PEER REVIEWED

FINAL INQUIRY REPORT

FINAL REPORT NO. 408

Financing first home ownership: opportunities and challenges

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

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Publication Date September 2023

DOI 10.18408/ahuri7327001

Title

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ISBN

978-1-922498-75-5

Key words

First homeownership, mortgage financing, demand-side subsidies.

Series

AHURI Final Report

Number

408

ISSN

1834-7223

Publisher

Australian Housing and Urban Research Institute Limited
Melbourne, Australia

DOI

10.18408/ahuri7327001

Format

PDF, online only

URL

https://www.ahuri.edu.au/research/final-reports/408

Recommended citation

Whelan, S., Pawson, H., Troy, L., Ong ViforJ, R. and Lawson, J. (2023) *Financing first home ownership: opportunities and challenges,* AHURI Final Report No. 408, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/408, doi: 10.18408/ahuri7327001.

Related reports and documents

Ong ViforJ, R., Graham, J., Cigdem-Bayram, M., Phelps, C. and Whelan, S. (2023) *Financing first home ownership: modelling policy impacts at market and individual levels,* AHURI Final Report No. 398, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/398, doi: 10.18408/ahuri8127401.

Pawson, H., Martin, C., Lawson, J., Whelan, S. and Aminpour, F. (2022) *Assisting first homebuyers: an international policy review,* AHURI Final Report No. 381, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/381, doi: 10.18408/ahuri7127201.

Troy, L., Wolifson, P., Buckley, A., Buckle, C., Adkins, L., Bryant, G. and Konings, M. (2023) *Pathways to home ownership in an age of uncertainty,* AHURI Final Report No. 395, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/395, doi: 10.18408/ahuri7327301.

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.

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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.

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The Inquiry Panel are to provide guidance on ways to maximize the policy relevance of the research and draw together the research findings to address the key policy implications of the research. Panel members for this Inquiry:

- Catherine de Fontenay, Productivity Commission
- Lisa Elliston, Commonwealth Treasury (Panel Meeting 1)
- Laura Berger-Thomson, Commonwealth Treasury (Panel Meeting 2)
- Tom Carr, New South Wales Treasury
- Paul Graham, CEO, Keystart
- Jennifer Chew, National Housing Finance and Investment Corporation

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Acronyms and abbreviations used in this report

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AHURI	Australian Housing and Urban Research Institute Limited
APRA	Australian Prudential Regulation Authority
COVID-19	coronavirus disease
CRA	Commonwealth Rent Assistance
DPI	dwelling price to income ratio
DTI	debt servicing to income
FHB	first home buyer
FHGS	First Home Guarantee Scheme
FHLDS	First Home Loan Deposit Scheme
FHSS	First Home Super Saver
FHOG	First Home Owners Grant
GFC	global financial crisis
HGS	Home Guarantee Scheme
HtB	Help to Buy
HILDA	Household Income and Labour Dynamics in Australia
IHOP	Indigenous Home Ownership Program
LMI	lenders mortgage insurance
LVR	loan to value ratio
MPPs	micro-prudential and macro-prudential policies
NHFIC	National Housing Financing and Investment Corporation
NHG	New Home Guarantee
NSW	New South Wales
RBA	Reserve Bank of Australia
SA	South Australia
SIH	Survey of Income and Housing
UK	United Kingdom
US	United States
WA	Western Australia

Glossary

A list of definitions for terms commonly used by AHURI is available on the AHURI website ahuri.edu.au/glossary.

Executive summary

Key points

- This Inquiry focusses on socio-economic developments and policy settings that impact access to home ownership.
- A rapid expansion of owner-occupation in the early postwar period peaked at over 70 per cent in the late 1960s, but was followed by a gradually declining home-ownership rate since 2000—especially among younger adults, where the rate for the 25–34 age cohort fell from 51 per cent in 2001 to 44 per cent in 2021.
- There is evidence that housing affordability has decreased over time. Since 2001, the national ratio of median house price to median income has almost doubled to 8.5, and the time required for the accumulation of a deposit for a typical property has increased from six years median earnings in 1994 to 14 years currently.
- While many young adults are, by force of circumstance, delaying home ownership, many others will never achieve it. Analysis conducted for the Inquiry shows that a quarter of the gap in home-ownership rates at age 30–34 remains at age 50–54.
- The decline in home ownership among younger adult cohorts has occurred despite expenditures in excess of $37 billion over five decades designed to enable first home ownership.
- Post-1990s policy settings have focussed on demand-side assistance aimed at enhancing first home buyer (FHB) purchasing power, primarily through direct grants and tax concessions.

- **Recent policy settings are in marked contrast to the broader supply-side and demand-side policy mix that characterised the postwar period in Australia, and which remains operational in many comparator countries.**
- **Despite recently adopted policy measures such as mortgage guarantees, opportunities exist to refine Australia's FHB policies in ways that are more targeted and recognise distinct challenges such as the deposit constraint.**
- **Policies designed to assist FHBs must recognise and address structural issues associated with the treatment of housing in the tax and transfer system.**
- **Policy settings need to encompass intermediate tenures such as shared equity as legitimate housing outcomes that may enable households to attain homeownership.**

In Australia, owner-occupied housing generally represents the largest single asset in the household wealth portfolio, and plays a critical role in sustaining welfare over the life cycle. Entry into home ownership for younger Australians has fallen markedly over the past three decades. Commonly cited reasons for this development include:

- delayed partnering and family formation (Burke, Stone et al. 2014; MacDonald and Baxter 2005)
- higher rates of educational attainment and associated debt (Yates 2011)
- the precarious nature of employment (Troy, Wolifson et al. 2023)
- deteriorating housing affordability (Burke, Stone et al. 2014).

This development has occurred despite policy decisions and substantial fiscal expenditures designed to enable first home ownership. Critically, if home ownership is not attained or only achieved later in the life cycle, this will have implications for the welfare of individuals and for the sustainability of current policy settings.

The transition into first home ownership generally necessitates debt financing via a mortgage. This requires satisfying both downpayment and repayment constraints (Ong ViforJ, Graham et al. 2023). It is generally recognised that Australia has a mature credit market that provides a diverse range of options for those seeking to enter home ownership. Nonetheless, key questions remain around the constraints and opportunities that Australians face in financing the purchase of owner-occupied housing. These include:

- how financial innovations in credit markets have shaped housing careers
- the role of past and present policy settings designed to enable home ownership
- the opportunities for novel initiatives to facilitate first home purchase.

This Inquiry examines the challenge of financing the transition into home ownership and provides an evidence-base to inform policy and institutional settings that will enable Australians to attain home ownership. The overarching question addressed by the Inquiry is this:

> **How have economic, social and demographic developments impacted on entry into home ownership and the housing careers of successive cohorts of Australians, and what opportunities exist to develop policy settings that enhance opportunities to access finance for home ownership in a sustainable manner?**

Specifically, the research questions addressed by the projects that form part of the Inquiry program are as follows:

1. How has entry into home ownership changed over time, and is there evidence of convergence in patterns of home ownership across the life cycle for successive cohorts of Australians?
2. How does Australian and international evidence around the role of financial innovations and policy settings provide insights on pathways into home ownership?
3. How is the pathway into home ownership shaped by developments in financial markets, precariousness in labour markets, alternative financing mechanisms and government policy?
4. How might entry into home ownership evolve in response to specific policy settings and what are the implications of this for housing markets and the broader economy?

The projects that form part of the Inquiry addressed these questions by first providing robust analysis of how we 'got where we are'. This entailed an examination of socio-demographic and economic trends that have shaped housing decisions over time, and an analysis of how Australians navigate the increasingly challenging path to home ownership. Quantitative and qualitative analysis provided insight into the role that policy settings and economic factors have played in shaping housing careers.

A comprehensive review of evidence from Australian and international sources identified challenges and opportunities for policy settings ostensibly designed to facilitate first home ownership. The evidence highlights significant diversity in international experiences, depending on historical, social and institutional considerations that shape housing outcomes. Identifying the implications of alternative policy settings in the Australian context has been facilitated by quantitative modelling drawing on the findings of the research program and the deliberations of the first Inquiry Panel meeting.

Key findings

Home-ownership rates among those aged 25–34 years have declined by over one-quarter in the four decades since 1981. Novel analysis of the Survey of Income and Housing (SIH) identified that many younger Australians do not achieve home ownership as they age. Around one-quarter of the gap in home-ownership rates at age 30–34 remains at 50–54 years of age. Failure to attain owner-occupation as households progress through the life cycle has important implications for the welfare of individuals given the role played by housing in supporting consumption as they enter retirement. Such a development also has the potential to place increasing fiscal demands on governments.

The evidence highlights how housing careers have evolved in response to emerging challenges around affordability and the financing of owner-occupied housing. First home buyers (FHBs) have increasingly gravitated towards more affordable dwellings, including attached dwellings in higher-priced markets such as Sydney and Melbourne. Those dwellings tend to be located at an increasing distance from their social and economic networks. Parental transfers, both direct and in-kind, are increasingly assisting individuals make a more rapid transition into home ownership. Analysis identified that in-kind transfers in the form of co-residence with parents (and not renting) lifts the likelihood of transitioning into home ownership by 40 per cent. Given the central role played by housing in the wealth accumulation process over the life cycle, such transfers have the potential to increase wealth inequality over time (Whelan, Atalay et al. 2023).

The Inquiry identified that young households' ability to budget, plan and save for a home has been underlined by insecure and inadequate work, amidst rising house prices and costs of living (Troy, Wolifson et al. 2023). Home owners were more likely to be in full-time employment (72%) compared to renters (41%). Precarity in employment presents a persistent challenge for navigating the path into home ownership. Approximately 39 per cent and 44 per cent of 25–34 year olds surveyed in Sydney and Perth respectively reported experiencing income volatility that accentuated the challenge of attaining home ownership. Temporary measures in Australia such as JobKeeper, HomeBuilder and mortgage deferrals (Leishman, Aminpour et al. 2022) created a buffer during the COVID-19 pandemic, but precarity remains as such measures have been scaled back or withdrawn (Troy, Wolifson et al. 2023).

The challenge of attaining first home ownership is not new, nor is it a uniquely Australian experience. Analysis of Australian and international policy settings aimed at enabling first home ownership highlighted two key patterns.

Demand-side measures

First, the substantial expenditures, exceeding $37 billion over the past five decades, in direct grants and tax concessions targeted at FHBs. Policies targeted at FHBs in Australia in recent decades have focussed almost exclusively on demand-side measures designed to boost the capacity of FHBs to pay for housing. This is in stark contrast to the mix of supply-side and demand-side measures that characterised policy in the early postwar period, and the strategies that remain functional in some comparator countries examined as part of the Inquiry. Under these approaches, demand-side measures such as tax concessions are used as part of a comprehensive package of measures within a broader housing policy suite. This highlights the need for a broader and more coherent approach to home ownership policy in Australia to create additionality in first home ownership without damaging side-effects such as the compounding of property price inflation.

Deposit constraints

Second, there has been increasing recent policy focus on one aspect that constrains aspiring FHBs as they seek to enter home ownership: the deposit constraint. Measures adopted include low deposit loans coupled with mortgage guarantees. Prudential regulation has also had direct and indirect consequences for FHBs as loan to value ratios (LVRs) and debt servicing norms directly determine the borrowing capacity of FHBs and define the range of affordable dwellings for purchase. Regulation of financial institutions shapes the level of credit in the economy more broadly, channelling mortgage credit towards the real estate sector and influencing house prices.

Analysis conducted as part of the Inquiry considered how macroeconomic developments have impacted FHBs, and the potential for policies such as mortgage guarantees and shared equity arrangements to create additionality. That analysis identified that lower interest rates since the mid-1990s have contributed approximately a third of the increase in house prices over the same period. Lower borrowing costs have been more than offset by the additional burden associated with the deposit constraint for FHBs. Moreover, while more relaxed prudential regulation of borrowing rules may allow FHBs to access owner-occupation by taking on additional credit, it could also expose such households to problematic levels of risk associated with higher mortgage debt.

Policies targeted at aspiring FHBs—such as mortgage guarantees and shared equity arrangements—may also create additionality. Mortgage guarantees alleviate the downpayment constraint, while shared equity addresses both loan repayment and deposit constraints faced by FHBs. Modelling suggests that a mortgage guarantee scheme similar to the Home Guarantee Scheme (HGS) assists 22 per cent of eligible aspiring FHBs. A shared equity scheme modelled on the Help to Buy (HtB) policy has the potential to assist 41 per cent of eligible aspiring FHBs. An important aspect of both schemes is the application of property price thresholds that account for the significant differences in prices that exist across geographically distinct markets in Australia.

Experience of financial crises has revealed that they tend to emerge from loosely regulated mortgage markets. Thus the primary motivation of financial regulators today is safeguarding the stability of the financial system. This focus on stability is narrower than previous decades, which also embraced strategic social and economic development, including increasing home ownership. The analysis in this Inquiry identified the complex challenge faced by individuals in achieving home ownership, and the difficult choices faced by policy makers in assisting FHBs. The increase in house prices that accompanied measures adopted during the COVID-19 pandemic will likely have ongoing distributional consequences. In turn, such developments have attracted strong critique in Europe, the United States and Australia (Gittens 2022; Kohl 2021; Norris and Lawson 2022; Ryan-Collins 2019; Wolff 2021), leading to calls for a broader discussion around such measures (Bruegel Institute 2021; European Parliament 2021; Special Rapporteur on Adequate Housing 2020).

Policy development options

The Inquiry makes six key recommendations, as follows.

1. Policy to assist entry to home ownership in Australia has been overwhelmingly focussed on demand-side measures. While measures such as First Home Owners Grants (FHOGs) and stamp duty concessions have enhanced the purchasing power of FHBs, additionality is more likely from a suite of supply-side and demand-side approaches that embody a coherent home ownership strategy.

   Reflecting both the historical Australian experience and international best practice, demand-side measures that simply enhance buying capacity of aspiring FHBs are unlikely to create additionality. There is a broad consensus that such measures exacerbate the challenge of financing first home ownership, rather than alleviate it.

2. Structural tax-transfer reforms are required to deliver Australia's aspirations for sustainable growth in home ownership.

   There is a consensus among housing policy experts that current policy settings disadvantage aspiring FHBs and benefit existing home owners. Policy reforms such as those initiated in New South Wales (NSW) and currently underway in the Australian Capital Territory (ACT) to abolish stamp duty are required, along with a broader reassessment of the treatment of housing in the tax and transfer system.

3. Policy must take into account distributional consequences and must be targeted.

   Policy settings adopted over the past three decades have been poorly targeted and create little in additionality. Given the central role played by owner-occupied housing in the wealth accumulation process, it is critical that FHB policies be designed in a way that ensures they benefit those who may not otherwise achieve owner-occupation.

4. Policy measures must recognise that aspiring FHBs potentially face both downpayment and repayment constraints. Schemes that assist first home purchase can be designed to support 'additionality' by assisting households who would not have accessed home ownership in the absence of the scheme.

   Aspiring FHBs face particular challenges in financing in the absence of accumulated equity to draw on. This hurdle has become more pronounced as prices across major markets have increased. To be effective and create additionality, policies designed to assist FHBs need to acknowledge the need to facilitate both:

   - accessibility—the downpayment constraint
   - affordability—the repayment constraint.

5. Policy makers need to be aware of the consequences of policy settings and avoid unintended consequences when designing and implementing measures that are ostensibly designed to assist FHBs.

   The Inquiry Panel highlighted how policy settings may create incentives for players, such as housing developers, to build to the market. That market is itself defined in part by government policy settings. At the same time, policy may have unintended consequences. The experience of the global financial crisis (GFC) highlighted how encouraging owner-occupation creates the potential for risks for households to arise, and the economy to be exposed to broader systemic risk. The Inquiry noted how FHB policy may inadvertently encourage urban sprawl and associated infrastructure costs. Policy must be carefully designed, be cognisant of any incentives created and the potential for unintended consequences.

6. Policy ambitions need to expand beyond a mono-tenurial home-ownership system to also include intermediate tenures as legitimate long-term housing outcomes.

   While owner-occupation remains a preferred tenure for many Australians, policy must support and enable a broader range of housing choices beyond home ownership as traditionally envisaged in Australia. International experience suggests that alternatives such as rent to buy, shared equity and well-regulated affordable rental tenure, along with social rental, can also offer security and life-long wellbeing. More generally, policy should support security of tenure and capacity of households to sustain welfare, especially into older age, outside of home ownership.

The study

The past 30 years have seen economic, demographic and social changes that have reshaped Australian housing career trajectories. This has occurred against a backdrop of financial deregulation, mortgage market innovations and government policies designed to facilitate home ownership. This Inquiry seeks to understand why, for younger age cohorts, home ownership typically appears an increasingly distant goal, and how policy settings could help to reverse this.

Four independent but complementary supporting Research Projects addressed the questions considered by the Inquiry:

1. Quantitative research drawing on successive cross-sectional datasets and longitudinal data to examine how entry into home ownership has evolved over time, identifying key barriers and enablers of entry into home ownership (Whelan, Atalay et al. 2023).
2. Review of Australian and international policy evidence informed by country-specific studies to identify how policy interventions have shaped housing outcomes, and the opportunities, risks and implications for the Australian policy environment (Pawson, Martin et al. 2022).
3. Qualitative research identifying how entry into home ownership has been shaped by economic and social circumstances, how individuals navigate the financial challenge of entering into home ownership, and the role of non-traditional sources of finance for the attainment of home ownership (Troy, Wolifson et al. 2023).
4. Quantitative analysis using micro- and macro-simulations that identify how home-ownership decisions and the broader housing market may evolve in response to alternative policy settings (Ong ViforJ, Graham et al. 2023).

The Inquiry outcomes include a series of peer-reviewed Final Reports that provide an evidence-base that contributed to the robust analysis of alternative policy settings, which can inform relevant state and federal policy reform considerations.

The research team encompassed senior, mid-career and early-career researchers across four AHURI Research Centres that have successfully delivered on numerous AHURI projects and inquiries. In undertaking the program, team members were able to draw upon their significant expertise in quantitative and qualitative techniques, in policy analysis, and in economic modelling of housing markets and policy.

1. Introduction

- **There has been a systemic decline in home-ownership rates exhibited by successive cohorts of young Australians.**
- **This development has occurred despite fiscal expenditures exceeding $37 billion since 1965, ostensibly designed to enable first home ownership.**
    - Analysis conducted for the Inquiry examined the circumstances and policy settings that have contributed to lower rates of activity by first home buyers (FHBs).
    - Transition into owner-occupation is generally facilitated by debt financing. This Inquiry considered how financing home ownership has evolved and the implications of alternative policy options for the housing careers of Australians.
- **The Inquiry involved a series of independent but complementary Research Projects.**
    - Australian and international policy settings designed to enable the transition into home ownership were considered and the capacity of those policies to contribute to additionality assessed.
    - Quantitative research analysis identified how entry into home ownership evolved over time and the extent that home ownership is not achieved as cohorts age, rather than simply deferred.
    - Qualitative and quantitative analysis identified the non-linear and increasingly complex pathways that households navigate to achieve home ownership. Familial assistance, both direct and in-kind, represents an increasingly important source of support to enable home ownership.

- **Policy settings and opportunities to enhance first home ownership in a sustainable manner are identified.**
- **The analysis identified that policies targeted at aspiring first home buyers need to be cohesive and form part of a coherent housing policy that recognises intermediate tenures as legitimate housing outcomes, rather than just owner-occupation as traditionally envisaged.**

The challenge of transitioning into home ownership remains a persistent concern to Australians in general and policy makers specifically. This Inquiry provided an opportunity to develop an evidence-base to inform policy and institutional settings that will enable Australians to attain home ownership.

The purchase of a dwelling often represents the largest single transaction that an individual enters into over the course of the life cycle, and for most individuals the transition into first home ownership requires the use of debt finance.[1] The economic, institutional and policy environment that households confront when making that transition has changed markedly over the past three decades. This Inquiry focussed on the issue of financing the transition into home ownership by addressing the following overarching question:

> **How have economic, social and demographic developments impacted on entry into home ownership and the housing careers of successive cohorts of Australians, and, what opportunities exist to develop policy settings that enhance opportunities to access finance for home ownership in a sustainable manner?**

That question was addressed through a series of Research Projects that considered related and complementary questions around the financing of first home ownership. Specifically, four separate research questions were examined:

1. How has entry into home ownership changed over time, and is there evidence of convergence in patterns of home ownership across the life cycle for successive cohorts of Australians? (Whelan, Atalay et al. 2023)
2. How does Australian and international evidence around the role of financial innovations and policy settings provide insights on pathways into home ownership? (Pawson, Martin et al. 2022)
3. How is the pathway into home ownership shaped by developments in financial markets, precariousness in labour markets, alternative financing mechanisms and government policy? (Troy, Wolifson et al. 2023)
4. How might entry into home ownership evolve in response to specific policy settings and what are the implications of this for housing markets and the broader economy? (Ong ViforJ, Graham et al. 2023).

1.1 Why this research was conducted

Home ownership has retained a unique place in Australian society over time. The aspiration of home ownership was clearly articulated in the well-known 'Forgotten People' speech of then-Prime Minister Robert Menzies in 1942 (Menzies 1942: 4), and is succinctly encapsulated in the notion of 'the great Australian dream'. Encouraging and enabling home ownership have been explicit policy aims of governments of all political persuasions at both state and federal levels since the mid-20th century (Dalton 1999; Lawson 2006; Pawson, Milligan et al. 2020).

