PEER REVIEWED

EXECUTIVE SUMMARY

FINAL REPORT NO. 404

Transitions into home ownership: a quantitative assessment

From the AHURI Inquiry: Inquiry into financing first home ownership: opportunities and challenges

Authored by

Stephen Whelan, University of Sydney

Kadir Atalay, University of Sydney

Garry Barrett, University of Sydney

Melek Cigdem-Bayram, RMIT

Rebecca Edwards, University of Sydney

Publication Date July 2023

DOI 10.18408/ahuri7327101

Title

Transitions into home ownership: a quantitative assessment —Executive Summary

Authors

Stephen Whelan, University of Sydney
Kadir Atalay, University of Sydney
Garry Barrett, University of Sydney
Melek Cigdem-Bayram, RMIT
Rebecca Edwards, University of Sydney

ISBN

978-1-922498-71-7

Key words

Owner-occupation, housing tenure, mortgage finance.

Series

AHURI Final Report

Number

404

ISSN

1834-7223

Publisher

Australian Housing and Urban Research Institute Limited
Melbourne, Australia

DOI

10.18408/ahuri7327101

Format

PDF, online only

URL (full report)

https://www.ahuri.edu.au/research/final-reports/404

Recommended citation

Whelan, S., Atalay, K. , Barrett, G. , Cigdem-Bayram, M. and Edwards, R. (2023) *Transitions into home ownership: a quantitative assessment,* AHURI Final Report No. 404, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/404, doi: 10.18408/ahuri7327101.

Related reports and documents

Inquiry into financing first home ownership: opportunities and challenges

https://www.ahuri.edu.au/research-in-progress/Inquiry-into-financing-first-home-ownership-opportunities-and-challenges

AHURI

AHURI is a national independent research network with an expert not-for-profit research management company, AHURI Limited, at its centre.

AHURI's mission is to deliver high quality research that influences policy development and practice change to improve the housing and urban environments of all Australians.

Using high quality, independent evidence and through active, managed engagement, AHURI works to inform the policies and practices of governments and the housing and urban development industries, and stimulate debate in the broader Australian community.

AHURI undertakes evidence-based policy development on a range of priority policy topics that are of interest to our audience groups, 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.

Acknowledgements

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

AHURI journal

AHURI Final Report journal series is a refereed series presenting the results of original research to a diverse readership of policy makers, researchers and practitioners.

Peer review statement

An objective assessment of reports published in the AHURI journal series by carefully selected experts in the field ensures that material published is of the highest quality. The AHURI journal series employs a double-blind peer review of the full report, where anonymity is strictly observed between authors and referees.

Executive summary

Key points

- **Measuring housing affordability for first homebuyers is challenging, as a range of variables affect the cost of housing services. Exogenous factors such as market prices and interest rates play a key role in determining the 'affordability' of housing, and buyers also make choices that impact on the cost of housing services.**

- **Housing has become less affordable over time. As one of the largest single transactions—if not the largest—that households enter into over the life cycle, there are specific challenges around financing the purchase of a dwelling because of credit-market constraints.**

- **One constraint faced by households wanting to enter into home ownership is the need to accumulate savings towards a deposit or downpayment. Increases in house prices relative to income have lengthened the time required to accumulate a 'typical deposit' in markets such as Sydney and Melbourne, and it is now over six years.**

- **Successive cohorts of Australians have experienced lower rates of home ownership at any given age. Home ownership rates at age 30 have fallen from a high of 65 per cent among those born in the late 1950s to around 45 per cent among those born in the 1980s. By age 50 there is incomplete catch-up in home ownership rates—which means that younger cohorts do not close the gap and catch up with their older counterparts. Around 25 per cent of the home ownership gap remains.**

- **Parental direct and in-kind transfers are associated with more rapid transition into first-time home ownership. Relative to renters, an extra year co-residing in the parental home is associated with an increase of approximately 40 per cent in the likelihood of transitioning into home ownership.**
- **Bequests and parental transfers are more likely to flow to homeowning individuals. The net effect of such transfers is to increase wealth inequality over time.**

Key findings

This report forms part of the *Inquiry into financing first home ownership: opportunities and challenges.* This project uses quantitative techniques to analyse the transition into home ownership. The analysis adopts a life-cycle approach, with the decision to enter into home ownership assessed using an economic framework. The purchase of owner-occupied housing represents one of the largest single transactions entered into by households, and is usually facilitated via a mortgage. In the presence of imperfect credit markets and constraints on borrowing against future earnings, households face constraints on financing the debt of housing they intend to occupy. Those constraints are generally characterised as:

- the deposit or downpayment requirement
- debt-servicing limits.

