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Australian home ownership: past reflections, future directions

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AUTHORED BY

Terry Burke
Swinburne University of Technology

Christian Nygaard
Swinburne University of Technology

Liss Ralston
Swinburne University of Technology

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Authors	Terry Burke		Swinburne University of Technology		
	Christian Nygaard		Swinburne University of Technology		
	Liss Ralston		Swinburne University of Technology		
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Acronyms and abbreviations used in this report

ABS	Australian Bureau of Statistics
AHURI	Australian Housing and Urban Research Institute Limited
CALD	culturally and linguistically diverse
CBD	central business district
CURf	confidentialised unit record files
CRA	Commonwealth Rent Assistance
CPI	consumer price index
FHOG	First Home Owners Grant
GFC	global financial crisis
HILDA Survey	Household, Income and Labour Dynamics in Australia Survey
NHSC	National Housing Supply Council
NSW	New South Wales
NT	Northern Territory
OECD	Organisation for Economic and Cooperative Development
RBA	Reserve Bank of Australia
SA	South Australia
SIH	Survey of Income and Housing
US	United States of America
VIC	Victoria
WA	Western Australia

Glossary

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

Executive summary

Key points

- 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.

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.

1 Introduction

This research report is a data based narrative around the theme of Australian home ownership and in particular reflecting on what many of us, most vividly millennials, already know: times have changed and the 'Australian dream' of home ownership may no longer be relevant in the contemporary era. Analysis of (a) historical statistical trends for Australian tenure change and (b) comparative analysis of the direction of ownership in equivalent countries, are the basis for this narrative. Our analysis suggests that no one policy failure, no one political decision, no one market or state failure has converted ownership into a problem of blocked aspirations for a large proportion of households. Australia is now facing a complex housing problem via a 'death by a thousand cuts' committed over several decades. While the dream is not over, it is seriously compromised.

We find that the growth of home ownership in Australia emerged in a specific institutional environment that no longer exists and is unlikely be replicated. Ownership is thus on a path of slow decline, requiring abandonment of the historical mono-tenure housing system premised on ownership for, instead, a dual tenure system that gives equal weight to ownership and rental. But a dual tenure housing system where participants in one segment (owners) acquire wealth while those of the other (renters) do not is a recipe for long-term social and economic problems. Addressing this, as other countries have found, 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 to non-owners.

1.1 Context and rationale

The 1940s to 1970s era generated the 'Australian dream', with home ownership levels reaching in excess of 70 per cent (in some states and territories even higher). However, this era was a function of a particular window of opportunity that has now slammed shut and is unlikely to reopen. Australia, along with virtually all other developed economies, is finding that levels of home ownership have peaked and are now in decline. The window of opportunity for ownership in Australia between 1945 and the 1970s was a function not of any particular housing policy (although some helped), but of an institutional environment specific to that historical context. In short, given the wide-scale changes resulting in the contemporary context in which housing policy operates, no amount of tinkering with 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 ownership rates in Australia have remained so steady. Overall ownership did fall by 1.4 percentage points between 2011 and 2016, to a national rate of 67.1 per cent, prompting considerable media publicity, but this decline has to be put into context: the 2016 rate is only marginally less than the 68.4 per cent of 1976, 40 years previously.

As this report shows, households have made substantial financial and decision making adaptations to keep purchasing at relatively high levels but, as concluded in a complementary study (Burke, Stone et al. 2014: 3), 'home purchase today is fraught with problems, both for households and potentially the wider economy and society'.

These problems are a function of the institutional environment of recent decades and Australia will have to manage the issues that flow from them. The social and financial adaptations that caused these problems, such as households taking on unsustainable debt, purchasing small dwellings in areas poorly located for their employment and entering potentially risky shared financial arrangements in order to buy, maintained higher home ownership rates than might have been anticipated. But Australia has little chance of sustaining ownership at current levels. Continued declines are more likely, with overall ownership by 2040 estimated to be around 63 per cent. An even greater decline in ownership is estimated for those under 55 years.

These projections 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 renting. This direction recognises that ownership cannot be rebuilt without creating a very different and politically unlikely institutional environment, but a dual tenure vision could be created to mesh more successfully with the contemporary institutional environment likely to predominate in the foreseeable future.

A dual system is not just about accommodating choice, but also addressing blocked aspirations. It implies 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 offers a diversity of products and management models within both ownership and rental to provide choice consistent with households' incomes, aspirations and life situations. This means 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, but more needs to be done (see 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) acquire 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, and to allow those who have accumulated wealth to use it more effectively to source living arrangements that suit their later life aspirations.

The policy focus for housing reform has to go well beyond housing; tinkering with existing policies such as home ownership grants, incremental tax changes, small boosts to housing assistance and simplistic appeals to deregulation of the planning system will not be sufficient given the scale and nature of the problem. It requires recognition that all tenures are a function of broad range of attributes that make up an institutional environment. 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. Greater research is needed into the relationships between these variables and housing to provide guidance for policy. It is also important to recognise that the relationships may vary across regions, cities and sub-markets, implying a locational specific context for research and policy.

1.2 Research objectives

The research draws on two directions. The first is a long-term analysis of trends in Australian home purchase, paying particular attention to the key purchasing age cohorts, those aged 25 to 34 years and those aged 35–44. What do the trends tell us if we project them out to 2030 or 2040? The second is an overview of ownership trends of equivalent societies in terms of economic and social development. What do they suggest to us about long-term ownership (including for Australia)?

These two related research approaches have a number of objectives:

- to briefly document the changed institutional environment in which home ownership takes place in Australia
- to document recent changes in home ownership, including trends (1981–2016) in income, household type, age, migration source and history, and state and territory
- to analyse the degree to which trends in ownership are affected by changes in demographic structures, migration composition and income changes
- to project likely future rates of home ownership based on past patterns and estimates of population growth
- to identify trends in ownership for other appropriate countries, with particular reference to developments since the global financial crisis (GFC) of 2008
- to identify potential problems which may be inherent in the drive of households to maintain home ownership in Australia, and draw out the policy implications.

Our approach in this report is one which Flanagan and Jacobs (2019) label 'the long view'; that is, rather than focusing on present policy agendas it provides a historical context to such agendas in a way that can expose lessons that were not learnt, assumptions that did not hold up, or processes and practices that had built into them long-term unintended consequences.

This report expands on related AHURI research by the same authors (Burke, Stone et al. 2014) and complements other recent research on ownership in Australia, including work by Wood and Ong (2012), Yates (2000; 2015), Wood, Cigdem et al. (2017) and Daley, Coates et al. (2018). Its broad findings also complement AHURI research on the role and direction of the private rental sector, which cannot be excluded from conversations about the future of ownership (see Hulse, Reynolds et al. 2015; Hulse, Parkinson et al. 2018; Martin, Hulse et al. 2018).

The report may also be seen as updating work by Bourassa, Greig et al. (1995) on the postwar history of Australian home ownership, expanding on their argument that home ownership policy has been of relatively little importance to the direction of ownership.

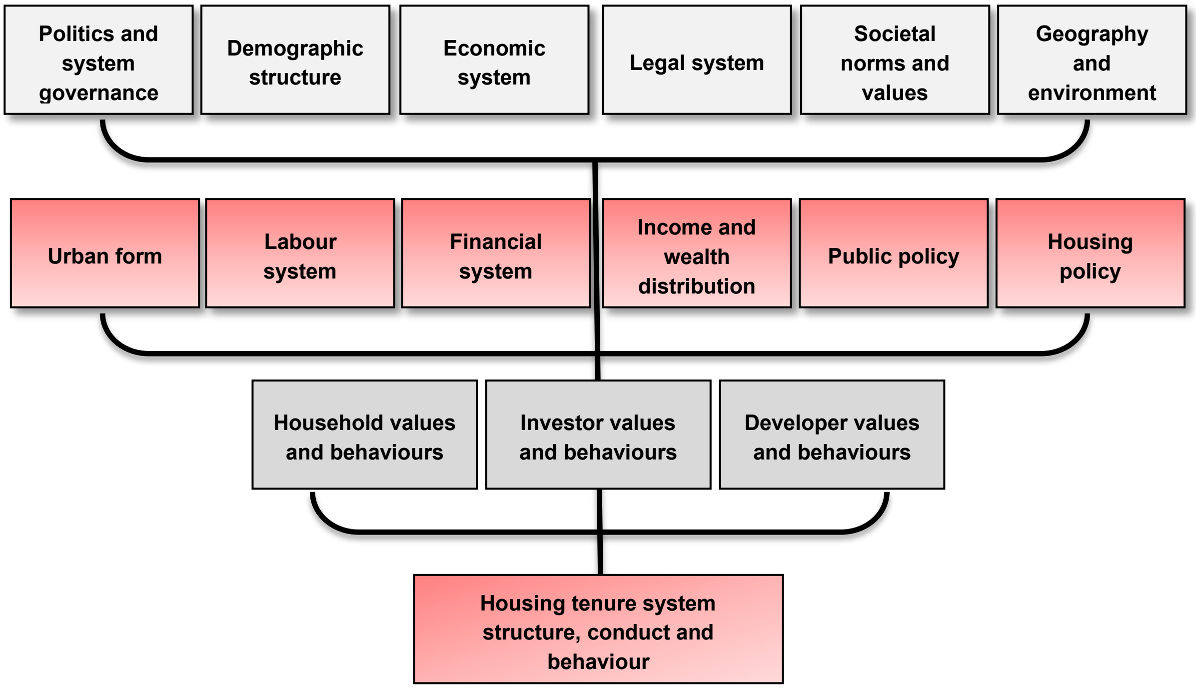
Broadly, the argument of our research is that the institutional environment framing the Australian housing system in the period between 1945 and the 1970s created a window of opportunity for rapid growth of ownership to record levels. However, that institutional environment began to alter in the late 1970s and changed even more markedly in the 1980s and 1990s, leaving contemporary Australia still playing out the societal and economic directions established in the latter decades. These changes have weakened the ability to grow home ownership, and it is somewhat remarkable that ownership rates have held up so well.

When referring to the 'institutional environment' we mean the values, structures and mechanisms of social order and cooperation that govern the behaviour of people, organisations and government within a society. The term 'institutions' thus embraces 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.

Figure 1 illustrates a framework for explaining how the institutional environment can shape tenure. The top tier of boxes represents the key institutional attributes that all societies have, although their attributes (e.g. types of political system and forms of governance) can vary greatly. These attributes in turn shape the nature of urban form, labour and financial systems, the level and distribution of income and wealth and the types of public policy generally and housing policy specifically.