1 That transition often reflects household-level decision-making. Nonetheless, throughout this report that decision will be couched in terms of decisions by the individual or household interchangeably.

Housing fulfills a basic need for shelter, and ownership is uniquely embedded in Australia's system of wealth accumulation and social insurance. Owner-occupied housing fulfils both a consumption and investment role, and the two are intimately entwined (Stretton 1986: 261). Housing, and in particular owner-occupation as a tenure, also has broader economy-wide implications. Investment in housing can be productive when it supports social wellbeing, contributes to economic stability and sustainable growth. The importance of developments in the residential real estate sector on financial stability and the real economy has been a strong focus of bank regulators since the global financial crisis (GFC) (Lo Duca, Pirovano et al. 2019). Some have noted that housing affordability and wealth inequality are driven by the emergence of a feedback cycle between finance and real estate investment (Ryan-Collins, 2021). It has also been argued that housing unaffordability in Australia not only conflicts with broader societal objectives of adequate housing for all, but also access to employment, mobility and economic productivity (AHURI 2021; Gittens 2022; MacLennan, Long et al. 2021).

The early postwar period was characterised by rising rates of home ownership, peaking at over 70 per cent in the late 1960s (Burke, Nygaard et al. 2020). Although Australia's overall home-ownership rate has fallen only slightly over time, there have been much more marked declines in rates among young adults. The evidence from this Inquiry indicated that many households simply will not attain home ownership over the life cycle (Whelan, Atalay et al. 2023).

The experiences and outcomes of aspiring first home buyers (FHBs) reflect a dynamic range of social, political and economic influences. These include:

- delayed partnering and family formation (Baum and Wulff 2001; Chia and Erol 2021)
- greater precarity in employment relationships (Troy, Wolfison et al. 2023)
- government policies ostensibly designed to assist FHBs (Pawson, Martin et al. 2022).

The experiences of FHBs also reflect cyclical macroeconomic conditions including credit conditions and housing affordability (Productivity Commission 2004). More broadly, regulatory agencies tasked with ensuring the stability of the financial sector indirectly influence the opportunities and challenges faced by aspiring FHBs through prudential regulations (Stellinga 2022; Thiemann and Stellinga 2022).

Developments that have shaped housing careers reflect phenomena outside the purview of what may be narrowly characterised as 'housing policy'. For example, accessibility to superannuation has provided alternative opportunities to save and accumulate wealth. Similarly, tax and transfer policies influence housing choices (Yates 2010). Critically, if Australians are less likely to attain home ownership, or do so later in the life cycle, this will have implications for the welfare of individuals and the sustainability of existing policy settings. Historically, a stylised housing career entailed a transition from the parental home to rental accommodation followed by, after a reasonably small number of years, first home acquisition. As individuals aged, housing consumption reflected requirements at different points in the life cycle, with mortgage debt being gradually paid down and most households entering retirement mortgage-free. Owner-occupied housing supported living standards throughout retirement—a critical consideration given the flat-rate means-tested age pension that is a hallmark of the Australian social security system (Yates and Bradbury 2010). From a policy perspective, a systemic fall in home ownership is likely to place increasing fiscal pressure on governments, and may exacerbate existing economic inequalities as individuals age.

1.2 Policy context

One consistent motivation for government intervention in housing, and for FHBs in particular, is the perceived need to respond to market failures. Indeed, policy settings motivated by this consideration have shaped markets for home ownership finance, land supply and building construction. It is also true that housing has been viewed through a broader social-welfare lens. In 1944, the Commonwealth Housing Commission noted that 'we consider that a dwelling of good standard and equipment is not only the need but the right of every citizen' (Commonwealth Housing Commission, cited in Troy 2011). Dalton (2009) notes that the attainment of home ownership is embedded in a broader social 'compact' and that 'state support, closely associated with full employment, wages growth and increased female labour force participation, led to an increase in ownership (from 53 to 73 per cent between 1947 and 1981), which included a significant proportion of low-income households' (2009: 65).

Revisiting Australia's home-ownership policy history reminds us that for around a quarter of a century after World War II, state governments implemented policies that coincided with a systemic increase in owner-occupation. Throughout that period, those policy instruments encompassed urban planning, controls on land development, and public housing provision. Indeed, state governments were major housing developers responsible for 16 per cent of all housebuilding during the period 1945–70 (Pawson, Milligan et al. 2020: 94). A substantial proportion of this public housing was sold to FHBs. Formerly government land agencies also played a leading role in public housing promotion, although this role was substantially diminished throughout the 1990s as their focus became substantially more commercial in nature (Gleeson and Coiacetto 2007).

In the realm of financing home acquisition, policy measures included:

- establishment of public banks and home loans schemes
- development and sale of public housing
- provision of home loan insurance
- savings grants
- tax deduction of interest from incomes and FHB grants.

At the same time, home-lending behaviour was regulated through prudential measures such as price and quantity restrictions including mortgage interest rate caps. Through to the 1980s an array of financial institutions such as building societies and state-based savings banks also played a role in facilitating home ownership.

1.2.1 Contemporary policies targeted at enhancing first home ownership

As detailed in Pawson, Martin et al. (2022), pro-home-ownership policy in Australia changed radically from the mid- to late-1980s, with a pivot from supply-side to demand-side measures. Successive state and federal governments have committed large expenditures through direct assistance to FHBs, ostensibly designed to enable the transition into home ownership. Those measures include direct subsidies in the form of first home owner grants (FHOGs), along with concessional stamp duty arrangements.[2] The period 1965–2021 saw public expenditure on FHB cash grants totalling approximately $37 billion (at AU$2021 values). In the decade 2012–2021 alone, expenditures increased rapidly, with some $20.5 billion expended on stamp duty concessions and grants (Pawson, Martin et al. 2022: 9).

On occasion these measures have been motivated by broader considerations, such as macroeconomic stability during the GFC and the COVID-19 pandemic, or to ensure stability in the construction industry. There is a broad consensus among economists and policy makers that such measures are poorly targeted and have proved largely ineffective in arresting the systemic decline in home ownership exhibited by younger Australians (Pawson, Martin et al. 2022). Rather, the inflationary effects of such measures have exacerbated the challenge faced by non-qualifying FHBs and disproportionally benefited existing home owners—rather than aspiring home owners.

2 Exemptions or concessional rates on property transfer tax for FHBs are rapidly evolving and vary by jurisdiction (Pawson, Martin et al. 2022: 38). In NSW beginning November 2022, FHBs have had the option of replacing upfront stamp duty with an annual property tax. At the time of writing (2023), that option has now been removed. An industry-provided overview of stamp duty concessions is provided here: https://www.homeloans.com.au/en/news/getting-most-out-stamp-duty-exemptions-state.

More recently, new demand-side FHB assistance measures have come to the fore in the form of instruments specifically aimed at alleviating the downpayment or deposit hurdle. In 2020, under the auspices of National Housing Financing and Investment Corporation (NHFIC), the First Home Loan Deposit Scheme (FHLDS) was established with the aim of enabling first home ownership sooner. Eligible FHBs required a minimum deposit of 5 per cent, with NHFIC providing a mortgage guarantee of up to 15 per cent of the value of the property.[3] Renamed the First Home Guarantee Scheme (FHGS), 35,000 FHGS places are available to eligible FHBs in the period 1 July 2022–30 June 2023, subject to maximum purchase price caps (which vary across the state), and dependent on the location in urban or rural areas.[4]

Historically, there are instances where governments have acted as specialist lenders to FHBs (Pawson, Martin et al. 2022). In the case of HomeStart in South Australia (SA) and Keystart in Western Australia (WA), government agencies have adopted this role and offer low-deposit home loans (from as little as 2%) without lenders mortgage insurance (LMI). Some targeted measures also provide support to specific groups such as Indigenous Australians.[5]

There is also growing interest in using shared equity arrangements to facilitate transitions into home ownership. Shared equity refers to programs that divide the value of the dwelling between more than one legal entity (AHURI 2022). While one party holds full title to the dwelling, another entity holds a second mortgage.[6] Qualifying home buyers benefit through a reduced mortgage requirement, while the counterparty (usually a government entity) commits financial support as the price for sharing in any capital gains that accrue. Such schemes have been operated by the WA[7] and SA[8] governments at small scale for some time. More recently, a larger scheme has been launched by Victoria[9], with both the NSW Government and the federal government announcing their own schemes in 2022.[10]

Policy initiatives instigated to treat savings directed towards the purchase of a first home concessionally have had mixed success. Since 2017, the First Home Super Saver (FHSS) scheme has allowed individuals to make contributions into their superannuation fund that attract concessional tax treatment and can then be used toward the purchase of a dwelling. As of May 2021, the scheme had supported approximately 18,000 individuals to purchase a home.[11]

3 In the 2020/21 and 2021/22 budgets respectively, NHFIC was tasked with administering additional schemes targeted at the construction of new homes (New Home Guarantee) and single parents (Family Home Guarantee). The schemes were designed to enable transition into home ownership for FHBs with a low deposit (https://treasury.gov.au/publication/p2021-217760).

4 NHFICs price-cap table for 2022–2023 can be found here: https://www.nhfic.gov.au/support-buy-home/property-price-caps.

5 Indigenous Business Australia (IBA), a statutory corporation, operates the Indigenous Home Ownership Program (IHOP) offering loans with low deposit requirements and LMI, low initial interest rates, and longer terms. The program now has 5,500 customers and a loan book worth about $1.2–1.3 billion, and has assisted over 20,000 families since 1975.

6 That second mortgage incurs zero interest or a reduced rate of interest. In contrast, shared ownership is an arrangement in which two or more parties share legal title to the dwelling on a 'tenants in common' basis (Pawson, Martin et al. 2022).

7 WA's Keystart shared ownership loan involves the WA Housing Authority funding up to a maximum of 30% of the purchase and co-owning a share of the property as a silent partner: https://www.keystart.com.au/loans/shared-ownership-home-loan.

8 SA's HomeStart loan offers a shared equity option of between 5% and 25% of the purchase price or property valuation, whichever is lower, up to a maximum of $200,000. https://www.homestart.com.au/home-loans/borrowing-boost-loans/shared-equity-option.

9 Victoria's Home Buyer Fund is a shared equity scheme established in 2022. With a 5% deposit, the Victorian Government may contribute up to 25% of the purchase price in exchange for an equivalent share in the property. See: https://www.sro.vic.gov.au/homebuyer.

10 The Help to Buy (HTB) shared equity scheme announced as part of the 2022 October budget assists homebuyers to purchase a new or existing home with an equity contribution from the federal government. Up to 10,000 places will be available each financial year with the government contributing a maximum of 40% of the purchase price of a new home and 30% of the purchase price of an existing) home: https://budget.gov.au/2022-23-october/content/bp1/index.htm.

11 The 18,000 figure was quoted from JFG financial group in their article 'How The First Home Super Saver Scheme Works' and its source is unknown. https://jfgroup.com.au/blog/how-the-first-home-super-saver-scheme-works/. A similar scheme, the First Home Saver Account operated in the period 2007–2015. The accounts were available to individuals saving for a first home, with a government co-contribution of 17% on the first $5,000 of savings, and interest earnings taxed at a flat rate of 15% rather than the individual's marginal rate. The number of accounts opened by 2014 was 48,000, which was significantly below the forecast number of over 700,000 accounts (https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2014/June/FHSA-Scheme-Closure).

State and territory governments continue to hold land acquisition and planning powers that could facilitate the construction of 'lower price' dwellings for moderate income households or require private developers to do so, although such powers are little used today. Some exceptions to this include the SA Government's policy where all new significant developments should provide 15 per cent affordable housing in defined areas of the Planning and Design Code.[12] Outcomes have primarily been achieved via reduced lot sizes and dwelling specifications (Gurran, Gilbert et al. 2018: 32–34). Further, the ACT Suburban Land Agency requires developers to include a share of designated 'affordable' price points, with income-eligible households selected via a ballot.[13]

1.2.2 The broader economic and policy environment

Policy settings over the past four decades have been formulated in the context of a rapidly changing economic, financial and institutional environment (Yanotti 2013). Historically, mortgage finance options for FHBs in Australia were relatively rigid. Borrowers generally required a 20 per cent deposit and loans were a fully amortising, variable rate instrument with a term of 20–25 years. Financial innovation and new players opened a range of new products to borrowers, including fixed rate mortgages, low deposit loans, honeymoon loans that offered discounted interest rates for a fixed period of time, and opportunities for mortgage equity withdrawal (Whelan, Atalay et al. 2023; Yanotti 2013). Similar developments have occurred in other industrialised economies and across a range of metrics associated with mortgage products, such as the use of variable rate mortgages and loan terms. Australia is typical among OECD countries (van Hoenselaar, Cournède et al. 2021). However, Australia does stand out relative to other OECD countries in some dimensions:

- The value of residential mortgages as a proportion of GDP is significantly higher in Australia relative to European and North American economies.
- Debt service ratios in Australia exceed those in other countries (OECD 2021a).

Such patterns are closely linked to developments in house prices and, by implication, affordability. There have been significant increases in real house prices in Australia over time (Figure 7 in Pawson, Martin et al. 2022, reproduced below as Figure 1). This development is considered in more detail in Section 2.2, where affordability of housing and its implications for aspiring FHBs is discussed.

The role that policy settings have played in shaping the affordability challenge faced by FHBs is somewhat more vexed. Central to this debate has been the treatment of housing in the tax and transfer system (Commonwealth of Australia 2009; Yates 2010). As in other countries, housing is treated concessionally in a tax sense relative to other assets. There is a strong consensus among housing experts and policy makers that such measures have contributed to a deterioration in affordability for FHBs and made financing first home ownership more difficult. For example, owner-occupied housing remains exempt from the age-pension means test and capital gains tax, encouraging households to accumulate and retain significant holdings of housing equity.[14] Similarly, the tax treatment of housing investments has been an important factor that has contributed to house price appreciation (Mangioni 2013; OECD 2022; Productivity Commission 2004; Whelan, Atalay et al. 2023).

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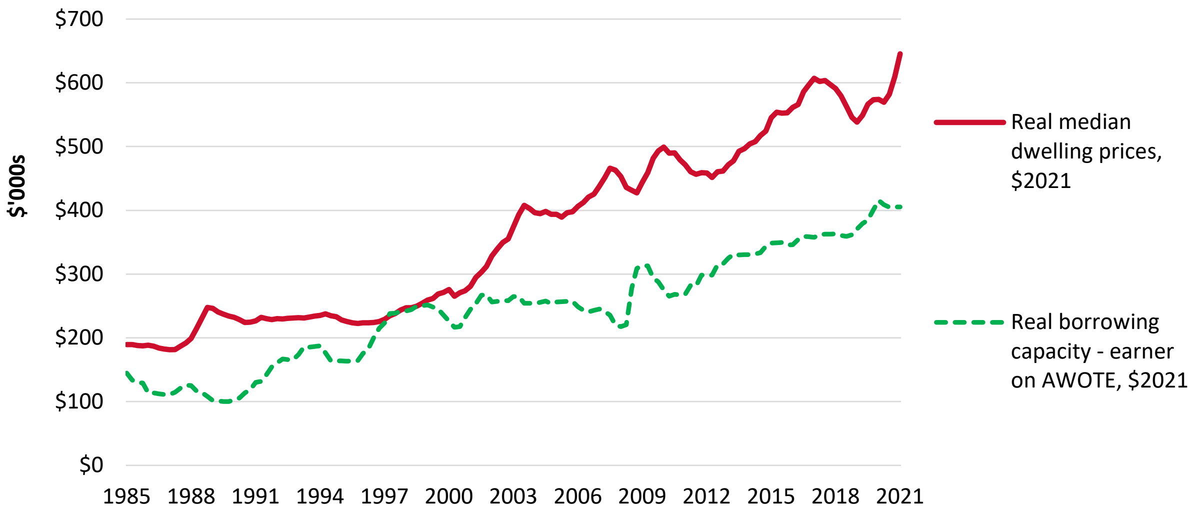
12 See https://www.sa.gov.au/topics/business-and-trade/building-industry/planning-professionals/developer-responsibilities-for-affordable-housing.

13 See https://suburbanland.act.gov.au/en/buying-methods and https://suburbanland.act.gov.au/affordable-housing.

14 Recipients of the publicly funded age pension in Australia must meet both an income and assets means test. The assets test acknowledges that wealth holdings provide an opportunity to consume those assets throughout retirement. Owner-occupied housing is excluded from the assets means test (The Treasury 2020).

Figure 1: Home ownership affordability: overview of change 1985–2021



Notes: 1. Base dwelling prices for June 2021 taken from CoreLogic Home Value Index July 2021, backcast to 1985 using ABS dwelling price indexes—capital cities only. 2. CPI adjusted to June 2021 using all groups CPI. 3. Real borrowing capacity based on assumptions: 25-year loan; 30% repayment to income ratio standard bank variable rate for housing loans holds for borrowers on full-time adult average weekly ordinary time earnings (AWOTE) (AWOTE = $1,737 pw in June 2021, compared with median household income of $1,654 in September 2020, from ANU modelling for CoreLogic). 4. AWOTE treated as approximation for median household income.

Source: Drawn by Judy Yates. Pawson Martin et al. (2022).

Borrowing for home ownership occurs in a setting where lenders apply limits that effectively curtail the capacity of buyers to purchase dwellings. Those limits are shaped directly and indirectly by national and international guidelines (Reserve Bank of Australia [RBA] 2021b). The Australian Prudential and Regulatory Authority (APRA) assumed responsibility for regulating the financial system in 1998 following the Wallis Inquiry, with the overarching responsibility to maintain the safety and soundness of financial institutions. APRA is responsible for both micro-prudential and macro-prudential policies (MPPs) designed to ensure that lenders take account of risks associated with extending credit, and safeguard the overall stability of the financial system (Bullock 2019). While APRA provides guidance, it is not prescriptive on the measurement of various parameters that enter lenders' serviceability assessments (RBA 2021b). MPPs may take a number of forms including:

- limits on loan to value ratios (LVRs)
- debt servicing to income (DTI) ratios
- mortgage serviceability restrictions (APRA 2021).

In Australia, APRA has generally adopted serviceability guidelines that establish a borrowers' capacity to service mortgage debt after meeting other expenditures. Most recently APRA tightened the mortgage serviceability buffer by 50 basis points to at least 3.0 percentage points over the current loan interest rate, curtailing the amount that mortgage holders can borrow.[15] Unlike some countries, MPPs have generally not been applied with the specific aim of influencing market conditions or addressing distributional issues.[16]

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15 Before July 2019, APRA required deposit-taking institutions to assess home mortgage applications using a minimum interest rate of at least 7 per cent. After this date, the floor was removed and lenders were permitted to use a revised interest rate buffer of at least 2.5 per cent over the loan's interest rate (APRA 2019). The subsequent decline in interest rates substantially increased the maximum loan that borrowers were able to access.

16 For example, in 2015 the Central Bank of Ireland adopted MPPs in a precautionary manner to prevent the emergence of 'a credit-driven price dynamic' that could have exposed household and banking sector vulnerabilities (Cassidy and Hallissey 2016). In 2014, APRA in Australia applied benchmarks on investor loan growth but removed this benchmark in 2018. https://www.apra.gov.au/sites/default/files/Letter-Embedding-Sound-Residential-Mortgage-Lending-Practices-26042018.pdf.

Despite the support offered by policy settings and innovations in mortgage financing, higher house prices coupled with sluggish wage growth has meant that aspiring FHBs have drawn on an array of strategies to achieve home ownership. Intra-family transfers appear to have become increasingly important, with the 'Bank of Mum and Dad' providing an important source of housing finance.[17] With the systemic and at times rapid increase in house prices that has characterised the Australian housing market over the past three decades (Kohler and van der Merwe 2015; Yates 2008; Yates and Milligan 2007), the increasingly challenging requirement to accumulate savings for a deposit has placed a growing premium on parental support (Troy, Wolifson et al. 2023; Whelan, Atalay et al. 2023). This is a development that is matched internationally, if not exceeded (Meen and Whitehead 2020; Scanlon, Blanc et al. 2019).

1.3 Existing research

The Inquiry was informed by a comprehensive review of evidence from Australian and international sources that identified challenges, opportunities and risks associated with policy settings designed to enhance the prospects of aspiring home owners (Pawson, Martin et al. 2022). The following subsections are arranged around the research questions the Inquiry addressed, and discuss existing research around some of the key issues that the Inquiry considered. Additional detail can be found in the set of reports that form the Inquiry.

Home ownership—and specifically attaining first home ownership—has been the focus of a number of government (Productivity Commission 2004) and Parliamentary inquiries (House of Representatives Standing Committee on Tax and Revenue 2022; Senate Select Committee on Housing Affordability in Australia 2008). Those reports serve to highlight that the challenge of attaining first home ownership is not new, nor are the solutions likely to be simple. Rather, effective policies rely on understanding the nature of the problem faced by aspiring FHBs and the opportunities to address those challenges.

The remainder of Section 1.3 looks at existing research into each area covered by the Inquiry research questions.

> **How has entry into home ownership changed over time, and is there evidence of convergence in patterns of home ownership across the life cycle for successive cohorts of Australians?**

Declines in the home-ownership rate are particularly pronounced among both younger and lower-income cohorts (Beer, Faulkner et al. 2006; Burke, Nygaard et al. 2020; Daley, Coates et al. 2018). While the overall home-ownership rate has declined by approximately 5 percentage points from its 1966 peak of 72 per cent, this modest fall has been masked by population ageing and a cohort effect associated with high home-ownership rates among older Australians. The sharpest age-specific declines occurred in the decade 1981 to 1991, a period in which Australia experienced two deep recessions, historically high interest rates, and significant economic restructuring following the economic reforms of the 1980s (Adkins, Cooper et al. 2021).

