Examining Australia's changing home ownership patterns

AHURi

Based on AHURI Final Report No. 328: Australian home ownership: past reflections, future directions

What this research is about

This research examines the growth of home ownership and its tenure dominance in Australia post World War II. It builds a statistical analysis of Australian ownership trends, most notably for younger households (ages 25–34 and 35–44), over the last four decades, and presents a comparative analysis of ownership trends for equivalent countries.

The context of this research

Since the late 1970s Australia's overall home ownership rate has held up well; it was at 67 per cent in 2016, only marginally less than the 68 per cent of 1976. However, there appears little chance of Australia sustaining home ownership at current levels into the future. The rate is projected to decline by 2040 to around 63 per cent for all households, and to not much more than 50 per cent—down from 60 per cent in 1981—for households in the 25–55 age bracket.

The key findings

This research documents that the 'Australian dream' of home ownership is no longer a universal goal in the contemporary era. Analysis suggests that no single policy failure, no single political decision, no single market or state failure has eroded the ability to achieve the ownership dream; instead, the change has come from complex shifts throughout the entire institutional environment.

'Institutional environment' includes the values, structures and mechanisms of social order and cooperation that govern the behaviour of people, organisations and government within a society. 'Institutions' are the legal frameworks, market mechanisms, cultural values, political processes (including policy environment), geography, environmental conditions and demographic attributes that give direction to a country's housing practices and performance.

Broadly, Australia now has an institutional environment which no longer supports ownership as it did in the past. This means (a) that ownership will continue to decline in the coming decades and the housing system will become more inequitable irrespective of what incremental housing policy reforms are made; and (b) given this, we have to rethink what sort of housing system is appropriate for Australia's future; either we embrace more fundamental and broad based reforms to rebuild ownership or we accept a retreat from its historical dominance, moving to a system which has more balance between rental and ownership—what we can call a dual tenure system. This in turn also requires a rethink, but along different policy lines from the ownership mono-tenure system.

> “Analysis suggests that no single policy failure, no single political decision, no single market or state failure has eroded the ability to achieve the ownership dream; instead, the change has come from complex shifts throughout the entire institutional environment.”

> "Affordability: (combined with income changes) has reached levels whereby a sizeable number of younger households, notably those in the lower income quintiles, are unable to afford to purchase as most did in earlier eras."

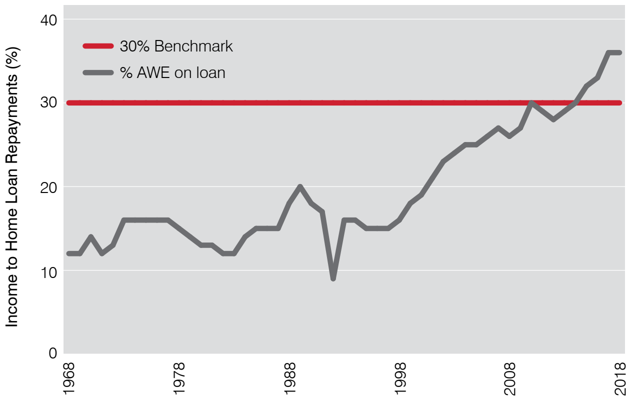
Trends driving reduced home ownership

Demographics: the weaker ability of the those aged 24–45 to purchase during the past two decades will be carried forward as a demographic driver of lower ownership rates into future decades; where in the past the ageing population has boosted rates of ownership, in the future it will reduce it.

Affordability: (combined with income changes) has reached levels whereby a sizeable number of younger households, notably those in the lower income quintiles, are unable to afford to purchase as most did in earlier eras. The ownership rate for the second lowest quintile, for example, fell from 66 per cent in 1988 to 43 per cent in 2015–16.

The following graph shows the long-term trend in housing affordability for Melbourne. It is assumed the household has saved a 10 per cent deposit and another 5 per cent for all transaction costs (stamp duty, legal fees and moving costs), with the balance having to be borrowed. It factors in the increased female labour force participation rate over the period. The outcome is a housing cost to median house price ratio that is indicative of changing affordability trends over time. While there will be variation from city to city and region to region in Australia, over time the trend would be little different.

Household affordability, housing cost to income ratio, 1968–2018, Melbourne



Source: Original analysis of Valuer-General Victoria Property Sales statistics; ABS 2018d; RBA 2018: Table F5k.

Overall, while the affordability percentage hovered around 15 per cent between 1968 and 1996, it has been above the 30 per cent benchmark (what is seen as an acceptable affordability level) since 2010. Even price decreases of the scale seen in 2018–19 are unlikely to bring affordability back to historic levels.