Both constraints limit the magnitude of housing services that aspiring first homebuyers (FHBs) can purchase. Together with other factors—such as the price of housing—these constraints impact housing affordability.

The evidence on housing affordability is mixed. While higher housing prices have been offset somewhat by lower interest rates and innovative mortgage products that provide buyers with additional opportunities to access credit, there is a consensus that housing for FHBs has become less affordable over time. To alleviate this development, FHBs have been provided with a range of demand-side subsidies. Traditionally such measures included direct grants to first-time buyers and concessional tax treatment of first home purchases.

More recently, other programs have:

- provided tax-favoured treatment of savings when directed to first-time home ownership
- reduced the requirement to accumulate savings for a downpayment
- provided opportunities for shared equity.

Such measures can be directly characterised as circumventing or relaxing some of the constraints imposed by credit markets on buyers seeking to finance home ownership. They do so by increasing the capacity to pay a higher price for dwellings, or relaxing the constraints associated with the accumulation of savings to enable access to a mortgage. These measures are predominantly characterised as demand-side in nature. However, as discussed in Pawson, Martin et al. (2022), there have been far fewer supply-side policies in Australia designed to facilitate home ownership for FHBs.

Most young people have delayed entry to home ownership but only 75 per cent 'catch up' by age 50

Coinciding with the deterioration in affordability, successive cohorts of Australians have entered home ownership at lower rates at any given age. At age 30, home ownership rates across cohorts have fallen from a high of 65 per cent among those born in the late 1950s to around 45 per cent among those born in the 1980s. This development reflects a range of social, demographic and economic influences. Perhaps most importantly, financing of owner-occupied housing presents a challenge to meet the deposit requirement in a setting in which wages have generally risen at a slower rate than house prices.

This report highlights that the lower rates of home ownership achieved by successive cohorts of younger Australians represent, in part, simply a delay in entry into home ownership. Home ownership rates rise for each cohort as they age through the life course, as we would expect, but our statistical analysis of successive surveys of income and housing (SIHs) indicates that by age 50, there is only partial catch-up in the rate of home ownership relative to earlier generations. This means that the gap in ownership rates across cohorts remains even when measured at age 50. Critically, this means that as individuals reach retirement age, it is likely that home ownership rates will be lower than in earlier generations.

Demand subsidies improve entry to home ownership but this may just bring forward purchases

Demand subsidies such as the First Home Owners Grant scheme (FHOG) and concessional tax treatment of purchases by FHBs may have little if any effect on aspiring FHBs attaining home ownership, given the potential for such grants to be amortised into higher prices. Nonetheless, analysis of demand-side assistance available to first-time buyers in Queensland in the early 2000s indicates that the assistance was actually associated with greater activity by first-time buyers. We find that the stamp-duty concessions extended to FHBs by the Queensland government increased the number of first dwellings financed by 4.5 per 10,000 individuals—an increase of roughly one-third on the pre-policy quarterly average number of FHB dwellings financed. While this suggests there may be an effect of demand-side subsidies, we cannot rule out that these measures simply temporally bring forward the purchase of dwellings, as other studies have found.

Inter-generational barriers are in part mediated through the 'Bank of Mum and Dad'

Changes in housing affordability have focussed attention on what, at least anecdotally, appears to be an increasingly important source of financing for FHBs—namely the 'Bank of Mum and Dad'. Such a development appears to have been driven in part by the increasing levels of wealth held by earlier generations who benefited from rapid property price appreciation. When considering the role played by intra-family assistance to prospective FHBs, it is important to consider its nature and magnitude. Parental support may take a range of forms including:

- direct cash transfers
- in-kind support through the provision of co-residence
- acting as guarantor.