These second-tier attributes then interact with the values and behaviours of households, investors and builder/developers to mould or change perceptions of their respective housing needs and futures. This flows through to the decision making of these central 'actors' with ultimate effect on the structure, conduct and performance of the housing tenure system, influencing whether it becomes a system with rental or ownership emphasis, what constraints and opportunities exist for purchase or rental, and how well the respective tenure sectors perform.

Figure 1: An institutional framework—components and behaviours of the housing tenure system



Source: Original figure authors.

By looking at the broad institutional environment, less focus is given to specific housing policies or even the aggregation of such policies in their effect on tenure outcomes, and more focus is given to all the other variables and factors that create a context enabling or weakening the ability to achieve ownership. Policy itself, as Figure 1 highlights, is a product of the institutional environment.

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.

This analysis shares some of its broad findings, but on a different theme, with the Productivity Commission's recent report on poverty and disadvantage in Australia, which broadly concludes that policy tinkering has not worked and will not work in addressing major social issues (Productivity Commission 2018).

2 Historical settings: the drift toward home ownership decline in Australia

- This chapter draws on original data analysis and existing evidence to outline the nature of the Australian institutional environment from 1945 to the 1970s, explaining how the elements of this environment created a window of opportunity for the large growth in home ownership.
- It describes a different system from today's, in which there was a more mixed economy than the present market-dependent one. There was not only clear policy support for ownership, but also a more stable, secure and strong labour market that provided households with the income to purchase, as well as a housing market that was highly affordable.
- In addition, the nature of cities was different and private rental was for various reasons less desirable as a rival housing tenure to ownership. The outcome? A period of rapid ownership rate growth, to 70 per cent or more of the population, depending on location.

Most baby boomers can look back on the 1950s and 1960s as an era when their parents, and later their own households, owned a detached house in the expanding suburbs or regional towns and cities of Australia. Compared to the standards of dwellings today, these were mostly modest detached housing, purchased cheaply from rising real incomes earned in a stable and secure labour market and financed with regulated, low interest loans. Houses tended to be single storied in neighbourhoods full of children (the dominant household was one of two parents and children) and in each driveway was a single car, typically a Holden, a visible symbol of the strength of the Australian manufacturing industry (Figure 2).

Figure 2: The Australian dream, 1950s

Source: John Tipper 'Reflections of a Bankstown Baby Boomer' (blog).

It is no surprise that, in terms of housing, this era is looked upon with nostalgia by many and envy by others, including millennials. International observers at the time said of the Australian housing system, 'Australians are among the best housed people in the world and they are perhaps the most equally housed' (Donnison 1967: 21) and the era provided the basis for the notion of 'the Australian dream'. Decades on we now have to ask, to what degree is the dream slipping away and why?

This research report is a data based narrative presenting the argument that the home ownership dream of these earlier decades was a function of a particular window of opportunity that has now slammed shut and is unlikely to be reopened. Australia, along with virtually all other developed economies, is finding that levels of home ownership have peaked and are now declining; in some countries quite markedly and in others, like Australia, more slowly but likely to accelerate. The report frames this argument in terms of institutional environment, positing that the tenure forms of any society are a function of the specific institutional environment of that society in its historical context.

2.1 Data sources: generational decline in home ownership

Data for the first part of this study are taken from two Australian Bureau of Statistics (ABS) sources: the Census of Population and Housing and the Survey of Income and Housing (SIH). These sources can vary in their estimates of the same variable—in the current case, housing tenure—because of differences in collection methods, including how questions are asked, and sample sizes.

The Census of Population and Housing is the longest established source of data on Australian tenure, and has the advantages of both relatively good consistency over time and availability on a spatial basis. For data pre-1991, as noted by Baxter and MacDonald (2004: 2–3), the Census question about tenure was slightly different to post-1991 but this should only have a marginal effect. The ABS produces a 1 per cent sample file of the Census for more detailed analysis, enabling greater data richness but requiring caution as to sample sizes for some variables. Our original intention was to use the 1 per cent sample file for this study, but unfortunately its release by the ABS was delayed.

Compared with the Census, the SIH, a data source beginning from the 1980s, has the advantage of enabling more nuanced analysis via a broader range of questions, including some around first home purchase. However, unlike the Census, SIH data are derived from samples of the population (around 10,000 households, depending on year), so spatial analysis is very constrained and numbers related to any variable much smaller.

One issue in the use of these datasets is that most estimates of rates of ownership (including in this study) are for the household reference person. The household reference person is used as a de facto measure of the household, assuming a home purchase is made for the whole household and not for the individual persons residing in the home. This has three implications. First, in some cases the household reference person may not be the actual home owner. Second, this measure does not allow for reliable comparisons by gender, as men are much more likely to nominate as the head or reference person (Baxter and McDonald 2004: 3). Third, using households provides a different measure of ownership than if persons were the relevant variable. Using persons as the measure tends to show greater numbers and percentages in ownership, as households of owners are made up of larger families than households of renters.

The Household, Income and Labour Dynamics in Australia (HILDA) Survey is also used as a source for tenure analysis, although not in this study.

2.2 Setting the scene

Our analysis starts with a brief look at the long-term trend in Australian home ownership (Table 1). The data provides a check on some of the more cataclysmic interpretations of ownership trends in Australia. It is true ownership fell by 1.4 percentage points between 2011 and 2016 (to 67.1%) but this is only marginally less than the 68.4 per cent of 1976, 40 years previously. Indeed, since 1961 home ownership levels, both domestically and by international comparison have been remarkably stable (see Section 4). Australian ownership does show a slight decline since the mid-1980s, yet on the surface home ownership seems to be holding up well. As we will argue later, however, probing beneath the surface of these trends suggests problems with contemporary ownership, most notably for younger households.

Table 1: Home ownership in Australia, 1947–2016

Year	Owner	Purchaser	Home ownership
1947	45%	8%	53%
1954	48%	15%	63%
1961	48%	23%	70%
1966	45%	28%	73%
1971	38%	32%	70%
1976	33%	36%	68%
1981	34%	34%	68%
1986	39%	31%	70%
1991	40%	27%	67%
1996	43%	27%	69%
2001	42%	28%	70%
2006	35%	35%	70%
2011	33%	35%	68%
2016	32%	35%	67%

Source: Original analysis of ABS Census of Population and Housing data, various years.

Broad ownership trends disguise differences in the balance of outright ownership and purchases. While broad ownership trends have been stable there have been much larger fluctuations between outright ownership and purchase. The latter was a more important driver of ownership growth in earlier decades and in recent years, while outright ownership was more dominant in the period 1981–2006. The latter is probably a 20+ year delayed effect of the rapid growth in purchase in the 1940s to 1960s.

The greater importance of purchasing in recent years might seem counterintuitive, given the attention to the problems of younger households becoming purchasers in the face of affordability issues. But one of the problems in evaluating trends is that the practices sitting behind them are not necessarily the same over time. For example, a purchaser pre-1980s was a household holding a mortgage to purchase a dwelling only. Post-1980s, as the finance system deregulated, a mortgage could be used not only to purchase a dwelling but also to leverage off other purchases or expenditure, such as assistance to children, purchase of a car, renovations, travel, etc. Thus many households that in the pre-1980s would have paid off their dwelling and become outright owners may today keep their mortgage going to fund other expenditures, given mortgage loans often have lower interest rates than personal loans. The other explanation is that affordability and other social and economic pressures (discussed later) created an environment where households either chose to or were constrained to purchase at a later date, deferring their ability to achieve outright ownership.

These changes in financial relationships over time and their impact on tenure is just part of a much more complex story which requires briefly locating our analysis in historical context, beginning with the rapid growth of ownership from the end of World War II to the mid-1960s. From 1947 to 1966, ownership rose by some 18 percentage points, a powerful degree of change given the next 50 years saw a fall of 4.3 percentage points. This is where the notion of a window of opportunity comes in; in this growth era a conflation of forces acted to increase ownership on a rapid scale, but these same forces are no longer operative or greatly weakened today. An overview of what drove this growth, paying attention to the institutional environment, can give us insights into the present and to some extent the future.

2.3 The institutional environment, 1945–70s

Considerable economic history literature documents the differences in society and economy in this early era compared to the present; differences which were important in helping build ownership. These include the strong performance of the economy, which translated into substantial real income growth for households, and the nature of the labour market, which not only had minimal unemployment (rarely above 3%) but also offered secure and stable employment and rapid growth in female workforce participation (McLean 2012; Ville and Withers 2014: Parts 4 and 5).

Underpinning this was a model of governance unlike that of the present. It was one where the government owned a greater share of the asset base and took a more interventionist role in guiding and facilitating the market than it does today (McLean 2012). One area in which this manifested was governmental control over and protection of the finance and banking system (Hill 1959; Wright 1999; Merrett 2006) much of which operated in favour of home purchase; another, notably at the state level, was planning policy which indirectly limited the growth of rental apartments in a way that does not exist today (Scott and Furphy Consulting Group 1978; Paterson, Yencken et al. 1976). Another element of economic governance was taxation, which at that time largely gave advantage to home owners (Neutze 1978: 113).

Some less tangible institutional attribute changes, which are no less important and certainly not easily quantified, also affect tenure outcomes. One is that for most Australians in that earlier era their dwelling was a home rather than an investment given, at least until the late 1960s, house price inflation was minimal by today's standards (Stapledon 2007: 10–13). Moreover many purchasers of that era had experience from the Depression years of house price falls rather than increases. Thus, even when real house prices increased from the mid-1960s onwards there was little to suggest for many households that this would be a sustained process. Few would have had the foresight to see that the past ups and down of the housing market (with little real increase in value) were gone forever.

Related to this was a lifestyle which for most households, including newly forming ones, was built around the interaction between ownership and the detached dwelling and focused on raising a family (at an early age) and building community, often on a new estate (Burke and Hulse 2010). For many younger people today this lifestyle has less relevance, displaced by deferred marriage and family creation and changed housing aspirations.

From the mid-1970s a dwelling became both a home and an investment. It became ‘commodified’, a term used to explain the process whereby a structure’s function as real estate takes precedence over its usefulness as a place to live (Madden and Marcuse 2016: 14).