Dual income: the ability to form two-income households through increased rates of workforce participation appears to have plateaued. This could limit the ability for growth of household income to drive demand as it appears to have done for the last 50 years. Accentuating these income trends is the now plateauing of real incomes. It is difficult to see labour market and technological changes (including workforce casualisation and underemployment) doing anything other than accentuating this trend, with implications for households' ability to purchase.

Income inequality: There has been rising income inequality in Australia since the market liberal era (beginning in the 1980s), but not to the degree experienced in many other western countries.

The income distribution has changed over the last four decades quite substantially; those in the poorest income deciles (i.e. in the bottom 10% of Australia's income distribution) have seen their median weekly income rise by 162 per cent since 1988 whereas those in the top decile have seen their median weekly income rise by 239 per cent. This measure implies that at least some of the decline in home purchase, most vividly captured in the two lower deciles, is likely to be a function of greater income inequality among the purchase age cohort.

Table: Income distribution 1988 to 2015–16, households in labour force, net median income by decile

	1988	2015–16	% increase
10 (lowest)	$312	$816	162%
20	$371	$1,068	188%
30	$431	$1,285	198%
40	$493	$1,485	201%
50	$561	$1,714	206%
60	$634	$1,952	208%
70	$710	$2,258	218%
80	$818	$2,654	224%
90 (highest)	$981	$3,327	239%

Source: Original analysis of ABS Income and Housing Survey (SIH) 1988–2015/16.

Multi-unit dwellings: in Sydney, Melbourne and Brisbane, more and more newly constructed properties are multi-unit dwellings which—in size, form and marketing—are pitched at the rental market and landlordism rather than home purchase. This can be seen as industry-led recognition that ownership is not the future of housing growth.

Financialisation

The international financialisation of property has turned property and land development into an industry geared to property inflation, with associated affordability outcomes. In Australia this was led by the deregulation of the Australian financial system in the 1980s, including opening up for foreign banks to encourage greater competition.

Increased financialisation potentially enabled:

- more people to borrow to buy houses (ownership), including enabling a second household income to be taken into account in determining loan eligibility
- more people to borrow to invest in housing (rental investors)
- greater ability for households to buy more expensive houses (trading up) and greater ability for households to borrow more (for more than just for housing) against house value (leveraging).

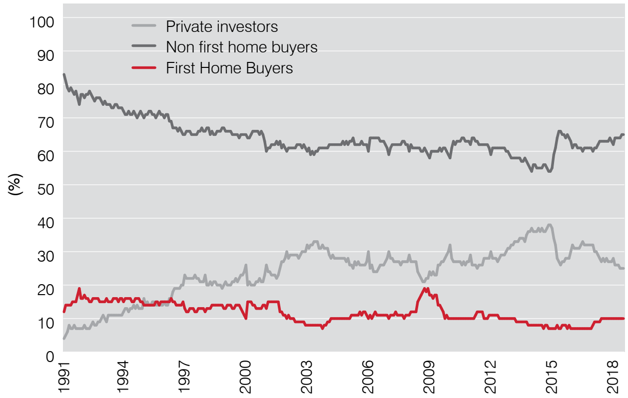
Thirty years on, it is clear that the two most significant and interconnected outcomes are households taking on debt of a scale unimaginable in the more regulated era, and dwelling prices being pushed to levels where many households are now potentially excluded from the market.

The property financialisation trend shows investors are increasingly competing for existing property, much of it detached dwellings—the same dwelling type sought by first home buyers. This investment hasn't led to a large increase in housing supply; in 1987 investment lending for new construction accounted for 60 per cent of total housing finance commitments, but by 2014 it was down to 7 per cent.

As the following graph illustrates, the explosion in finance for investor activity in the housing market has been substantial. In 1991 loans to investors were around 5 per cent of total, but in 2018 they were at 28 per cent, having peaked at just over 40 per cent in 2015. First home buyers, who are the drivers of ownership, have declined over the period from an average of around 16 per cent to just less than 10 per cent in the last decade.

> "Thirty years on, it is clear that the two most significant and interconnected outcomes are households taking on debt of a scale unimaginable in the more regulated era, and dwelling prices being pushed to levels where many households are now potentially excluded from the market."

Housing finance in Australia by share of key borrowers, 1991–2018



Source: Original analysis of ABS 2018c: Tables 9a and 11.

Around the industry have emerged major interest/lobby groups in finance, property and development with vested interests in maintaining such a system.

Labour market changes

The previous post-second world war era of strong and stable employment came to an end: unemployment was 7.8 per cent in 1985–90, the period of a large fall in ownership rates, compared to 2.2 per cent in 1960–65.

