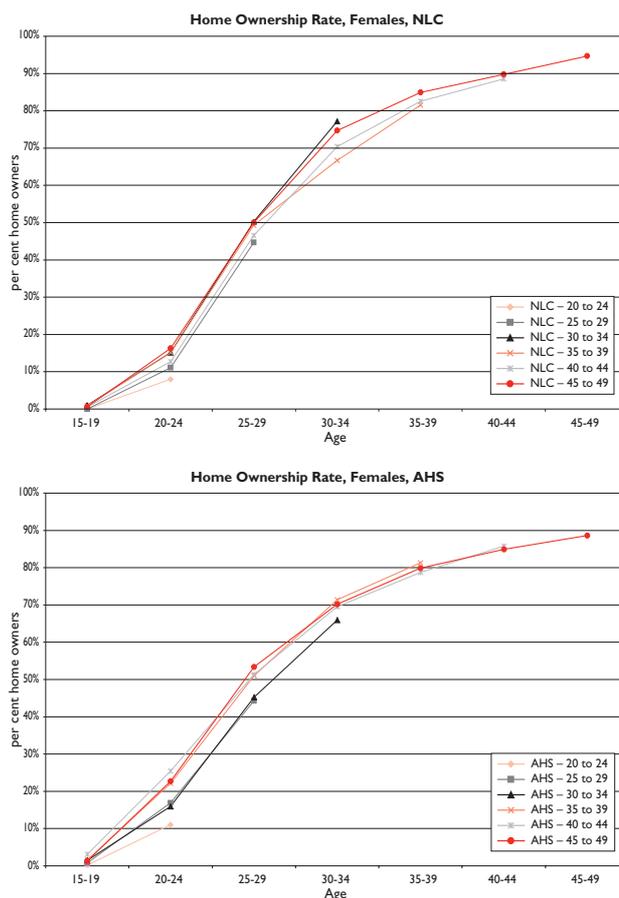
The comparison of cohorts across time (see Figures 1 and 2), from older to younger, shows whether the shift into home ownership is being delayed and whether

FIGURE 1: COMPARISON OF HOME OWNERSHIP, NLC AND AHS, MALES



Source: Baxter and McDonald 2004

FIGURE 2: COMPARISON OF HOME OWNERSHIP, NLC AND AHS, FEMALES



Source: Baxter and McDonald 2004

successive cohorts are likely to have higher or lower lifetime achievement of home ownership compared to previous cohorts.

First, the analysis shows that the two surveys indicate highly consistent results for the achievement of home ownership by age and sex for successive Australian cohorts.

Second, for cohorts aged 30-49 in 1999 (born from 1950 to 1969), rates of home ownership achievement by given ages are almost unchanged across time.

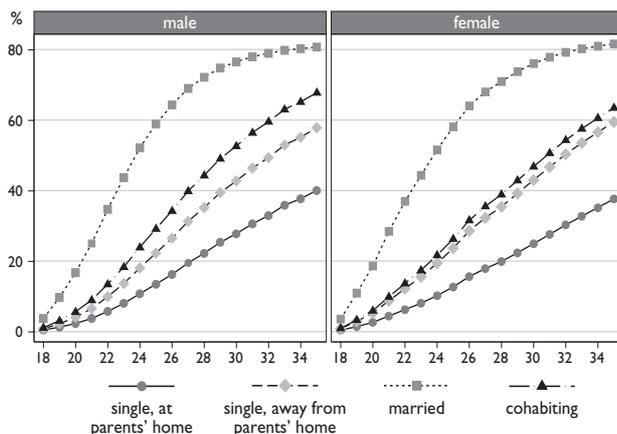
Third, there is evidence of a fall off in home ownership at young ages (in the twenties) for recent birth cohorts.

Fourth, there is a suggestion, at least for earlier cohorts that this fall has tended to be made up during the early thirties, but the question remains about whether the most recent cohorts will be able to 'catch up' in the same way that earlier cohorts have, particularly in the context of the recent housing boom.

MARRIAGE AND HOME OWNERSHIP

The most significant factor associated with home ownership is marriage (meaning formal marriage). Married people are almost five times more likely to purchase their first home than single people who are still living with their parents (see Figure 3).

FIGURE 3: PREDICTED CUMULATIVE HOME PURCHASE, VARYING RELATIONSHIP STATUS



Note: Other variables set to born in Australia in 1955-59, no children, no post-secondary education, has worked full-time. Source: Baxter and McDonald 2004

Given the strength of this association, if, as we know has happened, people are marrying later, then they are also likely to enter home ownership later in life. Thus, changing patterns of family formation across different cohorts are particularly important in reducing home ownership rates among young Australians.