Closely linked to the transition from seeing a dwelling as a home to one as an investment were changes to the land market. In that early era the nature of Australian land markets was very different to the present. Property ownership and land markets are a highly complex topic, but they are at the heart of housing affordability and appropriateness issues. To greatly oversimplify, the nature of Australian cities in this era was such that land was (by today’s standards) cheap and little different in value from the CBD out to the urban fringe. The diversification of industry, most markedly manufacturing, created strong labour markets across metropolitan areas (not just the inner areas) and most suburbs, including newly developed ones, still had good proximity and access to public transport. Moreover, with less car ownership the traffic congestion was not great. Reinforcing this, attributes of the inner city areas were seen to be ‘tired’. Much inner city housing was perceived as low quality or outdated and the planning system largely did not allow for urban forms (e.g. densified areas of multi-unit housing) that would create price pressures on the available land (see Neutze 1978; Kendig 1979; Forster 2004). In short the land market, like housing, was not commodified to the degree it became post deregulation and was not therefore as important a driver of housing costs and affordability as it has now become.

Falling into the less tangible factors were differences in the stability of government and the role and scale of interest group lobbying. In the 1950s to 1970s there was just one federal Liberal government in power, and that government was strongly committed to home ownership, not just in terms of electoral rhetoric but also policy. While there was (as always) lobbying, it was largely an informal networking process, not the highly formalised and powerful industry lobbying process of recent years. Unlike in that era, much housing-related lobbying in recent years is around defence of rental sector assistance, not ownership; witness the recent negative gearing, capital gains tax exemptions and build-to-rent lobbying.

Layered above these factors, and acting to entrench them, was the demographics of the time. Between 1946 and 1966 there was a baby boom (hence the generational label ‘baby boomers’) which meant rapid population growth and more need for housing. The pent-up demand from households of World War II and the Depression era was accentuated in the late 1960s and early 1970s by the baby boomers, as they too formed independent households that needed housing. Even the process of household formation had a different dimension. In 1966, the year of peak ownership, the median marriage age for a woman was 21 years, with children tending to follow soon after; compare this to 2018’s 28 years, with children not necessarily following (ABS 1968, 2018f). This meant different housing aspirations; the former meant family life and the need for a detached owner-occupied dwelling, and the latter means family life is deferred and (for many) the aspiration to an inner urban rental lifestyle, with ownership deferred.

Australia was not unique, however, in having a postwar baby boom and a long boom of economic prosperity; these were characteristics of most western economies (McLean 2012: 183ff; Picketty 2014: Ch 2). But in few (as Section 4 documents) did it translate into ownership on the scale of Australia.

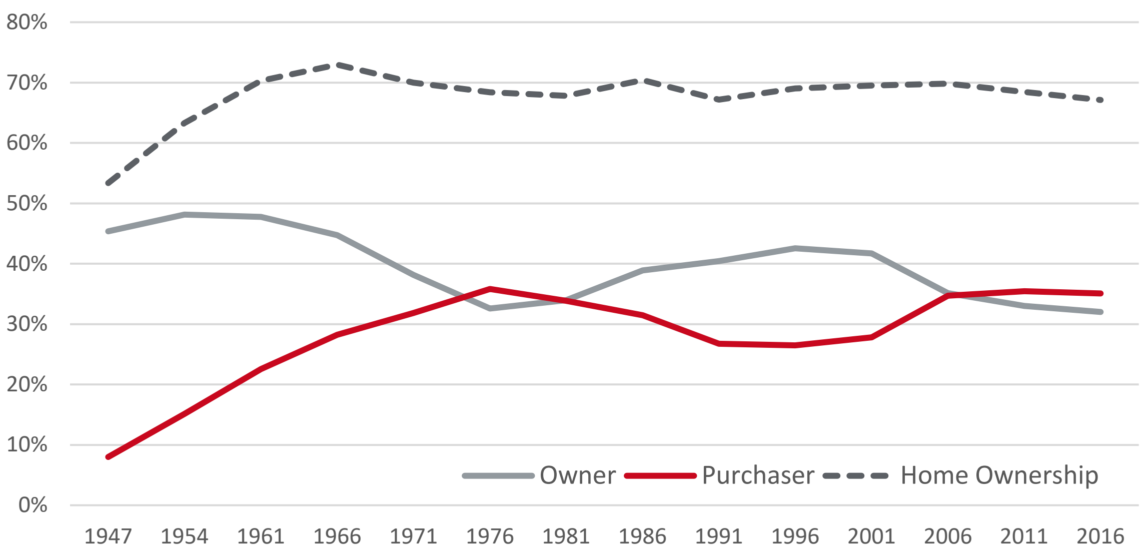
Like all countries coming out of World War II, Australia had a choice as to the direction of housing policy. Developed countries at that time had three broad options. One was a pro-market home ownership model, facilitating the market to provide opportunities for home purchase. The second, typically labelled a tenure-neutral or unitary policy, was one whereby households, because of the nature of government interventions, did not have their tenure choices steered to any one sector; they could be indifferent between owning, private rental or social housing (Kemeny 1981). The third was for government intervention to strongly support social housing and to some extent private rental, the latter often through the nature of residential tenancy law. In this third model, often labelled a welfare housing model, home ownership is almost the residual tenure. Of these, Australia opted for the first.

Within this institutional environment is the housing market itself, meaning the structures by which residential property is transacted via price. For various reasons, including some related to the previous points, the housing market of this earlier era was much more affordable than today's. It did not take a great degree of savings or a large household income to purchase—typically two to three times average household earnings, compared to today's up to five to 10 times, depending on the city. And the push factor to purchase was higher, as the obvious tenure substitute—private rental—was less attractive both in quality and location, being concentrated in the older inner city; an area where, unlike the present, there was not a strong housing interest or demand (Neutze 1978: 112–113; Kendig 1979: Ch 7). Moreover, there was not the same desire to become a landlord investor because (a) there were not the same expectations of capital growth as at present; (b) there were not the tax advantages (no negative gearing awareness); (c) there was strong planning resistance to apartment development in many local governments (Paterson, Yencken et al. 1976); (d) strata titling was in its inception (Randolph 2006), thus requiring the financial ability to purchase an entire block of apartments, not just one strata-titled unit; and (e) there were still elements of rent control (Neutze 1978: 112).

2.4 Transitioning to a new era: the institutional environment, 1970–present

As Figure 3 shows, the growth of purchasing from 1947 to 1976 was rapid and large. After that period, similarly to outright ownership, purchasing has fluctuated up and down until the present, but there is an overall downwards tendency for ownership in aggregate. This long-term trend in overall ownership is, by international standards, quite unusual—most other countries have had a later growth of ownership and/or have fluctuated more sharply. What is clear is that Australian ownership growth over the longer term, unlike the experience of some other countries, could not be sustained beyond 70 per cent.

Figure 3: Home purchase, outright ownership and all ownership trends, Australia, 1947–2016



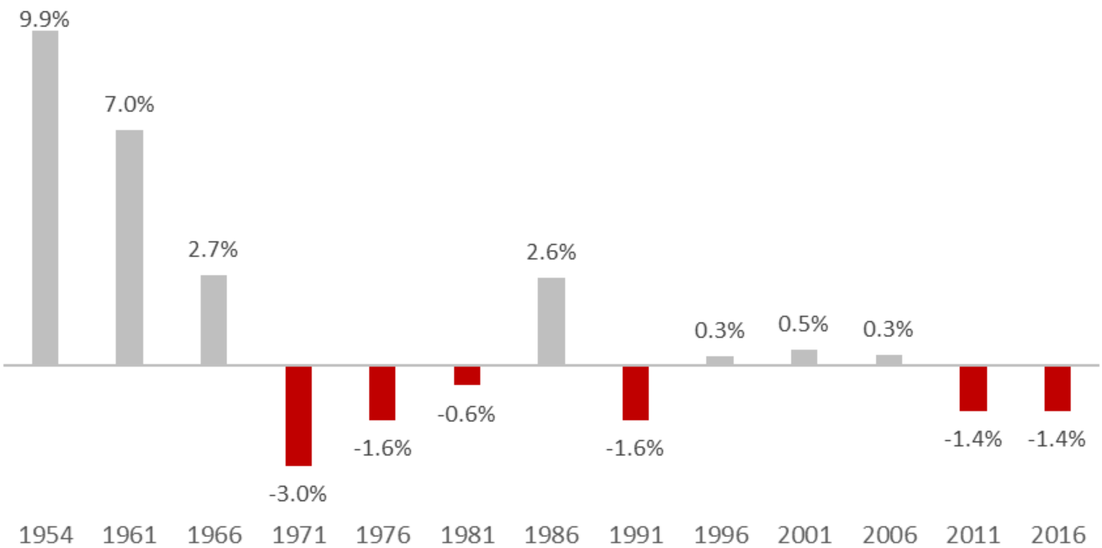
Source: Original analysis of ABS Census of Population and Housing data, various years.

Growth could not be sustained because the institutional environment from the 1970s onwards changed direction, with the form and degree of change gathering momentum as time went by. To use contemporary language, from the 1970s onwards we saw disruption of the old institutional model which displaced how the housing system behaved and the interests, beliefs and values attached to that housing system.

The scale of disruption is captured by trends in the key economic indicators that shape households' perception of the strength and stability of the economy and their employment and housing opportunities. By the late 1980s, compared to the early 1960s, the unemployment and inflation rate had soared, mortgage interest rates had doubled and house price inflation was at unparalleled rates.

This disruptive process had two time periods, as Figure 4, which shows the ups and down of ownership over 60+ years, illustrates. While the trend overall is down, there were three major periods of decline: the 1970s, the late 1980s and the last decade. In between there were periods where ownership recovered: the late 1970s, the late 1990s and the early 2000s. Our proposition is that while the two earlier periods of ownership decline saw some recovery, the latter period signals a process of continued decline.

Figure 4: Changes in ownership by percentage points, 1954–2016



Source: Original analysis of ABS Census of Population and Housing data, various years.

The first of these change periods, precipitating many subsequent ones, was largely an economic change in the performance of the economy, as the governance and economic model that prevailed in the 1940s to the mid-1960s began to show its limitations in an increasingly competitive international environment, and both unemployment and inflation increased substantially in the 1970s. At this stage the changes were largely in economic performance, but they appear to have affected ability to purchase and perhaps also confidence to purchase.

These economic changes, which had their parallels in other western countries, prompted debate about new economic management and public policy directions. In the 1980s the nature of the new governance model began to become clear.

This model, now recognised as market liberalism, has now dominated Australia's and much of the western world's economic, social and political life for three decades—as well as domestic housing policy (Clapham 2018; Jacobs 2019; Madden and Marcuse 2016). The expressed intention of these changes was to make economies more efficient and productive, with the belief being that the benefits of increased economic growth would filter down to all. The reality is that outcomes have been more mixed, with many unintended side effects.

