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Committee Secretary  
Standing Committee on Economics  
PO Box 6021  
Parliament House  
Canberra ACT 2600

### **AHURI submission to the Standing Committee on Economics Inquiry into Home Ownership**

On behalf of the Australian Housing and Urban Research Institute (AHURI), I am pleased to make a submission in response to the Standing Committee on Economics Inquiry into Home Ownership.

This submission provides an overview of AHURI research examining home ownership in the Australian housing market, including rates of home ownership and influences on these rates such as drivers of demand. The submission also considers the impact of tax policies on home ownership. AHURI research is free to download from [www.ahuri.edu.au](http://www.ahuri.edu.au).

AHURI has conducted extensive research examining the context, operation and future directions of housing systems in Australia. We believe the AHURI evidence-base provides an important contribution to the discussion regarding home ownership in Australia. This submission provides a brief summary of relevant research.

If there is any way we can be of further assistance, please contact me directly on

Yours sincerely

Dr Ian Winter  
Executive Director  
Australian Housing and Urban Research Institute



# **AHURI submission to the Standing Committee on Economics Inquiry into Home Ownership**

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Research Institute**

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## About AHURI

The Australian Housing and Urban Research Institute (AHURI) is a national independent research network with an expert not-for-profit research management company, AHURI Limited, at its centre.

What is our mission?

AHURI has a public good mission to deliver high quality research that influences policy development to improve the housing outcomes and urban environments of all Australians.

What are our strategic goals?

Through active engagement, AHURI's work informs the policies and practices of governments and the housing and urban development industries, and stimulates debate in the broader Australian community.

AHURI does this by:

1. Influencing policy development and practice change.
2. Delivering high quality evidence.
3. Maximising value for stakeholders.
4. Building research capability and national capacity.

We undertake evidence-based policy development on a range of issues, including: housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

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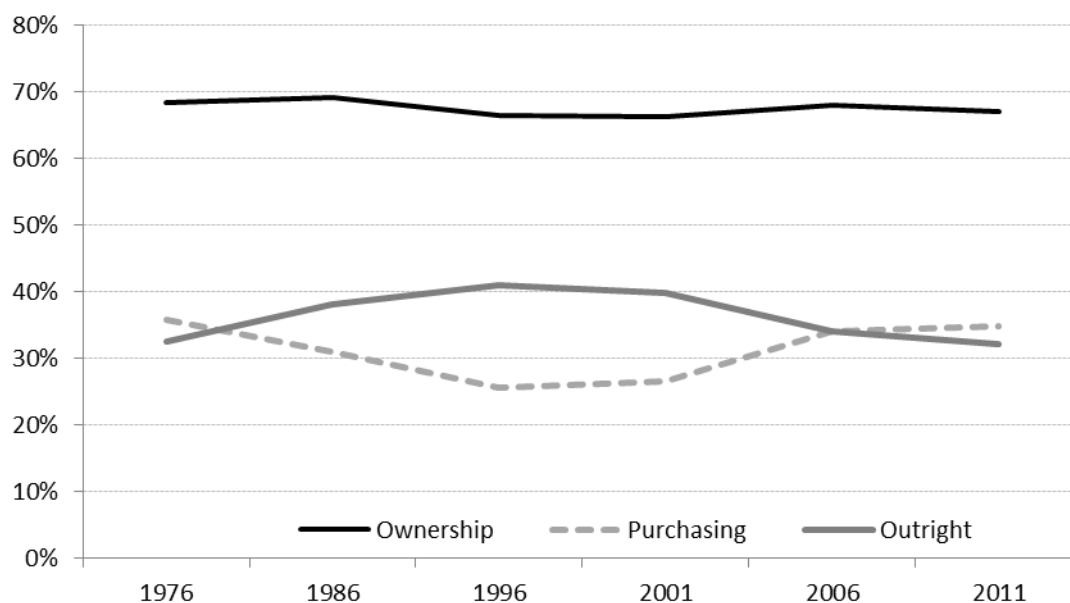
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## Current rates of home ownership

Australia has maintained consistently high rates of home ownership of around 68 per cent since 1976. There are however, emerging indicators suggesting home ownership is starting to decline (Burke et al. 2014). The composition of homeowners, those who own outright and those who are currently servicing a mortgage, has changed with houses under purchase now outnumbering those owned outright (see figure 1). The last 20 years has also seen sharp growth of migration to Australia and this may have played a role in sustaining home purchase rates (Burke et al. 2014).

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



Source: Burke et al. (2014).