In this way, parents assist in circumventing the constraints imposed by credit markets on prospective buyers. The variety of means by which intra-family transfers may facilitate entry into home ownership make it challenging to quantify such measures, although estimates suggest that the role played by the Bank of Mum and Dad in aggregate places it among the top 10 mortgage providers in the country.

Intra-family wealth transfers improve chances of entry to home-ownership

Analysis of the Household Income and Labour Dynamics in Australia Survey (HILDA) data confirms the importance of the relationship between intra-family transfers and first-time home ownership. The analysis indicates that receipt of a bequest is associated with doubling in the rate of the transition into home ownership relative to those who do not receive a bequest. However, it is worth noting that bequests—while generally large—will often be received during the latter part of an individual's life cycle. The impact of such transfers on younger cohorts is likely to be limited. Among younger cohorts, parental transfers are likely to be more important. The analysis in this report identifies a significant relationship between parental transfers and the transition into first-time home ownership. A transfer of $10,000 is associated with an approximately 90 per cent increase in the likelihood of transition into first-time home ownership.

Co-residing with parents helps access to home ownership

A novel component of this research is the analysis of in-kind transfers in the form of co-residence and first-time home ownership. There is an increasing tendency for younger Australians to reside in the parental home. The Productivity Commission (2020) has estimated that the savings associated with co-residence are substantial, in the order of $300–$400 per week. This provides opportunities for younger Australians to accumulate savings that may be used to facilitate entry into home ownership. The statistical evidence in this report suggests that each additional year residing in the parental home, relative to residing in rental property, leads to an increase in the odds of transitioning into first-time home ownership of approximately 30–40 per cent. Similar to direct transfers, in-kind assistance appears to provide an important albeit informal mechanism that facilitates entry into home ownership.

Intra-family wealth transfers add to wealth inequality

The final component of the study addresses the relationship between housing tenure and the level of inequality over time. This analysis builds directly on the association identified between intra-family transfers and entry into home ownership. Some recent evidence suggests that such transfers tend to increase absolute inequality but not relative inequality. The analysis in this report identifies a pattern of sustained increases in wealth among home owners coupled with low and stagnant levels of wealth among renters. To the extent that intra-family wealth transfers facilitate home ownership—which in turn leads to more rapid accumulation of wealth over the life cycle—there is a potential for such transfers to exacerbate existing levels of inequality. This pattern highlights the need for policies that are designed to assist FHBs to be well targeted, and the long-term consequences of lower rates of catch-up identified in this report to be addressed.

Policy development options

First home ownership access policies

The examination of home ownership rates and catch-up behaviour provides novel insights into patterns of home ownership over time. Existing evidence has highlighted that younger cohorts of Australians are less likely to attain home ownership compared to earlier generations. What was unknown was the extent to which this simply represented a delay in attaining owner-occupation, as opposed to a systemic decline in home ownership rates. The finding that catch-up in home ownership rates by age 50–54 is approximately 75 per cent has implications across a range of policy dimensions. Despite the significant efforts and funds expended over the past few decades, attaining home ownership is becoming increasingly less likely over the life cycle. This highlights the need to assess past and existing policy settings targeted at FHBs. As Pawson, Martin et al. (2022) note, over $35 billion in cash grants have been expended by Australian governments since the mid-1960s to facilitate the purchase of housing by FHBs. In light of this expenditure, the continued decline in home ownership rates among younger cohorts *even as they age* highlights the need to assess past and current policies ostensibly designed to facilitate home ownership.

Lower ownership rate has implications for higher income support or tax transfers in retirement

The decline in attaining home ownership over the life cycle also has important implications for income support or transfer policy. It is well documented that housing represents a key pillar in the Australian social insurance system. Lower rates of home ownership across cohorts will have direct fiscal impacts over time on payments such as Commonwealth Rent Assistance (CRA) and the age pension. Lower rates of home ownership have the potential to increase poverty rates among older Australians (Yates and Bradbury 2010). Such an outcome may be alleviated to some extent by two other developments:

1. The increasing maturity of the superannuation system provides an alternative source of savings that can support living standards into the future (Commonwealth of Australia 2021).
2. There is evidence that younger cohorts will be beneficiaries of increasing levels of inherited wealth over time (Productivity Commission 2021).