The new model required a retreat from government intervention in the market to the degree that previously existed. This manifested in financial, labour market and planning deregulation, the opening up of the domestic market to greater international competition, sale of government assets, and greater promotion of philosophies of 'self-help', with tightening of income support benefits and some winding back of 'welfare' generally. Although this is now labelled market liberalism, in the Australian vernacular of the times it was called economic rationalism (Pusey 1992). For a more comprehensive review and discussion of the housing implications or market liberalism in the Australian context see Jacobs 2019.

While there was some time lag, the new model did appear to address the slowing growth of the 1980s; by the 1990s and 2000s economic growth had been largely restored, with unemployment and inflation reduced, although not to previous levels. Thirty years on we can now see the mixed effects (both direct and indirect) of this new institutional environment, including greater availability of housing finance, greater property price inflation, less employment security, slower growth of real disposable household income (particularly for those in lower income quintiles), stagnation in labour market participation (still growing for women but now contracting for males) and greater labour market income inequality. Collectively all these have been factors contributing to the fall in ownership, but it is difficult to identify which particular ones have been most important given their interdependence.

The reality, as outlined, is that while ownership growth ceased and there has been some fall in ownership, it has held up in the face of these changes better than might have been expected. Some of these institutional changes need elaboration, given their role in shaping tenure changes both in the past and potentially in the future.

2.5 Financial deregulation and property financialisation

Prior to deregulation in the mid-1980s, housing was largely protected from the effects of the wider financial system; for most of the era real mortgage interest rates were very low, banks were limited in ability to finance mortgages compared to building societies, and the latter's role in financing was largely directed to home purchase.

This isolation from the wider financial system was actually one of the rationales for deregulation. Some argued the regulation's effect was to ration finance in a way unfair to lower income purchasers (Albon and Piggot 1983) but it was broader economic and financial issues that had sway rather than housing equity issues. Many argued, that regulation prevented finance going to the areas of greatest productivity and long-term benefit to the country (Harper 1985) while others argued that that regulation meant many borrowers had to go outside the banking system including small business to obtain credit, even though this usually entailed paying higher rates of interest than banks were able to charge (RBA 1991; Berg 2016).

But as Berg (2016) points out we tend to forget that much of the momentum for deregulation, including the formation of the highly influential 1981 Committee of Inquiry into the Australian Financial System (1981), was also driven by the financial collapse in the mid 1970s of a number of large building societies. These were the pillars of the old financial system around which ownership had grown and their collapse, and along with them the ownership aspirations of many households, raised questions about the contemporary relevance of the existing system.

Throughout the 1980s, with completion more or less by 1986, the Australian financial system was deregulated and opened up for foreign banks to encourage greater competition (see Yates and Yanotti 2016). Deregulation facilitated the collapse of building societies, which had previously been so important to financing home purchase. On the other hand, it enabled the growth both of banks in the mortgage sector and of a mortgage market with new products (e.g. fixed interest loans, new retailers, mortgage brokers and the flow into the domestic market of international finance). The sector was no longer protected from the vagaries of international markets, which most vividly became manifest in the GFC, although not to the degree of some other countries. Partly because of better regulation by the Reserve Bank of Australia (RBA) and some institutional attributes of the Australian housing system, for example the relative absence of speculative building (Burke and Hulse 2010), the effects of the GFC were less dramatic here than elsewhere.

Many other countries to greater or lesser degrees did much the same thing, and the Australian financial system as we know it today is basically that system moved on 30 years. It has, however, greatly affected the housing system and home ownership, in what has been labelled the 'financialisation of housing'. That is:

> *… the structural changes in housing and financial markets and global investment whereby housing is treated as a commodity, a means of accumulating wealth and often as security for financial instruments that are traded and sold on global markets. (Farha 2017)*

This essentially means the financial system penetrates and increasingly influences market behaviour and practices in the performance of the housing system (Rolnik 2013; Albers 2016; Ryan-Collins, Lloyd et al. 2017). Financialisation was enabled by financial deregulation, with all its new loan products and greater financial flows, but it was also given substance by the simultaneous and related changes in values and beliefs, under which property and housing are now seen as a source for substantial economic gains.

This financialisation is not unique to Australia—it is an international process which has driven investment in property, particularly residential property, around the world. The process is enabled by (a) the increasing scarcity of land as urbanisation accelerates, with land increasingly seen as a key financial asset; (b) the ability of deregulated markets to facilitate foreign fund flows and investment into domestic residential markets, which in earlier eras had been protected; (c) the creation of new products and investor types (e.g. negative-gearers, rent-to-buy developers) to capitalise on the attributes of financialisation; and (d) inelastic supply of housing to household growth, which creates high capital returns in a context of an otherwise low interest environment. The inelasticity in turn relates to attempts to contain the urban footprint (urban consolidation), with high land costs and residential opposition to consolidated cities.

Increased financialisation potentially enabled:

- more people to borrow to buy houses (ownership)
- more people to borrow to invest in housing (rental investors)
- greater ability for households to buy more expensive houses (trading up)
- greater ability for households to borrow more (for more than just for housing) against house value (leveraging).

Determining which of these became more important and what factors underpinned them highlights the problem of working out the effects of deregulation and subsequent financialisation of property, given the complexity of interrelationships between the key variables.

One immediate outcome, however, as illustrated in Figure 5, was a large increase in interest rates in the early years of the period associated with the biggest contraction in ownership. But this impact was short lived and interest rates have subsequently declined to the historical lows of the present, this being an important factor in stabilising the falls in ownership that occurred in the late 1980s and early 1990s.

Figure 5: Australian mortgage interest rates, 1977–2018

Source: Australian Bureau of Statistics (ABS 2018c) and Reserve Bank of Australia (RBA various years: Statistical table F5).

More important were the effects of relaxed lending conditions. These enabled a second household income to be taken into account in determining loan eligibility, in theory creating greater borrowing capacity for more home purchases and ability to trade up. Moreover, the relaxed lending conditions and more competitive financial environment meant financial institutions could lend more, not only to second income earners, but to applicants generally—including the residential investors who came out of the woodwork in this era. In addition, finance institutions offered lower deposit rates, longer lending periods and new financial products such as fixed term loans, all of which facilitated greater awareness and the ability to leverage property for all sorts of other purposes. Confidence in the self-regulating nature of markets led to under-regulation (although regulation was better in Australian than in some other countries) and, as the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry revealed, the relative lack of regulation enabled dubious practices whereby banks' household benchmark assessment processes meant difficulty in household repayments (Royal Commission 2019: 54–58).

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 (see Section 4.2.5 for more detail) and dwelling prices being pushed to levels where many households are now potentially excluded from the market.

Not only is there now greater ability to take on new debt, but also greater freedom in what debt is used for. Prior to deregulation a mortgage was only provided for the purchase of a dwelling, but post-deregulation purchases of other household items (e.g. cars, renovations, travel) can be rolled into a mortgage. Moreover, compared to the old regime, which favoured ownership, investor finance has become much easier to get, a process facilitated by the growth of strata titling, which enabled single-dwelling investment on a large scale; the ending of any form of rent control; and planning deregulation, which provided more multi-unit properties of a form attractive to investors. These factors, combined with the ability to take up negative gearing tax opportunities and, from the 2000s onwards, generous capital gains tax provisions, have seen more and more housing finance go to rental dwelling investment.

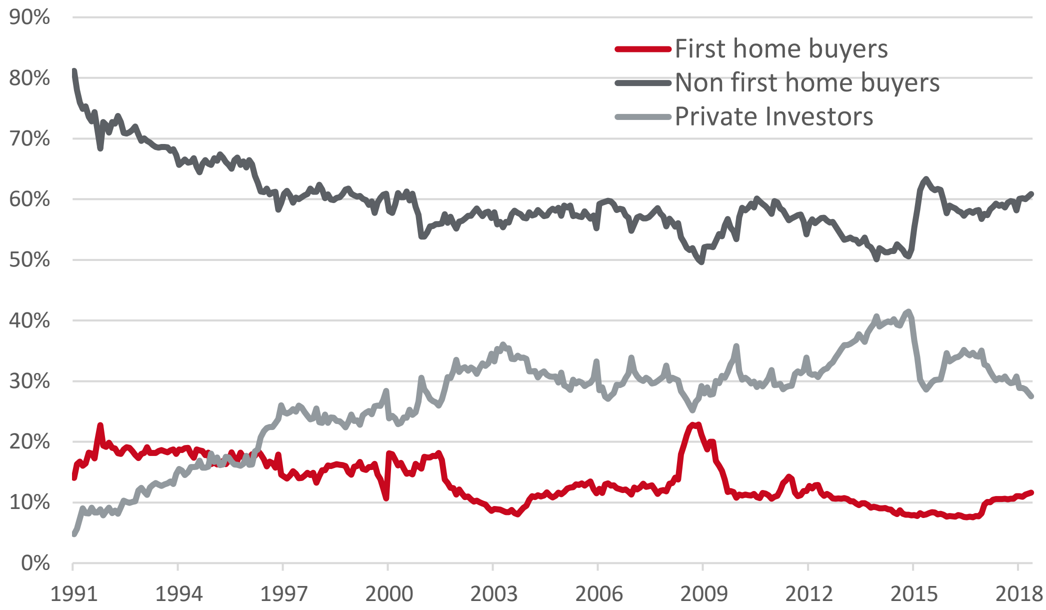
As Figure 6 illustrates, the explosion in finance for investor activity in the housing market has been substantial. In 1991 loans to investors were around 5 per cent of total, but in 2018 they were at 28 per cent, having peaked at just over 40 per cent in 2015. First home buyers, who are the drivers 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.

The property financialisation trend raises two important questions: to what degree has the investment in private rental crowded out the first home buyer? And to what degree it has it boosted supply?

The evidence is fairly unequivocal. 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 (Hulse, Reynolds et al. 2015: Fig. F17). Most investors are increasingly competing for existing property, much of it detached dwellings—the same dwelling type sought by first home buyers.

In terms of supply, AHURI research by Hulse, Reynolds et al. (2015) documents that 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. Investment fuelling the growth of rental can thus be seen as an issue of supply creating its own demand. By worsening affordability it creates more renters, thus requiring more rental investment which, if mainly in already established properties, creates more households unable to purchase and more rental demand; and the rollover of equity already accumulated by investors enables multiple investment acquisition. This becomes an entrenching cycle, resulting in considerable accentuation of the property wealth divide and an increase in political influence of rental landlords vis-a-vis potential home purchasers as more and more households become investors supportive of the existing policy environment, e.g. negative gearing that underpins their investment.