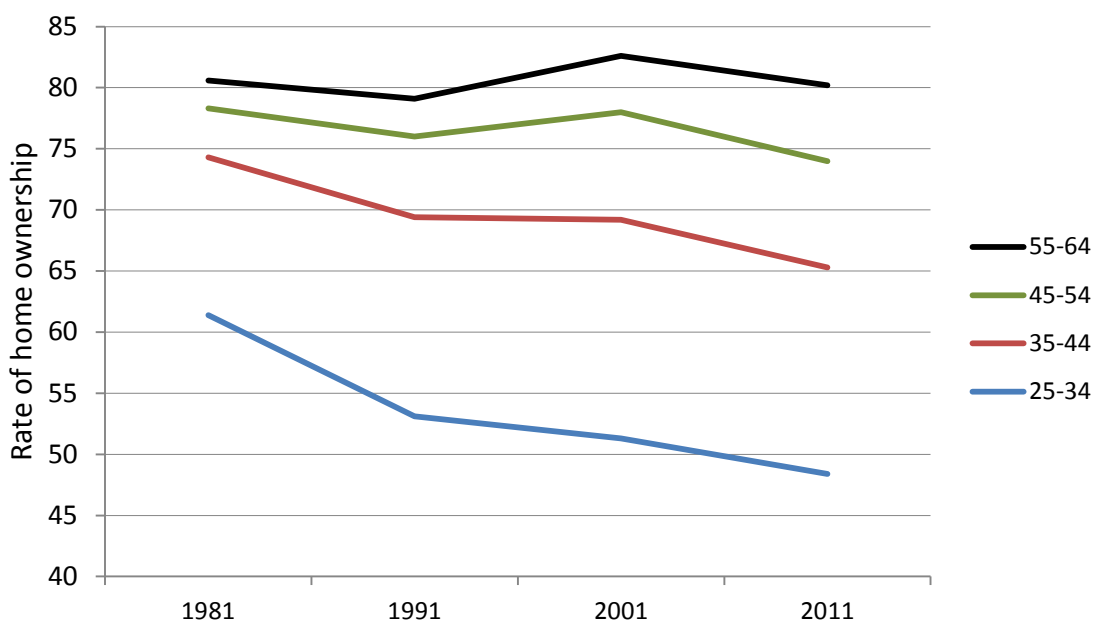
### *Home ownership rate by age groups*

The rate of home ownership is higher amongst older age groups, with 55–64 year olds maintaining around 80 per cent ownership rates over the last 30 years to 2011 (Burke et al. 2014; see figure 2). For older households however, there has been a change in proportion for those who still have a mortgage or own outright, for example the percentage of 55–64 year-old households who in 2011 are still purchasers has increased from 23.4 per cent in 1981 to 32.2 per cent (Burke et al. 2014).

Over the same time period there has been a decline in the overall rate of home ownership for the younger age groups 25–34 year-olds (from 61.4% in 1981 to 48.4% in 2011) and 35–44 year olds (from 74.3% to 65.3%) (Burke et al. 2014; see figure 2). This could indicate deferral of home ownership rather than cessation of purchase altogether—AHURI research has recently reported cohort projection analyses that indicate 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. For example, those who were aged 25–34 years in 2001 had a home ownership rate of 51.3 per cent however by 2011 this cohort's home ownership rate had risen to 65.3 per cent (though still a lower proportion than in other decades). This AHURI research identifies that a potential problem with the trend of delayed home purchase 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 (Burke et al. 2014). Other AHURI research shows

that increasing numbers of home owners are approaching retirement with mortgages (Wood et al. 2013; Ong et al. 2013).

**Figure 2 Home ownership rates, by age group, 1981–2011**

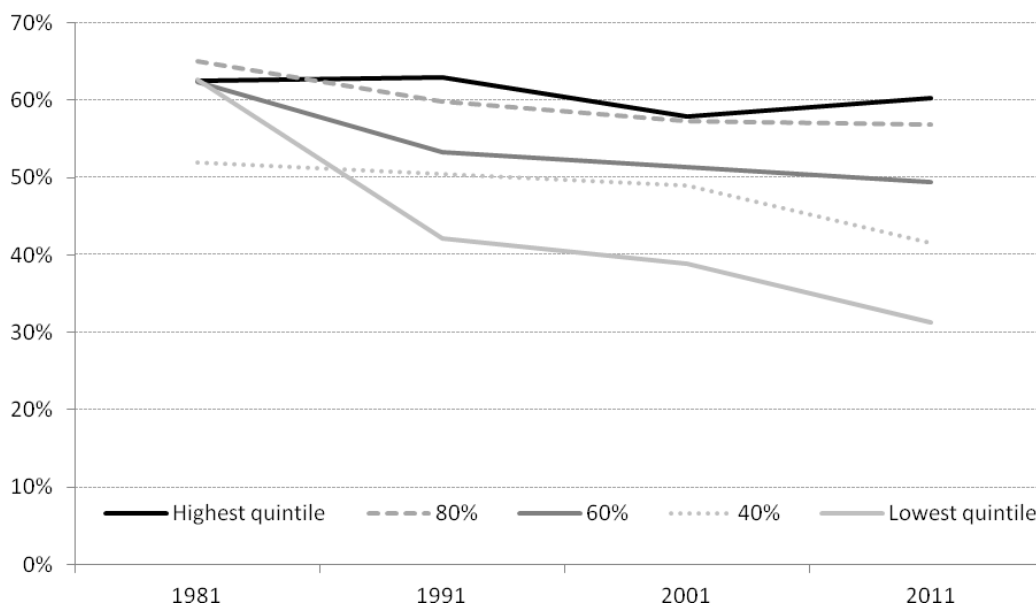


Source: Calculated from Burke et al. (2014 Table 4 p2).

*Home ownership rate by income cohorts*

Home purchase has decreased predominantly for those in the lowest income cohorts, particularly for those aged 24-35 years. Between 1981 and 2011 the rate of purchase for those in the lowest household income quintile fell from 62.7 per cent to 31.3 per cent (see figure 3). There was also a decrease in the second lowest income quintile of around 10 per cent and smaller decreases in the higher income quintiles (Burke et al. 2014).

**Figure 3 Home purchase rates by income quintile, 25–34 years age group, 1981–2011**



Source: Burke et al. (2014).



Other age groups followed a similar, albeit less pronounced, pattern—the biggest decline being for the lowest income quintile (Burke et al. 2014).

### *Indigenous home ownership*

AHURI research finds that Indigenous people express interest in home ownership primarily for the social benefits, in particular the ability to pass a house down in the family rather than for other means such as wealth creation (Memmott et al. 2009). In interviews with 87 Indigenous people living in various forms of rental housing, AHURI research found that most saw home ownership as an economic burden even when income was assessed not to be a barrier for a quarter of households (Memmott et al. 2009). Home ownership for some is a more complex due to the relationship with land and implications of individual ownership. Research examining community land trusts found that diverse Indigenous housing options that can support renting and owning with options involving equity inputs from households was of interest and could be developed using Community Land Trust models (Crabtree et al. 2012).