Australia's experience of falling home-ownership rates is far from unique, at least within the anglophone world. In the United Kingdom (UK), the home-ownership rate fell from 69 per cent in 2001 to 63 per cent in 2015 (Stephens, Perry et al. 2022). Similarly, in the United States (US), home ownership fell from its peak of approximately 69 per cent in 2005 to 63.7 per cent in 2015 (Goodman and Mayer 2018). Ireland and New Zealand experienced similarly sharp reductions in home ownership following the GFC. Other major European countries saw ownership rates plateauing rather than declining post-GFC (see Figure 19 in Pawson, Martin et al. 2022). However, in France, the ownership rate actually continued to increase during this period, and there appears to have been a minor recovery in the UK and US during the late 2010s. Such diversity may reflect the varied nature of mortgage markets, house prices and broader social and institutional considerations that shape housing tenure decisions (Bayrakdar, Coulter et al. 2019).

17 Hughes (2021) argues that financial support in the forms of loans, gifts or as guarantors provided by parents to facilitate home ownership places the 'Bank of Mum and Dad' among the top 10 mortgage lenders in Australia.

Previous studies suggest that short-run differences in entry to the housing market—especially to the extent they are associated with price differences—may be temporary, and over time younger generations attain the home-ownership rates experienced by older cohorts (Attanasio, Leicester et al. 2011). In a similar vein, the Productivity Commission (2004) highlighted the cyclical nature of FHB activity. Research conducted for this Inquiry (Whelan, Atalay et al. 2023) provides novel insights into the extent of catch-up—that is, the extent to which those who have not yet achieved home ownership in their early 30s become home owners over the next 10 to 20 years. That research is discussed in more detail in Section 3.1.

Much of the concern around declining rates of FHB activity focusses on house prices and concerns around affordability. Nonetheless, it is important not to conflate the two issues. Simple metrics that seek to measure affordability are inherently limited (Meen and Whitehead 2020). La Cava, Leal et al. (2017) focus on the capacity of FHBs to purchase a home and identify the set of attainable homes for FHBs. This more nuanced approach uses information on the 'typical' FHB and the market that they are likely to enter. While affordability exhibits cyclicality, there is evidence that as of 2016, housing accessibility for FHBs was consistent with the long-term average for Australia as a whole—although somewhat lower in markets such as Sydney, Melbourne and Perth.

It is likely that the challenge for FHBs has become more acute recently, despite the low-interest-rate environment and actions to address the economic consequences of the COVID-19 pandemic. This reflects, in part, the hurdle associated with the deposit requirement that lenders typically impose on mortgage borrowers. Recent evidence suggests that the time required to save for a deposit for an 'average' home has increased substantially (Powell 2021). Critically, understanding the specific nature of the challenge faced by aspiring FHBs to transition into home ownership provides opportunities to formulate policy responses to meet that challenge.

How does Australian and international evidence around the role of financial innovations and policy settings provide insights on pathways into home ownership?

A variety of policy settings exist designed ostensibly to facilitate entry into home ownership, including:

- grants to home buyers
- concessional tax treatment of housing and the finance used to purchase or develop housing
- availability of concessional loans and mortgage guarantees (OECD 2021a).

Programs designed to facilitate entry into home ownership through measures such as rent-to-buy arrangements (Galante, Reid et al. 2017) and shared equity mechanisms have also been developed (Whitehead and Williams 2020), albeit on a relatively small scale. There is mixed evidence on the success of policy measures. While bringing home ownership forward in a temporal sense may be a legitimate objective of policy, a sustained increase in the level of home ownership requires additionality—assisting those who would otherwise be unable to access home ownership. In some cases, it is simply unclear if the recipients of subsidies or other concessional arrangements were the target population (McCarty, Perl et al. 2014). For example, a recent Scottish Government–commissioned study estimated that only 28 per cent of buyers making use of Scottish Government shared equity schemes can be characterised as 'additional' (Craigforth Research 2020: 10). Rather, in the absence of such assistance many beneficiaries would simply have purchased a smaller or otherwise less desirable dwelling.

Policy settings in Australia over the past few decades have been characterised by an almost exclusive reliance on direct subsidies for FHBs. While measures such as FHOGs and stamp duty concessions may alleviate credit market constraints, there is evidence that such assistance simply brings forward entry into home ownership rather than creating additionality (Wood, Watson et al. 2006). Moreover, it is likely that such measures add to house price pressures by increasing the borrowing capacity of home buyers (Davidoff and Leigh 2013; Eslake 2013).

A comprehensive analysis of those measures used in Australia and internationally is presented in Pawson, Martin et al. (2022).

How is the pathway into home ownership shaped by developments in financial markets, precariousness in labour markets, alternative financing mechanisms and government policy?

Along with social and economic trends, entry into home ownership is shaped by broader developments in the economy and innovations in the mortgage market. In the USA, the availability of products such as sub-prime mortgages, interest only loans and mortgage products with teaser rates created new opportunities for households to access finance for home ownership during the late 1990s and early 2000s (Jaffee and Quigley 2007). Australian households also benefited from the availability of additional mortgage products offered by new and existing housing finance providers (Yanotti 2013). Nonetheless, the experience of the GFC indicates that such financial innovations bring with them risk to both individuals and the broader economy (Wachter and Acolin 2015).

One important development associated with the transition into home ownership that has attracted increasing attention is the role of intergenerational financial transfers. Such assistance may consist of direct transfers in the form of monetary payments to:

- alter the timing of first home ownership
- increase the deposit paid
- reduce the amount of loan taken out.

Alternatively, indirect transfers in the form of co-residence with parents may facilitate saving or involve parents taking on the role of guarantor (Engelhardt and Mayer 1998; Luea 2008).

Recent American evidence indicates that parental transfers relax credit market constraints and facilitate the transition into home ownership for individuals aged 25–44 years of age, increasing the likelihood of transitioning by around 3 percentage points relative to non-recipients (Lee, Myers et al. 2020). Though somewhat more mixed, evidence from Europe also indicates that parental support is associated with a higher likelihood of achieving home ownership in Germany (Kurz 2004); Italy (Guiso and Japelli 2002); Ireland (Duffy and Roche 2007); and France (Spilerman and Wolff 2012). For Australia, existing AHURI research has identified that the receipt of large *inter-vivos* transfers and bequests is associated with more rapid entry into first home ownership (Barrett, Cigdem et al. 2015; Cigdem and Whelan 2017).

There is evidence that intergenerational transfers are growing in Australia, and likely to increase rapidly over time (Productivity Commission 2021). As delayed entry into the labour market coupled with increasing precarity in employment relationships mean that younger cohorts find it more challenging to transition into home ownership (Lersch and Dewilde 2015), familial financial support is likely to be more important over time for facilitating home ownership.

How might entry into home ownership evolve in response to specific policy settings and what are the implications of this for housing markets and the broader economy?

Policy settings across numerous countries have sought to promote home ownership, although the instruments designed to give effect to this have been often influenced by broader policy objectives. In some countries—including the US (McCarty, Perl et al. 2014), the UK (Arundel and Ronald 2021) and Australia—such policies have been premised on a belief in the benefits to individuals and the broader community of the merits of home ownership.

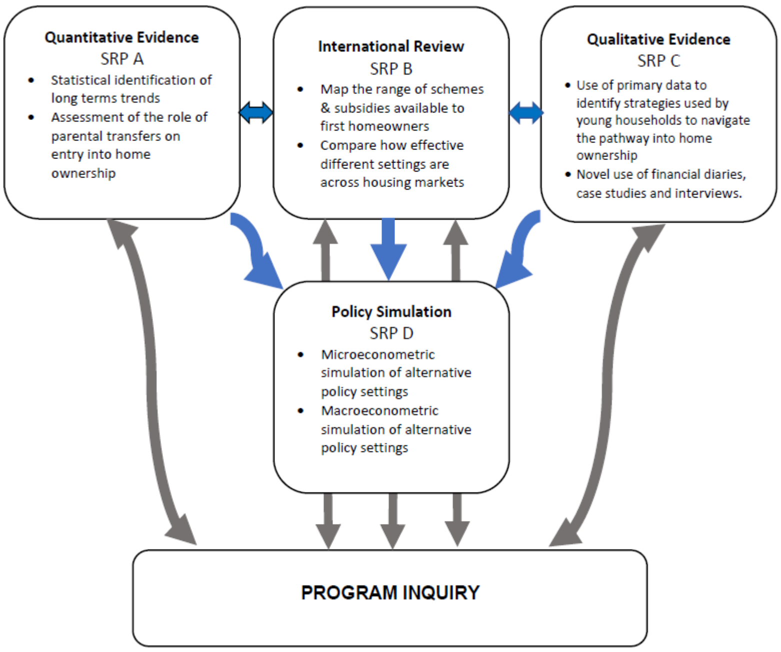
Housing markets are inherently complex, and it is challenging to capture in a tractable manner how economic conditions and policy settings shape home-ownership outcomes. Identifying the implications for FHB activity present particular challenges given they sit at the margin of owner-occupation (Meen and Whitehead 2020). What economic modelling does highlight is the unintended consequences of policies designed to assist FHBs. For example, modelling of prudential measures to curtail borrowing has shown they may limit the capacity of lower-income FHBs to access finance to enable home ownership, or increase house prices (Allen and Grieder et al. 2020; Kelly, McCann et al. 2018; Kinghan, McCarthy et al. 2022). The inability of aspiring FHBs to draw on accumulated housing equity means that they are particularly susceptible to changes in borrowing constraints that impede access to mortgage finance. Similarly, measures such as public mortgage credit schemes or equity 'help-to-buy' arrangements may assist FHBs but also contribute to increasing house prices (McQuinn, O'Toole et al. 2021).

The existing literature that addresses this issue is limited, and one of the key contributions of this Inquiry has been to undertake novel analysis of housing policies and broader economic outcomes, and to identify their impacts on FHBs (Ong ViforJ, Graham et al. 2023). That research and its findings are outlined in Section 4.

1.4 Research methods

The Inquiry adopted a complementary mix of quantitative and qualitative research methodologies designed to ensure the robustness of its findings through four Research Projects. Quantitative analyses utilised secondary data sources including the Household Income and Labour Dynamics in Australia (HILDA) survey, along with data from successive releases of the Australian Bureau of Statistics (ABS) Survey of Income and Housing (SIH). Qualitative analysis drew from the insights provided by policy experts and key stakeholders in Australia and internationally, and the experience of those individuals transitioning or aspiring to transition into first home ownership. Figure 2 presents the overarching structure of the Inquiry and the supporting Research Projects (SRPs).

Figure 2: Inquiry framework



Source: Authors.

Pawson, Martin et al. (2022) provided a systematic review of policy settings targeted at FHBs in Australia and internationally. The findings in that project were based on a comprehensive review of published and grey literature, along with a series of in-depth interviews with housing experts across a set of comparator countries. This project provided a framework for categorising policy targeted at FHBs and a novel typology for considering the nature and effectiveness of policies designed to enable and sustain home ownership. The findings of this project identified the increasing reliance on demand-side instruments in Australia, and the lack of an overarching housing policy framework in which specific policy measures could be developed in a comprehensive and coherent manner.

Whelan, Atalay et al. (2023) analysed secondary data to identify the extent of catch-up by younger cohorts of Australians who, on average, had experienced successively lower levels of home ownership. This statistical analysis provided novel insights into the persistence of low rates of home ownership as cohorts age. Separate analysis of the HILDA data identified a clear association between intra-family support, both direct and in-kind, and the transition into home ownership.

Troy, Wolifson et al. (2023) adopted an innovative methodology to characterise the experiences of and strategies adopted by aspiring FHBs. Primary data and in-depth analysis of financial diaries provided unique insights into young adults' non-linear pathway into home ownership, the critical role often played by familial support, and the multitude of strategies adopted by aspiring FHBs in navigating the complex pathway into home ownership. A key finding of both projects (Troy, Wolifson et al. 2023; Whelan, Atalay et al. 2023) was the role played by the 'Bank of Mum and Dad' through direct and indirect support, especially in high-priced markets such as Sydney.

Ong ViforJ, Graham et al. (2023) provided new insights on how the economic environment has shaped outcomes over the past three decades and analysed policy settings designed to facilitate first home ownership. Using microsimulation and macrosimulation techniques, this modelling identified how policies such as shared equity models, loan guarantees and prudential regulations have the potential to shape home ownership trajectories over the life cycle. Those models also highlight the distributional consequences of alternative policy settings—a critical consideration in light of the role that housing plays in the wealth outcomes experienced by Australian households.

1.5 The evolving economic and political environment

When this Inquiry was initially conceived, the global economy was in the early stages of a 'once in a century' pandemic. Considerable uncertainty existed around the short-term and long-term implications of that development for housing markets and the economy in general. Concerns around housing affordability were superseded by fears of prolonged economic disruption and a housing market collapse. Australian governments responded by offering unprecedented levels of fiscal and monetary stimulus. Among these measures was the HomeBuilder program largely targeted at FHBs, albeit with the primary aim of protecting the residential construction industry.[18] Monetary policy became highly accommodative, with mortgage loans priced as low as 2 per cent.

Throughout the pandemic, rather than falling as anticipated, house prices across Australia rose sharply from late 2020. Annual increases exceeded 27 per cent across capital cities, with even higher increases in some regional areas. With household borrowing capacity enhanced by low interest rates and the time-limited availability of direct financial support through HomeBuilder offsetting the impact of elevated house prices, FHB activity reached its highest level on record in 2021.

18 The scheme provided all eligible owner-occupiers with a grant of $25,000 for eligible contracts entered into between 4 June 2020 and 31 December 2020. Subsequently a $15,000 grant was introduced for eligible contracts between 1 January 2021 and 31 March 2021 to build a new home or substantially renovate an existing home. See https://treasury.gov.au/coronavirus/homebuilder and https://federalfinancialrelations.gov.au/sites/federalfinancialrelations.gov.au/files/2022-11/HomeBuilder-npa-review-report.pdf.

As the Inquiry neared completion in 2022, circumstances had once again changed markedly, with the war in Ukraine and other disruptive factors stoking inflation across industrialised economies. Rapid increases in interest rates imposed by central banks, including the RBA, triggered a halt to rising house prices across many parts of Australia. The most recent figures available at the time of writing (CoreLogic, December 2022) suggest that over the past 12 months, national housing values fell 3.2 per cent, with a decline in capital cities of 5.2 per cent offset by an increase in regional dwelling values of 3.3 per cent.

Concern now is for households that took on large loans when mortgage rates were low with the expectation that rates would remain low for a protracted period. While the RBA remains confident that many households have built up a substantial stock of savings, there is currently an unusually large cohort of recent FHBs inherently exposed to repayment vulnerability—a situation that is exacerbated by recent financial regulatory changes to loan serviceability requirements.[19]

Another significant development occurring during the course of the Inquiry has been the election of a new federal government. The election campaign saw the two major parties present alternate prescriptions for boosting home ownership. The new administration took power pledging to further expand the existing national mortgage guarantee scheme, as well as to initiate an Australia-wide shared equity program. In its first budget there was a commitment to expanding overall housing supply with the stated purpose of enhancing housing affordability.[20] Those aspirations highlight perhaps one of the most important considerations in the context of housing policy, namely the need to ensure that policy settings are robust and long-term.

19 See for example the ABC report 'APRA mortgage serviceability interest rate floor' 12 December 2022, https://www.abc.net.au/news/2022-12-12/apra-mortgage-serviceability-interest-rate-floor/101745144.

20 See the Budget announcements made 23 October 2022 relating to housing: https://budget.gov.au/2022-23-october/content/bp1/index.htm.

2. How did we get where we are?

- **Fewer younger Australians are becoming FHBs. The average age of first home acquisition increased from 26 to 31 years between 1965–69 and 2010–14.**
- **Affordability of housing is challenging to measure. Despite this, there is a consensus that housing has become less affordable and therefore less accessible to FHBs over time.**
    - As house prices have increased, FHBs have gravitated towards more affordable dwellings and increasingly relied on non-bank loans.
- **Policy in recent decades has focussed almost exclusively on demand-side measures that boost the borrowing capacity of FHBs.**
    - The fiscal cost of FHB assistance measures including grants and tax concessions has exceeded $37 billion since 1965.
    - More sophisticated and targeted measures designed to alleviate the deposit hurdle faced by FHBs have increasingly been adopted. Over the past decade, governments in Australia have increasingly focussed on concessional treatment of savings and mortgage guarantees to assist aspiring FHBs.
- **Evidence from other countries indicates that a coherent suite of supply-side and demand-side policy settings can effectively enable FHBs.**
- **Measures designed to assist FHBs work most effectively when they form part of a more comprehensive housing strategy.**

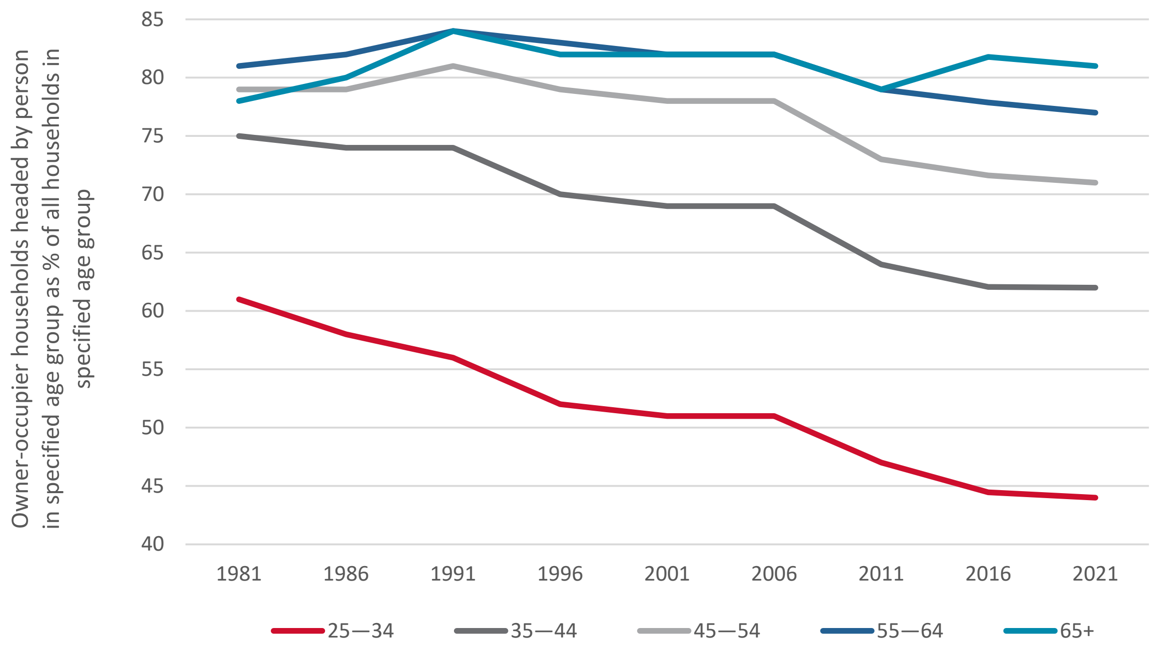
The Inquiry has highlighted that the outcomes experienced by aspiring FHBs are the accumulated product of past policy decisions and circumstances (Pawson, Martin et al. 2022). Understanding 'how we got where we are' is essential for shaping future policy settings. Australian and international experience provide important lessons for developing policy settings that can make a difference to FHBs. Moreover, if and how policies successfully implemented in international settings may be adapted for the Australian institutional environment will be informed by understanding the history that has shaped the circumstances of FHBs in Australia.

This section focusses on how the transition into home ownership in Australia has evolved over time by considering key developments in the behaviours, outcomes and challenges faced by FHBs (Whelan, Atalay et al. 2023). Existing evidence highlights the role played by financial innovations and policy settings on these outcomes, and provides insights into the interplay between demand-side and supply-side policy efforts that shape housing experiences and outcomes (Pawson, Martin et al. 2022). In doing so, Section 2 extends an existing evidence-base to answer research questions 1 and 2 introduced in Section 1.

2.1 Changing patterns of housing consumption among younger cohorts

Changes in home-ownership rates over time by age group are presented in Figure 3. Critically, home-ownership rates for those aged 25–34 years have declined by approximately a quarter between 1988 and 2021.[21] Put simply, fewer younger Australians are becoming home owners. In turn, the average age of first housing acquisition increased from 26 to 31 between 1965–69 and 2010–14 (Pawson, Martin et al. 2022: 17–18).

Figure 3: Age-specific home-ownership rates: 1981–2021



Notes: Figures show percentage of occupied private dwellings. Household age group according to age of household reference person. Excludes households with tenure type not stated.

Sources: Daley, Coates et al. (2018) with original data from Yates (2015) and ABS (2016); updated to 2021 from ABS census by Dr Ryan van den Nouwelant.

21 Burke and Nygaard (2020) identify a decline from 55.6 per cent to 44.6 per cent for those aged 25–34 years between 1986 and 2016. Whelan, Atalay et al. (2022) report a more precipitous decline for those aged 30–34 years from 65 per cent for those born in 1955–59 to 45 per cent for those born in 1985–89.