Figure 6: Housing finance in Australia by share of key borrowers, 1991–2018



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

In summary, probably the biggest impact of domestic and international financial deregulation has been the financialisation of residential property. By way of increasing the investment attractiveness of housing this has, compared to the past, given as much emphasis to the investment role of housing as to that of shelter, with associated household debt, increased housing demand and property price inflation implications.

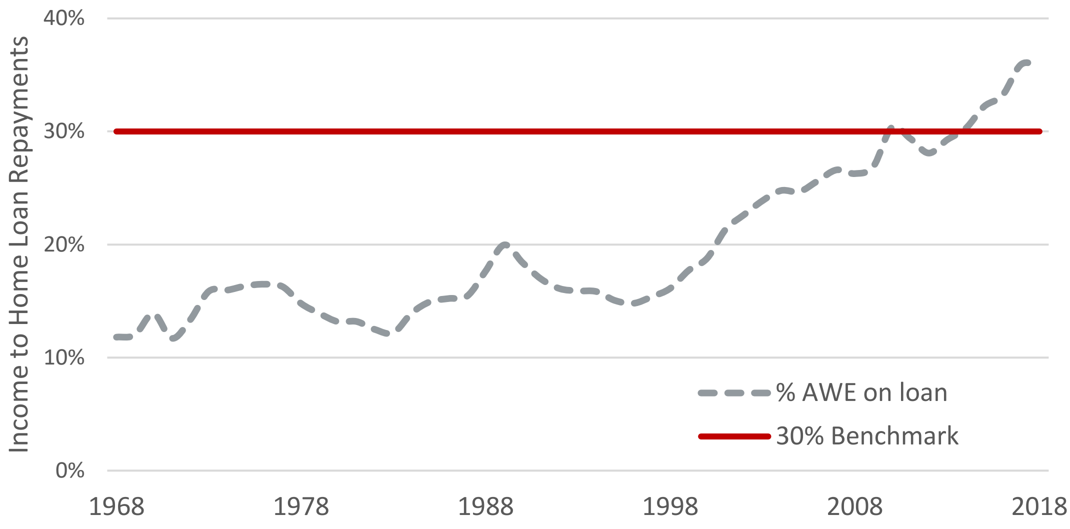
2.6 Housing affordability

Of all the factors causally linked to the decline in ownership, the most discussed is housing affordability. There is no doubt affordability has greatly worsened since the 1960s and 1970s, but not in any linear way; that is, it has not got consistently worse, but fluctuated up and down with interest rate changes. 'Affordability' is a term used relatively loosely, typically referring to the extent to which a household is able to afford either purchase or rental costs of a home.

The difficulty with the affordability concept is determining what is being measured. Popular measures such as Demographia's annual housing affordability measure (Demographia, Cox et al. 2019) are highly problematic, being essentially an income to house price ratio that does not take into account changing mortgage costs via the ups and downs of interest rates. Some Australian measures do this, including the HIA/Commonwealth Bank affordability index, but no consistent series goes back far enough for the purposes of any historical context.

Figure 7 shows the long-term trend in housing affordability for Melbourne only. This measure uses Valuer-General Victoria median house price data for houses (not apartments), a household income measure taking into account a couple—one man on male average weekly earnings for Victoria and one woman on 50 per cent of female average weekly earnings—and interest rates for a bank loan in the relevant year and for a 30-year loan period. It is assumed the household has saved the equivalent of a 15 per cent equity contribution, made up of 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 does factor in the increased labour force participation rate over the period, although by assuming a 50 per cent female contribution it probably overstates affordability capacity in the earlier years, when participation rates were lower, and understates in it later years. 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.

Figure 7: 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.

Figure 7 shows a long-term decline in housing affordability, but with quite major ups and downs—that are caused by interest rate changes as well as housing price fluctuations, which are more often discussed. The first prolonged decline in affordability was in the period 1985 to 1990, an era of change and uncertainty that triggered a large percentage fall in ownership.

Since the late 1990s the trend has been consistently upward, except for the spike around the GFC. 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, and this does not factor in the possibility of interest rate increases from their current historic lows.

Arguably, high dwelling prices and associated affordability problems are now ingrained within the Australian housing system. While there is little concern with excessive price increases, as soon as prices fall there is a cacophony of concern about impacts on household wealth, retail consumption, construction levels and the general economy such that stimulatory measures are often introduced (e.g. the Reserve Bank relaxes prudential controls or further reduces interest rates). These prevent any substantive and long-term improvements in affordability being achieved. The system acts to protect existing owners, not potential owners. Thus, the concern is more about the 'haves' in the home ownership sector than the 'have nots', with long-term implications for wealth inequality.

While affordability pressures are key to many aspects of generational change in housing opportunity and are important to understand and monitor, a focus on housing affordability alone does not provide solutions—rather, a continued framing of problems in terms of affordability arguably acts to reduce the scope of policy required for real and effective change.

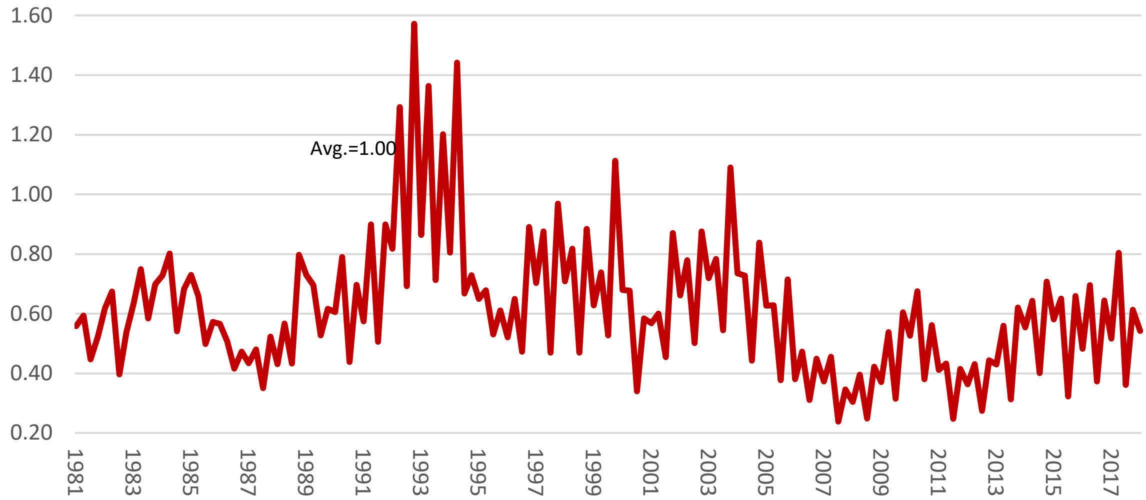
2.7 Housing supply

While much of the focus of the housing affordability debate centres on the cost of renting or purchasing properties, in a market-driven housing system such as the Australian one—and many of the comparator countries in Section 4—these costs are determined by the interaction of demand and supply factors, both of which are shaped by the institutional environment. Most simply, 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.

In a series of reports, the now-disbanded National Housing Supply Council (NHSC) documented a growing dwelling supply gap throughout the 2000s (NHSC 2013). The dwelling supply gap is defined as dwelling completions net of demolitions and conversions relative to estimated demand, although there is no internationally recognised benchmark ratio of dwellings to population. What really matters in terms of the ability to evaluate supply effects on housing affordability or responsiveness to economic conditions, including dwelling price changes, is the direction of the trend in the ratio. In the NHSC's analysis the number of households (the unit of housing demand) grew faster than the additions to the housing stock.

Taking a longer-term perspective, and relative to population rather than households, this trend can be seen in Figure 8; 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).

Figure 8: Dwelling completions relative to population growth



Source: ABS 2019a: Table 37; ABS 2019b: Table 4. Author's calculations.

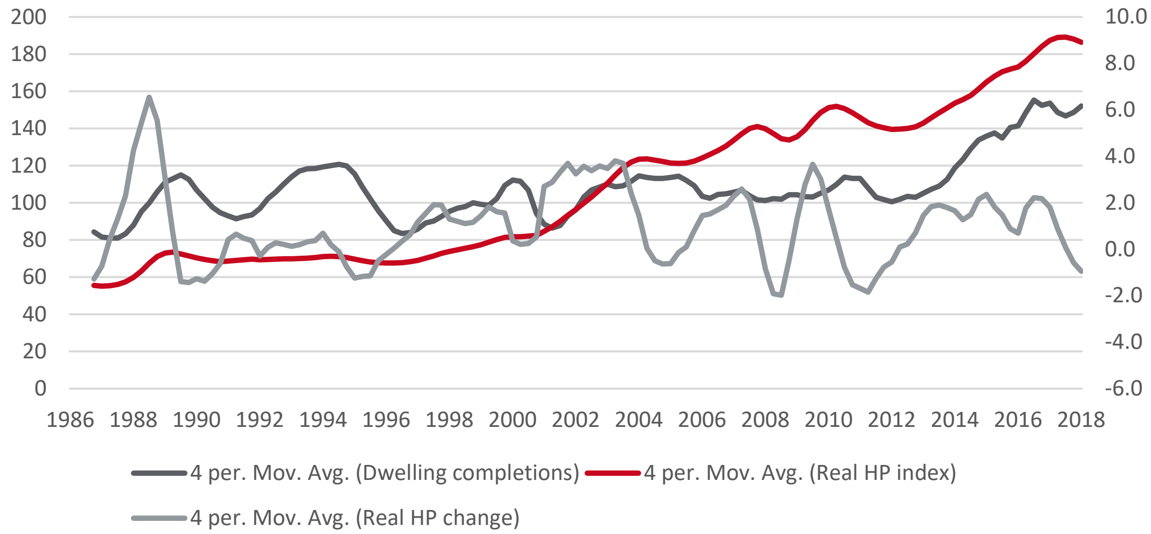
Population growth is a key determinant of housing demand, but Figure 8 suggests that new construction since at least the early 1990s did not respond strongly to increases in demand, but actually declined and stabilised at relatively low levels with little suggestion of ability to respond to (a) increases 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; there were, of course, shifts in the types of production (many more apartments) but not in the overall dwelling supply.

Figure 9 reaffirms the point, showing the four-quarter moving average trend lines for quarterly dwelling completions, real house prices and real house price change and providing an indication of the responsiveness (elasticity) of housing supply to property market changes. Throughout the period the real house price index consistently increased, with particularly high rates of real house price increases during the period 1997–2005, and then slower rates of increase until the GFC. However, for most of the period 1990–2012 dwelling completions fluctuate around a flat trend, rather than showing a strong reponse to the rising level of prices.