### *Cycling in and out of home ownership*

There is high incidence of ‘churning’ (exiting and then re-entering) home ownership as well as permanent exits from ownership. A study of home owners found that around 13 per cent of owners ‘churn’ in and out of ownership while 9 per cent permanently leave (Wood et al. 2013). There has been a reduced ability to maintain home ownership due to increased divorce rates and mortgage stress (Wood and Ong 2010). Increasing numbers of homeowners are approaching retirement with mortgages, and a sizeable number of older mortgagees are dropping out of homeownership which is a flag for potential pressure on other areas of the housing system such as a need to access housing assistance (Wood et al. 2013).

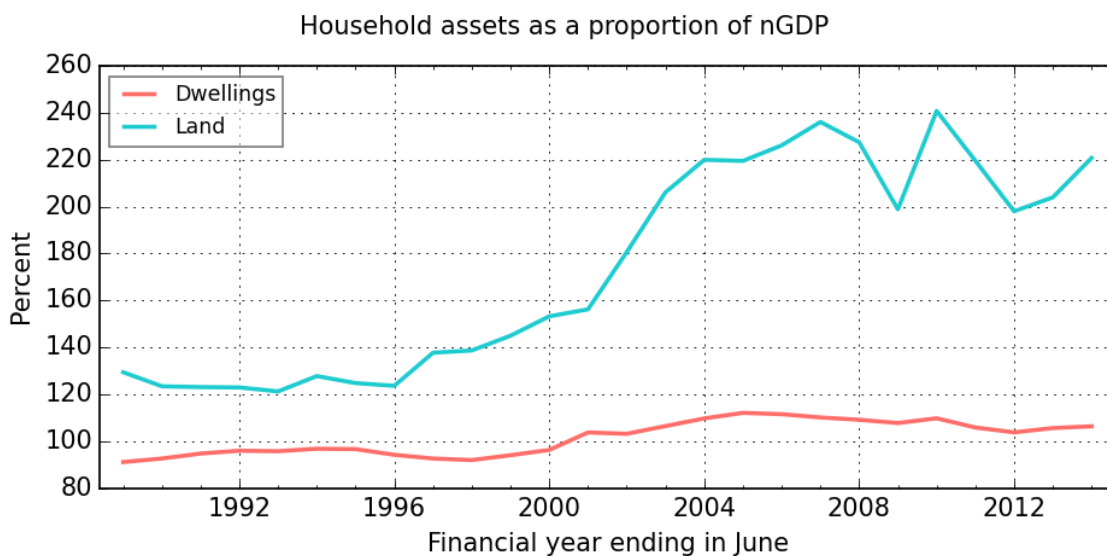
## **Factors affecting home ownership rates**

### *Increase in house prices*

The increase in house prices acts as a barrier for some groups, particularly those in lower income brackets, to access home ownership. AHURI research found that despite the decline in interest rates from the 1990s, which resulted in a borrowing spike and an unprecedented increase in household debt, a number of incentives such as the change in the capital gains tax regime in 1999 and the introduction of the First Home Owners Grant in 2000, created upward pressure on house prices from both investors and owner-occupiers alike so that, for the first time, the house price to income ratio rose dramatically (Yates 2009). This research suggests that while the increase of house price to income ratio and the consequent rise in the household debt to income ratio are important factors in accessing home ownership, the saving required to meet the deposit gap may be an even more significant factor (Yates 2009).

A large component of purchase price increase is the increase in the value of land (see figure 4). There is AHURI evidence that in a context of rising demand, controls on the release of land—such as putting in place an urban growth boundary—increase land prices with the highest rises located in the inner areas (Goodman et al. 2010).

Figure 4 Household assets as a proportion of nGDP

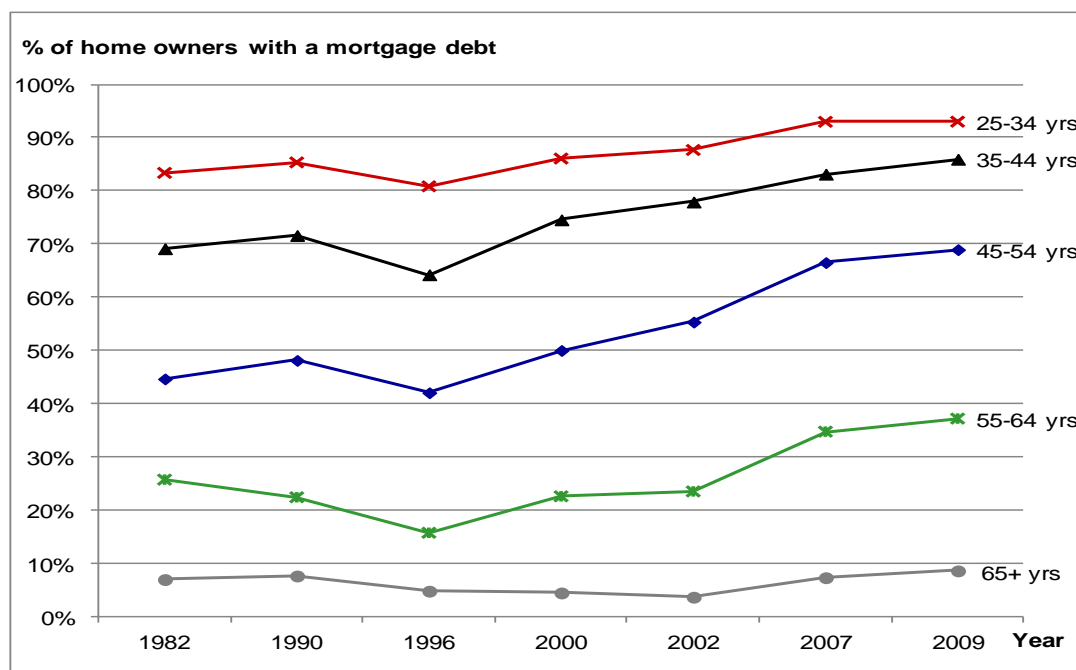


Source: ABS 5204 5206

*Increase in size and period of debt*

Those that have been able to enter home ownership have often done so at the expense of higher debt; 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 (Burke et al. 2014). The percentage of mortgage debt by age group has risen for all age groups but in particular for those aged 45–54 years (see figure 5). Australian home buyers are therefore exposed to higher levels of credit risk for longer periods of their lives (Wood et al. 2013).