While reflecting broader socio-demographic changes, financial challenges faced by aspiring FHBs are likely to have been pivotal in explaining the decline in homeownership rates among younger Australians. Moreover, FHBs have exhibited behavioural responses over time. For example, there has been a decreasing likelihood of purchasing a detached dwelling (Table 1), with apartment acquisitions increasing from 15 to 27 per cent of all FHB acquisitions in major capital cities. The location of the first home also tends to be further away from urban cores.[22] Such trends are not unexpected—FHBs are younger, have fewer children and typically report lower incomes than existing owners (Alfonzetti 2022)—characteristics that influence both housing consumption and the capacity to finance home purchase. In the absence of accumulated equity, first home ownership requires the accumulation of a substantial deposit, traditionally 20 per cent of the purchase price of a dwelling. Evidence from HILDA shows that FHBs have generally maintained LVRs at around 0.8 over the past two decades (Table 1 and Table 2).

Table 1: FHB characteristics: Sydney, Melbourne and Perth

	Year first home purchased			
Characteristic	2001–2005	2006–2010	2011–2015	2016–2018
House price ($)	330,349	404,895	544,881	730,411
Loan size ($)	257,004	315,766	423,760	580,474
Loan-to-value ratio	0.82	0.81	0.80	0.80
Received non-bank loan (%)	8	11	10	11
Parental transfer received (%)	8	8	14	15
Purchase unit / apartment	15	24	24	27
Purchase house	85	76	76	73

Source: Pawson, Martin et al. (2022: 23).

Table 2: FHB characteristics: rest of Australia

	Year first home purchased			
Characteristic	2001–2005	2006–2010	2011–2015	2016–2018
House price ($)	196,735	299,702	383,968	410,428
Loan size ($)	162,611	256,439	317,203	348,782
Loan-to-value ratio	0.84	0.87	0.83	0.86
Received non-bank loan (%)	10	7	11	11
Parental transfer received (%)	3	4	5	7
Purchase unit/ apartment	7	7	10	8
Purchase house	93	92	90	92

Source: Pawson, Martin et al. (2022: 23).

Nonetheless, new lenders in mortgage markets and innovations in mortgage products (Gishkariany, Norman et al. 2017; Yanotti 2013) presented both opportunities and challenges for FHBs. Existing owners also took advantage of these innovations, exhibiting a marked increase in the number of individuals reporting an interest in a rental property.[23] Indeed, a key challenge often cited for FHBs is the competition provided by rental investors.

22 Pawson Martin et al. (2022) note: 'An analysis of the changing environment faced by FHBs during the period 1996–2016 led the RBA to conclude that 'there has been some structural decline in the quality of housing that is affordable to FHBs' (La Cava, Leal et al. 2017: 25). That analysis highlighted the decreasing proportion of dwellings located close to the CBD that were accessible to FHBs, especially in Sydney and Melbourne. FHBs face increasingly constrained choices for entry-level dwellings, with buyers likely to trade off characteristics around the size, quality and location of dwellings' (van den Nouwelant, Pawson et al. 2015).

23 Data from the Australian Taxation Office show an increase in the number of individual investors owning one or more properties rising from 1,163,758 in 1999–2000 to 2,222,700 in 2018–2019: https://data.gov.au/data/dataset/taxation-statistics-2019-20/resource/ae940128-c5bf-40c0-b80d-90681e9a5945.

2.2 Affordability for FHBs over time and space

The challenge for aspiring FHBs is often characterised as one of declining 'affordability'. However, affordability is not easily defined. Rather, what is affordable will be a function of a range of considerations—some of which are exogenous to the households, and others that are shaped by household choices. Exogenous factors include the:

- price of housing in a given market
- interest rates
- constraints on borrowing, such as those encapsulated in LVRs or debt-servicing requirements imposed by financial institutions.

As noted in Section 2.1, what is affordable will also be shaped by household decisions around location, the type of housing sought and preferences over amenities such as infrastructure.

Whelan, Atalay et al. (2023) note that there has been a long-term deterioration in affordability for FHBs, although oft-cited metrics tend to overstate the extent of that development (see also Pawson, Martin et al. 2022; RBA 2021a). Moreover, that decline was not uniform across Australia but was more pronounced in markets such as Sydney and Melbourne. The RBA concluded that overall 'there has been some structural decline in the *quality of housing* that is affordable to FHBs' over the three decades to 2016 (La Cava, Leal et al. 2017: 25—our italics). Drawing on recently released 2021 Census data, a measure of affordability comparing dwelling prices and median household income suggests that affordability challenges have become more pronounced following the recent surge in house prices that coincided with the COVID-19 pandemic (Figure 4), especially in high-priced markets such as Sydney (Figure 5) and Melbourne (Figure 6).[24]

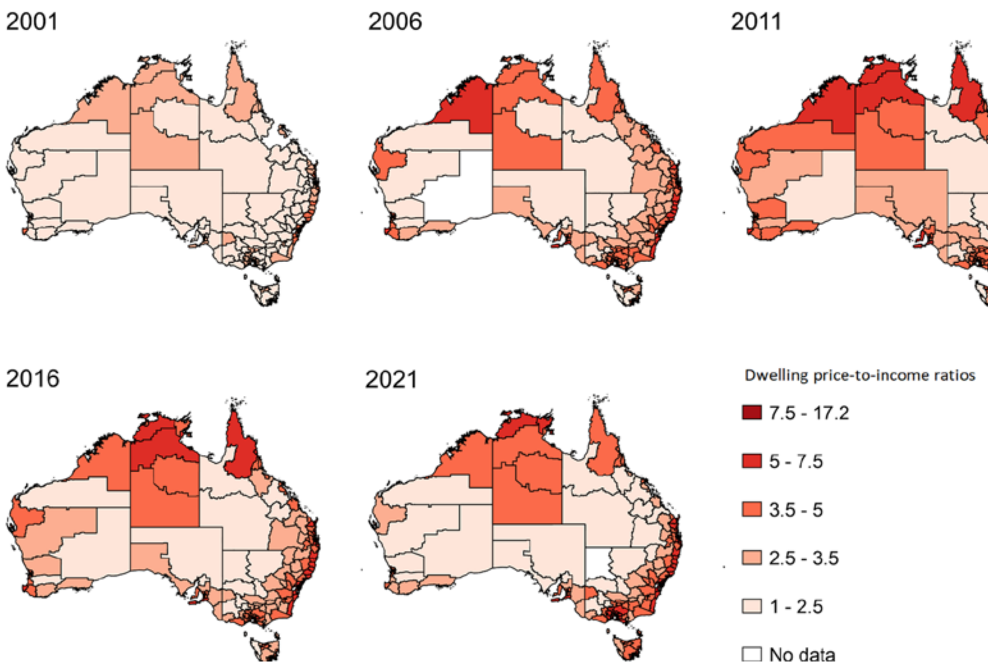
The developments captured in Figure 4 through Figure 6 show dwelling price to income ratios (DPIs) nationally, but do not capture the most recent declines in house prices and accompanying increases in interest rates for Sydney and Melbourne. These developments will tend to relax and tighten affordability constraints respectively. The affordability challenge faced by FHBs is highlighted most starkly by the deposit hurdle—or what has been termed 'purchase affordability' (Meen and Whitehead 2020).[25] While financing options requiring a deposit of less than 20 per cent have become increasingly common over time, this generally required borrowers to take out lenders mortgage insurance (LMI).[26]

24 It is important to note that the decline in affordability highlighted in Figure 4 through Figure 6 does not capture other important developments of affordability, such as the level of interest rates, nor does it focus on the income or prices relevant to FHBs.

25 This is distinct from repayment affordability, which captures the capacity of a household to service a long-term debt.

26 LMI protects the mortgage lender in the event that a borrower cannot repay their loan. LMI is used internationally, including Canada and the United States (RBA 2013).

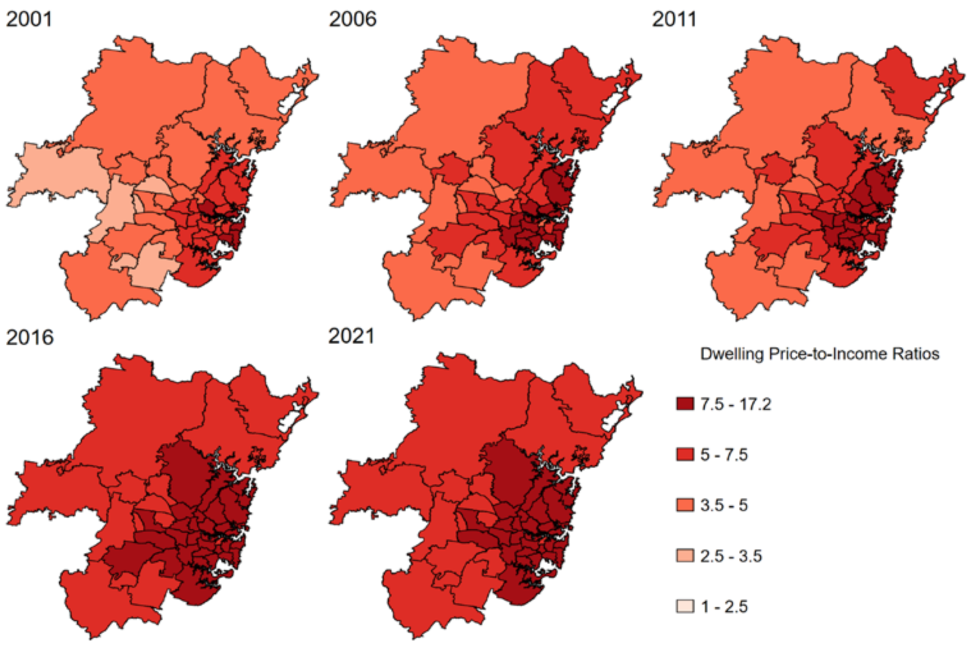
Figure 4: DPI ratios, Australia 2001–2021



*Note: Dwelling prices used in the diagrams are the median house (sale) price from RP Data at the Local Government Area. We also use a backward-looking 6-month moving average on these median house prices. Income data is median annual family income = median weekly family income * 52. It is sourced from the census, provided bespoke by the ABS, at SA3 2011 ASGS boundaries for all years.*

Source: Authors' calculations using 2001–2021 Census and CoreLogic house price data.

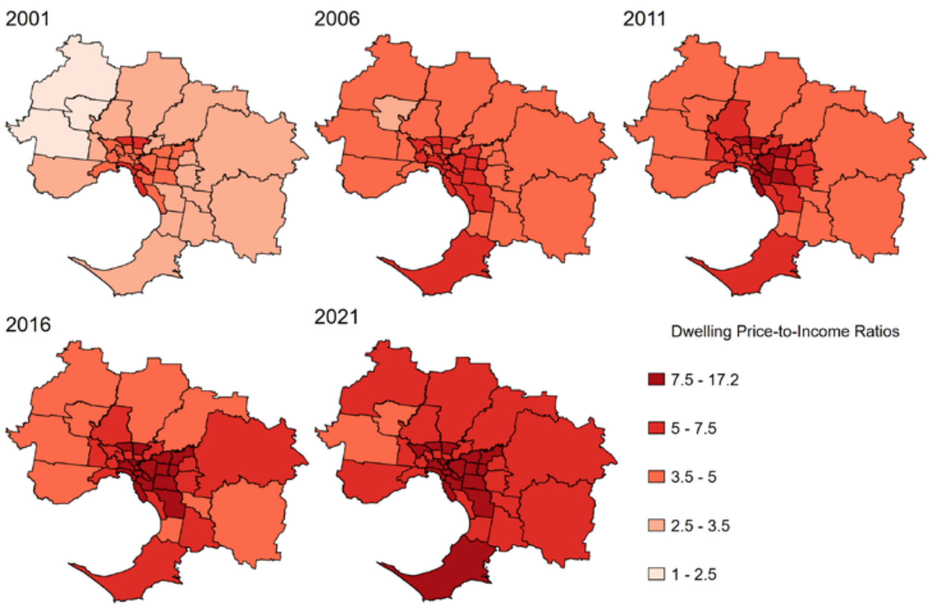
Figure 5: DPI ratios, Sydney 2001–2021



Note: See notes to Figure 4.

Source: Authors' calculations using 2001–2021 Census and CoreLogic house price data.

Figure 6: DPI ratios, Melbourne 2001–2021

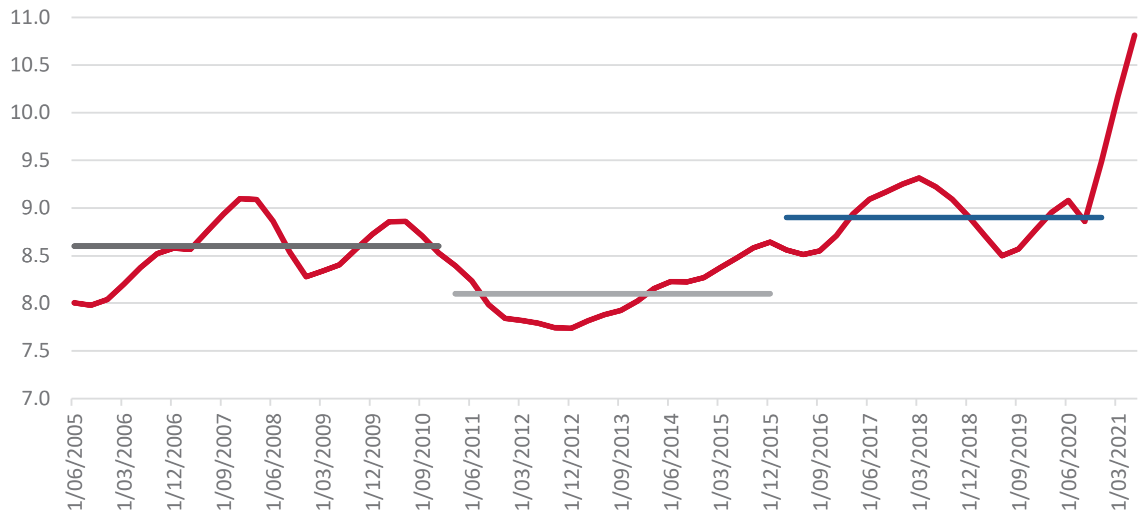


Note: See notes to Figure 4.

Source: Authors' calculations using 2001–2021 Census and CoreLogic house price data.

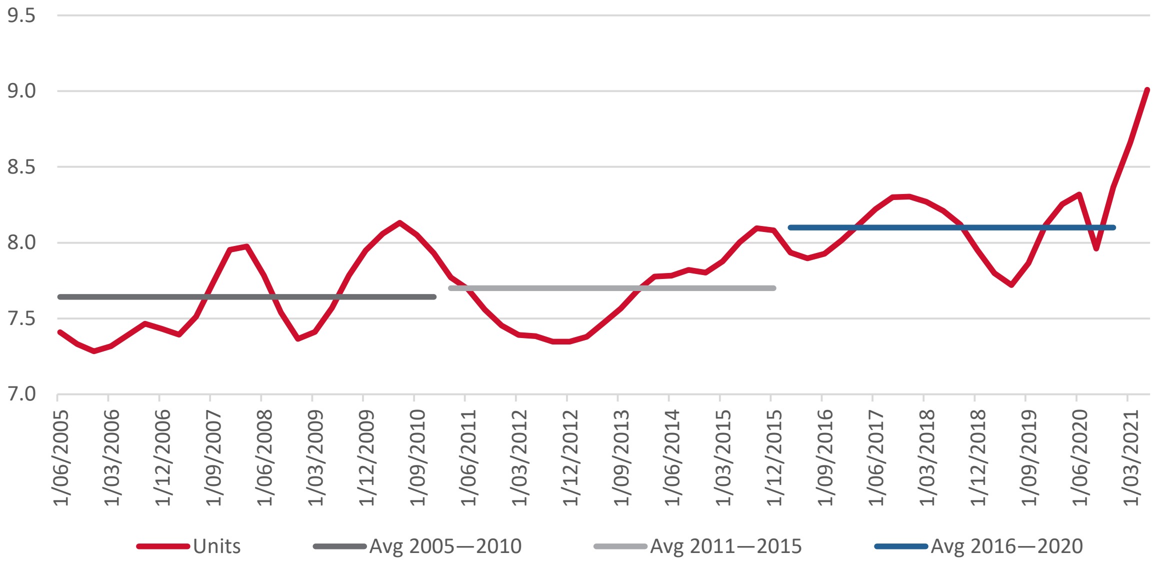
The 'deposit hurdle' has been identified as an increasingly important barrier for aspiring FHBs as house price growth has outpaced earnings growth. Daley, Coates et al. (2018: 14) note that in the early 1990s average households took just six years to save for a deposit, rising to 9–10 years by the late 2010s. Aggregate measures of the deposit hurdle (Figure 7 and Figure 8) mask substantial regional variation, with the years needed to save for a deposit in markets such as Sydney and Melbourne increasing substantially over time (Figure 9).

Figure 7: Australia, years needed to save for deposit: houses



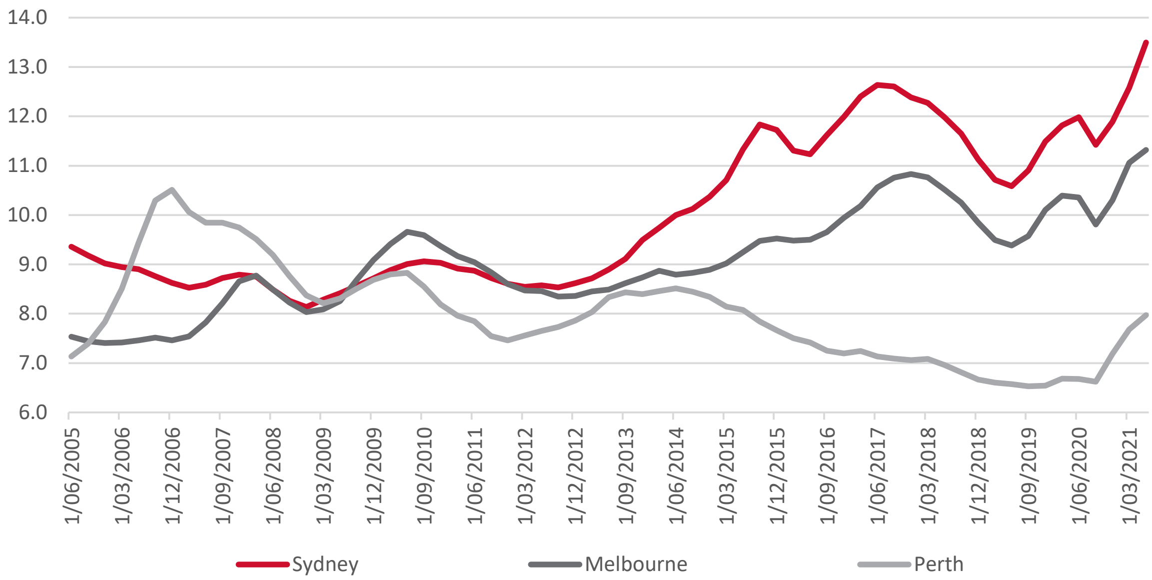
Source: Pawson, Martin et al. (2022) Notes: Based on original data from CoreLogic and ANU Centre for Social Research and Methods. Series capturing time required to service a mortgage is calculated assuming the owner has borrowed 80% of the median dwelling value and is paying the average discounted variable mortgage rate at that time for a term of 25 years. We measure the proportion of gross annual household income required to service the mortgage. The time required to save for a deposit considers a household on median income and the time required to save a 20% deposit, assuming the household can save 15% of their gross annual household income.

Figure 8: Australia, years needed to save for deposit: units



Source: Pawson, Martin et al. (2022). See notes to Figure 7.

Figure 9: Selected capitals, years needed to save for deposit: houses and units



Source: Pawson, Martin et al. (2022). See notes to Figure 7.

Despite the significantly higher barrier represented by the deposit hurdle, FHBs have generally maintained a LRV of around 0.8 (Table 1 and Table 2). Doing so in the face of increasing house prices reflects a variety of strategies and behavioural changes. For example, FHBs have gravitated towards more affordable dwellings such as the increasing number of attached dwellings in higher-priced housing markets such as Sydney and Melbourne at increasing distance from their social and economic networks, or sought other sources of financing with evidence of increasing reliance on parental support (see Section 3).

2.3 Australian policy for first home ownership

A broad range of housing policies, assistance programs and regulations has shaped the Australian housing system that we observe today. Owner-occupied housing is afforded preferential treatment in the tax and transfer system (Commonwealth of Australia 2009), and there is a range of specific measures targeted at aspiring FHBs (Dalton 2009; Lawson 2006; Pawson, Milligan et al. 2020). Historically those measures have included:

- LMI[27] and home loan guarantees
- home-purchase grants
- government building-for-sale programs
- the sale of public housing to sitting tenants
- land auctions restricted to eligible cohorts (Dalton 2009: 65–72).

It is important to note that Australia's focus on ownership is not without criticism. Tenures such as renting, shared equity housing, and co-operative ownership are employed extensively internationally. However, unlike Germany, Denmark, Finland and some other European countries, landlord rights have been historically preferred over tenants' rights in Australia. While there have been some recent initiatives to rebalance Australian rental regulation frameworks, those changes have been relatively modest in significance and geographically uneven (Martin, Hulse et al. 2022). While the focus of this Inquiry is to inform more effective policy and related settings in regard to home ownership, we return to this issue in Section 5.2

In the remainder of this section, we concentrate on the set of policies that have shaped 'how we got where we are'. The discussion draws on the qualitative analysis presented in Pawson, Martin et al. (2022) and adopts a typology that distinguishes measures that enhance a FHB's *purchasing power* in the private housing market ('demand-side' assistance), from those that fund or otherwise enable the *production* of housing suitable for this cohort ('supply-side' interventions). The range of policies adopted over time is presented in Table 3.

