From here to uncertainty:
the quiet revolution in Australian housing

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Scope of talk

- Begin by drawing a broad picture of key trends in Australia’s Housing System over the last 30 years
- Then present some research findings that help explain their importance and meaning for Australia’s Housing System
- Finally, I will comment on the broad policy ramifications
- The theme – Australia’s housing system is strained
- It is a fluid one in which growing numbers are precariously positioned
- Home ownership’s welfare role is changing
Median gross housing cost ratio (HCR)\(^a\) of households, by housing tenure, %

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-purchasers</td>
<td>11.5</td>
<td>16.7</td>
<td>16.9</td>
<td>15.1</td>
<td>15.0</td>
<td>17.3</td>
<td>17.5</td>
<td>18.1</td>
</tr>
<tr>
<td>Private renters</td>
<td>16.6</td>
<td>20.6</td>
<td>21.7</td>
<td>22.3</td>
<td>22.2</td>
<td>20.3</td>
<td>23.6</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Notes:  
\(^a\) Owner-purchasers’ and private renters’ housing costs are mortgage repayments and gross rents respectively. In the case of private renters, we have used the median gross income from the sample of private renters. In the case of owner-purchasers, we have used the median gross income from the sample of owner-purchasers.
Table 2
Cost of living pressures 1982–2011

Number and % of households\textsuperscript{a} with gross housing costs\textsuperscript{b} exceeding 30% of gross household income, by housing tenure

<table>
<thead>
<tr>
<th>Year</th>
<th>Owner-purchasers</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number (‘000s)</td>
<td>168</td>
<td>325</td>
<td>319</td>
<td>359</td>
<td>368</td>
<td>579</td>
<td>620</td>
<td>654</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Per cent</td>
<td>9.6</td>
<td>18.1</td>
<td>16.6</td>
<td>15.2</td>
<td>14.6</td>
<td>20.4</td>
<td>20.4</td>
<td>20.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Private renters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number (‘000s)</td>
<td>233</td>
<td>333</td>
<td>473</td>
<td>515</td>
<td>553</td>
<td>529</td>
<td>646</td>
<td>787</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Per cent</td>
<td>21.9</td>
<td>27.1</td>
<td>31.3</td>
<td>31.4</td>
<td>31.0</td>
<td>25.9</td>
<td>31.0</td>
<td>34.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: a. Population estimates are generated using household weights in the SIH. Owner-purchasers’ and private-renters’ housing costs are mortgage repayments and gross rents respectively.
Figure 1
Mortgage indebtedness 1982–2011

% of home owners with a mortgage debt

Figure 2
Gearing by mortgagors 1990–2011

Source: 1990 and 2011 ABS Surveys of Income and Housing
Figure 3
Mortgage debt to income ratio 1990–2011

Source: 1990 and 2011 surveys of income and housing from the ABS. Note: Income is measured as annual gross household income.
### Table 3
A home owner society?

Home ownership rate, 1982–2011, %

<table>
<thead>
<tr>
<th>Year</th>
<th>25–34 yrs</th>
<th>35–44 yrs</th>
<th>45–54 yrs</th>
<th>55–64 yrs</th>
<th>65+ yrs</th>
<th>25+ yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>55.5</td>
<td>75.4</td>
<td>78.3</td>
<td>81.9</td>
<td>74.4</td>
<td>71.3</td>
</tr>
<tr>
<td>1990</td>
<td>30.4</td>
<td>67.9</td>
<td>79.7</td>
<td>80.8</td>
<td>79.9</td>
<td>66.6</td>
</tr>
<tr>
<td>1996</td>
<td>43.3</td>
<td>70.6</td>
<td>80.7</td>
<td>81.1</td>
<td>80.0</td>
<td>69.0</td>
</tr>
<tr>
<td>2000</td>
<td>45.1</td>
<td>69.7</td>
<td>79.2</td>
<td>83.2</td>
<td>82.3</td>
<td>70.1</td>
</tr>
<tr>
<td>2002</td>
<td>46.0</td>
<td>69.4</td>
<td>79.9</td>
<td>82.4</td>
<td>81.2</td>
<td>70.3</td>
</tr>
<tr>
<td>2007</td>
<td>38.5</td>
<td>63.8</td>
<td>74.6</td>
<td>81.8</td>
<td>82.1</td>
<td>67.3</td>
</tr>
<tr>
<td>2009</td>
<td>37.7</td>
<td>62.1</td>
<td>74.5</td>
<td>80.9</td>
<td>81.8</td>
<td>66.4</td>
</tr>
<tr>
<td>2011</td>
<td>34.0</td>
<td>60.0</td>
<td>72.4</td>
<td>78.7</td>
<td>81.0</td>
<td>64.3</td>
</tr>
</tbody>
</table>

% change 1982 to 2011: -21.5, -15.4, -5.9, -3.2, 6.6, -7.0

The rate of homelessness per 10,000 persons and the count of homeless persons

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2006</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate per 10,000</td>
<td>51</td>
<td>45</td>
<td>49</td>
</tr>
<tr>
<td>Count</td>
<td>95,314</td>
<td>89,728</td>
<td>105,237</td>
</tr>
</tbody>
</table>

Source: ABS, 2012, Estimating homelessness, Cat.2049.0

Number of social housing dwellings, at June 2004–2013

|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|

Map 1
The geography of homelessness
So What?