Figure 5 Percentage of homeowners with a mortgage debt, 1982–2009



Source: Ong et al. (2013b)

Mortgage equity withdrawal could play a part in retaining a mortgage, particularly in the pre-retirement age groups (Ong et al. 2013). The incidence of housing equity withdrawal has increased over the last decade, and older home owners' appetite for housing equity withdrawal has not abated despite a global financial crisis and its aftermath. In situ equity borrowing (mortgage equity withdrawal) is the dominant form of housing equity withdrawal among those under pension age (Ong et al. 2013).

### *Wealth creation*

AHURI research has found home ownership to have—in general—significant positive wealth-building benefits including for low income earners however this is not without risk. AHURI research which looked at metropolitan Melbourne found that one in eight of all sellers lost money in real terms and that there is greater risk of making a loss for dwellings in outer urban areas where low to moderate income earners are most able to purchase, and if the dwelling is sold in the first three years (Hulse et al. 2010). However, higher house prices—while aiding wealth accumulation for those who own or are purchasing—hinders access for aspiring first home buyers (Bridge et al. 2003).

AHURI research also indicates that owners are now more accustomed to using new flexible mortgage products to access their housing wealth, and so use that wealth as a financial buffer to meet needs over time (Wood et al. 2013). Previous AHURI research found that more than two-fifths of Australian home owners, used their homes as collateral to increase their net mortgage borrowing in at least one year ending between 2002 and 2005—compared to one third of UK home owners (Wood et al. 2010b). As this role for housing wealth grows in importance, owners will need more protection against investment risks. It may be argued that tax as well as asset test concessions have helped to encourage this outcome because other forms of saving are not as tax effective (Wood et al. 2013).

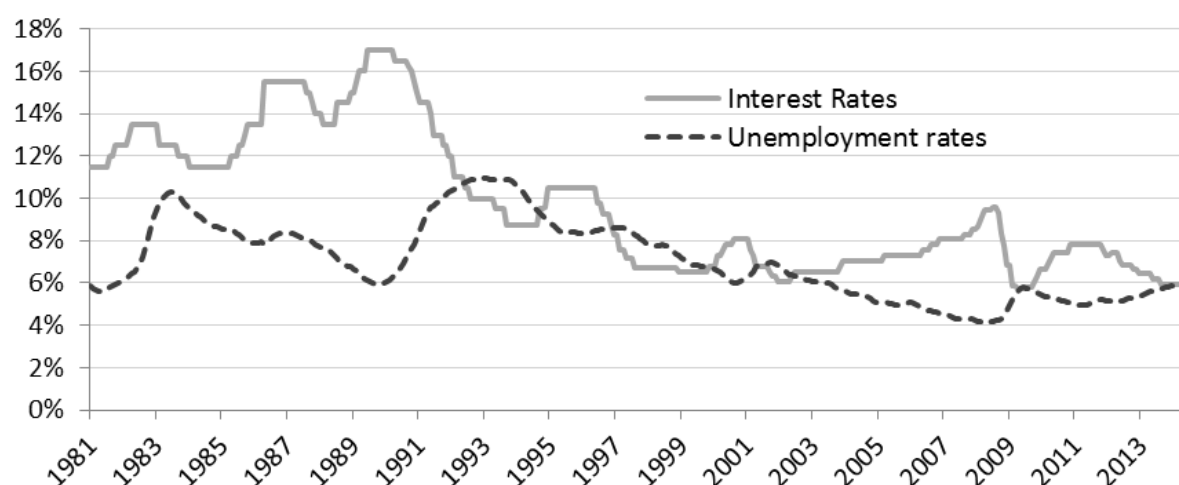
## Demand and supply drivers in the housing market

In terms of the housing related roles and responsibilities of Australian governments AHURI research outlines Commonwealth control of demand levers that affect housing (tax, population, income—via economic management and immigration policies), State control of the supply levers (planning systems, expenditure on transport and infrastructure) and local government—with its traditional responsibilities for land use zoning and development control—also with some supply levers (Gurran in press). While the interaction of demand and supply is complex, if supply does not match demand then it can be a contributing factor to house price pressures and declining affordability (Burke et al. 2014).

### *Economic demand*

Low interest rates, lower unemployment (see Figure 6) combined with easy credit for housing, have worked together to increase demand.

**Figure 6 Mortgage interest rates and unemployment rates, Australia, 1981–2013**



Source: Burke et al. (2014).

First home buyers are increasingly restricted by deposit and mortgage repayment constraints. An initial study undertaken in 2004 using the HILDA survey (Wave 1 data) found that of a sample of 2 769 rental tenant income units, 87.3 per cent (2 417) lacked sufficient savings to enter homeownership at their imputed housing demand with the majority (2 370) of these 2 417 constrained income units unable to meet even the 10 per cent deposit requirement (Flatau et al. 2004).

Subsequent AHURI research, using Wave 4 HILDA data, found that the lack of a deposit was identified as a critical barrier preventing home ownership for many existing households and households yet to form (Rowley and Ong 2012). They found that independent adults were leaving home later in life and that lack of housing affordability in the form of deposit and payment constraints prevented now household formation (Rowley and Ong 2012). More recent AHURI research, after analysing four census years of data to 2011, surmises that households are deferring home ownership to a later time, as an adaptive strategy (Burke et al. 2014).

In addition to deposit constraints there is evidence that stamp duties also impede access to home ownership because they tighten borrowing constraints which appears to be the major impediment to transition into home ownership (Wood et al 2010b). Stamp duties squeeze borrowing constraints as they add to the quantum of finance needed to purchase and must be met from savings or additional borrowings (Wood et al. 2010b).

