

Has home ownership in Australia declined?

AUSTRALIA'S HOME OWNERSHIP RATE FELL 2.2 PERCENTAGE POINTS FROM 68.2% TO 66% BETWEEN 1986 AND 1996, MAINLY DUE TO A DECLINE IN THE PERCENTAGE OF HOME PURCHASERS.

KEY POINTS

- For people in the 25-44 year old age group in metropolitan areas, there was a 10 percentage point fall in the rate of home purchase.
- The main reason for these declines was rising house prices rather than changes in demographic structure or the distribution of incomes.
- Rising house prices since 1996 suggest that declines in the home ownership rate may have continued. The introduction of the First Home Owners Grant in July 2000 is likely to have had a positive impact on the rate of entry to home purchase.
- Census data for 2001 portray little change in the overall home ownership rate since 1996.
- Income differences arising from the labour market and social security system between 1986 and 1996 were increasingly reflected in, and reinforced by, the tenure differences within the housing market between home purchasers, outright owners, public renters and private renters.

FINDINGS

Two figures combine to give us the overall rate of home ownership:

- the home purchase rate (those purchasing their house via a mortgage)
- the outright ownership rate (those who fully own their dwelling).

In 1996 the overall rate of home ownership in Australia was 66% – a decline of 2.2 percentage points since 1986. This figure comprised a 5.5% fall in the home purchase rate and a 3.3% rise in the outright ownership rate.

Levels of overall home ownership, home purchase and outright ownership vary by age, income and household type. The rates of change between 1986 and 1996 in the different dimensions of home ownership varied by:

- age – for example the overall home ownership rate for 25-44 year old households fell 5.5 percentage points to 58.7%, whilst that for 45-65 year olds fell only 0.5 percentage points to 77.4%.
- income – for example the overall home ownership rate for households earning more than \$1200 per week increased 0.4 percentage points to 80.3% whilst it fell 1.0 percentage point to 56.1% for those earning less than \$300 per week.
- household type – for example the overall home ownership rate for single person households fell 1.4 percentage points to 54.2%, whereas that for couple households with children rose 0.8 percentage points to 76.9%.

Note: a household is allocated to a particular age range based on the age of the household reference person.

Based on research by Judy Yates, AHURI Sydney Research Centre. The research used Census data from 1986 and 1996 to analyse trends in the home ownership rate.

CHANGES IN HOME OWNERSHIP RATES BY REGION

Levels of overall home ownership and rates of change between 1986 and 1996 varied in different parts of Australia. Table 1 details change in the rates of outright ownership and home purchase across the capital cities and in the non-metropolitan areas.

The general pattern is one of increasing rates of outright ownership, particularly in the metropolitan areas, and decreasing rates of home purchase, again particularly in the metropolitan areas. The decreases in home purchase tend to outweigh the increases in outright ownership, leading to an overall decline in the rate of home ownership. Increases in the rate of outright ownership were highest in the ACT and Darwin, and declines in the rate of home purchase were highest in the ACT, Hobart and Sydney. The overall home ownership rate for all metropolitan areas fell 3.3 percentage points to 66.4%, whereas in non-metropolitan areas it fell 0.2 percentage points to 65.2%.

The research also presents data on how the rate of home ownership varied within Sydney and Melbourne. For example:

- in inner Sydney the overall home ownership rate declined 2.2 percentage points to 52.1%, whilst in outer Sydney it fell 3 percentage points to 67.4%
- in inner Melbourne the overall home ownership rate declined 1.6 percentage points to 60.8%, whilst in outer Melbourne it fell 4.5 percentage points to 77.2%.

HOME OWNERSHIP AMONGST 25-44 YEAR OLD HOUSEHOLDS

People aged 25-44 are those most likely to be actively forming new households and also those whose housing circumstances are most likely to be shaped by contemporary economic, social and political circumstances. Older households have had their housing experiences and their current circumstances shaped by past events. For these reasons the 25-44 year old age group is particularly important to understanding contemporary change in Australian housing markets. For this group of households the research also identified the relative impact of demographic, income and housing market changes upon home ownership.

Between 1986 and 1996 the overall home ownership rate for 25-44 year old households fell 5.5 percentage points to 58.7%. The home purchase rate fell 7.5 percentage points to 39%. The outright ownership rate increased 2.0 percentage points to 19.7%.