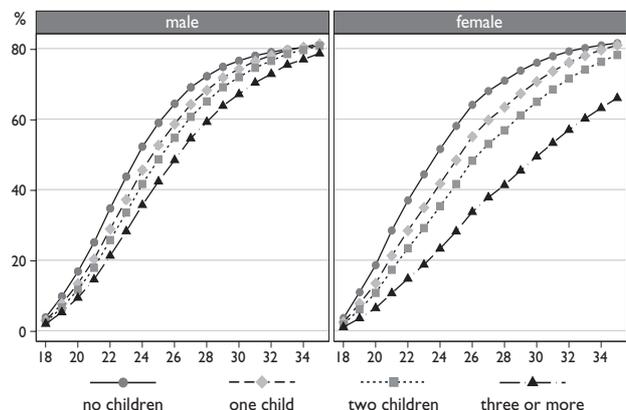
However, once these differences in family formation characteristics across cohorts are controlled for, there is no indication of falls in home ownership across birth cohorts.

CHILDREN AND HOME OWNERSHIP

The number of children ever born is also a strong predictor of home purchase, particularly for females.

Controlling for other characteristics, men and women with no children are the most likely to have purchased a house. As seen in Figure 4, the likelihood of home purchase falls as the number of children born increases, with a much steeper fall experienced by women. In most cases, however, children appear to delay home purchase rather than putting off home purchase for a lifetime. For men, while family size makes a difference at younger ages, by age 35 there is very little difference by family size. The same is true for women except for women with three or more children. For women with larger families (3 or more children), the cumulative proportion having bought a house is lower at age 35 than it is for other women. This may reflect the difficult financial circumstances of women with three or more children who are sole parents.

FIGURE 4: PREDICTED CUMULATIVE HOME PURCHASE, VARYING NUMBER OF CHILDREN



Note: Other variables set to born in Australia in 1955-59, married, no post-secondary education, has worked full-time. Source: Baxter and McDonald 2004

CAVEATS

The analysis conducted in this report relates to the period up to the year 2000. It remains possible that there have been changes in affordability since that time that may contribute to lifetime falls in levels of home ownership, especially given the recent boom in house prices. Also, since 2001, the Australian Government's First Home Ownership Grant may have had an impact on home ownership rates.

It is important to note that 54% of respondents to the NLC survey gave a different answer to the question regarding in which year they first entered home ownership across the two waves. For 34% of respondents their answer varied by one to two years. For 20% of respondents their answer varied by three

or more years. Clearly, this variation will have affected the results, which centre upon the age, and hence year, at which people first enter home ownership.

POLICY IMPLICATIONS

On the basis of this study, there is evidence that younger Australian households may delay their jump into home ownership due to delaying the decision to marry and/or have a family.

To the extent, then, that there will be increases in the proportion of people who never marry across their lifetime, this analysis would predict falls in Australia's home ownership rate.

On the other hand, as people have fewer children, home ownership rates could increase as families with fewer children are more likely to be able to afford a mortgage.

These sorts of changes will affect the types of groups targeted by housing assistance into the future. For example, housing assistance has tended not to be primarily oriented to singles in the past, partly due to the high cost of such assistance. But with increased numbers of single person households in the future, this group might require greater housing assistance in general and assistance with their transition to home ownership in particular.

FURTHER INFORMATION

This bulletin is based on AHURI project I0081, *Trends in home ownership rates in Australia: the relative importance of affordability trends and changes in population composition*. Reports from this project can be found on the AHURI website (www.ahuri.edu.au) by typing the project number into the search function.

Papers available:

- Positioning Paper
- Final Report

Other useful papers include:

McDonald P. and Baxter, J. 2004 Trends in Home ownership rates in Australia: The relative importance of Affordability Trends and Changes in Population Composition, Australian Housing and Urban Research Institute, Australian National University <http://www.ahuri.edu.au/global/docs/doc627.pdf>

Mudd, W., Tesfaghiorghis, H. and Bray, J. 2001. Some Issues in Home Ownership, Policy Research Paper No. 17, Department of Family and Community Services.

Yates, J. 1999, Decomposing Australia's home ownership trends, 1975-1994, in Yates, J. and M. Wulff (eds), *Australia's Housing Choices*, University of Queensland Press, Brisbane, pp. 27-42.

Yates, J. 2002. Housing Implications of Social, Spatial and Structural Change, Australian Housing and Urban Research Institute, Sydney Research Centre. http://www.ahuri.edu.au/global/docs/final_socialspatial.pdf

Or contact the AHURI National Office on +61 3 9660 2300.



Australian Housing and Urban Research Institute

www.ahuri.edu.au

HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

ACKNOWLEDGMENTS This material was produced with funding from the Australian Government and the Australian States and Territories. AHURI Ltd gratefully acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

DISCLAIMER The opinions in this publication reflect the results of a research study and do not necessarily reflect the views of AHURI Ltd, its Board or its funding organisations. No responsibility is accepted by AHURI Ltd or its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.