Female labour force participation for 25-34 year old women has risen from 33 per cent in 1971 to 69.3 per cent in 2011 (Burke et al. 2014). Dual income household purchasers have the means to buy more expensive houses however it is unclear whether it has become a necessity for two incomes to service a mortgage due to rising house prices or if the increased purchasing power has acted to drive up house prices. While the direction of the relationship is a chicken and the egg argument, recent AHURI research suggests that the second income has enabled many households to continue purchasing and therefore helped to sustain the home purchase rate (Burke et al. 2014).

### *Demographic demand*

New household formation is a driver for demand for housing. Traditionally this has been seen as part of the 'housing career pathway' when partnering and leaving home or moving from private rental to home ownership. Evidence now points to the deferring of home ownership with adults staying at home or in private rental for longer periods (Rowley and Ong 2012; Burke et al. 2014). New households are also formed through separation or divorce and through immigration.

Household dissolution resulting from separation or divorce, while having the effect of increasing the number of households, may act to decrease home ownership rates. Earlier AHURI research explains that this situation arises as:

*“One or both partners typically move out of the family or de facto home, and property settlement will involve some division of accumulated assets that may be insufficient to permit one or both partners from immediate restoration of their housing position. This could mean that divorcees lose homeownership status at the time of household dissolution, or if they are tenants, their liquid wealth position deteriorates relative to deposit requirements“.*

Flatau et al. 2004, pp.31–39

In 2011 the divorce rate was 2.2 per cent and AHURI research indicates that 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 from 1981 to 2011 (Burke et al. 2014). Recent AHURI research has identified that being separated or divorced increases the risk of falling out of ownership—an AHURI study of home owners over 10 years to 2011 using HILDA data found that around 13 per cent of owners 'churn' in and out of ownership, while 9 per cent permanently leave (Wood et al. 2013).

AHURI research identifies two key groups at the edges of ownership: the leavers, people who have managed to attain owner occupation but are unable to sustain it, falling out of the sector altogether, and the churners who are households who drop out of ownership but return to the sector at least once in less than a decade. The study found that being young and single, and separated or divorced, increases the risk of falling out of ownership. The study showed that ex-home owners have a good chance of returning to ownership—60 per cent in Australia, 41 per cent in the UK—as long as they do so quickly. The chances of returning to home ownership was found to diminish significantly with time spent renting (Wood et al. 2013).

### *Immigration*

Immigration creates new households and therefore increases demand for housing. AHURI research suggests that migrants historically have had a higher purchase rate than native born Australians. This may be explained by the composition of migrants, for example, the last two decades have seen an increase in business migrants who are most likely to move into home ownership quickly (Burke et al. 2014). Factors such as cultural predisposition to purchase and additional financial contribution from extended family can also aid in achieving home ownership (Burke et al. 2014).

### *Changing age structure*

Population projections show that the rate of population increase is expected to be steepest among people aged 65 year and over and this will translate into a surge of singles living alone (Cidgem et al. 2015). Population ageing poses demands for smaller housing in nearby suburbs to enable downsizing and equity release (Ong et al. 2013; Judd et al. 2014; Cidgem et al. 2014).

AHURI research found that difficulties faced by downsizers included availability of suitable housing, its cost and affordability, and the suitability of its location (Judd et al. 2014). Specialised services to assist older people in the moving and downsizing process might include forward planning for housing and care needs, financial advice and assistance in the moving process. Downsizers could also benefit from improved information about housing choices and the practical aspects of downsizing. Finally, financial disincentives to downsizing, including those related to the purchase and transfer of housing (e.g. stamp duty and eligibility for the Age Pension) might be addressed (Judd et al. 2014). Other AHURI research found that impediments to downsizing include high transaction costs and means test rules for pensions (Ong et al. 2013).

### *Land supply*

Evidence is varied on whether land release assists in reducing house prices. AHURI research has documented that connections between land supply and price, which can flow on to house price, are complex with many factors affecting both land and house prices (Goodman et al. 2010 and 2010b). However, a well-run and timely land release policy can help with the supply of new houses. When planning controls deliver certainty about what is going to be developed where, and that information is made widely available, then each developer can plan the nature and scale of their developments with confidence (Gurran et al. 2012). In fact, without planning controls developers may be unwilling to risk an investment that might be devalued by a flood of competing developments that lead to oversupply (Gurran et al. 2009).

### *Planning and affordable housing supply*

AHURI research has shown that international experience demonstrates that national strategic policies aimed at addressing housing affordability challenges can frame planning approaches which play a supportive role facilitating housing development. With a strong, nationally coordinated policy framework emphasising housing affordability and dedicated affordable housing creation, state housing policy and planning legislation then promotes affordability, and enables affordable housing creation, through:

- system-wide approaches to facilitate land supply in preferred locations, by making planning processes more efficient and through targeted infrastructure investment
- better needs assessment and planning methodologies to forecast, monitor and respond to housing demand, supply and affordability trends
- specific planning levers or mechanisms to secure land for new affordable housing development and retain existing levels of low-cost housing (Gurran et al. 2008).

Used in conjunction with funds or incentives for affordable housing development, planning mechanisms help to maximise the benefits of such investment. Complementing planning levers for affordable housing with financial incentives for construction also ensures that these incentives generate new housing in the right places (Gurran et al. 2008).

AHURI research acknowledges that while housing affordability problems can vary cyclically, house price and household income data suggest that there has been an underlying structural affordability problem in Australia over the past half century (Yates and Milligan 2007). There are structural factors on both the demand side and the supply side

that affect affordability outcomes. Demand side factors include: household growth, income and wealth, tax concessions and grants, cost and availability of finance, and returns on housing relative to other investments. Supply side factors include: the cost of housing provision which is influenced by land availability, development costs (including infrastructure costs) and charges, construction costs and property related taxes (Yates and Milligan, 2007).