27 The Australian Government established and owned the Housing Loans Insurance Corporation in 1964 (Dalton 2009; Lawson 2006) and helped low-income earners obtain housing finance. At the time, the Corporation met a structural deficiency, or 'market gap', in the availability of mortgage insurance in Australia (Parliament of Australia 2006). The Housing Loans Insurance Corporation was privatised in the 1990s when considered to be distorting prices and inhibiting the growth of the commercial insurance market. Government owned LMI persists in Canada, US, New Zealand, Hong Kong and the Netherlands (RBA, 2013): https://www.rba.gov.au/publications/fsr/2013/sep/pdf/box-c.pdf.

Table 3: Demand-side and supply-side assistance and examples

Demand/Supply	Assistance type	Example schemes and programs
Demand-side	Financial regulation	• Rules governing mortgage lending
	Expenditure programs	• Cash grants
	Tax concessions	• Stamp duty concessions • Tax-privileged saving schemes
	Institutional innovations and financial instruments	• Loan assistance schemes • Mortgage guarantees • Equity investment and similar products
Supply-side	Use of publicly owned assets	• Public housing sale to tenants • Land rent schemes
	Government-funded housing development	• State-resourced development of shared-ownership homes by non-government entities
	Land or property occupancy regulation	• Inclusion of affordably priced homes in developments required via land use planning powers • Restrictions on occupancy of privately owned homes • Use of publicly owned assets: land development

Source: Pawson, Martin et al. (2022: 34).

2.3.1 Demand-side policies

Demand-side policies are designed to boost the purchasing power of FHBs that is otherwise constrained by, among other things, rules governing mortgage lending. Regulatory policies such as maximum LVRs, DTI restrictions and serviceability guidelines determine the capacity of FHBs to borrow and finance the purchase of a dwelling (Norris and Lawson 2022; RBA 2021b). Until the mid-1980s, Australian banks and other financial institutions providing mortgages operated under a set of direct controls that included interest rate ceilings, asset restrictions, quantitative lending guidelines and qualitative controls (Dalton 2002). Qualitative controls ensured lending favoured new construction and FHBs (Pawson, Milligan et al. 2020: 139). Deregulation of the financial sector in the 1980s led to the removal of some controls and created opportunities for new players to enter the home lending market, funding housing mortgage lending through securitisation[28] rather than deposits by savers.[29] Nonetheless, Australia remains less reliant on non-bank financial institutions to enable mortgage financing than many other comparable countries (OECD 2021b).

Following the Wallis Inquiry, APRA was established with an overarching mandate to ensure the stability of the Australian financial system. APRA provides guidance to financial institutions that impact on their lending practices and, by implication, the availability of credit. Note that unlike other countries such as New Zealand and Ireland (Cassidy and Hallissey 2016), APRA has in general not explicitly specified prudential regulations to address concerns around housing markets.[30]

28 See Chapter 13 of the Parliamentary Inquiry into Competition in the Banking Sector, 2010: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Completed%20inquiries/2010-13/bankingcomp2010/report/c13.

29 The RBA noted that the rapid growth in the asset-backed securities market in the decade up to the mid-2000s was driven by securitisations of residential mortgages. See: https://www.rba.gov.au/publications/fsr/2004/sep/pdf/0904-1.pdf. This market subsequently froze in 2007 during the height of the GFC; see: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Completed%20inquiries/2010-13/bankingcomp2010/report/c13.

30 Note the exception, with limits placed on investor lending by APRA in 2014–2018. These were considered as tactical, temporary constraints on lending to property investors on an interest-only basis to reduce the growth of higher-risk lending. They were not designed to improve access or affordability for FHBs. See: https://www.apra.gov.au/sites/default/files/review_of_apras_prudential_measures_for_residential_mortgage_lending_risks_-_january_2019.pdf.

Prudential regulation has both direct and indirect consequences for FHBs. Those regulations will directly determine the borrowing capacity of FHBs and the set of affordable dwellings. Moreover, those regulations shape the level of credit in the economy and, in turn, the level of house prices (Ong ViforJ, Graham et al. 2023). How prudential regulations impact FHBs is considered in more detail in Section 4.1. Empirically, it is challenging to identify how developments in prudential regulation have impacted FHBs. However, it is the case that the public policy mandate for financial regulators to consider housing affordability and prioritise credit access to FHBs has narrowed over the past three decades (Debelle 2010).

Demand-side assistance measures involve enhancing the ability of the aspiring FHB to pay for house purchase, which may be limited by credit market constraints. Those measures can further be categorised as (non-repayable) direct fiscal transfers or tax expenditures, and measures such as loans, mortgage guarantees and equity contributions that represent a more administratively complex form of repayable financial help.

Non-repayable assistance

Direct assistance in the form of cash grants and stamp duty concessions represent the most ubiquitous forms of FHB assistance in Australia. While simple to administer, direct cash grants to FHBs have entailed expenditures exceeding $37 billion (at AU$2021 values) over the period 1965–2021 (Pawson, Martin et al. 2022: 4). Such grants and tax concessions have increased substantially over time even if we ignore recent COVID-19-related stimulus payments (Pawson, Martin et al. 2022). Measures such as these can generally be characterised as alleviating the accessibility constraint faced by FHBs, rather than addressing affordability. There is consensus among housing policy experts that such measures are poorly targeted, largely capitalised into house prices and at best bring forward transition into home ownership rather than creating additionality (Eslake, 2011; Randolph, Pinnegar et al. 2013; Zaponne, 2009).

One defining characteristic of the Australian tax system in relation to housing is the heavy reliance on transaction taxes in the form of stamp duty.[31] Over time, successive state governments have applied concessional stamp duty rates to FHBs. While such measures may alleviate the deposit hurdle faced by FHBs, they may also benefit sellers via their capitalisation into house prices, especially in the short run when the supply of dwellings is relatively inelastic (Productivity Commission 2004).

Repayable assistance

Loans, guarantees and shared equity instruments represent FHB assistance that is administratively more complex than simple fiscal transfers. State-backed mortgage guarantees and loan assistance generally enable a purchaser to obtain housing finance at a higher LVR and thereby alleviate some financing constraints. Schemes involving equity investment do not involve a transfer of funds to FHBs but retain a public asset that may eventually deliver a return.

Mortgage guarantee schemes have a relatively long history in Australia, going back to co-operative building and housing societies in the late 1930s. These institutions subsequently became important lenders of residential construction in NSW and Victoria in the postwar decade (Dingle 2020: 71). Today this model is exemplified in Australia by the First Home Loan Deposit Scheme (FHLDS). Subsequent variants in the form of the New Home Guarantee (NHG) and First Home Guarantee were introduced in 2020 and 2022 respectively. The Family Home Guarantee scheme (July 2021) enables single-parent households to access a home loan with as little as a 2 per cent deposit (Pawson, Martin et al. 2022: 50).

31 At the time of writing (2023) stamp duty on residential property transfers represented between 18% and 21% of state government revenue (Clifford and Freebairn 2021). Malakellis and Warlters (2021) argue that stamp duty significantly reduces the volume of property transactions relative to a broad-based land tax. The ACT is currently midway through a 20-year phase-out of stamp duty and its replacement with a broad-based land tax. Since late 2022, the NSW Government has provided opportunities for new purchasers to commit to land tax rather than the upfront payment of stamp duty. As of June 2023 that option is no longer available.

The FHLDS/Home Guarantee Scheme (HGS) allows eligible borrowers to take on home loans from mainstream mortgage lenders using a deposit as low as 5 per cent, with NHFIC acting as guarantor on up to 15 per cent of the mortgage. Hence, mortgage lenders can offer high LVR finance to customers who might otherwise be deemed too risky. Eligibility is constrained by income limits and price caps. At the time of writing (2023) the newly elected Labor government has committed to continuing these schemes (with some potential eligibility adjustments) and introduced a scheme targeted at regional FHBs—the Regional First Homebuyer Support Scheme.

These schemes had facilitated in excess of 22,000 purchases supported by the FHLDS and NHG to June 2021, and are estimated to have brought forward home purchase by an average of four years for the FHLDS, and 4.5 years for the NHG (NHFIC 2021). The impact of such schemes on additionality remains unclear, and derives from removing the need for LMI. The schemes do not alter ongoing affordability as the borrower must sustain prepayments on a mortgage of up to 95 per cent of the dwelling price. Low deposit schemes also involve the risk that borrowers are more exposed to negative equity in the event of declining house values. Such a situation is important in Australia, given most home lending is classified as 'recourse' lending and the full amount owed is repayable in the event of default (Ong ViforJ, Graham et al. 2023).

Loan assistance programs typically offer more favourable LVRs and reduced deposits to targeted households. Typically, low-deposit mortgages are made available and issued by a government-backed agency with the ability to secure (or insure) them against the relevant government's balance sheet. In the case of Keystart (WA) and Homestart (SA), the programs operate at substantial scale. Since 1989, Keystart has approved over 78,354 home loans,[32] and Homestart some 81,000.[33] In WA during the 2010s, Keystart serviced a quarter of the market for home loans (Pawson, Martin et al. 2022: 48–49). The Indigenous Home Ownership Program (IHOP) run by Indigenous Business Australia (IBA) represents Australia's main targeted form of support for Indigenous home ownership. Since its establishment in the 1970s, IBA reports that IHOP has assisted around 20,000 households into owner-occupation. In 2021 it was supporting some 5,500 mortgage borrowers with a loan book worth over $1.2 billion (Pawson, Martin et al. 2022, Box 1).

Shared ownership and shared equity arrangements have not been widely promoted or implemented in Australia, possibly due to income targeting (Evans 2019; Pinnegar, Easthope et al. 2009; Whitehead and Yates 2007). Small-scale state programs exist with differing administrative and legal conditions which lower the entry of the co-purchasing household and enable the value of a dwelling to be divided between more than one legal entity on sale. Examples of government shared equity schemes in Australia include the WA 'Shared Home Ownership Scheme'[34] and the Victorian 'Homebuyer Fund'.[35] More recently, the newly elected federal government committed to implementing a nationwide 'Help to Buy' shared equity scheme. Under the proposed scheme, the federal government will contribute 30 per cent (existing property) or 40 per cent (new property) to the purchase price of the dwelling, allowing the purchase of a property with a deposit as low as 2 per cent, and service a mortgage on 60–70 per cent of the purchase price (Ong ViforJ, Graham et al. 2023).

32 See https://www.keystart.com.au/docs/default-source/publication-page/tfs2030_keystart_media-background_sep-19-(002).pdf?sfvrsn=324bcf18_5#:~:text=Key%20statistics%20as%20at%2028,Australians%20into%20their%20own%20home.
33 See Homestart annual report 2021–22, https://www.homestart.com.au/getmedia/4a311793-7013-4581-a5bd-3749fe56e759/202122-homestart-annual-report-final.pdf.
34 https://www.keystart.com.au/guides-and-tips/guides/all-about-shared-ownership.
35 https://www.sro.vic.gov.au/homebuyer.

2.3.2 Supply-side instruments and approaches

Government-instigated supply-side measures to promote home ownership were instrumental in supporting postwar growth of owner-occupation, but have since become far less common. Some innovative schemes have been initiated, though in general they remain relatively small-scale and are generally targeted at specific groups with bespoke needs. For example, the ACT's Suburban Land Development Authority requires developers to set aside a proportion of homes in designated schemes at 'affordable' price points to income-eligible applicants drawn from a ballot.[36]

Beyond this more direct approach, other institutional innovations and financial instruments are emerging. For example, the Build to Rent to Buy proposal aims to enable an aspiring FHB to rent while accumulating equity in that property (NHFIC 2022). The proposal sees community housing providers acting as developer, drawing on low-cost NHFIC loans, and also as manager of the property, until the tenant is able to take full ownership. Modelling work has considered how this approach could assist vulnerable groups, such as women, to access adequate affordable housing and eventually transition into home ownership (Pawson, Martin et al. 2022: 59).

Similarly the land-rent model of FHB assistance, applied in the ACT's 2008 Land Rent Scheme (LRS) enables the purchaser to acquire only the building, and not the land. In its first nine years of operation, the LRS reportedly benefited 3,200 households, with the typical participating family saving 37 per cent of the housing costs otherwise incurred by renting in the private market (Murray 2018).

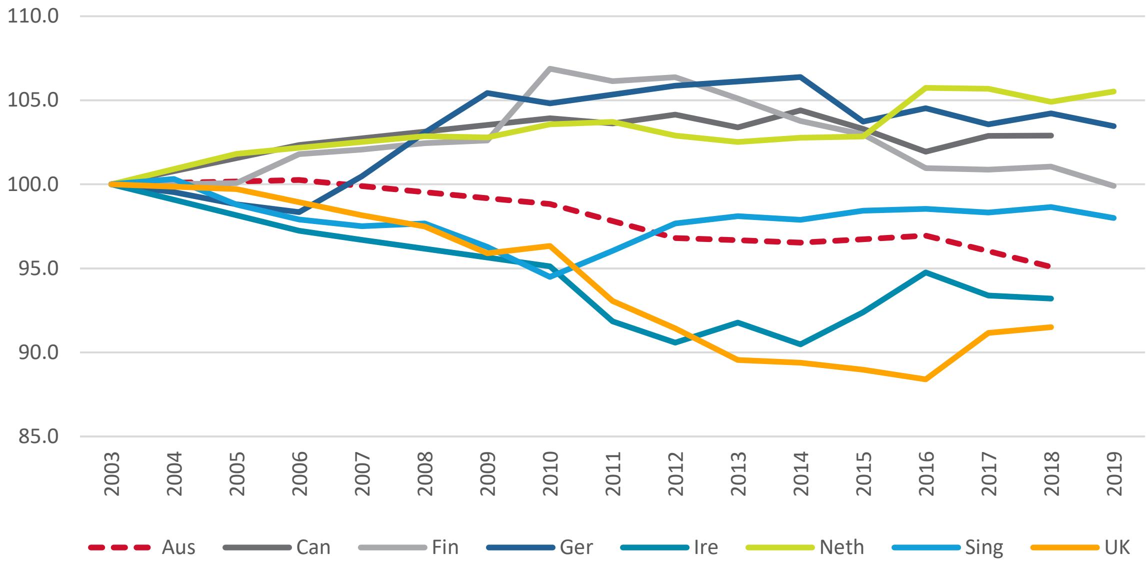
The use of planning powers to facilitate construction of affordable housing has long been a focus of research and policy advocacy, but has not been widely implemented to date by Australian state and territory governments. An exception to this is the SA Government's inclusionary zoning framework, which aims to facilitate 15 per cent 'affordable housing' in 'significant new developments and growth areas' (Gurran, et al, 2018).

2.3.3 Reflecting on relevant international policy experience

The Inquiry examined seven comparator countries via a review of online literature, and interviews with policy makers, administrators and researchers in the chosen jurisdictions. This generated a series of detailed country-specific working papers outlining home-ownership promotion policies in Canada, Finland, Germany, Ireland, the Netherlands, Singapore and the UK. Like Australia, these countries experienced rising home ownership over the 20th century, then tapering off—if not declining—over the past two decades (Figure 10).

36 ACT Suburban Land Agency, ACT, Canberra role: https://suburbanland.act.gov.au/en/what-we-do; and about the ballot process: https://suburbanland.act.gov.au/en/buying-methods.

Figure 10: Home-ownership rates, comparator countries, 2003–2019, indexed



Source: Pawson, Martin et al. (2022).

One overarching concern faced by all comparator countries, although to differing degrees, has been the fallout from the GFC and its enduring impact on housing markets. Following the GFC, financial regulators became increasingly focussed on the stability of the financial system (Bezemer, Ryan-Collins et al. 2018). Having liberalised housing credit in the late 20th century, most comparator countries subsequently imposed new rules on credit and limited access for FHBs (Pawson, Martin et al. 2018). In general, distributional outcomes are not a focus of regulators and this has led to considerable debate about the role of financial regulation and its relationship to wider social objectives (Kohl 2021; Norris and Lawson 2022; Ryan-Collins 2019; UNEP 2015).

Different national institutional contexts and policy settings have shaped the home ownership trajectories depicted in Figure 10. Research for the Inquiry identified that comparator countries have employed a diverse mix of demand-side and supply-side measures to enable FHBs to take the first step on the property ladder (Pawson, Martin et al. 2022). Similarly, a range of potential policies is used by governments to sustain home ownership (See Appendix 1, Lawson and Parkinson 2009). The exact mix of policies and the varying intensity from heavy to limited use that they have been employed are outlined in Table 4.

What distinguishes most comparator countries from Australia is the typically broader mix of supply and demand measures, in some instances incorporated within a comprehensive housing strategy. In many cases, these form part of the longstanding institutional frameworks that support home ownership. The most longstanding is the German system of Bauspar savings contracts under which customers contribute payments for a specified minimum time period, enabling them to access a favourable loan for the balance of the amount. Around 60 per cent of property purchases involve a bauspar amount and 30 per cent of Germans have a bauspar contract (Verband der Privaten Bausparkassen 2021).

Table 4: FHB-assistance measures 2021: frequency and scale of use, Australia and comparator countries

	Aus	Can	Fin	Ger	Ire	Neth	Sing	UK
Demand-side								
Financial regulation			Limited		Limited		Limited	
Grants, concessions	Heavy use	Limited	Moderate	Limited	Moderate		Heavy use	Moderate
Savings schemes	Limited	Limited	Moderate	Moderate			Heavy use	
Loans	Limited			Moderate	Limited	Limited	Heavy use	
Guarantees	Limited		Moderate			Moderate		Limited
Shared equity	Limited	Limited			Moderate	Limited		Heavy use
Supply-side								
Public assets: social-housing privatisation					Limited	Limited		Moderate
Government housing development			Limited					Heavy use
Public assets: land development			Moderate	Limited	Limited	Limited	Heavy use	
Land-use regulation				Limited	Limited	Limited		Moderate

Key: ■ *Heavy use* ■ *Moderate* ■ *Limited*

Source: Pawson, Martin et al. (2022).

Supply-side approaches to FHB assistance were found to be more common in comparator countries than Australia. For example, the production and sale of social housing to sitting tenants has been extensively adopted in England, Ireland and the Netherlands. The Dutch *Koopgarant* (Purchase guarantee) is a scheme that involves the partial transfer and rent of social housing in order to facilitate access to home ownership. The UK's shared ownership segment has been facilitated via capital grant funding, but also through land-use planning powers that mandate the inclusion of homes for low-cost sale within market housing developments. Like Germany and the Netherlands, both Finland (Helsinki land lease) and Singapore (land development corporation) highlight the potential for government to play a role in land development in a way that assists aspiring FHBs.

A key lesson from the analysis of international FHB measures is that policies appear to work most effectively when they are part of a comprehensive strategy. There are potential learning points—especially in relation to the possible scope for government to make more imaginative use of planning and land-banking. Efforts by comparator countries to promote first home ownership through land-disposal conditions and land-use planning powers may potentially be of relevance in Australia, where similar approaches have been seen, particularly in SA and the ACT. Moreover, in the UK, Germany, the Netherlands and Finland planning obligations to including homes for affordable sale as part of market housing developments often come in tandem with requirements for social and affordable rental units. Thus, a diverse range of housing choices can be created for FHBs and renters.

2.4 Policy lessons from understanding 'how we got where we are'

By examining social, economic and policy developments over time and across countries, this Inquiry has provided insight into 'how we got where we are'. The discussion has focussed on key factors that will directly inform policy. In particular:

- What role have challenges around affordability and financing the transition into home ownership played in declining rates of home ownership over the life cycle?
- How have policy settings shaped this trajectory?
- What lessons if any can be learned from the experience of other countries?

The evidence shows that there is no single explanator of the declines in home-ownership rates in Australia. Rather a broad range of social, demographic, institutional and economic drivers, along with policy choices, have shaped that outcome. Among them are:

- measures relating to the regulation of mortgage markets
- policies favouring demand-side over supply-side interventions
- credit conditions that enabled larger volumes of debt
- behavioural responses to declining access to affordable supply.

While affordability measured in terms of house prices has declined, this has been mitigated by other developments. Notably, interest rates have fallen substantially over the past three decades despite recent increases, and developments in housing finance have provided aspiring FHBs with an increasingly diverse suite of opportunities.

These changes were accompanied by numerous policy measures designed to enable first home ownership. Arguably, these measures are more modest than interventions adopted in the postwar period when home-ownership rates rose substantially. There is a broad consensus that many contemporary measures have proved ineffective in creating additionality. Demand-side measures—principally cash transfers and tax concessions to FHBs—have tended to exacerbate rather than alleviate the challenge faced by FHBs. As one industry expert notes, those demand-side measures have not created additionality but rather have simply enabled those who would have attained home ownership to achieve 'bigger, better, sooner' (Pawson, Martin et al. 2022: 92).

The research in this Inquiry has identified that unlike many other countries, policy settings in Australia have focussed almost exclusively on demand-side measures enabling or even boosting demand for mortgage credit. Other measures, such as mortgage guarantees and loan assistance schemes have grown in popularity but are unlikely to create much additionality. There is scope to adopt supply-side measures (see subsection 2.3.2), similar in some dimensions to policies adopted postwar and associated with a sustained increase in home-ownership rates. Nonetheless, there is also a need to recognise that the political willingness to adopt a suite of policies of this nature may be limited. Moreover, such an approach is not necessarily the most appropriate. Those policies were in place at a time when institutional and economic circumstances differed substantially. Were they to be revisited, they should be done so in a considered manner and as part of a more comprehensive housing strategy.