Such developments may alleviate the impact of lower rates of home ownership documented in this report. Nonetheless, given the critical role played by home ownership in supporting living standards throughout retirement, systemic decline in home ownership rates over the life cycle has the potential to increase the fiscal costs associated with retirement income support.

Intra-family support is a key element in home ownership access and so needs to be factored into policy

The analysis in this report also identifies evidence that intra-family support is alleviating some of the important credit constraints that impede entry into home ownership. While such a development might be welcomed, as it reduces the impact of broader economic and financial constraints on attaining home ownership, it also has implications for public policy. It is likely that the capacity of families to provide support varies substantially by socio-economic status. Hence, there is a potential for wealth—and especially housing wealth—to become progressively more concentrated if home ownership becomes increasingly out of reach of those individuals who are unable to draw on familial financial support. The analysis in this report highlights increasing levels of wealth inequality over time. Such inequality has been driven, at least in part, by growth in house prices that has benefited existing home owners.

Pawson, Martin et al. (2022) discuss the range of policies adopted over time designed to assist entry into home ownership. Evidence suggests that those policy settings have, in general, had little impact on aggregate housing outcomes. Rather, demand-based subsidies have been amortised into higher prices or simply brought forward entry into home ownership that would have occurred anyway. Given the less than full catch-up identified in this report and the potential for intra-family transfers to facilitate home ownership, it is critical that policy measures are well targeted. Specifically, if the policy objective is to increase home ownership rates, then measures should be targeted at individuals who may not otherwise attain owner-occupation because of credit-market constraints or the absence of alternative forms of assistance such as familial transfers. Moreover, given the specific financing challenges associated with the purchase of a dwelling, those measures should focus on credit-market imperfections that limit the capacity of households to achieve their desired tenure status.

The final lesson to be drawn from the analysis is that existing policy settings may have unintended consequences. Rather than alleviating the constraints that impede the transition into home ownership, measures that directly contribute to a deterioration in affordability have the potential to make it increasingly difficult for those at the margin of home ownership to attain that goal.

The study

This research is part of a wider AHURI *Inquiry into financing first home ownership: opportunities and challenges.* The Inquiry consists of four complementary projects that adopt a multi-disciplinary approach to understanding the challenges and opportunities of financing first home ownership. This project provides quantitative evidence on how home ownership has evolved over time, an analysis of demand subsidies provided to FHBs and an examination of an increasingly important source of support for first home ownership, namely the 'Bank of Mum and Dad'.

The project uses statistical analysis to address the research questions, by drawing on secondary data that captures the housing behaviours and experiences of Australians over time. That analysis provides insight into the association between the housing careers of Australians, and, policies, behaviours and economic circumstances that shape the transition into homeownership.

The analysis in this report has two original features. The first is the identification of the extent of catch-up. The quantitative analysis exploited Australian data from the 1980s onwards to gain an understanding of how home ownership rates have evolved over time. Using synthetic cohorts or panels, the analysis considered whether the lower rate of home ownership identified in younger age groups (20–30 years of age) is likely to become a permanent feature of the Australian housing landscape, or whether those cohorts are simply delaying entry into home ownership. The analysis identified the extent of catch-up by those cohorts as they age.

The second novel contribution is the examination of the role of parental co-residence on the transition into home ownership. In Australia, young adults are remaining in the parental household for longer periods of time and are increasingly likely to return to the parental household. Drawing on longitudinal data stretching back two decades, the study examined how the time spent co-residing with parents is associated with entry into home ownership.

Australian Housing and Urban Research Institute
Level 12, 460 Bourke Street
Melbourne VIC 3000
Australia
+61 3 9660 2300
information@ahuri.edu.au
ahuri.edu.au
twitter.com/AHURI_Research
facebook.com/AHURI.AUS
Australian Housing and Urban Research Institute