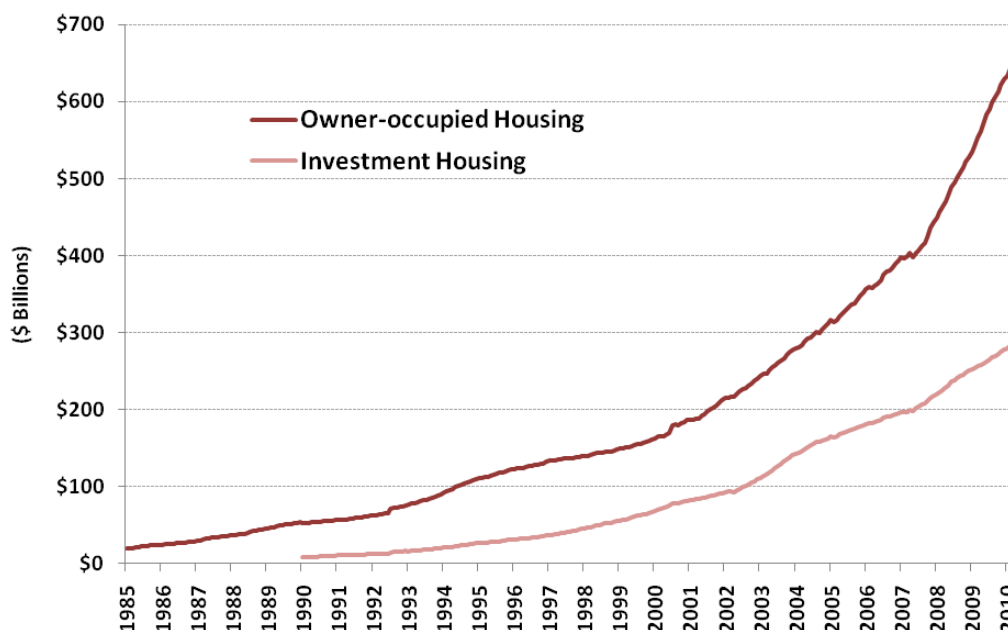
AHURI research suggests that the growth in real house prices can be attributed to the combined effect of the growth in per household real incomes, growth in the number of households, deregulation of the finance system which increased the availability of mortgage finance, and declining interest rates; which has enabled the housing aspirations to translate to housing demand (Yates and Milligan 2007). The ensuing increased housing demand has acted to put additional pressure on land supply, particularly in urban areas that are already constrained (Yates and Milligan 2007).

## Housing investment

### *Housing investment compared to owner occupied housing*

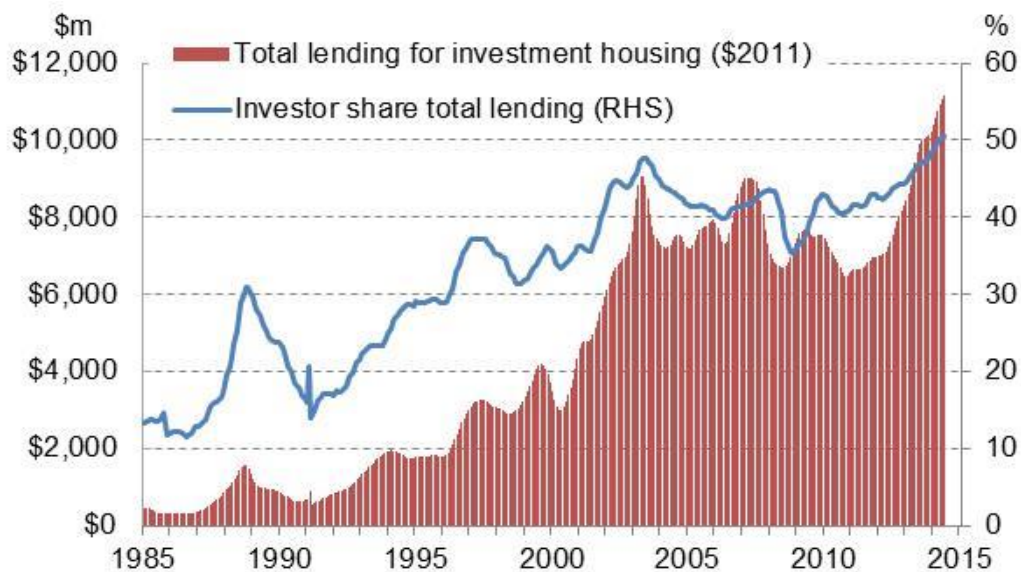
The proportion of new loans for investment housing is at a record high. Up until 2010, lending for owner occupied housing was tracking well above investment housing (Figure 7), however this trend has changed since 2010 after which lending for investment has continued to rise but housing finance commitments for owner occupation started to decline.

**Figure 7** Volume of lending to individuals to purchase of owner occupied and investment housing, Australia, 1990–2010



Source: Hulse et al. (2010).

In September 2014, 50 per cent of all new housing loans were for investment purposes rather than owner occupation (Hulse et al. 2015). Lending for rental investment is depicted in figure 8.

**Figure 8 Trends in lending for rental investment, 1985–2014, Australia**

Source: Hulse et al. (2015).

### *Private rental investor decisions*

AHURI research has analysed the decisions of private rental investors over a period of six years and found that one in four investors exit within a year (Wood 2010). After year one there is a steep decline in the rate of exit from the rental property market. The evidence suggests that younger, negatively geared investors, with relatively low levels of income and human capital are more likely to realise property investments at any point in a spell of rental investment (Wood 2010).

Financial variables that impacted on retaining an investment property included the following:

- The gross rental yield has a statistically significant negative effect; since properties with higher gross rental yields typically have lower expected rates of capital gain, it would seem these expectations persuade some investors to realise their property investments.
- An after-tax economic cost (user cost) variable is even more influential; its negative impact implies that higher after-tax economic costs eat into returns and persuade many investors to exit the market.
- Negatively geared investors are more likely to exit the market. These investors might be churning in and out of rental properties. While this can adversely impact on tenants because their housing circumstances become more precarious, the supply of rental housing may be more responsive to changing market conditions with potential efficiency gains (Wood 2010).