We can draw lessons from other countries in enabling first home ownership, but policy exchange and adaptation must be undertaken carefully. A key lesson from the analysis of comparator countries is the path-dependent nature of policy development, and the challenge of piecemeal adoption of settings that work in unison as part of a larger strategic approach to housing policy. For example, it is simply not feasible to use the sale of social housing as an enabler of home ownership at scale if the stock of such dwellings, as in the case of Australia, is limited. Nevertheless, it is clear that Australia lags behind in the use of land policies to promote segmented supply, and in providing sustained support for intermediate shared equity tenures.

3. Where are we now?

- **Affordability has a negative and significant impact on home ownership at age 30–34.**
- **One-quarter of the gap in cohort-specific home-ownership rates at age 30–34 remains at 50–54 years of age.**
    - FHOGs increase the extent of the catch-up experienced over time.
- **Aspiring FHBs have increasingly relied on direct and in-kind transfers from parents. These are associated with a more rapid transition into first home ownership.**
    - An additional year co-residing in the parental home lifts the likelihood of transitioning into home ownership by approximately 40 per cent.
    - Parental transfers are not received by all individuals and have the potential to increase wealth inequality over time.
- **Households report that the challenge of budgeting, planning and saving for home ownership is accentuated by insecure and inadequate employment.**
    - Income volatility presents particular challenges for aspiring FHBs, limiting the ability to finance and transition into home ownership.
- **COVID measures such as JobKeeper and HomeBuilder created opportunities for FHBs, but precarity remains, and increases in FHB activity has fallen since those measures were withdrawn.**

This section examines 'Where are we now?', describing the contemporary experiences of Australian households as they navigate the pathway into first home ownership. The discussion speaks directly to the third research question:

> **How is the pathway into home ownership shaped by developments in financial markets, precariousness in labour markets, alternative financing mechanisms and government policy?**

The discussion draws on Whelan, Atalay et al. (2023) and Troy, Wolifson et al. (2023). Whelan, Atalay et al. provide updated quantitative analysis of data from HILDA and novel analysis using the SIH. Troy, Wolifson et al. draw on novel qualitative methods to reveal the different and nuanced social pathways that result in entry into—or exclusion from—home ownership for young people. This research generated rich evidence that provides insight into 'where we are now'.

The analysis incorporates evidence gathered from the period that straddles the COVID-19 pandemic. Whelan, Atalay et al. (2023) also highlight a pattern of sustained increases in wealth among home owners, coupled with low and stagnant levels of wealth among renters. Home ownership has been the primary vehicle for wealth accumulation across successive generations of Australians (Productivity Commission 2021). The long-term decline in home ownership levels experienced by Australian households creates a potential for growing social and material divide centred on housing, and it is critical that policy settings acknowledge and respond to this challenge.

3.1 Delay and catch-up in home ownership

There is ample evidence that home-ownership rates have declined for successive cohorts of younger Australians (see Section 2.1; also Daley, Coates et al. 2018; Pawson, Martin et al. 2022; Yates 2016). Such a development may reflect a pattern whereby households are simply delaying the transition into home ownership—or, alternatively, they never attain home ownership.

A later transition into home ownership means that households are more likely to enter retirement carrying mortgage debt, potentially extending the period spent working (Ong, Wood et al. 2019). What is not clear is how such a development relates to the overall wealth portfolio decisions of households across the life cycle facilitated by other forms of saving, such as superannuation (The Treasury 2020). While understanding the motivation and implications of such a choice is beyond the scope of this Inquiry, insights into this would be highly valuable for policy purposes given alternative treatments applied to assets in the tax and transfer system.

An alternative possibility is that younger cohorts never attain owner-occupation, and remain what has been termed 'generation rent' (Hoolachan, McKee et al. 2017; Ronald 2018). Given the critical role played by owner-occupied housing in sustaining living standards in retirement (Yates and Bradbury 2010), such a development has important implications for individuals and policy makers. For individuals, welfare is likely to be substantially lower over the retirement phase of the life cycle and characterised by insecurity of tenure and low incomes after housing costs. For policy makers, such a development implies increasing reliance on transfers such as Commonwealth Rent Assistance (CRA) as individuals age and enter into retirement. This higher fiscal burden is exacerbated given evidence that existing levels of such payments are inadequate to maintain living standards which, if addressed, may require higher payment rates (Hodgson, James et al. 2018).

The analysis in Whelan, Atalay et al. (2023) for this Inquiry investigated how ownership rates evolve as cohorts age. Ideally such an analysis would have drawn on true panel data and analysed the behaviours and outcomes of successive cohorts of young Australians as they aged. In the absence of such data, pseudo-cohort analysis was undertaken in the spirit of Deaton and Muelbauer (1980), utilising successive cross-sectional data from the SIH. This novel quantitative analysis recognised and controlled for factors that are commonly associated with the transition into home ownership. The finding confirmed *a priori* expectations, identifying a negative and statistically significant impact of house prices and the ratio of house prices to income on the home-ownership rate at age 30–34. Critically, there is evidence of incomplete catch-up by 50–54 years of age. Relative to older generations, younger cohorts who have experienced lower rates of home ownership close only three-quarters of the gap by age 50–54 years. This points to a systemic decline in home-ownership rates that will increasingly be evident as cohorts age.

During the course of the Inquiry, the 2021 Census data became available. Home ownership data suggests that the decline in home-ownership rates among younger cohorts has fallen marginally (Figure 3), though in some states (Queensland) there is evidence of a slight uptick among the 25–34 year age group. The COVID-19 pandemic was exceptional, and it remains unclear if such a development represents an anomaly in historical trends or a turning point.

3.1.1 Impact of policy instruments FHOG and stamp duty concessions

This Inquiry considered the effectiveness of demand-side measures in assisting FHBs through a statistical analysis reported in Whelan, Atalay et al. (2023). That analysis identified some evidence that the First Home Owners Grant (FHOG) available to FHBs in the early 2000s increased the extent of catch-up exhibited by younger cohorts relative to those cohorts that were not exposed to the FHOG. Specifically, for those cohorts exposed to the FHOG at age 30–34 years there was no effect for 10-year catch-up but a significant effect on 20-year catch-up. The results are weak in a statistical sense, however, given the relatively small sample sizes included in the analysis.

Economic theory and existing research highlights the role that a reduction in transfer taxes, such as stamp duty, may have on the volume of transactions in residential property markets (Amior and Halket, 2014; Besley, Meads et al. 2014; Best and Kleven, 2017; Hilber, 2007; Malakellis and Warlters 2021). Analysis undertaken for this Inquiry examined the impact of lowering stamp duty imposed on FHBs in Queensland commencing 1998. This measure provided a substantially higher level of net assistance to FHBs in Queensland (the treatment group) relative to those in other states. This policy change was used to examine the change in first home ownership in the treatment group before and after 1998, relative to the change in first home ownership for the control groups (households in other states). The analysis indicated that stamp duty concessions appear to have economically and statistically significant impacts on the number of first-time dwellings financed, and thus on first-time home ownership (Whelan, Atalay et al. 2023). Nonetheless, there are a number of important limitations associated with the analysis and additional analysis on the efficacy of such policies would be highly valuable from a policy perspective, especially given ongoing land tax reform in the ACT and NSW (subsection 2.3.1).

3.2 An increasingly important source of finance: mum and dad

National and international evidence points to parental transfers as an increasingly important source of finance for first home ownership. Over the past two decades, the value of inheritance in Australia has more than doubled, and the value of gifts has more than trebled (Productivity Commission 2020), and existing AHURI research has identified large *inter-vivos* transfers and bequests as being associated with more rapid entry into first home ownership (Barrett, Cigdem et al. 2015; Cigdem and Whelan 2017). Internationally, similar patterns have been identified for the US (Lee, Myers et al. 2020), the UK (Meen and Whitehead 2020; Scanlon, Blanc et al. 2019) and Italy (Guiso and Jappeli 2002), among other countries.

Parental transfers may have a number of different consequences for home ownership. For example, they may reduce the time required to accumulate savings and hasten the transition into home ownership. Alternatively, transfers may impact on the level of mortgage debt taken on by FHBs or be used to purchase additional housing services (Luea 2008). Analysis of HILDA data provided evidence of the influence of assistance in obtaining ownership, revealing that receipt of a bequest is associated with doubling in the rate of the transition into home ownership compared to those not receiving a bequest (Whelan, Atalay et al. 2023). Similarly, the transfer of $10,000 is associated with approximately a 90 per cent increase in the likelihood of transition into first-time home ownership.

In-kind transfers in the form of parental co-residence also play a potentially important role in facilitating first home ownership, with estimates identifying savings in the order of $300–$400 per week associated with this form of tenure (Productivity Commission 2020). Research for this Inquiry (Whelan, Atalay et al. 2023) found that for each additional year spent residing in the parental home at zero cost (that is, no payment of board), the likelihood of transitioning into home ownership increased by approximately 40 per cent relative to additional time spent renting. Interestingly, additional time spent residing in the parental home and paying board is associated with a slightly higher transition rate again. The impact of residence on the transition into home ownership is similar to that reported in Ong ViforJ, Clark et al. (2023) and serves to highlight the role of non-traditional sources of finance in enabling the transition into home ownership (see too Atalay, Silva-Goncalves et al. 2022).

It is important to note that transfers from parents are unlikely to be available to all aspiring FHBs. Parental wealth and the capacity to draw on that wealth is distributed unevenly (Kaplan 2012). In Australia there is evidence that disadvantaged young adults are less likely to receive direct or in-kind support relative to their more advantaged peers (Bubonya and Cobb-Clark 2021; Cobb-Clark and Gørgens 2014).

Research conducted for this Inquiry found that financial transfers from parents to children tend to be more likely to be received by those who transition into home ownership.[37] In turn, sustained increases in house prices over time has meant that home owners have experienced substantial gains in wealth relative to those who remain renting. This highlights a need for further research to understand parental transfers and their implications for shaping housing and wealth outcomes over time and across the life cycle. At a minimum, policy would recognise this increasingly important development. Ideally, policy settings would take into account those transfers and be tailored accordingly. While there is some evidence that familial transfers do not exacerbate inequality (Productivity Commission 2022), a better understanding of those transfers, their motivation and implications, especially for home ownership, would be highly valuable.

3.3 Contemporary household experiences in the transition to home ownership

Troy, Wolifson et al. (2023) undertook novel qualitative research to document the experiences of young Australian households navigating the pathway to home ownership. That study included a sample survey (n=867) of young Australians aged 25–34 years with respondents in Sydney and Perth. A novel additional component of this research, and a first for Australian housing research, was the use of 'financial diaries' as a method to enable the study of cash flows of aspiring FHB households (Morduch and Schneider 2017).

One of the most important themes that emerged from the analysis was the central role that attaining owner-occupation plays in Australian society. Home ownership was identified as a core component of how Australians imagine their life course, and necessary for future wellbeing. Almost all the participants in the study expressed a strong desire for home ownership, especially those with, or planning to have, a family. Those aspirations are expressed succinctly and directly by respondents:

> I mean, who doesn't like home ownership? What kind of question is that? … You need to have a place to stay. I mean, like, your own place, your own happy place, your home sweet home. (Sydney-12)

> My really big goal has always been to be able to get my own place … I would say, like, the most important thing [is home ownership]. (Sydney-09)

> Really important, like massively … It's always something that I've wanted—to own my own home. (Perth-05)

37 The causal nature of this relationship is challenging to identify in an empirical sense. There is a detailed discussion of that issue in Whelan, Atalay et al. (2023).

Much discussion has focussed on the price of housing and the challenge associated with the deposit hurdle. Troy, Wolifson et al. (2023) focussed attention on the impact of employment stability and developments in household income for the strategies adopted by aspiring FHBs. The analysis argued that explicit attention be given to the impact of broader structural influences on housing outcomes, especially the increasingly precarious nature of relationships in the labour market. Whereas older generations experienced relatively secure employment, facilitating the accumulation of savings over time and thus enabling mortgage finance to be secured, this is now becoming the exception rather than the norm. Understanding how households navigate the financial and economic environment they face is critical for formulating policies that will enable home ownership to be attained.

The survey identified that young households are facing a diminished ability to save for a deposit on the basis of earnings. Among survey respondents in the 25–34-year-old bracket, 39 per cent in Sydney and 44 per cent in Perth experience volatility in take-home income. Insecure and inadequate work, rising house prices and increasing cost of living impacts on their ability to budget, plan and save for a home of their own. Housing outcomes and labour market experiences are highly correlated: 72 per cent of owners reporting being in full-time employment compared with only 41 per cent of renters. A large proportion of young households surveyed reported short-term and inadequately compensated employment: 70 per cent of households had held multiple jobs in the previous five years and 40 per cent were actively searching for additional sources of income.

Many households adopted a set of strategies to supplement income. These included buying shares, dual-income earning, and taking on additional shifts or employment. Investment strategies include acquiring interest in property, with some individuals having purchased property but not being owner-occupiers. Five per cent and 2 per cent of 25–34 year olds in Sydney and Perth, respectively, can be identified as ‘rent-vestors’ and approximately 40 per cent had non-property investments. Adoption of these types of strategies reflected the size of deposits required for housing purchase and the considerable savings challenge this created. In many cases, respondents reported that savings from wages alone could not keep pace with the rapid asset price inflation that has been experienced over the past decade—meaning that, over time, the deposit required to attain home ownership increased more rapidly than their capacity to save. For many, the only way to bridge this gap was through lump sum gifts from family, further confirming the conclusions of Whelan, Atalay et al. (2023) about the role of family in supporting home ownership.

Analysis of financial diaries confirmed variability in household finances (income and expenditures) as a key challenge for household planning and savings (Troy, Wolifson et al. 2023). That variability induces behavioural responses, with households identifying trade-offs in location, housing quality and lifestyle. Spending habits changed, including making bulk purchases, eating at home and not ordering takeaway food. Saving and budget-smoothing techniques routinely employed included:

- limiting expenditure
- living with parents
- paying in cash
- using mortgage offset accounts (for those that had transitioned into home ownership)
- overpaying bills
- using multiple savings accounts to reach different long-term and short-term saving goals (Troy, Wolifson et al. 2023).

These actions reveal that households are acutely aware of what is required to attain home ownership and the development of muti-faceted strategies to achieve that goal. The analysis identified the varied, calculated and deliberate responses of households.

There was also evidence that long-term compromises to household welfare are being made to attain owner-occupation. Respondents reported that superannuation savings are eroded and self-employed households are forgoing contributions altogether to save for a home deposit (Troy, Wolifson et al. 2023). The use of superannuation savings is noteworthy given calls for households to be able to access these funds for the purpose of acquiring home ownership. Like other measures that increase the funds available for FHBs, there is a consensus among housing experts that a policy that enabled superannuation savings to be accessed for this purpose would likely inflate house prices (House of Representatives Standing Committee on Tax and Revenue 2022: 81–84).

Strategies to negotiate employment precarity and lack of income also include greater reliance on family wealth and in-kind support. A significant share of young households anticipate some form of family assistance (40 per cent) in order to purchase housing. This expectation is accentuated by housing market context: family support is perceived as (or is) a necessity in Sydney, whereas ownership transitions still seemed independently possible in the Perth context. While much has been made about the size of financial support, one of the key dimensions emerging from Troy, Wolifson et al. (2023) was the in-kind dimension that was not measured purely in dollar terms. For some living at home, variations in expenses in particular could be minimised and smoothed, providing a more stable environment for younger people to plan their savings.

Emphasising the defining role that home ownership appears to play in Australian society, households identified being under pressure to make a purchase. There was a fear that rising prices or time-limited government assistance would not be within reach, or would be inadequate to contribute to the attainment of home ownership. This is not to say that home purchase is some kind of irrational cultural phenomenon, rather that participants implicitly understood the complex economic, social and cultural way in which home ownership was establishing the basis for their and their children's future. For many this understanding had implications across multiple life-cycle decisions, including making decisions about when to have children.[38]

Historically, the motivation of government to support home ownership has had at least some basis in particular notions of family and cultural formations, and considerable support has been provided for home ownership for these reasons. Yet despite the size of financial support provided by governments, the findings from the quantitative analysis highlight that recipients effectively needed to be in a position to buy without government assistance (Troy, Wolifson et al. 2023). This reaffirms the conclusion of other analysis undertaken as part of this Inquiry (Pawson, Martin et al. 2022; Whelan, Atalay et al. 2023), that FHB policies, as traditionally articulated, may bring forward purchase but do not impact overall rates of home ownership.

Troy, Wolifson et al. (2003) argue that employment security was foundational in home ownership outcomes during the 20th century—however, government housing policy in recent decades has not considered this (see too Troy (forthcoming)). Industrial relations policies that have ushered in flexible work arrangements and weakened the bargaining power of labour have not considered the impacts on home ownership. The fragility of this arrangement is now becoming clearer as interest rates rise, and rents increase at the same time that real wages fall. Should home ownership be maintained as a core commitment of government, then weight needs to be given to non-housing policy domains that indirectly influence housing outcomes.

38 Ang, Atalay et al. (2021) present evidence that among Australian households, actual and planned fertility is impacted by house prices.

Impact of COVID on affordability and FHB strategies

Troy, Wolfison et al. (2023) demonstrate how the COVID-19 pandemic exposed the fragility of employment relationships that in recent years have become increasingly casual, short-term and precarious (Stanford 2017). For aspiring FHBs, these features make the challenge presented by higher house prices and declining affordability even more pronounced. Measures such as JobKeeper, HomeBuilder and mortgage deferrals created a buffer against the immediate impacts of COVID-19, and for some this enabled a continuation of planning for home ownership. As these schemes were wound back over the course of the Inquiry, the nature and consequences of the insecurities in employment and income and its implications for aspiring FHBs became more apparent.

The COVID-19 policy response showed the capacity of policy to address some of the precarity in labour markets and the financial lives of households, but this ambition has not been carried forward into the present. Perhaps the biggest legacy on prospective home purchases was the asset price inflation that occurred right across Australia during 2021 in particular, worsening the prospects for some purchasers who increasingly feared being unlikely to attain home ownership (Konings, Adkins et al. 2021).

3.4 COVID-19 and FHB activity in Australia

The COVID-19 pandemic represented a 'once in a century' economic shock (see Section 1.5). Throughout 2020 and 2021, house prices rose rapidly, although the impact on affordability was tempered by record low interest rates and unprecedented levels of government assistance directed at the housing sector. Those policies are described in detail in existing AHURI work, most notably Leishman, Aminpour et al. (2022). Throughout this period, house prices rose rapidly and FHB activity increased to its highest level since the GFC (Figure 11). It was also the case that the increase in FHB activity during the GFC was closely associated with substantially higher levels of demand-side measures. Pawson, Martin et al. (2022) note that over a three-year period beginning with the start of the GFC, the temporary increase in FHB assistance led to a zero net increase in FHB activity relative to the period prior to the GFC.

Some evidence that the measures implemented during the pandemic will not provide a systemic increase in owner-occupation is revealed in data released as the RBA aggressively increased interest rates starting May 2022. New loan commitments to FHBs, as well as construction and purchase of new dwellings (seasonally adjusted) had declined sharply from the COVID-19 peaks (Table 5).

Figure 11: Number of loans to owner-occupier FHBs, 2004–2022

Source: https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release#housing-finance-detailed-

Table 5: Change in new loans for housing, September 2021–2022

New loans/purpose	Number (Sept 2022)	Monthly Change %	Year change %
Construction of dwellings	3,682	−9.9	−22.0
Purchase of newly erected dwellings	1,592	−7.9	−33.0
Purchase of existing dwellings	21,705	−7.6	−20.9
Loans to FHBs	8,485	−8.3	−29.2

Source: Australian Bureau of Statistics 2022, *Lending indicators*, https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release.

3.5 Policy lessons from 'where we are now'

The analysis undertaken during the Inquiry has highlighted the structural decline in home-ownership rates, not simply the delay in attaining owner-occupation. Put simply, aspiring FHBs are not making that first step on the property ladder and many never will. Where individuals do navigate the transition into home ownership, the path is more complex and less linear than for earlier generations. Aspiring FHBs have responded by developing multifaceted strategies that create opportunities to reach an aim that is deeply embedded in Australian society but which looks increasingly out of reach. Those strategies transcend developments in housing markets and reflect developments in other spheres, including labour markets. Perhaps, more than anything, this highlights that housing policy and first home ownership is not just about housing. The capacity of individuals to attain and sustain owner-occupation is influenced by a wide set of considerations.

One theme that emerged from the Inquiry is that extended family support is increasingly important to make that transition and fill the gap presented by house prices and the capacity of households to pay. Familial support can take numerous forms but that assistance is unlikely to be available to all individuals who aspire to enter home ownership. Moreover, existing policy settings do not recognise when that support is received and, perhaps more critically, respond to the absence of a broad range of support that individuals can potentially draw upon. Discussions with Inquiry Panel members highlighted that conditioning FHBs' measures on familial support is unlikely to be feasible. Nonetheless, what the findings from the Inquiry do point to is the need for FHB assistance measures to be well targeted, creating opportunities for those who may otherwise be excluded from attaining home ownership. This is particularly important given the role played by housing in wealth accumulation over the life cycle. Moreover it points to the potential for a divide to develop defined by home ownership over time. Policies adopted extensively to date, such as FHOGs and stamp duty concessions, have at best been poorly targeted.