Not only has stable and abundant employment gone, but so has employment security, as labour market deregulation, along with a weaker and a more internationally challenged economy, enabled employers to increasingly employ people on casual or temporary bases.

Housing supply

Despite massive investment, the shortage of rental stock relative to need (notably at the low-cost end) has worsened over time. These trends suggest investment has come at a direct cost to home purchase (investors outbidding purchasers) and indirectly, by not increasing supply to the degree it should have it has contributed to house price inflation and pushed some purchasers out of the market.

The rising cost of renting and owning properties can be interpreted as a failure of the housing system (including its private and public elements) to provide the right quantity of housing with the right characteristics and in the right locations over time.

The ratio of dwelling completions to population growth declines from the early 1990s to 2013, stabilising at around 0.55 thereafter (below the 0.59 of the pre-1990s era). This suggests that new construction since at least the early 1990s did not respond strongly to increases in demand, but actually declined and stabilised at relatively low levels with little suggestion of ability to respond to (a) increases in the level of house prices or to changes in house prices, or (b) the substantial deregulation of planning systems that occurred from the early 1990s onwards.

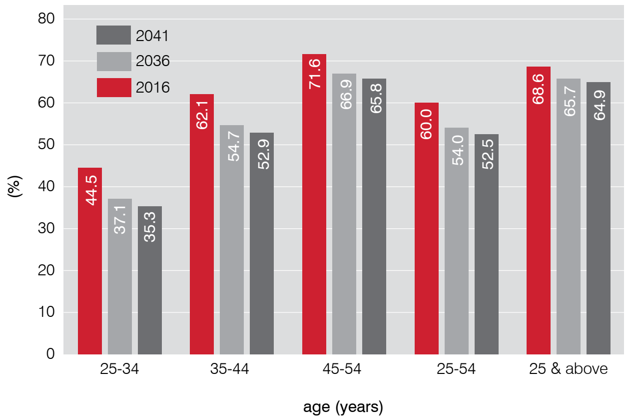
International findings

Our international findings reinforce the domestic trends: ownership is in retreat in most developed countries, with the biggest falls in 'market liberal' countries that most closely approximate Australia. Of the 18 countries reviewed, only three—France, the Netherlands and Germany—experienced any ownership growth in the last decade, and they were coming from low base rates. Significantly the Global Financial Crisis (GFC) which saw large house price falls and improvement in affordability in most countries did not produce any upturn in home ownership whatever; loss of income and tightened access to finance negated the potential for ownership.

Future projections

The research projection indicates that by 2041 ownership for all 25+ age cohorts will have fallen to 63.5 per cent (from 68.6% in 2016), but for the key 25–54 age cohorts it will have fallen much more dramatically, to 51.1 per cent (from 60.0% in 2016).

Figure: Projected ownership rates by age cohort, 2016–41



Source: Original Author analysis based on ABS 2018e Population projections.

What this research means for policy makers

The projected declines mean Australia will no longer be a society with near universal home ownership, but must become a dual tenure society of ownership and rental (both private and social).

A dual tenure housing system in which one half (owners; predominantly older households) acquires wealth and the other half (renters; generally younger) doesn't is a recipe for long-term social problems. Addressing the generational divide will require new policy instruments to give renters the opportunity achieve greater security, affordability and liveability in private rental (and also rebuilding social housing). It will also need to enable renters to create wealth and/or processes to redistribute some of the asset-generated wealth of owners. In addition, it will require greater income support for households in older age.

In addition, policy focus requires recognition that tenure change and direction can be affected by the evolving nature of urban form and land use patterns, labour market changes, migration and settlement patterns, income distribution, the nature of income support, and financial systems. All of these can mould how land and housing markets operate, their degrees of supply responsiveness and what products emerge, at what costs.

Developing a strategic and coordinated policy direction is not a short-term process, but it could be kick-started by the development of a bipartisan national housing and urban strategy (the two cannot be separated), undertaken within a broad institutional framework, so that all participants and stakeholders share a common starting point.

Methodology

This research analysed ABS data and previous Australian (including from AHURI) and international housing research.

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

Burke, T., Nygaard C., Ralston L. (2020) *Australian home ownership: past reflections, future directions*, AHURI Final Report 328, Australian Housing and Urban Research Institute Limited, Melbourne.

Available from the AHURI website at ahuri.edu.au/research/final-reports/328

Australian Housing and Urban Research Institute
Level 12, 460 Bourke Street, Melbourne VIC 3000
+61 3 9660 2300
information@ahuri.edu.au
ahuri.edu.au

twitter.com/AHURI_Research
facebook.com/AHURI.AUS
Australian Housing and Urban Research Institute