In line with earlier studies (Ball, Meen et al. 2010), recent AHURI research finds the responsiveness of housing supply (stock) to changes in house prices is low (Ong, Dalton et al. 2017: 2). Relatively inelastic housing supply means that demand shocks—from household income and population growth –tend to be capitalised in property prices and rents, rather than additional dwelling supply.

Consistent with the international economic literature (Ball, Meen et al. 2010; Malpezzi and Maclennan 2001, Mayer and Somerville 2000) and with the Australian (Ong, Dalton et al. 2017: 2) there is responsiveness to the change in house prices, but in the Australian context it is relatively weak and therefore insufficient to meet the increase in demand. Post 2012, supply did begin to increase and show a stronger relationship to price increases and to population growth. Given the responsiveness of non-detached dwellings (multi-family units) to prices, change appears to be higher than among single-family homes (McLaughlin 2012), hence the turnaround post 2011 may in large part be explained by the proportion of non-detached housing increasing from 30 per cent throughout the 2000s to 40 per cent post 2011.

Figure 9: Dwelling completions and real house prices



Source: ABS 2019a: Table 37; ABS 2005–2018: Table 2; and ABS 1986–2005: Table 8.

The limited elasticity of housing supply to key determinants of housing demand is an important explanation for worsening housing affordability, and also extends to the financialisation of residential property markets and the effect of labour market changes on access to housing. A low price elasticity of supply means that demand side shocks—such as lower borrowing costs, income growth, tax advantages and assistance to first time home buyers—are capitalised in the level of property prices, rather than resulting in additional housing supply. The capitalisation of demand side drivers over longer periods of time also affect the formation of capital gains expectations (Daley, Coates et al. 2018), enhancing the investment attractiveness of residential property compared to other investment options, but also the more conventional landlord and rental income motivation. An inelastic supply side also serves to amplify the distributional impacts across occupations and age groups resulting from labour market changes (discussed in Section 2.8) and income changes (discussed in Section 2.9). In a market-driven housing system prices are determined by willingness to pay (ability to borrow). A widening of the income distribution or security of labour market attachment means that lower income and/or less securely attached households will disproportionally experience affordability pressures.

2.8 Labour market change and home purchase

It would be erroneous and unfair to lay the blame for all the uncertainty of that era on the financial system, as so much else was changing with the labour market at the sharp end of such change. In one decade the 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 (ABS 2018b).

Not only was stable and abundant employment gone, but so was 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 (Richardson 1999). An international standardised definition and measurement of ‘casualised employment’ across countries is difficult to obtain, but ‘temporary employees as a proportion of all employees’ can be used as a de facto measure. Using OECD labour force data Campbell used this measure to see where Australia fitted in relation to equivalent OECD countries (Campell 2004: Table 4). With the exception of Spain, Australia had a much larger temporary workforce than in other western OECD countries and, in that key period of institutional change the 1980s to 1990s, had the fastest growth in temporary employment. From 1983 to 2002 temporary employment increased by 11.9 percentage points to 27.3 per cent. By contrast the average rate for equivalent OECD countries in 2002 was 12.8 per cent in 2002 (Campbell 2004: 15). Casualisation and temporary employment has remained a feature of the Australian labour market to the present day, although ABS labour force data (2018b) indicates that the level of such casualisation has changed little since that formative era of labour force disruption. Such change must have an impact on the ability of younger households (who have borne the brunt of casualisation) to become owners. Many simply could not and still cannot get a loan while on a casual employment income.

2.9 Income inequality

Income inequality is less an institutional attribute than an outcome of institutional change. It is, however, important for housing. There has been rising income inequality in Australia since the market liberal era, but not to the degree experienced in many other western countries (Productivity Commission 2018; ACOSS 2018).

In part the level of inequality depends on how it is measured; that is, what base time period, income concept (household or person) and actual measure of inequality (e.g. GINI co-efficient) (see Fletcher and Guttman 2013). But its reality depends on the particular institutional form of a society, most notably the income support, labour market and tax systems. In the Australian context these appear to have operated to limit income inequality, particularly at the lower end, to a degree that other countries' systems have not.

In terms of home purchase the relevant changes in income inequality are not those for all households, but for households who have the potential for purchase; that is, households who are in the labour market and have adequate incomes. This excludes individuals or households who are on various forms of income support and unlikely to be purchasers, or who are already owners but are on aged pensions.

Table 2 thus looks at the changing income distribution (net household income) for those households in the labour force aged between 18 and 65. It shows that the income distribution has changed over the last 50 years, quite substantially in favour of the higher income deciles with a modest actual fall in the lower two. 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. A relative weakening of income growth for lower income earners is a problem when compounded by the fact that households with low incomes are often viewed by lenders as a higher risk, and therefore have greater difficulty securing loans. As we shall see in Section 3.3 it is these two lower income deciles that have largely retreated from home purchase.

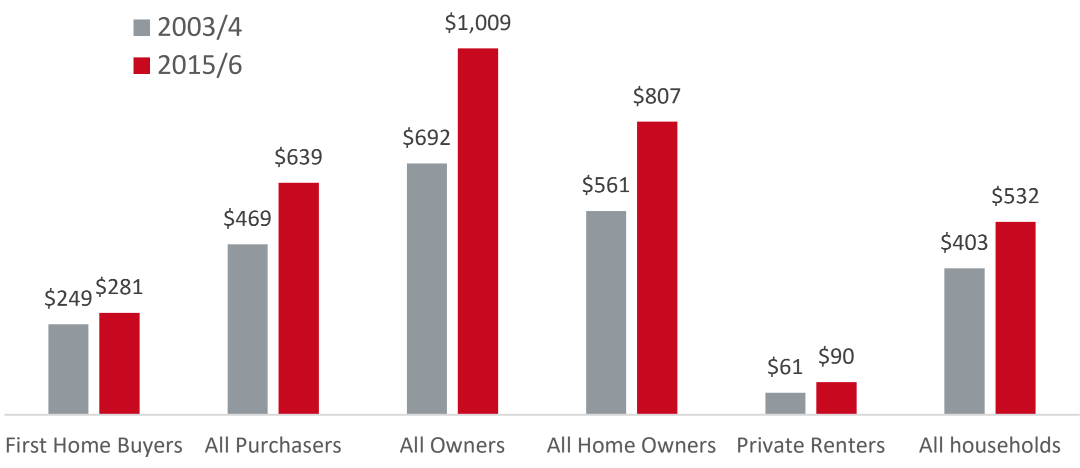
Table 2: Income distribution 1988 to 2015–16, households in labour force, net median income by decile

	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.

The housing effects of greater income inequality are accentuated by wealth inequality, as households in the higher income quintiles have much greater wealth, mostly in the form of housing wealth (Hulse, Martin et al. 2018). Figure 10 shows the scale and changes in housing wealth by tenure between 2003–04 and 2015–16 and highlights why households aspire to ownership: outright owners in 2015–16 had wealth 10 times that of renters, and even purchasers, after deducting mortgage costs, still had wealth of over $600,000.

Figure 10: Changes in wealth distribution by tenure, 2003–04 and 2015–16

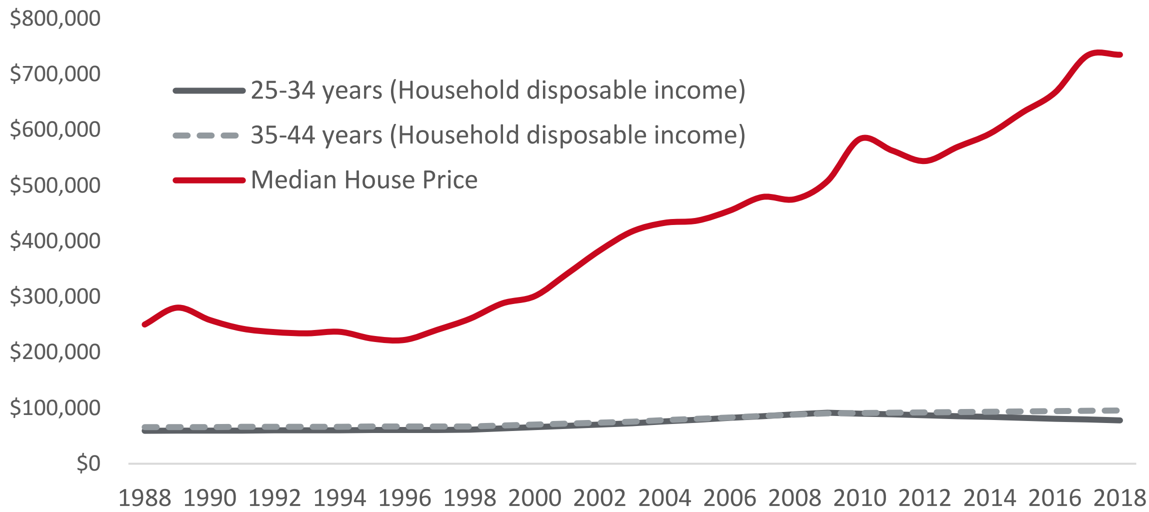


Source: Original analysis of ABS SIH, various years. Numbers are in thousands.

Property wealth can be used to facilitate trading up and building more wealth and, importantly, to assist adult children within such households to become purchasers—an opportunity largely unavailable to the property-poor lower quintiles. On the other hand, such wealth inequality can also be a negative to building ownership if existing owners trading up (changeover buyers) crowd out the first home buyers, just as investors have done. As subsequent data shows, changeover buyers in all age groups (except the 25–34 group) have become more important market players compared to first home buyers. No doubt in many cases they are building on their increasing wealth in the form of equity to trade up.

Another part of the income story is illustrated by Figure 11, which shows the long-term trend in real disposable income (see Appendix 1 for method) compared to dwelling prices for households in the key property-purchasing cohorts aged 25–34 and 35–44 years. It clearly shows how incomes and house prices have diverged. There was an increase in real incomes from 1988 to 2009, but nowhere near the increases in relation to dwelling costs. The gap became even greater post-2008, as real incomes actually fell for the 25–34 cohort (the effects of employment casualisation?) and remained static for the 35–44 cohort. House prices, however, exploded such that in 2018 they were almost nine times the household income of 35–44 year olds, compared to 3.3 times in 1996.

Figure 11: Dwelling price and household income, age cohorts 25–34 and 35–44



Source: Original analysis of ABS Income and Housing Survey and Victorian Valuer General Property sales data, various years. See Appendix 1 for detailed methodology.

