

# Australia's changing patterns of home ownership

ALTHOUGH THE OVERALL HOME OWNERSHIP RATE IN AUSTRALIA INCREASED MARGINALLY BETWEEN 1996 AND 2006, THIS DISGUISES LOWER RATES OF OWNERSHIP AMONG YOUNGER DEMOGRAPHIC GROUPS AND HIGHER INDEBTEDNESS. CONTINUED LOW TAKE UP OF HOME PURCHASE AMONGST YOUNGER HOUSEHOLDS MAY HAVE FUTURE IMPLICATIONS FOR RATES OF HOME OWNERSHIP.

## KEY POINTS

- The overall rate of home ownership increased by 0.8 percentage points between 1996 and 2006 to 70.3 per cent. However, the rise in home ownership was entirely the result of the ageing of the population.
- Although rates of home ownership slightly increased over the period, those purchasing faced higher prices and higher debt relative to household income, and an increasing proportion of families delayed paying off the family home. The overall proportion of households with mortgages has increased (from 27% to 35%) and the proportion with outright home ownership has declined (from 43% to 35%).
- Two key groups experienced large falls in ownership—middle-upper income 25–44-year olds and low income 45–64-year olds. By contrast, home ownership rates improved for singles, single parents, de facto couples, and those living in remote areas.
- Regional differences in home ownership rates have moderated, with rates of home ownership increasing in non-metropolitan areas, but declining in the cities. Even so, significant differences exist between major cities with Sydney having a low rate of home ownership (67.2%) compared to Melbourne (73.5%).

*This bulletin is based on research by Associate Professor Joe Flood and Dr Emma Baker of the AHURI Southern Research Centre. The research examined changes in home ownership rates between 1996 and 2006 for different Australian regions, age cohorts, income groups, and household types.*

- If home ownership rates are to be increased for key groups over succeeding decades, a range of measures might be contemplated. These could include addressing Australia's chronic imbalance between supply and demand to moderate high housing prices, and redirecting subsidies to those that need assistance most.

## BACKGROUND

This research considers changes in home ownership in Australia and its regions over a ten-year period (1996 to 2006) and relates these to the broader changes occurring in the household demography and the economy. The analysis builds upon research undertaken by Yates (2002) which examined these changes from 1986 to 1996.

The earlier decade (1986 to 1996) was set in an era of deregulation, when many of the long term protections on the labour market and on housing finance were wound down. Unemployment and interest rates were high, real incomes fell and income inequality rapidly increased.

By contrast, the present study period of 1996 to 2006 was relatively benign for households seeking home finance. Unemployment rates were relatively low, gross household incomes rose by 23 per cent in real terms, and interest rates were held low. Even so, median house prices rose by 88 per cent in real terms and mortgage debt increased (from 33% to 160% of household income). So despite strong economic conditions, new household formation actually moderated.

## RESEARCH METHOD

This study was based upon two special cross-tabulations from the 2006 and 1996 Census of Population and Housing, designed to be as close as possible to the tables for 1996 and 1986 used by Yates (2002).

In building upon the earlier work, analysis of housing tenure outcomes was done at a regional level, examining household characteristics, such as age of household reference person, employment, income, marital status, and household size. Analysis was also conducted to examine changes due to movements in demographic variables, while controlling for age and household type.

## KEY FINDINGS

### **Overall home ownership rates have increased but mainly due to the changing composition of the population**

The national home ownership rate, which changes very slowly, rose by 0.8 percentage points over the decade (from 69.5% in 1996 to 70.3% in 2006). This increase was a partial reversal of the fall of about 1.5 percentage points between 1986 and 1996.

The recent increase was entirely the result of changing demographics—the ageing of the population accounted for a 1.5 percentage point increase (baby boomers tend to have higher rates of home ownership than their forebears), and changes in household type and marital status accounted for a fall of 0.7 percentage points (mostly a fall in the proportion of married couples with children who tend to have high rates of home ownership).

### **Lower rates of outright home ownership**

Across all cohorts and most housing markets there was a considerable decline of outright ownership—this was especially apparent among younger people and those on higher incomes. A number of factors might be at play here: higher indebtedness; lower rates of inheritance or bequests (such as gifts from parents) due to increased longevity of forebears; and the increase in use of equity withdrawal products which have enabled home purchasers to flexibly borrow against their home equity as if it were cash (see Schwartz, Hampton, Lewis & Norman 2006).

### **Losses in home ownership in younger and middle age groups**

As Figure 1 shows, there were two age-income groups that experienced particularly large falls in ownership in metropolitan areas—middle-upper income 25–44-year olds, and low income 45–64-year olds. The 25–44-year-old age group is a prime driver of the mortgage market, and their more limited participation is likely to influence the overall home ownership rate in future. The trends observed were exactly the same found by Yates (2002) for the period 1986 to 1996. Losses in ownership

for both groups are of the order of 15 percentage points over 20 years. About 352 000 households in total were not home owners in 2006 that would have been owners if the incidence levels of 1986 had been preserved for households aged 25 to 64.

### Improvements for certain groups

By contrast, it is apparent that certain groups had higher rates of home ownership over this decade: singles (aged 25–44 up 8.1%), single parents (aged 25–44 up 3.9%), defacto couples, and those living in remote areas all experienced higher rates of home ownership.