- The Housing System is not at breaking point
- It has weathered the GFC
- Home owners have reaped large capital gains
- Mortgage defaults are low
- Rent arrears remain low
- So why should we be concerned?
Housing affordability and cost of living pressures

- House prices and rents have been increasing at a faster pace than incomes for many Australians
- Housing Policy treats the symptoms of the ‘disease’
- But the structural causes are neglected
- In the past an ample supply of greenfield sites with easy access to the CBD accommodated the strong growth in demand without large and sustained increases in prices
Housing affordability and cost of living pressures

- But in contemporary urban housing markets the greenfield ‘safety valve’ is no longer as effective
- We need new safety valves to ease the inflationary pressures in land and housing markets
- Without them there could be adverse consequences for the economic competitiveness of cities and regions especially prone to inflationary pressures
- Land is an important input for business operations
Figure 4
Median land prices per hectare ($2008), by sale year and UGB status

Median Sale Price Per Hectare, by Sale Year and UGB Category

Inside/Outside and Before/After 2002 UGB

- Outside and before UGB
- Outside and after UGB
- Inside and before UGB
- Inside and after UGB

Legislated UGB: November 2003
Iterim UGB: October 2002
Housing affordability dynamics

- But is exposure to unaffordable housing enduring?
- The length of spells in unaffordable housing is typically short; 73% of Australians in Housing affordability stress are no longer living in unaffordable housing one year later.
- Once affordable housing is secured the threat to continued presence in affordable housing is modest.
- A randomly selected spell in affordable housing has a high 80 per cent chance of lasting at least 10 years.
- However, a sizeable minority cycle back and forth.
Falling rates of home ownership

- The decline in rates of ownership, especially in younger age groups, does reflect price barriers facing first home buyers.
- However, in the past we have assumed that once a household does buy, it smoothly transitions into outright (mainstream) ownership before retirement.
- But we are now witnessing a new phenomena.
- The edges of ownership - it is the area between mainstream ownership and lifetime renting.
Falling rates of home ownership

- Australian housing careers have taken a new turn in the 21st century.
- Counting every year between 2001-10 we estimate that 1.9 million spells of homeownership were terminated by a move into rental housing.
- 39% were still renting in 2010, and 34% journeyed onto housing assistance programmes.
- A randomly selected Australian entering home ownership between 2002 and 2010 the chances of 'survival' beyond year 7 are only 59 per cent. The chances of ‘survival’ are a little higher at 68% in the UK.
Mortgage indebtedness

- First Home Buyers must borrow more to buy Housing that is much more expensive than 30 years ago
- We find that between 2001 and 2010 roughly 60% of Australian home owners cashed in some of their housing equity by borrowing more (in situ)
- Using comparable data we find the UK share is 50%
- The typical amount withdrawn 2001-’10 was $100k
Mortgage indebtedness

- Withdrawals of housing equity is strongly correlated with children and adverse biographical events
- We estimate that roughly 6% of Australians receive a financial gift from their parents each year; roughly 1.5% a bequest
- In 2012 1.2 million Australians received gifts that were on average $5,819 (that sums to $10.4b)
- In 2012 240 thousand Australians received bequests that were on average $104,000 (sums to $12.3b)
## Table 6
Homelessness dynamics

Does homelessness persist? (%)

<table>
<thead>
<tr>
<th>Also homeless:</th>
<th>Persons homeless in:</th>
<th>Wave 1</th>
<th>Wave 2</th>
<th>Wave 3</th>
<th>Wave 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 months later</td>
<td></td>
<td>57.3</td>
<td>51.8</td>
<td>56.0</td>
<td>59.5</td>
</tr>
<tr>
<td>12 months later</td>
<td></td>
<td>45.9</td>
<td>49.8</td>
<td>51.9</td>
<td>.</td>
</tr>
<tr>
<td>18 months later</td>
<td></td>
<td>41.0</td>
<td>43.9</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>24 months later</td>
<td></td>
<td>35.6</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26.6</td>
<td>22.9</td>
<td>20.4</td>
<td>20.6</td>
</tr>
</tbody>
</table>

Note: Estimates presented only for those who respond in first five Waves

Source: Authors’ calculations from Journeys Home
Wider policy ramifications

- We need new safety valves to ease inflationary pressures in our housing markets.
- This is important from an economic (as well as social) policy perspective as rising land values feed into business costs and impact competitiveness.
- Fiscal measures might include replacement of stamp duties by a uniform land tax.
- Rising indebtedness reflects a new welfare role for housing wealth.
- Housing equity has become a form of self-insurance that smooths consumption and buffers income shocks across the life course.
Wider policy ramifications

- There is an influential body of opinion that interprets this new welfare role as a substitute for government welfare programmes.
- But this substitution effect might rest on precarious foundations.
- We need to carefully calibrate housing assistance programmes so that they offer effective support to those in most need, but do not discourage economic participation.
- This is a very difficult ‘juggling act’.
Market rents and CRA in public housing

Figure: Impacts of reforming the public housing rent formulae