2.10 Land and the remaking of the city

The second half of the 1980s and the early 1990s should be seen as a transformative period in Australian cities. The visual landscape in any Australian city was very different to today.

Associated with the aforementioned labour market changes was a restructuring of the spatial dimensions of the labour market. Largely as a result of the micro-economic reforms flowing from market liberalism, Australian cities restructured from manufacturing, which in the 1950s–1970s was scattered throughout our cities, to services, which tended to concentrate in the inner city, helping to provide a rationale for gentrification of the city and new forms of property investment. While gentrification of the inner city had begun in the early 1970s (Kendig 1979; Logan 1985), that was gentrification of socio economic groups, not of property type. The professionals moving into the inner city in pursuit of the newly emergent employment opportunities simply occupied the existing housing stock and restored it.

But by the 1980s, driven by labour market restructuring, the process of intensification of the inner city, later extending to the middle ring suburbs, had become one of large scale residential multi-unit development and high rise, never previously part of the Australian physical landscape. The growth of the international student market was also an important part of this remaking of our cities. While 'build-to-rent' is a fashionable concept at the moment, in many respects it had its precursor in the early 1990s with purpose-built construction of apartments (mostly high rise) for rental to international students. The international student high rise in part provided the momentum for a now widespread inner urban residential high rise development and investment process.

Such changes have implications for home purchase. Firstly, intensification of development places a premium on land, such that between 1972 and 1992 the mean price per square metre for dwelling land in the City of Melbourne (Melbourne CBD and inner city area) rose from $390 to $3,410 in constant 1992 prices—almost a tenfold increase (Valuer-General Victoria 1972; 1992). This increased construction costs and reduced purchase capacity for families (key home purchasers), as dwelling costs increased substantially.

There is also a secondary effect: properties developed to meet the high land costs were, and still are, typically small one- and two-bedroom apartments; many, as various incidents have revealed in recent years, of poor quality or with structural problems. These by and large are not suitable for purchasing families and most are built for, marketed to and bought by rental investors, many from overseas. Australian cities, most keenly Sydney, Melbourne and Brisbane, have since the 1990s therefore supplied more and more dwellings of a form not designed for or meant for purchasers: purchase choices in the more inner city areas (most notably for families) have therefore been more constrained than in earlier decades.

While there was enormous change in the inner and middle ring suburbs of Australian cities, the outer and fringe suburbs did, however, largely maintain previous eras' suburban form of single detached housing development. What changed was the demand attributes of these areas. Where in previous decades these newly established or still expanding areas had been more expensive or much the same price as inner city housing, by the 1980s these areas (a) began to become considerably more affordable than the inner areas and (b) offered, because of falling relative prices, a value for money product, the detached dwelling, which was increasingly not available in more inner areas.

The disparity in relative prices emerged because of a combination of the demand for inner city locations—with their greater labour market strength—and a growing awareness of the negative amenity associated with outer areas (e.g. poor infrastructure; most importantly lack of public transport and traffic congestion). This meant households who did not want to rent apartments in the inner city or who could not afford the very expensive and increasingly limited supply of detached dwellings in inner city areas could only choose ownership in more distant outer areas. To some extent this has been a historical trajectory of Australian ownership growth (purchasing newly constructed outer urban detached housing). However, where in earlier decades the suburban developments still had access to public transport and had, in many cases, their own relatively strong labour markets, this is no longer the case. Outer urban ownership now brings with it resource access inequalities not previously associated with ownership, meaning that dealing with long-term tenure issues will in future requiring thinking well beyond narrow housing programs and policy. Thinking through the future of tenure will also involve questioning what we want from the future of our cities.

2.11 Housing policy

Housing policy is a second-tier institutional structure taking its attributes from the economic system, politics and type of governance, and societal values and belief systems. Australia has very little formal housing policy; even Commonwealth Rent Assistance (CRA) is an income support program. First home owner grant schemes and social housing provision are part of housing policy, but other measures such as capital gains tax exceptions, negative gearing and planning controls are indirect policies with few specific housing outcomes built into their design.

The problem here is that the weakest areas of policy are the ones that act to keep housing affordable and appropriate (e.g. social housing provision), while the key policies, notably taxation, act to reaffirm the commodification and financialisation of housing. Regardless of whether this was the historical intention, it has become the outcome, with its attendant issues of dwelling price inflation and high household debt.

This is not to say the era of ownership growth between 1945 and 1975 was underpinned by explicit home ownership policy. While the Liberal government of the day strongly supported ownership, most policy support was indirect, taking the form of tax provisions, control over the financial system (notably supporting building societies) and the nature of the planning system. The main direct ownership policy was the diversion of Commonwealth State Housing Agreement (CSHA) funds originally meant for public housing to ownership purchase (Troy 2012: Ch 2). In terms of indirect policy mention should be made of the exemptions of ownership from the income support asset test and exclusion of capital gains tax for owner occupiers (see Yates 2009). The latter has little relevance however for younger households seeking to enter the ownership market, while the former ceased to have any relevance after the 1980s when the CSHA ceased being a de facto ownership support program.

2.12 Resilience of home ownership aspirations

Despite the considerable changes in structural conditions that enabled home ownership to flourish in previous eras without the affordability pressures we see today, the overall cultural norm of home ownership remains very strong in the Australian psyche. As outlined in Burke, Stone et al. (2014), for some decades debate has taken place about whether declining home ownership rates found among young adults in recent years, relative to the rates of home purchase seen at the same ages among previous generations, could be attributed to lifestyle and cultural change, or to a lock-out driven by increased house prices and associated entry costs. Questions were raised in previous Australian research about whether home ownership met the desire for flexibility, reduced responsibility and overall shift to a more mobile living style among younger Australians (Baxter and McDonald 2004; Beer and Faulkner 2009).

Consistently, however, when asked about what housing young adults want, home ownership and the way it has been experienced, in terms of dwelling and locational options, features highly. A 2011 national survey about the ‘housing we’d choose’ (Kelly, Weidmann et al. 2011) with a focus on Australia’s two largest cities, Melbourne and Sydney, indicated that detached and semi-detached housing (associated with ownership) is overwhelmingly preferred by households in both Melbourne (74%) and Sydney (66%) and that apartments/townhouses/flats/units (associated with rental) are a minority preference (Kelly, Weidmann et al. 2011: 37).

Another national survey in 2017 asked not only about housing affordability pressures but also about opinions and attitudes on various aspects of the institutional environment that supports home ownership, including supply and demand side policy settings (Sheppard, Gray et al.

2017). The study included views from a wide range of age and demographic population groups and its results are notable for their uniformity. Three-quarters of participants reported that owning a home is a large part of the Australian way of life, and around 90 per cent indicated they were 'very concerned' or 'somewhat concerned' about future generations' ability to purchase their own home. The study also found that the home ownership norm is not just strong, but is so entrenched in the Australian way of life that a majority of participants believed that young adults ought to be assisted to achieve home purchase via government initiatives (Sheppard, Gray et al. 2017).

Most recently, the AHURI Inquiry into the Housing Aspirations of Lower Income Australians (2017–2019)[1] explored in detail the housing aspirations of younger adult cohorts relative to those now at mid- and later life. This forthcoming research includes a large national survey coupled with extensive qualitative research in metropolitan and regional areas. Overwhelmingly, when asked about their overall housing aspirations for the long term, a large majority of households across all age groups and household wealth and income categories indicate that home ownership is their aspirational housing tenure. While this preference is somewhat lower among the youngest adults (18–34 years) relative to those in their middle years (35–54 years) or at various stages of later life (55 years and over), ownership remains a majority aspiration.

In part the dominance of home ownership may simply relate to the lack of current housing tenure alternatives that are perceived to provide the type of security, safety and long-term opportunities for savings over the life course that are synonymous with home ownership. Hulse, Martin et al. (2018) document the changing institutional environment that shapes Australia's private rental sector and indicate that while private rental is a growth tenure attracting much institutional change (such as new intermediaries, agents and brokers establishing), the conditions underpinning attributes such as security, quality of dwellings and rental affordability have undergone relatively little change. Forthcoming rental reforms enacted in the states of Victoria and New South Wales will go some way toward establishing greater security; however, a cross-jurisdictional and international comparison points to the relative overall insecurity of Australian privately rented housing for large proportions of tenants (Martin, Hulse et al. 2018). As of mid-2019 private rental for most Australian households is still a tenure of second best.

2.13 Summary and policy development options

Home ownership policy in the market liberal era has in some respects disappeared compared to the previous three decades. This was not a conscious decision by either Labor or Liberal governments of the 1980s and subsequent years. It was more an unanticipated side effect of other policy issues and development. With hindsight we suspect that governments were unaware of the implications of other policy changes for ownership; in fact, and notably in relation to financial deregulation, they probably saw it as expanding ownership and did not see the implications of property financialisation.

Post-1980s there was much greater policy concern with (a) the concept of household choice, which provided a rationale for the growth of CRA at the expense of capital funding for public housing and (b) facilitating rental investor activity through generous negative gearing and capital gains tax provisions. The unintended side effect was growth of private rental in a way that meant ownership had to take a secondary role.

[1] See https://www.ahuri.edu.au/research/research-in-progress/ahuri-inquiries/evidence-based-policy-inquiry-51170.

Pro-ownership policies such as the First Home Owners Grant (FHOG) appears to have had little impact on building ownership, although it could be argued they slowed the rate of decline. The effect of the FHOG appears outweighed by the rental investment tax breaks.

Putting all the threads explored in this section together reveals there has been a very different and uncertain environment for home purchasers from the 1980s onwards. In turn, the combined effect of these intertwined trends raises the questions to be explored next: (a) how did this institutional environment shape patterns of household behaviour in terms of tenure outcomes and (b) how do these tenure outcomes manifest, as measured by long-term trends in key socio economic variables?

3 What does the data say? Home ownership in a changing institutional environment

- This section uses ABS data to test the proposition that the institutional environment has weakened the capacity to sustain ownership at the levels of the past.
- Looking at variables of age, income levels and type, country of origin, buyer type, time length of mortgage and state and territory changes, the evidence strongly supports the proposition.
- Virtually all variables indicate the direction of change is problematic; even sustaining ownership near current levels appears to be difficult.
- There are some interesting findings, including that:
  - ownership would have fallen much further if not for the ageing of the population
  - there are quite marked differences in ownership decline by state and territory (with Queensland and Victoria the worst performers)
  - migration weakens ownership in the short term but builds it in the long term (although not to past degrees)
  - mortgagees are not paying down their mortgages as rapidly as they used to; in fact, more older persons are increasing mortgage payments in the later years of the mortgage.
- Using ABS household projections to 2030 and 2040 and extrapolating ownership trends from 1981 to 2016, it is estimated that ownership will fall overall by another three percentage points (to 62–63% by 2030) and for the age cohorts 25–55, to just over 50 per cent.
- At these levels of ownership the inevitable blocked ownership aspirations of large proportions of households requires a recasting of the Australian housing system.