The home purchase rate of 25-44 year old households fell across all income categories. For those with an income less than \$300 per week, it fell 4.6 percentage points to 12.7%. For those with an income above \$1200 per week, it fell 7.0 percentage points to 51.8%.

Amongst 25-44 year old couples with children the overall rate of home ownership fell 2.7 percentage points to 72.4%. Yet amongst 25-44 year old single person households, the overall rate of home ownership increased 0.2 percentage points to 41.2%.

The declines in the overall rate of home ownership amongst 25-44 year old households are greater in

TABLE 1: OUTRIGHT OWNERSHIP AND PURCHASE RATES BY REGION, 1996 AND CHANGE FROM 1986

	1996			change 86-96		
	outright owner	owner	all owners purchaser	outright	owner	all owners purchaser
Sydney	41.0	22.7	63.6	5.0	-8.3	-3.4
NSW non-metro	45.3	21.1	66.4	2.6	-3.0	-0.4
Melbourne	42.8	27.1	69.8	4.4	-7.4	-3.0
Vic non-metro	46.5	24.8	71.2	2.6	-4.1	-1.6
Brisbane	37.2	27.9	65.0	1.4	-7.0	-5.7
Qld non-metro	39.4	21.8	61.2	-0.1	0.2	0.2
Adelaide	39.1	28.0	67.1	3.1	-6.3	-3.2
SA non-metro	43.4	23.9	67.3	1.1	1.7	2.9
Perth	37.0	31.5	68.5	4.5	-6.5	-2.0
WA non-metro	35.7	23.0	58.7	2.7	2.6	5.3
Hobart	39.0	28.1	67.2	4.9	-8.5	-3.6
Tas non-metro	44.7	24.6	69.3	2.3	-4.0	-1.7
Darwin	16.1	29.2	45.3	9.4	-2.6	6.9
NT non-metro	14.4	18.2	32.6	1.6	3.0	4.6
ACT	29.7	34.1	63.8	11.5	-13.4	-2.0
metro	39.8	26.6	66.4	4.2	-7.5	-3.3
non-metro	42.8	22.4	65.2	1.6	-1.8	-0.2
Australia	40.9	25.0	66.0	3.3	-5.5	-2.2

Source: ABS Special Request Matrix, Census of Population and Housing, 1986 and 1996.

metropolitan regions than in non-metropolitan regions. In the metropolitan areas the overall rate of home ownership fell 6.7 percentage points to 59.5%. In the non-metropolitan areas the rate increased 1.0 percentage point to 28.4%. The home purchase rate for this age group fell in metropolitan areas by 10.3% to 40.5% whilst it increased in non-metropolitan areas by 1.4% to 20.2%.

A detailed statistical analysis of changes in home ownership outcomes for households in the 25-44 year old age group allowed for identification of the impact of demographic and socio-economic change versus housing market constraints. The results suggest that housing market constraints (primarily house prices) are the dominant explanation for declines in home ownership rates.

- Within metropolitan areas, the largest declines in home ownership amongst 25-44 year old households occurred in Sydney and in Brisbane with declines of 7.4 and 9.6 percentage points respectively.
- Less than one quarter of these declines could be attributed to the changing demographic and socio-economic composition of households in each city.
- The remaining three quarters is attributable to the changes in housing market constraints, such as price, or to changes in any other factors that affect tenure choice (such as changes in consumption and investment preferences).

THE HOUSING MARKET REINFORCED SOCIAL DISADVANTAGE

Income differences arising from the labour market and social security system between 1986 and 1996 were increasingly reflected in, and reinforced by the tenure differences within the housing market between home purchasers, outright owners, public renters and private renters. There was an increasing gap in household incomes between those in home ownership and those in rental tenures.

Across Australia average household income fell by 3 percentage points between 1986 and 1996. Household incomes rose by 3 percentage points for home purchasers and were stable for outright owners. But for private renters they fell by 6 percentage points and for public renters the fall was 24 percentage points.

Income and housing tenure circumstances are aligning in ways that means that those most disadvantaged in the labour market are also those most disadvantaged in the housing market.

CAVEATS

The 2001 Census provides a figure of 66.2% of dwellings either fully owned or being purchased. The percentage of dwellings in home ownership is not the same figure as the percentage of households in home ownership, but the figures are very similar. For example, the percentage of dwellings in home ownership in 1996 was 66.4%, marginally higher than the 66% figure for households reported here.