AHURI research also found that the decision to invest in rental property was predicated by a person's after-tax economic costs (user cost of capital) and "the typical investor was a middle aged high tax bracket individual with modest superannuation, little unsecured debt and a continuous employment record" (Wood et al. 2010, p2).

AHURI research further outlines the three main motives governing investment decisions: first, whether the net return from rental investments is higher than alternatives; second, the liquidity of the asset that is the vehicle for investment and accumulation of savings, and third, the perceived risk (Wood 2010).



## *Foreign investment*

While foreign investment in residential property is relatively small, from 2005-06 to 2010-11 data from the Foreign Investment Review Board (FIRB) show that the investment in new residential real estate (including purchase of vacant land and redevelopment) and the purchase of existing housing for use as a principal place of residence has approximately doubled (Hulse et al. 2014). The Reserve Bank of Australia concludes that this investment trend is motivated by a need to meet housing needs for business persons located temporarily in Australia, for children studying in Australia, to acquire a second residence (possibly for eventual migration) and/or to diversify holdings of wealth geographically (Hulse et al. 2014).

The Reserve Bank of Australia cites that foreign investment tends to be geographically concentrated in higher-density dwellings located in inner-city areas of Sydney and Melbourne (Hulse et al. 2015). AHURI research has suggested that an effect of foreign investment is that it can contribute to established properties not entering into the private rental market if they are located in areas of high land value as they tend to be improved or replaced, often at a higher density (Hulse et al. 2015). This also has a broader effect on the housing system.

## **Tax policy**

### *Tax and housing investment*

#### **Capital gains and negative gearing**

Landlords are assessed on capital gains at the time of sale, as for other forms of investment or business activity. For individual landlords, the capital gains tax 50 per cent discount applies to properties held for more than 12 months so that only half the nominal realised capital gain is assessed at the individual marginal tax rate of the landlord.

Negative gearing is an attractive investment strategy due to the combination of the tax advantages of negatively geared residential investment with the capital gains tax 50 per cent discount (Wood et al. 2010b). Australian Tax Office figures show the popularity of its use: in 2006–07, 68 per cent of individuals deriving rent had a net rental loss from their property (Wood et al. 2010b). There is concern that the combination of the two policies is focussing investment towards potential for capital gain, undermining objectives of affordability (Wood et al. 2011).

Modelling by AHURI suggests that one-in-four property investments are withdrawn from the rental market within 12 months. Younger, low-income, and negatively geared property investors are more likely to make early exits from the rental housing market—in one-year, 50 per cent of negatively geared investors in the study sample sold the property, by comparison with 20 per cent of all investors (Wood et al. 2010a). Current taxation arrangements can also have undesirable secondary effects on market behaviours, contributing to poorer housing outcomes and volatility in the market.

#### **Land tax**

Land tax is imposed on residential property owned as an investment or to generate rental income over a base threshold, calculated on the aggregate value of property owned in the state. Land tax is likely to be a factor limiting investment by institutional investors because of the way tax increases for larger land holders. This is because land tax is payable only above certain specified land value thresholds, but is payable on the combined land value of all property holdings. The multiple property landlord is thus far more likely to exceed such a threshold and to be liable to pay land tax. Early AHURI modelling has shown that the effective tax burden increases as the number of rental dwellings held by a landlord increases (Wood et al. 2003). For example, for a typical single property landlord in Sydney

the effective tax burden increases by nine percentage points from 50 per cent to 59 per cent when they invest in one additional rental dwelling, creating a financial disincentive for landlords to increase the supply of rental dwellings.

## **GST**

AHURI research shows that because all existing housing is exempt from GST, this policy is tenure neutral (Wood et al. 2010b). However, GST at 10 per cent applies to most transactions in respect of new housing, carried on by developers in the course of an enterprise as 'taxable supplies'. In this respect, the GST exemption rules impede the goal of adding to the supply of housing (Wood et al. 2010b).

Not-for-profit community housing providers receive exemption from GST. AHURI research has found that half of the not-for-profit (NFP) housing organisations examined had structures to contain or quarantine risk that was associated with private finance, development/construction and NRAS from their core rental housing business (Milligan et al. 2013). A main vehicle for doing this was the special purpose vehicle (SPV), which is a subsidiary set up for a specific purpose, such as financing and developing new housing. SPVs typically do not have public benevolent institution or deductible gift recipient status, but GST exemptions still apply when they are NFP organisations.

### *Tax and home ownership*

#### **Stamp duty**

AHURI research finds that stamp duty is found to impede access to home ownership because it tightens borrowing constraints (Wood et al. 2010b; Wood et al. 2013). Stamp duty also limits incentives to transfer housing and represents an impost on home purchasers undermining labour mobility (Productivity Commission 2013; Wood et al. 2010b). Stamp duties are also found to be a financial disincentive to downsizing for older Australians (Judd et al. 2014). This may have implications for broader affordability outcomes if downsizing releases housing more suitable for families and creates better matching of housing to need.