The assistance provided to FHBs over time has been substantial (see Section 2), and there is evidence that it has brought forward home ownership for some individuals. However, the lesson from the GFC is that similar policy measures to those adopted during the COVID-19 pandemic did not create additionality—they did not lead to a long-term systemic increase in home-ownership rates. Moreover, concerns that were paramount during the pandemic have been replaced by fears around the sustainability of home ownership as interest rates rise. It is in this context that we now consider how economic circumstances and policy settings may impact home ownership in the future.

4. Where can we go from here?

- **Improvements in affordability from lower borrowing costs over the past two decades have been more than offset by the larger downpayments required.**
  - Lower interest rates contributed to approximately one-third of the house price increase since the 1990s.
- **Prudential regulation allowing higher LVRs may improve FHBs' prospects by allowing households to borrow more against rising house values.**
  - Looser MPPs carry an inherent risk for households (and the economy more broadly) as they facilitate higher borrowing.
- **Aspiring FHBs face both downpayment (84 per cent) and repayment constraints (71 per cent).**
- **Mortgage guarantee schemes alleviate the downpayment constraint while shared equity schemes alleviate both constraints faced by FHBs.**
  - Modelling indicates that a mortgage guarantee scheme similar to the Home Guarantee Scheme (HGS) assists 22 per cent of eligible aspiring FHBs, while a shared equity scheme such as Help to Buy (HtB) assists 41 per cent of eligible aspiring FHBs.
  - Schemes designed to enable first home ownership need to be carefully designed to ensure they are targeted, and that assisted households are not exposed to excessive risk associated with mortgage debt.

A novel contribution of this Inquiry has been the simulation of policy measures and economic developments that impact on the ability of aspiring FHBs to finance home ownership. A detailed description of the analysis is set out in Ong ViforJ, Graham et al. (2023) and is designed to speak directly to the fourth research question:

> **How might entry into home ownership evolve in response to specific policy settings and what are the implications of this for housing markets and the broader economy?**

The policy measures analysed have been shaped by insights from other projects that form part of the Inquiry, along with input from Inquiry Panel members. Specifically, they represent demand-side measures identified in Table 3. The policy settings considered are similar to schemes currently in place or that have been proposed to address the challenge faced by FHBs. The approach is economic in nature, drawing on macroeconomic (Section 4.1) or microeconomic (Section 4.2) simulation techniques that allow the consequences of policy settings or economic circumstances to be readily quantified.

4.1 Macroeconomic simulation of housing markets

Over the past three decades, interest rates have declined steadily in Australia, a development accompanied by significant increases in house prices and a decline in the home-ownership rate (Figure 1 and Figure 3). The macroeconomic modelling reported in Ong ViforJ, Graham et al. (2023) seeks to quantify how these developments are related, and to model changes that impact on the capacity of FHBs to finance home ownership. The changes examined include:

- the decline in interest rates
- prudential regulations associated with limits on LVRs that directly determine borrowers' borrowing capacity.

The model captures differences in the experiences of household outcomes, namely home ownership, as well as changes in housing markets, such as house prices. This analysis represents the first comprehensive macroeconomic modelling of Australian housing markets and is a novel contribution to the nascent literature.

The macroeconomic modelling captures the key relationships between economic variables that influence the outcomes experienced by FHBs, and provides insight into how policy may shape outcomes.

Consider a decline in mortgage interest rates. A priori we would expect that the resulting decrease in the cost of servicing mortgage debt leads to an increase in demand for housing by aspiring FHBs and those residing in owner-occupied housing. That increase in demand will, in general, lead to an increase in prices given that housing supply is relatively inelastic. Any increase in house prices in turn reduces the capacity of households currently owning to purchase additional housing and limits the ability of aspiring FHBs to transition into home ownership. In a market setting, the outcome that eventuates requires prices to adjust to ensure that the demand for housing matches the supply of housing available.

Capturing in a tractable manner how the interactions of market participants (households) determine market outcomes in a dynamic setting is challenging (RBA 2019). Equilibrium in the housing market should reflect differences (such as preferences and borrowing constraints) across individuals as they age through the course of the life cycle. There is also an overarching requirement that a market equilibrium exists so that the decisions of participants in housing markets are consistent. At the individual level, households are assumed to be heterogeneous, with the demand for housing being influenced by age, income, family circumstances and household wealth. Household choices are also constrained by considerations such as maximum LVRs that limit borrowing capacity. The model is dynamic and recognises that demand will vary over time as households progress through the life cycle. In aggregate, the demand for housing by individual households will constitute market demand. That market demand for housing must equal the available housing supply and prices will adjust to ensure equilibrium is attained. The model is then used to examine shocks to mortgage finance conditions and consider the implications of these shocks for housing markets—and for FHBs specifically.

4.1.1 Long-run decline in interest rates

In the two decades beginning from the mid-1990s, real interest rates in Australia declined by approximately 5 per cent.[39] This decline had important consequences for mortgage holders that were able to service significantly higher levels of debt. The macrosimulation model allowed the effect of the decrease in interest rates on house prices to be isolated and the implications for FHBs to be quantified.

The analysis showed that the decline in interest rates was associated with approximately one-third of the increase in house prices over this period. By implication, while the cost of servicing a given level of mortgage debt fell substantially, this was offset as the price and upfront cost of housing in the form of the deposit requirement increased significantly. These developments are particularly salient for FHBs who tend to be younger, experience lower incomes and have accumulated fewer household assets. For FHBs, the benefit derived from lower interest rates in terms of servicing mortgage debt was more than offset by the increased deposit required to purchase a house. Put succinctly, the analysis indicated that decreases in interest rates experienced from the mid-1990s exacerbated rather than alleviated the challenge faced by aspiring FHBs and contributed to the decline in home ownership among younger cohorts.

4.1.2 Implications of borrowing constraints for FHBs

Financial regulators such as APRA prescribe the terms under which mortgage finance may be provided (see subsection 1.2.2). These norms and standards, generally referred to as MPP, delimit the borrowing capacity of borrowers. In doing so, they frame the amount that is borrowed and by implication the set of dwellings that are affordable.

The second experiment using the macroeconomic model examined the implication of changes to the allowable LVR on housing mortgages. For a given downpayment, the LVR determines the maximum affordable dwelling available to a buyer. Variation in allowable LVRs is important for FHBs, as they must rely on savings or other transfers to meet the downpayment constraint.[40] To consider the effect of changes in MPP, the macroeconomic model was run varying the maximum LVR between 0.6 and 1.0. The lower value represented a loosening of borrowing constraints relative to the LVR of 0.85 in the baseline model. An allowable LVR of 1.0 effectively eliminated the deposit requirement and allowed households to borrow the full cost of a dwelling. These experiments demonstrated how curtailing or encouraging more borrowing would have changed market outcomes as interest rates declined over the past 25 years and identify the consequences of changes in MPP for FHBs.

The macroeconomic model indicated that with tighter LVR constraints house prices would have increased by less relative to the baseline case. Intuitively, as interest rates fell, a lower ability to leverage the purchase of housing led to a smaller increase in housing demand and, in turn, smaller increase in house prices. Conversely, with looser LVR constraints, house prices would have increased by more relative to the baseline case. Thus, a greater ability to leverage the purchase of housing would lead to a greater increase in housing demand and greater increase in house prices. In turn, home-ownership rates are shown to fall by a smaller amount if LVR ratios were decreased from 0.85 to 0.6, and fall by a larger margin if LVRs were increased from 0.85 to 1.0.

Critically, younger households were most impacted by reductions in maximum LVRs. Given the downpayment requirement faced by home owners, it is young households that are most constrained by lower allowable LVRs, despite the relatively lower house prices induced by tighter prudential regulations. For this reason, in Ireland FHBs were permitted higher LVRs in recognition of the significant constraints they faced in the absence of accumulated equity to draw upon (Cassidy and Hallissey 2016). In contrast, the macrosimulation indicated that easier mortgage credit in the form of higher maximum LVRs could enhance the attainment of owner-occupation by FHBs as young households could borrow more in face of rising house values. However, while such changes would have led to increases in home-ownership rates, it would have also been associated with higher house prices and greater mortgage debt burdens.

39 In 1994, the interest rate on mortgage debt was approximately 6.81 per cent, falling to 1.89 per cent by 2017.

40 A series of studies have considered the impact of changing MPPs in Ireland. See Waldron (2018); Duffy (2012); and Waldron and Redmond (2014).

The macrosimulation indicated that looser restrictions on mortgage borrowing may help to offset the difficulty of first home purchases in a low-interest-rate, high-house-price environment. This finding is at odds with much of the recent discussion of 'counter-cyclical mortgage macroprudential policies' (see APRA 2021). Ong ViforJ, Graham et al. (2023) recognise the greater risks associated with an increase in mortgage borrowing, but note that there is a policy trade-off between housing affordability and financial stability in low interest rate environments (RBA 2022).

4.2 Microeconomic simulation of FHB assistance

The reliance on direct financial subsidies such as FHOGs and concessional stamp duty arrangements to assist FHBs has been discussed in Section 2.3. More recently, the deposit constraint has been increasingly recognised as a critical barrier to financing first home ownership (subsection 2.3.1). Ong ViforJ, Graham et al. (2023) report results from a microeconomic simulation of the effects of two policies, the parameters of which are based on current programs designed to assist FHBs. They are:

- a mortgage guarantee scheme designed to alleviate the downpayment constraint faced by FHBs, reflecting the settings associated with the HGS.
- a shared equity scheme that addresses both the downpayment and repayment constraints, and is modelled after the HtB program.

Both of these simulations use the AHURI-3M model and identify income units that may be eligible for assistance programs designed to enable first home ownership.[41]

The AHURI-3M model is operationalised using the 2018 HILDA dataset and contains five key elements:

- housing market actors
- the tax benefit module
- housing demand
- identification of after-tax economic costs of owning a dwelling
- mortgage markets and borrowing constraints (Wood and Ong 2008).

These elements make it possible to determine tenure preferences along with the set of income units constrained from entering home ownership by virtue of the downpayment or repayment requirements that accompany the debt-financed purchase of a dwelling. For example, the model identifies that the majority of aspiring FHBs face borrowing constraints that prevent them from achieving home ownership. Among that set of income units:

- 84 per cent are constrained by the downpayment requirement, as they have insufficient savings to meet a 10 per cent deposit requirement
- 71 per cent face repayment constraints
- 66 per cent (two-thirds) face both constraints.

By incorporating key elements of policies designed to enable home ownership, the model identifies how many income units are potentially assisted by a scheme and the characteristics of those income units.

41 An income unit is defined as a group of two or more related people within the same household who share their income and savings, so eligibility for homeownership assistance programs is usually determined on the basis of the income unit rather than the household, as the latter may comprise unrelated people who do not share income or savings.

4.2.1 Scheme eligibility

The first simulation—a mortgage guarantee scheme—captures key features of the HGS currently in place for aspiring FHBs. The scheme is targeted at those who have accumulated a deposit of at least 5 per cent but less than 20 per cent of the property price. Property price and income thresholds apply to the scheme and these differ by geographical location. Price thresholds of the NHG from 2021 are used in the simulations.

The second simulation—a shared equity scheme—is modelled after the HtB program. This scheme is targeted at aspiring homebuyers who have saved a deposit of at least 2 per cent of the property price. Price and income thresholds apply to applicants wanting to participate in the scheme, with the price limits under HtB the same as those under the NHG, but with stricter income limits.[42]

Of the 1.6 million rental income units that are identified as aspiring FHBs, the analysis identifies 266,500 income units (16%) as eligible under the mortgage guarantee scheme, while 496,800 (31%) are eligible for the shared equity scheme. Although income limits are higher under the former scheme, that scheme imposes a higher deposit requirement than the shared equity scheme. Thus, the shared equity scheme is accessible to a larger number of income units than the mortgage guarantee scheme.

Characteristics of those who are eligible for support under the two schemes are presented in Table 6. Income units eligible for the mortgage guarantee report higher incomes, reflecting a larger share of couples than under the shared equity scheme. Eligible income units under the mortgage guarantee are also more likely to be university-qualified and employed, while eligible income units under the shared equity scheme are more likely to be categorised as savers. While not reported in Table 6, those who are eligible under both schemes identify a 12 per cent chance of losing their job in the next year—which is higher than the population average. This speaks to the question of policies not simply enabling home ownership, but also doing so in a sustainable manner.

Table 6: Characteristics of income units eligible for the mortgage guarantee and shared equity schemes

Characteristic	Mortgage guarantee	Shared equity
At least 1 person aged >35 yrs in income unit (%)	21.63	25.75
Couple (%)	52.35	27.62
Sole parent with dependents (%)	1.17	2.90
Single never married (%)	45.39	63.74
Suffers from long-term health condition (%)	5.99	5.88
Gross financial year income unit income ($)	89,545	56,462
Non-housing income unit liquid wealth ($)	51,871	57,453
Do not save (%)	12.37	7.25
Has university degree (%)	42.42	36.08
Employed (%)	96.56	93.28

Source: Authors' own calculations from the microsimulation model (Ong ViforJ, Graham et al. 2023).

42 Full details can be found in Ong ViforJ, Graham et al. (2023).

A key lesson from the Inquiry projects and the Inquiry Panel is that there are numerous housing markets in Australia. Significant differences in prices exist across geographically distinct markets and FHB activity varies significantly across Australia.[43] The geographical and distributional consequences of the HGS are presented in Table 7. Around three-quarters of those who would be eligible for assistance under both schemes reside in metropolitan areas, a number similar to the proportion residing in such areas across Australia. However, low-socio-economic status residents are disproportionately represented among those who are eligible for assistance under the schemes, a pattern that reflects the targeted nature of the programs and the income limits that define eligibility. Income units eligible for the shared equity scheme are more likely to reside in more affordable housing markets such as Perth and Adelaide than those eligible for the mortgage guarantee. The distribution of eligible income units also indicates that those eligible for the shared equity scheme are more concentrated among the low-to-moderate Socio-Economic Indexes for Areas (SEIFA) quintiles than those eligible for the mortgage guarantee.

Table 7: Geographical profile of eligible versus ineligible income units under each scheme, per cent by column

Location	Mortgage guarantee	Shared equity
Major statistical region		
Sydney	41.18	36.77
Rest of NSW	6.09	5.76
Melbourne	21.28	18.85
Rest of VIC	1.42	4.07
Brisbane	9.42	10.43
Rest of QLD	11.70	8.28
Adelaide	1.95	3.88
Rest of SA	0.28	0.95
Perth	0.38	1.67
Rest of WA	0.99	1.13
Tasmania	3.35	2.49
NT	1.03	4.06
ACT	0.93	1.66
All metro*	75.14	73.26
SEIFA quintile		
Lowest quintile	25.67	25.24
2nd quintile	17.87	18.64
3rd quintile	20.77	24.70
4th quintile	21.42	12.96
Highest quintile	14.28	18.47

*Notes: * Metropolitan areas are Sydney, Melbourne, Brisbane, Adelaide, Perth and the ACT combined.*

Source: Authors' own calculations from the microsimulation model.

43 See state by state analysis relating to Table 7 in Burke, Nygaard et al. (2020).

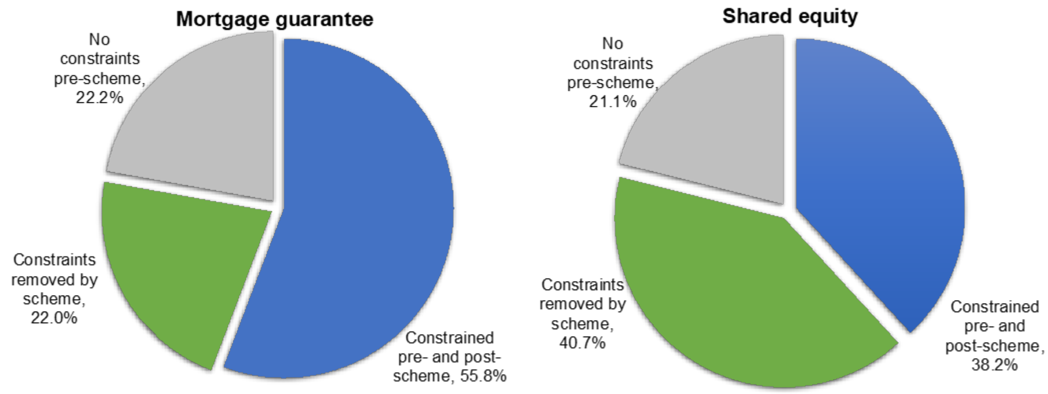
4.2.2 Scheme effectiveness

A key question of interest from a policy perspective is how many eligible households are actually assisted into first ownership by each scheme? This is addressed in Figure 12. Around 20 per cent of households are not constrained prior to each scheme being available, but which nonetheless can access the scheme.

Under the mortgage guarantee scheme, around 20 per cent of all income units are assisted into home ownership by having constraints removed by the scheme. Among income units that are downpayment-constrained, the mortgage guarantee scheme alleviates this barrier to entry. For those who remain constrained despite being eligible for the scheme, this largely reflects inadequate savings to overcome the downpayment constraint[44] despite the requirement of a deposit as low as 5 per cent. Repayment constraints that are unaddressed by the scheme also constrain some income units.

The proportion of those assisted into home ownership under the shared equity program is higher, with over 40 per cent of aspiring FHBs finding that both downpayment and repayment constraints are removed by the scheme. Intuitively, the shared equity scheme addresses both the downpayment and repayment constraints, so it achieves a higher assistance rate among eligible income units than the mortgage guarantee, which addresses only the downpayment constraint. The shared equity program requires only a 2 per cent deposit for aspiring FHBs and this low threshold means that almost all downpayment-constrained households are potentially assisted into home ownership. Because income units are only required to purchase 65 per cent of the equity in the dwelling, the shared equity scheme relaxes the repayment constraint for a large number of income units.

Figure 12: Pre-scheme and post-scheme constraints of eligible income units under each scheme, total per cent and population counts



Notes: There are 266,503 eligible income units in total under the mortgage guarantee scheme, and 496,784 under the shared equity scheme.

Source: Authors' own calculations from the microsimulation mode (Ong ViforJ, Graham et al. 2023).

44 The downpayment constraint includes the deposit requirement and stamp duty on home purchase.

4.3 Policy lessons from the simulation models

The policy analysis reported in Ong ViforJ, Graham et al. (2023) provides insights into 'where we can go from here'. Informed by other projects in the Inquiry, current government settings, international experience and the Inquiry Panel, those models represent an invaluable resource for evaluating future policy proposals.

Macroeconomic modelling highlights the complex nature of housing markets, and the trade-offs inherent in policy settings. For example, low interest rates assist in the ability of households to service a mortgage but are likely to be associated with higher house prices. Indeed, the low-interest rate environment Australia has experienced recently has unwound rapidly and house prices began to fall as mortgage financing conditions tightened. Housing markets characterised by a persistent rise in interest rates and decline in prices may yet see the return of young households to the housing market (Productivity Commission 2004). However, what cyclicality in housing markets and the experience of FHBs does highlight is the need for housing policy to be robust and embody principles that ensure long-term sustainability in outcomes and effectiveness.

Lessons drawn from international experience and the macrosimulation model highlight the need for care in adopting prudential regulations to achieve policy outcomes. While tighter prudential regulations may limit pressure on house prices, they have a disproportionately large impact on FHBs. The microsimulation analysis also directly informs policy, identifying why income units are constrained and how policy can alleviate those constraints. Downpayment constraints are particularly important in high-priced housing markets, where the accumulation of savings for a deposit is taking an increasing amount of time. The microsimulation analysis highlighted that it is critical to understand who benefits from policies designed to assist FHBs. A key criticism of existing policies such has FHOGs is that they are poorly targeted and simply bring forward entry into home ownership (Productivity Commission 2022). Schemes such as mortgage guarantees and shared equity provide an opportunity to create additionality. The design of such schemes, especially income limits, is critical to ensure that they are targeted and increase the opportunity of home ownership among those who are at the margin of purchasing—or would otherwise be unlikely to do so.

Further, the design of policy needs to guard against unintended consequences that may occur post-entry into home ownership. FHB assistance schemes can push up prices in entry markets if not matched by an adequate supply of houses in these markets. The microsimulation analysis identified that eligible home buyers under the policies modelled report more precarious employment profiles than those who are ineligible. It is worth reiterating the challenge of precarity in employment faced by aspiring FHBs, discussed in Section 3.3 and detailed in Troy, Wolifson et al. (2023). This speaks directly to the ability of home buyers assisted under the schemes to sustain long-term mortgage commitments. Looser restrictions on mortgage borrowing support entry into first home ownership, but may lead to higher financial risks associated with post-purchase mortgage arrears or default.

5. Pathways to home ownership and policy-development options

When this Inquiry began, the Australian and global economies were grappling with a ‘once in a century’ pandemic. The reactions by central banks and governments to this challenge were unprecedented. One unforeseen consequence of those measures was a rapid increase in house prices, which has added to long-running concerns regarding a lack of home purchase affordability for FHBs. Ironically, as the Inquiry ends, fears have arisen around declines in house prices. This has been accompanied by growing anxieties regarding excessive household debt and the prospect of households facing significant mortgage stress in light of sharply rising interest rates, combined with broader concerns around inflation and low wage growth.