The research reported here measures change in the rate of home ownership of households not dwellings, so that the analysis can examine change in other explanatory factors such as the demographic composition, or income, of households.

The figure of 66.2% of dwellings in home ownership in 2001 is down from 66.4% in 1996 and continues a decline in the rate of dwellings in home ownership from 69.1% in 1986.

Comparing the dwelling and household home ownership rates between 1986 and 1996, the rate of dwellings in home ownership declined 2.7 percentage points whilst that of households declined 2.2 percentage points.

The introduction of the First Home Owners Grant (FHOG) of \$7,000 on 1st July 2000 and its increase on 9th March 2001 to \$14,000 for first homeowners who build their home, or purchase a newly constructed home, will have had an impact upon the rate of entry to home purchase. Modelling by Wood, Watson and Flatau (2002) finds that the rate of entry to home purchase would have increased by 6.4 percentage points in the case of the \$14,000 FHOG, though the \$7,000 grant would have had little impact.

The low interest rates for mortgages in recent years and associated boom in house prices will also have affected the rate of entry to home purchase. Whilst low interest rates provide an opportunity for the rate of entry to home purchase to increase, increasing house prices and housing market competition from investors may have had a negative impact upon the rate of entry to home purchase.

Finally, the research measures the stock of households in home ownership at points in time, not the flow of households in and out of home ownership over time. It is not possible to deduce from the findings the rate of exit from home ownership, or the rate of entry to home ownership. Existing research on housing careers suggests that the rate of exit from home ownership is very low.

POLICY IMPLICATIONS

A decline in the home purchase rate means that there is increased demand elsewhere in the housing system. This can manifest itself in the alternative tenures of private rental and public rental, in a slowing in the household formation rate (typically younger people living with their parents for longer), or an increase in the rate of households sharing a dwelling. Increased demand in the private and public rental sectors can lead to increased government expenditures on housing assistance. A slowing in the household formation rate can reduce government expenditures on housing assistance.

A sustained decline in the rate of home purchase can lead to fewer outright owners in the future. Assuming that the contemporary benefits of home ownership

persist into the future, a number of potential issues of policy interest arise:

- a decline in the well-being of the retired population
- an increase in the demand for income support by renters paying housing costs in their retirement
- a reduced capacity to deliver an 'ageing in place' strategy
- fewer households with the equity required to support entry to a retirement village or nursing home.

These scenarios assume that decline in the rate of home purchase is primarily driven by constraints rather than choices – as was the case from 1986 to 1996. If this situation changes and households choose not to become home owners then the key question is whether they hold alternative investments that will substitute for the financial benefits of home ownership in retirement.

There is considerable evidence demonstrating the role of home ownership in underpinning attachment to and investment in neighbourhood life.

A sustained decline in the rate of home ownership may have implications for local social cohesion.

The observed decline in the rate of home purchase was greatest in metropolitan areas. If this affects the ability of key workers, such as teachers and nurses, to locate in metropolitan areas (as appears to be the case in London) then there could be demand for policies that support entry to home ownership to take account of higher housing costs in some capital cities. The design of such a policy would raise significant issues about the impact of assistance on house prices, whether to focus assistance upon entry to home purchase and/or sustaining mortgage repayments, and how to determine eligibility.

The research found that inequalities arising from the labour market and housing market are tending to reinforce one another. These mutually reinforcing processes of social disadvantage can take a spatial dimension whereby the disadvantaged are confined to particular parts of cities or outside cities.

In the long run, such social and spatial inequalities can become economically inefficient as they detract from the perceived safety and social well being of a city. Such perceptions are important for investment and the location of managers and knowledge workers in the dynamic growth industries.

In the past, the wider eligibility criteria of public housing and support for entry to home ownership (subsidised mortgages, deposit assistance) reduced inequalities in the housing experiences of Australians and countered, to an extent, income inequalities.

The poignancy of all these issues is underlined by the fact that, despite popular perception, Australia is no longer pre-eminent amongst the nations of home owners. Whilst the rate of home ownership in Australia has been in decline, it has continued to grow in other nations: Ireland (78%), New Zealand (70%), the USA (70%) and England (68%) each now surpass Australia in the home ownership stakes.

FURTHER INFORMATION

For further information about this project see the AHURI web site:

Positioning Paper:

www.ahuri.edu.au

Final Report:

www.ahuri.edu.au

Wood, Watson and Flatau housing market modelling project. See: www.ahuri.edu.au

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