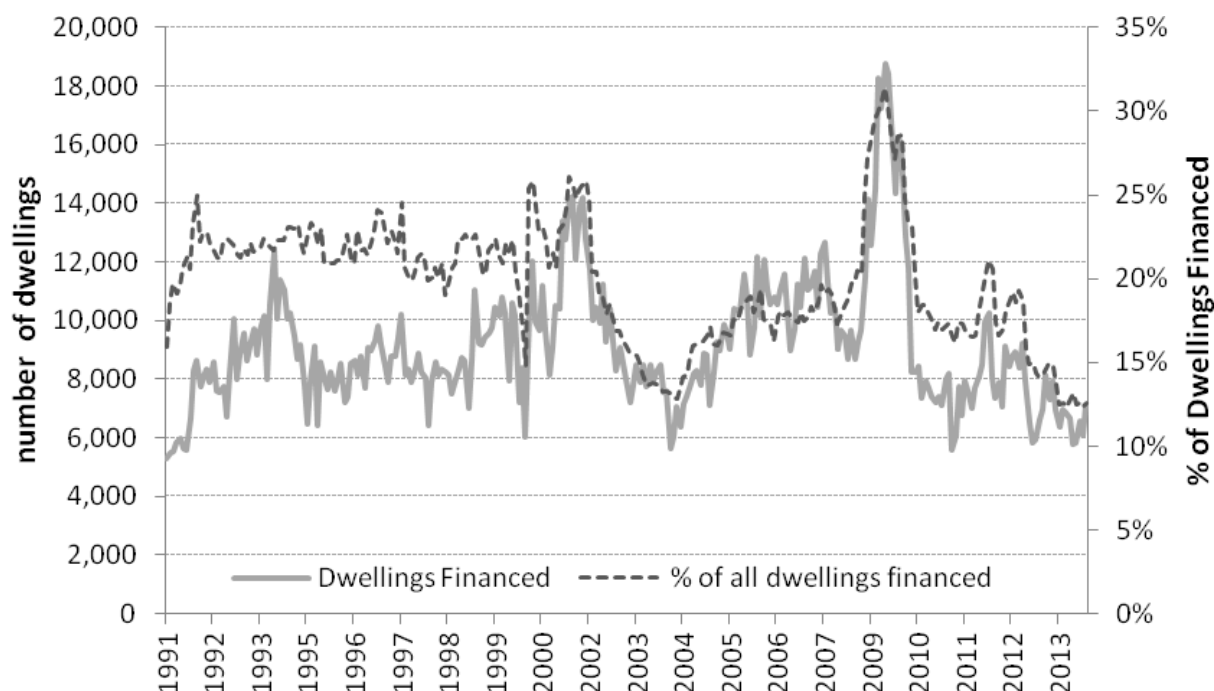
#### **First Home Owner Grant**

The provision of the First Home Owner Grant (FHOG) raises the rate of home ownership and accelerates ownership, but research finds it is regressive in impact as it primarily favours those that would have eventually become home owners (Wood et al. 2013). The subsidy is effective at reducing the deposit constraints, or could be considered the equivalent of a stamp duty exemption.

Research finds that renters who are forecast to become home owners with the aid of FHOGs tend to be in their 30s, partnered, living in private rental housing and paying higher rents. They are also more qualified, enjoy higher wage and investment incomes, and much more likely to be employed. These rental tenants have much higher savings than other groups. Thus, FHOGs are more likely to assist younger couples with stronger socio-economic and demographic characteristics and they are therefore regressive in impact (Wood et al. 2010b).

AHURI research does suggest that the FHOG has been successful in bringing forward demand, and this was very apparent in the wake of the Global Financial Crisis in 2009 (Figure 9). "Although more research is necessary, this data would also 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 9 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" (Burke 2014 et al. p.19).

**Figure 9 First home purchases: number of dwellings financed and percentage of all dwellings financed, Australia, 1991–2013**



Source: Burke (2014).

### *Tax expenditure*

The present tax system concentrates tax relief towards owner occupiers and private rental investors seeking capital gains (often in more expensive and established markets), and there is less support for investment in new, affordable and tenure secure housing. It may also be supporting the concentration of socio-economically disadvantaged households in spatially disadvantaged locations (Groenhart 2014).

AHURI research has taken a tenure-neutral approach to analyse the impact of tax expenditures, and found that in 2005–06 most assistance benefits home purchasers and owners (more than \$8 000 per household per year), compared to investors (\$4 000 per year) and renters (\$1 000 per year) (Yates 2009). Although these estimates exclude direct subsidies to first home owners (e.g. through first home owners grants) and to private renters (e.g. through rent assistance) which would moderate these differentials, the differentials remain marked.

Younger (less than 45 years of age) owner-occupiers, most of whom have relatively low equity in their dwellings and face high mortgage debt, are relatively disadvantaged by the structure of tax expenditures because of their inability to deduct the costs of purchasing their home from the income it produces. This disadvantage, however, is greatest for higher income younger purchasers because of their greater borrowing capacity. High income purchasers under 45 years old receive an average subsidy of \$6 500 per year, by comparison older purchasers receive over \$20 000 (Yates 2009).

Other AHURI research indicates that intergenerational inequity is exacerbated by the fact that access to home ownership is becoming dependent upon access to bequests or gifts from parents or relatives, while others not receiving these gifts have to take on larger mortgages (Wood et al. 2010b; Yates 2007). The tax and transfer system provides no support for recurrent costs of these mortgages, while the tax system favours those of an older age, especially retirees (Wood et al. 2010b).

Recent AHURI research examined government spending related to housing in Melbourne for the 2011–12 financial year. The total housing expenditure figure for Melbourne was \$5.2 billion in the 2011–12 financial year. Public housing was the smallest proportion of this figure, at around \$107 million or 2 per cent of the total; the First Home Owners Grant, for both new and existing properties, had an outlay of \$277 million, 5.3 per cent of the total (Groenhart 2014). Rental assistance had a total of \$500 million (9.6% of the total). These expenditures were eclipsed by the negative gearing (\$861 million) and capital gains tax exemption (\$3.5 billion) estimates, which comprised 17 per cent and 67 per cent of total outlays respectively (Groenhart 2014).

**Table 1: Total expenditure, Melbourne, 2011–12**

Melbourne	Total \$ 2011–12*	\$ Per dwelling	% Total
Public housing	\$107,080,000	\$72	2.0%
FHOG total	\$277,229,000	\$187	5.3%
Rent assistance	\$501,063,000	\$338	9.6%
Negative gearing	\$861,248,000	\$582	16.5%
Capital gains exemption	\$3,481,031,000	\$2,350	66.6%
Total	\$5,227,652,000	\$3,530	100.0%

Source: Groenhart (2014).

\* Total \$ rounded to nearest \$1 000

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