What remains unchanged is a realisation that the challenges of transitioning into home ownership persist. Importantly, entering home ownership is inextricably linked with financing that transition. Early evidence suggests a recent spike in FHB activity appears to have reflected households bringing forward home ownership in response to low interest rates and COVID-19-related policy measures. As those circumstances have changed, FHB activity has slowed considerably—in a similar vein to the experience of the GFC.

Over the past decade, a number of policy measures designed to directly address the financing challenge faced by FHBs were put in place. Those policies included expansion or introduction of measures to address the deposit hurdle faced by aspiring buyers—notably low-deposit mortgage schemes and shared equity purchase programs. Such measures are not novel, having previously been adopted in other countries. Nor have they necessarily proved to be effective or popular. Moreover, their expansion has coincided with deployment of measures such as FHOGs and tax concessions that are widely considered to be ineffective and poorly targeted.

Future policy actions designed to enhance opportunities for FHBs must recognise the need for home ownership to be *sustainable*. It is unlikely that policies that simply seek to maximise levels of owner occupancy are desirable. Indeed, since housing is an interconnected system, it is essential that measures to enable home ownership are integrated within the wider strategy that it is hoped will emerge under the federal government’s National Housing and Homelessness Plan.

5.1 Research questions this Inquiry addressed

The policy development options this Inquiry identifies are informed by the set of research questions considered.

> **How has entry into home ownership changed over time, and is there evidence of convergence in patterns of home ownership across the life cycle for successive cohorts of Australians?**

The analysis in Whelan, Atalay et al. (2023) identified that younger cohorts are not simply delaying home ownership, they are less likely to achieve home ownership as they age, despite the commitment of over $37 billion in cash grants alone by Australian governments since the mid-1960s to assist FHBs (Pawson, Martin et al. 2022). Despite (or perhaps because of) these policies, home-ownership rates continue to decline among younger adults, emphasising the need to re-assess past and current policy settings. Lower rates of home ownership as cohorts age may be alleviated by other developments, such as the increasing maturity of the superannuation system (Commonwealth of Australia 2021) or additional familial transfers and inherited wealth (Productivity Commission 2021). This Inquiry identified evidence that—for some—intra-family support, both direct and in-kind, is alleviating credit constraints that impede entry into home ownership (Troy, Wolifson et al. 2023; Whelan, Atalay et al. 2023). While limiting economic and financial constraints that curtail the transition into home ownership, it has implications for public policy. The capacity of families to provide support varies substantially by socio-economic status. Hence, it is likely that wealth, and especially housing wealth, will become progressively more concentrated if home ownership becomes increasingly out of reach of those individuals who are unable to access familial support.

How does Australian and international evidence around the role of financial innovations and policy settings provide insights on pathways into home ownership?

Pawson, Martin et al. (2022) catalogued and analysed policies ostensibly designed to support entry into home ownership. In Australia, those measures have evolved into an almost exclusive reliance on demand-side interventions. Adoption of such measures elsewhere is more often integrated within a broader suite of complementary supply-side and demand-side measures. There is a consensus that direct financial transfers and concessional tax treatment generally afforded to FHBs have contributed little to additionality. Such measures:

- are poorly targeted
- mainly assist those who would enter home ownership anyway
- are likely to be amortised into house prices in the short run.

Ideally, demand-side measures should focus on credit market imperfections that limit the capacity of households to achieve their desired tenure status. Housing experts generally agree that models such as the federal government's recently introduced HGS and its forthcoming shared equity scheme should be favoured over grants and concessions.

This Inquiry identified a limited suite of supply-side measures that have been adopted in Australia, albeit at a small scale, and which to date have provided assistance to a small number of aspiring FHBs in a targeted manner. While there is significant scope for a more active supply-side contribution to enable the transition to home ownership via state land development agencies, it should also be recognised that it is unlikely that they will make a meaningful contribution to increasing first home ownership in the short term.

How is the pathway into home ownership shaped by developments in financial markets, precariousness in labour markets, alternative financing mechanisms and government policy?

A novel methodological approach was adopted to address this question by drawing on qualitative evidence and financial diaries (Troy, Wolifson et al. 2023). In navigating the pathway into home ownership, aspiring FHBs reported sophisticated strategies that recognised the support offered through government transfers, but also identified the substantial reliance—and in some cases, expectation—that familial support would be central to enabling first home ownership. The pathway into home ownership has become more complex, less linear and more extended than was historically the case. Housing policy must recognise the non-standard and often precarious life courses that people experience. In turn, addressing housing aspirations is more complex and less effective than simply addressing home ownership and affordability. Policy needs to expand beyond a mono-tenurial home ownership system to a system that recognises other tenures, and simultaneously addresses the long-term wealth and welfare implications of not being in home ownership.

Policy settings will need to deal with long-term risks and broader structural issues that mean many households will not enter owner-occupation. This will require addressing the short-term housing deposit challenges, and the long-term risks and uncertainties generated through rising house prices, precarity in employment and increasing costs of living.

How might entry into home ownership evolve in response to specific policy settings and what are the implications of this for housing markets and the broader economy?

Ong ViforJ, Graham et al. (2023) developed important insights into policy measures designed to enable FHBs to achieve a preferred tenure. That analysis captures in a tractable manner how economic circumstances have influenced housing outcomes over the past three decades, and provided insight into how specific policy settings can shape future outcomes.

The analysis identified that the long-term decline in real interest rates over the past three decades contributed to approximately one-third of the increase in house prices. Despite the consequent improvement in debt-servicing capacity, increases in house prices tended to reduce home-ownership rates. Prudential regulations aimed at limiting rapid growth in house prices potentially has the unintended consequence of making it *more* challenging for households to transition into home ownership. The problem of accumulating a deposit becomes more acute for aspiring FHBs with no scope to draw on equity from an existing dwelling.

Microeconomic simulations provide insight into the impacts of two policies specifically designed to enable first home ownership among low-to-moderate income earners—namely mortgage guarantee schemes and shared equity arrangements. While both schemes provide an opportunity to create additionality, they differ in how they alleviate the financing constraints faced by households seeking to enter home ownership. Such policies have important distributional implications and differential impacts across geographic markets.

5.2 Policy development lessons from this Inquiry

A number of policy lessons follow from the analyses presented in this Inquiry and input from Panel members.

A suite of supply-side and demand-side approaches is needed

Policy to assist entry to home ownership in Australia has been overwhelmingly focussed on demand-side measures. While measures such as FHOGs and stamp duty concessions have enhanced FHB purchasing power, additionality is more likely to come from a suite of supply-side and demand-side approaches that embody a coherent home ownership strategy.

Until recently, demand-side measures predominantly involved cash grants and stamp duty concessions. Such assistance was widely recognised as a poor use of resources because of its largely untargeted nature and its inflationary impacts in housing markets. Such measures disproportionally benefit established home owners by inflating house prices. There is a compelling case for entirely phasing out cash grants and stamp duty concessions for FHBs in favour of other demand-side assistance.

Since 2019, there has been an upsurge of interest in a wider range of more targeted demand-side measures, including low deposit mortgages and shared equity models. Such measures are primarily designed to lower the deposit barrier to home ownership. Specifically, these policies address the accessibility challenge for FHBs (Pawson, Martin et al. 2022), a key barrier identified as contributing to the decline in home-ownership rates among younger cohorts over time (Ong ViforJ, Graham et al. 2023).

A comprehensive and coherent housing strategy will recognise the role of supply-side approaches to enable the *production* of housing suitable for FHBs in terms of price, amenity and location. Historically, Australian governments promoted home ownership via interventions of this type and in turn contributed to the rapidly rising rates of owner occupancy. However, for political and practical feasibility, any substantial re-orientation of housing policy will need to be carefully planned and phased. Agencies including state governments, planning and land agencies are likely to be key actors in enabling any such shift in the suite of policies designed to assist FHBs. While such a shift is unlikely in the short to medium term, international experience shows that supply-side measures can create additionality when integrated within a comprehensive and coherent housing strategy.

Structural tax-transfer reforms are needed

Structural tax-transfer reforms that transcend FHB-assisted demand are required to deliver Australia's aspirations for sustainable growth in home ownership.

The heavy reliance on transaction taxes, especially stamp duty, adversely disadvantages FHBs directly and indirectly (Whelan, Atalay et al. 2023). Such taxes directly impact on accessibility for FHBs who cannot draw on existing equity to meet the downpayment constraint when transitioning into owner-occupation. Moreover, they discourage the transfer of properties and reduce opportunities for households to transition into home ownership (Malakellis and Warlters 2021). Existing steps to reduce or remove stamp duty in favour of a broad-based land tax, such as those that were commenced NSW and the ongoing reform in that ACT, should be part of a comprehensive strategy to assist FHBs by improving affordability (Warlters 2022).

Housing presents unique challenges as it represents both a consumption and investment good. This creates an inherent tension between the desirability of rising house prices for existing owners and the challenge of affordability for aspiring FHBs. This tension has been exacerbated in Australia by the increase in the number of existing owners with rental properties. A theme that emerged from the Panel discussion was that the tax and transfer system does not treat housing in a similar way to other assets.

The concessional treatment of housing in the tax and transfer system leads to distortions in the allocation of resources relative to what would occur if housing were treated more neutrally compared with other asset classes. Measures such as negative gearing and capital gains tax discounts have distributional implications and tend to benefit wealthier households. Recognition of the consequences of such measures and the incentives they create for wealth accumulation through property investing and stimulation of demand is not new (Commonwealth of Australia 2009; Productivity Commission 2004; Coates and Crowley 2021; Duncan and Hodgson et al. 2018). Such measures typically benefit existing home owners and property investors, and reduce affordability for FHBs. Addressing underlying features of the tax and transfer system that contribute to the challenge faced by FHBs is critical.

Policy needs to be targeted

A common criticism of existing policies such as FHOGs and stamp duty concessions is that they are poorly targeted. The analysis in this Inquiry highlighted that policy design has important implications for who is assisted by such schemes (Ong ViforJ, Graham et al. 2023). This has distributional implications that have been highlighted by the increasing reliance on parental support to facilitate first home ownership and overcome financing constraints imposed by credit markets (Troy, Wolifson et al. 2023; Whelan, Atalay et al. 2023).

It is unlikely that policies can be designed that take into account explicitly the role that intra-familial transfers play in facilitating home ownership. Nonetheless, demand-side measures such as FHOGs can be made more targeted through steps such as means tests. Targeting of stamp duty concessions currently takes place through price limits and, in the case of the ACT, income limits. In a similar way, targeting of more sophisticated mortgage guarantee schemes or shared equity arrangements can be designed to promote additionality rather than simply acceleration of purchase.

Policy measures must recognise FHBs' downpayment and repayment constraints

Policy measures must recognise that aspiring FHBs potentially face both downpayment and repayment constraints. Schemes that assist first home purchase can be designed to support 'additionality' by assisting households who would not have accessed home ownership in the absence of the scheme.

Policy measures traditionally adopted such as FHOGs and stamp duty concessions directly address the accessibility hurdle. Households facing repayment constraints are more likely to be assisted by schemes such as shared equity programs (Ong ViforJ, Graham et al. 2023). It is an obvious point, but policy must be designed in a manner that addresses the constraints faced by those whom it is intended to assist. Well-designed policies with appropriate eligibility criteria create opportunities to enable those at the margin of home ownership to achieve their desired tenure when this would be otherwise impossible.

It is also the case that policy measures need to be carefully designed to ensure they are well-targeted while simultaneously providing opportunities to attain home ownership in high-priced housing markets. For instance, schemes capped at low-income limits may be more effective in providing 'additionality' than schemes that have higher income limits. Analysis of a shared equity scheme and mortgage guarantee scheme showed the schemes are more likely to work in cheaper housing markets when even those with lower incomes may be able to meet the repayment constraint. The findings from the analysis highlight that income units eligible for both schemes are more likely to be living in low-SES areas than the general population.

Policy parameters must be carefully designed to recognise spatial variation in housing markets to ensure they are effective in assisting FHBs to satisfy both downpayment and repayment constraints. Currently agencies such as NHFIC, Keystart and Homestart play a central role in ensuring that FHB policies assist those who may not otherwise achieve home ownership. The experience and expertise of these organisations is critical for ensuring that FHB policies achieve their intended outcomes.

Policy makers need to be aware of the consequences of policy settings

Policy makers need to be aware of the consequences of policy settings and guard against unintended consequences when designing and implementing measures that are ostensibly designed to assist FHBs.

Inquiry Panel members identified how price limits associated with Keystart loans in WA had shaped the set of market offerings made available to FHBs by housing suppliers. Similar effects have been noted in the UK as a result of price thresholds incorporated in the UK Government's Help to Buy shared equity scheme (Meen and Whitehead 2020). In effect, suppliers respond to price caps to build at an affordable price point.

The Inquiry Panel discussions also highlighted the obvious need for policies that enable FHBs to overcome the constraints associated with financing home ownership needs to be accompanied by an adequate supply of new housing, a role that will fall primarily on state and local governments, and on planning agencies. That is, ensuring a supply of dwellings is available to meet the needs of FHBs is critical for the success of FHB policies. Although beyond the scope of this Inquiry, such policies may encompass rethinking of tax and transfer policies, planning and related measures.

The analysis in this Inquiry highlighted how policy settings may also have adverse consequences. Macrosimulation modelling showed that lower interest rates had contributed to higher house prices that adversely impacted younger buyers and led to lower rates of home ownership. Similarly, prudential regulations have the potential to curtail house price growth but also inhibit FHBs who face a more acute downpayment constraint. Microsimulation modelling highlighted that eligible home buyers under the mortgage guarantee and shared equity schemes experience more precarious employment outcomes, highlighting the critical need for FHBs and policies to create sustainable housing outcomes (Ong ViforJ, Graham et al. 2023).

The experience of the GFC demonstrated how encouraging home ownership can create risks for individuals and systemic risk to the economy. Existing research indicates that households that transition into homeownership are generally well placed to meet loan obligations, it is critical to understand how policies designed to facilitate homeownership impact those on the margin (Simon and Stone 2017).Financial regulators (such as APRA) and the RBA potentially play a critical role in ensuring that those risks are considered and appropriate policy settings put in place.

Policy ambitions need to expand to include intermediate tenures

Home ownership presents both advantages and disadvantages, but remains the preferred tenure of most Australians. It offers security of tenure and the opportunity for wealth accumulation but also high transaction costs. However, policy ambitions need to expand beyond a mono-tenurial home ownership system to also include intermediate tenures as legitimate long-term housing outcomes.

While policy settings in Australia provide substantial incentives for home ownership, policy must recognise the modern diversity and precarity of life courses that many people experience (Troy, Wolfison et al. 2023). Home ownership exposes individuals to financial risk and owner-occupation may not suit the preferences or circumstances of some households. Housing policy settings should recognise this heterogeneity by supporting and enabling a broader range of housing choices beyond home ownership as traditionally envisaged in Australia. International experience suggests that alternatives such as rent to buy, shared equity, well-regulated affordable rental tenure along with social rental can also offer security and life-long wellbeing.

Previous research (Lawson and Parkinson 2009: 20) led to recommendations including the promotion of housing options for young households—such as rent to buy schemes and shared equity—in order to increase access to home ownership but with a lower cost burden. Nonetheless, intermediate tenures of this nature do present some additional complexities and challenges. Shared equity, for example, potentially creates challenges associated with restrictions on the ability of households to renovate, sub-let properties and difficulties in securing competitive mortgage rates from lenders. While limiting the risk faced by households in the event of a fall in property prices, the sharing of capital gains that accrue to such households may limit their capacity to transition to full ownership.

More generally, policy should support security of tenure and capacity of individuals to sustain welfare for those who remain outside of home ownership and enter retirement without housing wealth. While a comprehensive consideration of such measures is beyond the scope of this Inquiry, it will require considerable reform in the rental sector to improve tenure security and a more sustainable flow of new affordable and social housing dwellings. State governments have begun to take limited steps in addressing these issues. Ideally, such measures would be integrated within the wider strategy that may emerge under the federal government's National Housing and Homelessness Plan.

5.3 Final remarks

The experience of successive cohorts of Australians is consistent with the pathway into owner-occupation becoming increasingly complex and difficult to achieve. This Inquiry has highlighted that this challenge encompasses more than just what might be broadly conceived as the 'housing market' (Troy, Wolfison et al. 2023). For example, increasing precarity in employment means that, unlike earlier generations, households today face challenges in accumulating savings to enable the transition into home ownership. While addressing these broader policy settings lies outside the remit of this Inquiry, it is important to recognise that housing policy sits within a broader policy, economic and institutional context that shapes housing careers and contributes to entry into home ownership.

While high house prices are often cited as salient measures of the challenge faced by FHBs, this Inquiry has highlighted that the problem is significantly more complex. Critically, existing policy settings are likely to have exacerbated rather than alleviated the challenge faced by FHBs to finance home ownership. While politically seductive, measures specifically targeted to assist FHBs, such as FHOGs and tax concessions, have failed to arrest declining rates of home ownership over time. Moreover, Australia's taxation settings favour existing home owners and small-scale rental investors over FHBs and tenants. The pathway to home ownership has narrowed and the journey to ownership appears increasingly reliant on parental resources.

In contemporary Australia, FHB policies are primarily designed to enhance consumer purchasing power and such policies alone are unlikely to deliver stable, sustainable and secure housing pathways. This Inquiry has identified the need for a more balanced approach to assisting FHBs, incorporating more nuanced demand-side policy settings and the opportunity to complement those with appropriate supply-side policies. A more comprehensive, strategic and coherent national approach is required. This will not only need to address the decline of home ownership, it will also need to offer an alternative that addresses the long-term welfare and allocative consequences for Australian society. International and, to a more limited extent, Australian experiences demonstrate that home ownership as generally conceived is but one of a number of tenures that can provide secure and affordable housing. Policy setting designed to enhance the attainment and sustainability of home ownership should recognise these broader opportunities and be part of a more comprehensive housing strategy.

In terms of FHB policy, there is evidence that new policy settings have the potential to be better targeted and create additionality. Mortgage guarantee schemes and shared equity arrangements have the potential to bring forward first home ownership by addressing specific constraints associated with financing, as well as providing assistance to those at the margin of home ownership. Such policies are limited by fiscal constraints and subject to commitments by governments that may be fleeting. Other more permanent measures, such as changes to tax and transfer policies, must form part of a comprehensive suite of policies designed to enable first home ownership to be embedded within the National Housing and Homelessness Plan.

This report proposes a new direction in housing policy that shifts from a singular focus on the capacity to pay for home purchase to prioritise fairness in accessing adequate housing. It aims to ensure more purposeful supply of housing opportunities as well as strengthen the quality and availability of alternative housing tenure options.

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Appendix: Continuum of policy strategies to promote and sustain responsible home purchase

Table A1: Continuum of policy strategies to promote and sustain responsible home purchase

Strategy	Definition and countries
Subsidies for production	Conditional grants and public loans for the production of affordable dwellings: Ireland, France, Austria
Land use planning	Use of land banking, inclusionary zoning, density bonuses etc. to ensure affordable developments: US, Canada, New Zealand, UK, France, Austria, the Netherlands, Germany
Promotion of shared equity tenure	Partial purchase, rent over remaining equity owned by a second party, with or without subsidy and associated conditions: UK, US, Canada, Ireland, The Netherlands, Austria
Convert social housing to ownership	Sale of public housing at discounted rates to sitting tenants. Some right to buy schemes conditional on period of rent and contribution to initial project costs, others straight transfer: UK, Austria, Ireland, US, Netherlands, CEE countries
Participation in the mortgage market	Establishment of mortgage insurance and secondary mortgage markets to influence provision and cost of mortgage credit and promote cheaper finance: Canada, US, Netherlands, New Zealand
Regulation of the mortgage market	System of regulation that governs prudential norms, lending standards, development of products and services, information to customers, dispute resolution procedures (Lending standards differ considerably between countries for a recent review see ECB, 2020)
Demand-side subsidies for (low income) purchase	Grant or public loans that lower overall repayments and provide collateral to lever additional private finance for the purchase of a home: Germany, France, UK, Ireland
Contract savings schemes	A closed system in which mortgage loans from a specialised housing bank are funded exclusively from the savings of future would-be borrower. Interest rates on both savings and deposits can be substantially below market levels, with borrowers subsidising themselves by accepting low interest during the earlier savings period: *Bausparkassen* Austria, Germany
Access to pension savings	Provisions to access (and later repay) savings accumulated in pension accounts for purchase of first home: Switzerland, Germany, Canada
Fiscal incentives	Provision to deduct mortgage interest from taxable income, low rates of imputed rent tax, waivers of property or transfer taxes for first home buyers, etc.: Netherlands, Switzerland, Germany, Ireland, Belgium, Denmark, US
Regional strategies to address uneven markets	Key worker housing, local housing agreements to assist low paid workforce in accessing housing, differentiated demand assistance schemes, specific assistance to protect and maintain rural / traditional housing: Germany, UK, Switzerland, New Zealand
Demand assistance for mortgage payments	Housing assistance applies to mortgage payments as well as rents, within defined income, loan size and time limits: US, UK, the Netherlands (limited direct assistance but substantial tax relief)
Mortgage relief schemes	Temporary or long-term assistance with interest payments, renegotiation of loan on behalf of borrower, partial/temporary takeover of loan, write down of value of the dwelling: The Netherlands, UK, Belgium, US, Ireland
Consumer education and protection	Financial information, education, advice, counselling, advocacy, protection, US, UK, New Zealand

Source: Lawson and Parkinson (2009).

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