### Moderation in regional differences

Regional differences lessened, mostly because of an improvement in ownership in remote areas including non-metropolitan Queensland, South Australia, Western Australia and especially the Northern Territory where there was a 10 percentage point gain in ownership. The losses in home ownership over 20 years have been in Adelaide, Sydney, Melbourne and especially Brisbane, but they have been apparently negligible during the past 10 years, disguised by the ageing of the population.

Even so, differences in rates of home ownership between cities remained present. For example only 67.2 per cent of people in Sydney were in home ownership compared to 73.5 per cent in Melbourne.

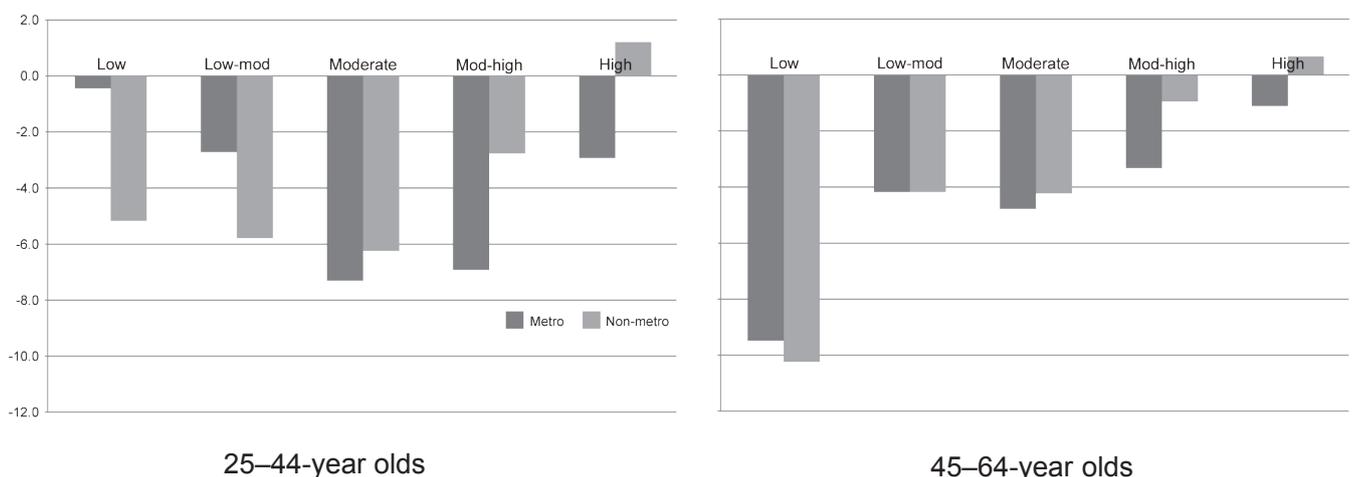
## POLICY IMPLICATIONS

Australia is well housed by international standards, has relatively high home ownership and has enjoyed the benefits of a continuing economic boom, and increased access to housing finance. Over the decade 1996 to 2006 this has led to increased home ownership for those in non-metropolitan areas, developing states and amongst singles and single parents. But there has been reduced access for those of working age who may still be in a position to enter home ownership. This might be linked with higher house prices and debt (especially in the major cities where housing affordability problems have been most acute). This raises concerns about future declines in home ownership.

Owner-occupied housing has been an important element of welfare policy for the aged, and any fall in home ownership will have implications for the government in providing other forms of support (such as rent assistance) for this group in its absence. For this reason, policy makers might see advantage in increasing rates of home ownership amongst middle aged cohorts—especially those in the 45–64 age group which will be the next to retire. Lower income earners in this age group are more likely to need assistance because they have had greatest declines in access to home ownership.

Increasing home ownership amongst low-income people over 45 might be possible by relaxing

**FIGURE: CHANGES IN INCIDENCE OF HOME OWNERSHIP BY INCOME LEVEL 1996 TO 2006: 25–44-YEAR OLDS AND 45–64-YEAR OLDS**



the conditions on the First Home Owners Scheme, or devising new forms of targeted home ownership lifelines, or shared equity schemes. Care would need to be shown in ensuring debt burdens were manageable. The costs and effectiveness of such schemes would also need to be compared with alternatives, such as social housing, that might provide similar benefits of security of tenure but lower risks of on-going housing insecurity.

Restoring the situation for middle-income 25–44-year old marginal purchasers is more difficult. The traditional solution of increasing means-tested home purchase assistance would simply drive prices higher, increasing demand without a corresponding supply response, as would virtually any expenditure programme that was not restricted to new construction.

To sustain high rates of access to home ownership, policy makers need to ensure that houses are not priced excessively relative to income. Public subsidy in the form of taxation and direct assistance should be directed at improving increased housing supply (rather than inflating the prices of the existing supply) and better targeting assistance to those whom are able to sustain a mortgage but are not presently in home ownership.

## FURTHER INFORMATION

Schwartz C., Hampton T., Lewis C. and Norman D. *A survey of housing equity withdrawal and injection in Australia* Research Discussion Paper, Reserve Bank of Australia, August 2006.

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