



**EXECUTIVE SUMMARY**

# Australian home ownership: past reflections, future directions

**PUBLICATION DATE**

May 2020

**DOI**

10.18408/ahuri-5119801

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<b>Title</b>	Australian home ownership: past reflections, future directions—Executive Summary				
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<b>ISBN</b>	978-1-925334-92-0				
<b>Key words</b>	Housing assistance and social policy, home ownership, housing and the economy, tax and housing policy.				
<b>Series</b>	AHURI Final Report	<b>Number</b>	328	<b>ISSN</b>	1834-7223
<b>Publisher</b>	Australian Housing and Urban Research Institute Limited Melbourne, Australia				
<b>DOI</b>	10.18408/ahuri-5119801				
<b>Format</b>	PDF, online only				
<b>URL</b>	<a href="http://www.ahuri.edu.au/research/final-reports/328">http://www.ahuri.edu.au/research/final-reports/328</a> (full report)				

#### Recommended citation

Burke, T., Nygaard, C. and Ralston L. (2020) *Australian home ownership: past reflections, future directions*, AHURI Final Report 328, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/328>, doi: 10.18408/ahuri-5119801.

## Executive summary

### Key points

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- This research report uses an institutional framework to reflect on the growth of home ownership and its tenure dominance in Australia post World War II. The framework's methodological substance takes the form of (a) a statistical analysis of Australian ownership trends, most notably for younger households (ages 25–34 and 35–44), over the last four decades; and (b) a comparative analysis of ownership trends for equivalent countries.
- An institutional framework draws attention to the institutional environment of a country as a key factor shaping the form and direction of housing outcomes, including housing tenure. '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.
- Despite the challenges of Australia's changed institutional environment since the late 1970s the 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. The steady ownership rate over this period is largely attributable to Australia's ageing population.
- However, there appears little chance of Australia sustaining home ownership at current levels. 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.
- Declines in ownership seem likely by virtue of attributes of the Australian labour market; continued issues of affordability (despite the 2018–19 price downturn); the proliferation of building forms (apartments) more suited for rental than ownership; and the growth of the private rental sector, underpinned by favourable tax provisions and a housing industry now increasingly path dependent on the private rental sector.
- 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.

- Both in Australia and internationally, home ownership policies have not been robust enough to increase ownership in the last decade or so. Changes in the broader institutional environment have been much more powerful in shaping tenure opportunities and constraints.
- In the domestic context, the projected declines mean Australia will no longer be a near universal ownership society, but must become a dual tenure society of ownership and rental (both private and social). This will require a substantial rethink and redirection of housing and related policy, with a particular focus on how to achieve greater security, affordability and liveability of private rental.
- But such a policy direction does not deal with the socio economic implications of the generational and wealth divide between owners and renters. This will require new policy instruments that give renters the opportunity to create wealth, and/or processes to redistribute some of owners' asset-generated wealth.
- Housing reform has to go well beyond housing. Tenure change and direction can be affected by the evolving nature of urban form, labour market changes, migration and settlement patterns, income distribution, the nature of income support, and financial systems—and all of these factors must be woven into policy directions.

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This research report documents that the 'Australian dream' of home ownership is no longer relevant in the contemporary era. Analysis of statistical trends for Australian tenure change and comparative analysis of the direction of ownership in equivalent countries are the basis for this conclusion. The 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.

This analysis uses an institutional framework. This takes the approach that every country has a specific set of institutional attributes (political, economic, social, etc.) which in turn creates an institutional environment which shapes the conduct, structure, and performance of a housing system, including tenure outcomes. Understanding the changes in this institutional environment are key to understanding the past and future of Australian home ownership (see Section 2.3 for more detail).

The 1940s to 1970s era generated the Australian dream, with home ownership levels in excess of 70 per cent. The window of opportunity for ownership during that era was a function not of any particular housing policy (although some helped), but of an institutional environment that was specific to the historical context and cannot be replicated today. In short, no amount of tinkering with current housing or housing-related policies can rebuild home ownership.

In the face of the very different institutional environment that began to emerge in the 1970s and has subsequently gathered momentum, it is perhaps surprising that Australian ownership rates have remained so steady. For example, while ownership fell by 1.4 percentage points between 2011 and 2016, the 2016 rate of 67.1 per cent is only marginally less than the 68.4 per cent of 1976, 40 years previously.

We conclude in this report that Australia appears to have little chance of sustaining ownership at current levels. Declines in ownership are more likely, to around 63 per cent for all households by 2040 and to little more than 50 per cent for households aged 25–55 (down from 60% in 1981).



A number of processes are driving this trend.

First, demographic factors play an important part. The weaker ability of the age cohorts 24–45 to purchase in 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.

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

Third, 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 much-discussed 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.

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

Fifth, the international financialisation of property has turned property and land development into an industry geared to property inflation, with associated affordability outcomes, and there is little evidence of this abating as a long-term process. Around the industry, too, have emerged major interest/lobby groups in finance, property and development with vested interests in maintaining such a system.

Sixth, the policy environment is not conducive to a regrowth of home ownership. For example, and building on the previous point, lobbyists have emerged in recent decades with interests inconsistent with ownership reform (e.g. opposition to negative gearing reform, the build-to-rent push and arguably, given the objective of developing more rental apartments, the planning deregulation momentum). By contrast, there are not equivalent lobbying interests for home purchase.

Finally, a comparison of Australia with other countries suggests Australia is not unique; home ownership is in retreat in most developed countries, with those most comparable to Australia having the biggest falls in ownership. And a review of the comparative housing literature indicates that housing policy conversation is now not about rebuilding ownership but about how to grow and better manage private and social rental.

These factors indicate we are at a tipping point for housing provision in Australia which requires a significant shift from what has happened in the recent past. Arguably this requires two directions of system innovation. The first is a transition from what has been a mono-tenure housing system, one dominated by ownership, to a dual tenure system that gives equal weight to ownership and rental. This direction recognises that ownership cannot be rebuilt without creating a very different and politically unlikely institutional environment, but a dual tenure vision would mesh more successfully with the contemporary institutional environment that is likely to be predominant in the foreseeable future. Success would mean fleshing out the details and essential attributes of a dual tenure system and the policy and institutional implications required to achieve it. Some recent AHURI research gives guidance to the path, but more needs to be done (Martin, Hulse et al. 2018; Hulse, Parkinson et al. 2018).

The second system change is to address the socio economic implications of no longer expecting near universal ownership, even in the later years of people's lives. A dual tenure housing system in which one segment (owners) acquires wealth and the other does not is a recipe for long-term social and economic problems. Addressing this will require new policy instruments to give renters the opportunity to create wealth and/or processes to redistribute some of the asset-generated wealth of owners.

A dual system is not just about accommodating household choice, but also addressing blocked aspirations. It means working toward a housing system in which those who cannot achieve ownership (or do not want it) do not have to spend a lifetime in what many perceive as a greatly inferior living environment. It is also about building a housing system which within both ownership and rental offer a diversity of products and management models to provide choice consistent with households' incomes, aspirations and life situations.

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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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