Section 2 documented the changed institutional environment post the mid-1980s and the factors that appear to have made it much more difficult to achieve ownership than in the earlier 'window of opportunity' period. But does the data bear this out?

In this section we examine the statistical trends in home ownership from the 1980s (the period of major institutional disruption) to 2016, paying particular attention to the age cohorts 25–34 and 35–44 years, as these cohorts have historically been the principal drivers of home purchase. While Section 2 showed that for all households the long-term trend in ownership over the last 40 years has been relatively stable, perhaps the story was different for younger households, who were more likely to be impacted by the changed environment.

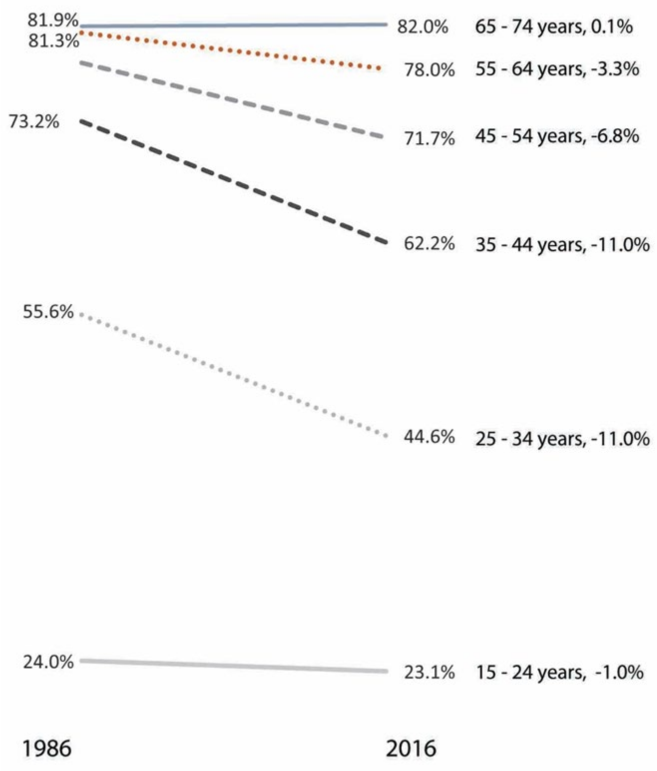
This long-term perspective is needed because the ramifications of purchase decisions in the past often do not reveal themselves for decades. A key objective of this statistical analysis is to make an assessment of what past decisions mean for the direction of ownership and to model possible ownership levels by 2030 and 2040. The variables considered in this section are age, income level and type, country of origin, buyer type, time length of mortgage and location (state and territory).

3.1 Ownership across age cohorts

Figure 12 shows the 30-year trend in home ownership to 2016 by age cohort, and illustrates that only the oldest age cohorts (65–74 years) have increased their rate of ownership. All others, most notably the 35–44 and 25–34 age cohorts, have experienced sharp declines; the 25–34 cohort's ownership, for example, has fallen from 55.6 per cent to 44.6 per cent. While it is not visible in Figure 12, the biggest fall, of almost eight percentage points, was in the period 1981–91: that 'age of uncertainty' when Australia's economic future was somewhat unclear—this perhaps illustrates how ownership and particularly purchase requires a society generating confidence and stability.

The most recent period, 2011–16, actually shows a marginal increase in ownership for the 25–34s; the 35–44 cohort experienced the fall in ownership during this latter period. But given the larger absolute numbers in the 35–44 cohort, the overall direction for the two cohorts collectively is down—significantly so compared to their rates of ownership back in 1981. This suggests, if emergent younger cohorts carry the same trend into the future, that ownership will fall quite markedly. The relative stability of overall ownership during the last 30 years will not hold, as this stability has been held up by the higher ownership levels of the older cohorts, most of whom first entered ownership via purchase some 30 to 40 years ago.

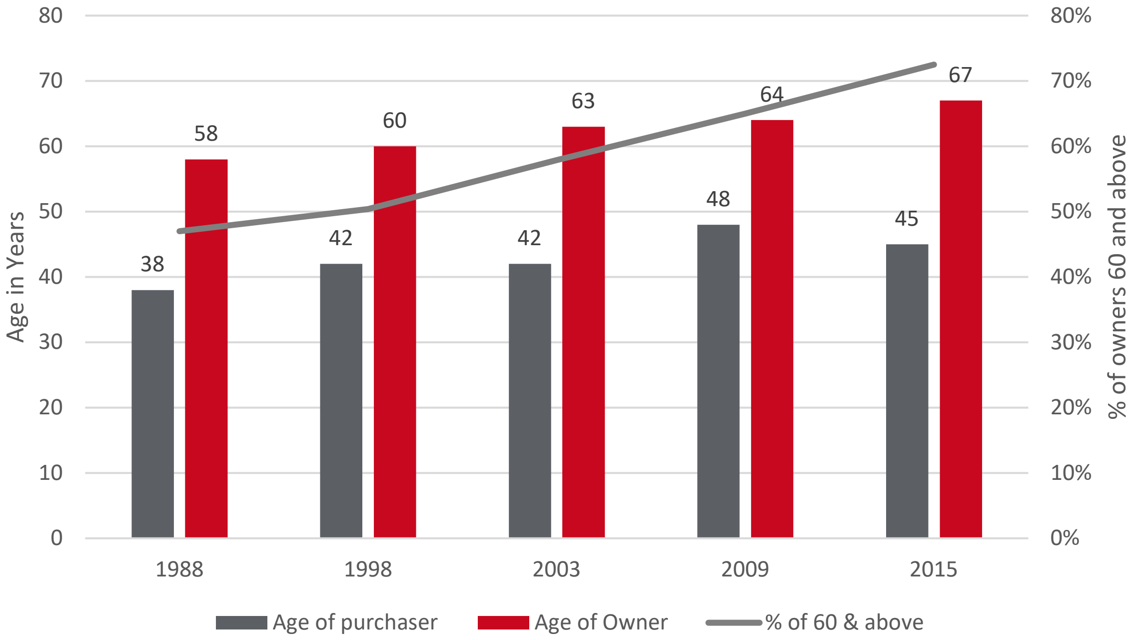
Figure 12: Long-term ownership by age cohort, 1986–2016



Source: Original author analysis of ABS Census of Population, 1986, 2016.

The age and tenure story can also be told through changes in the average age of purchase and ownership. Figure 13 shows the long-term trend in the age of purchase and ownership and highlights the ever-upwards path. One of the more significant attributes of this trend is that outright ownership is occurring at a much later age (up from 58 to 67 years), meaning growing numbers of households still have mortgages in later years when incomes tend to fall. As Ong (2018) has discussed, this has long-term implications for income support and superannuation. Interestingly, and in a departure from the general trend, the average age of purchasers fell between 2009 and 2015.

Figure 13: Average age of owners and purchasers, 1988 to 2015–16



Source: Original author analysis of ABS Income and Housing Surveys; respective years 2016.

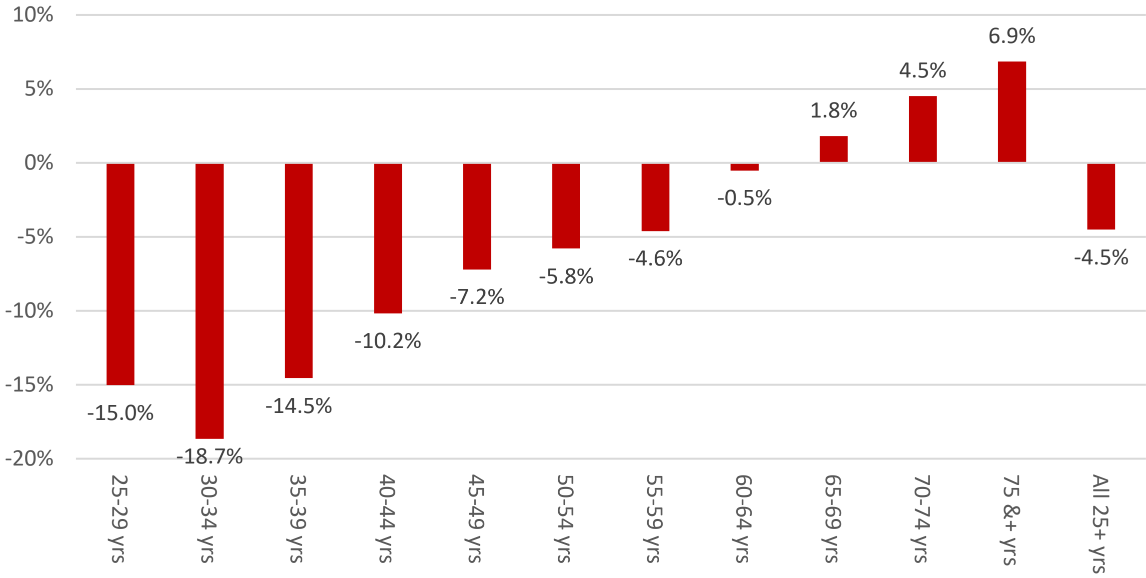
Changes in age-specific ownership rates can affect total ownership rates. Given the difficult institutional environment of the last 30 years, perhaps the most surprising element is how well ownership has held up. There are, of course, a number of possible explanations for this, but one factor is the impact of population ageing and changes in age distribution. The impact of compositional demographic change is illustrated in Figure 14 and Figure 15.

Figure 14 shows the change in home ownership by five-year age cohorts between 1981 and 2016. The figures are for heads of households aged over 25 years only. Compared to 1981, the percentage of 30–34 year olds owning or purchasing a home declined by nearly 19 percentage points by 2016. The ownership rates for all other working-age cohorts also declined, but the decline decreases successively in older age cohorts. For age cohorts over 64 years, however, the rate of home ownership increased.

Figure 15 shows the change in each age cohorts' share of the overall Australian population (aged 25 and over) between 1981 and 2016. Over the period the number of people aged 25 years and older increased by some 79 per cent, but this increase was uneven, resulting in a relatively large—3.8 percentage point—decline in the 25–29 and 30–34 cohorts, and increases in the cohorts aged 45 and over.

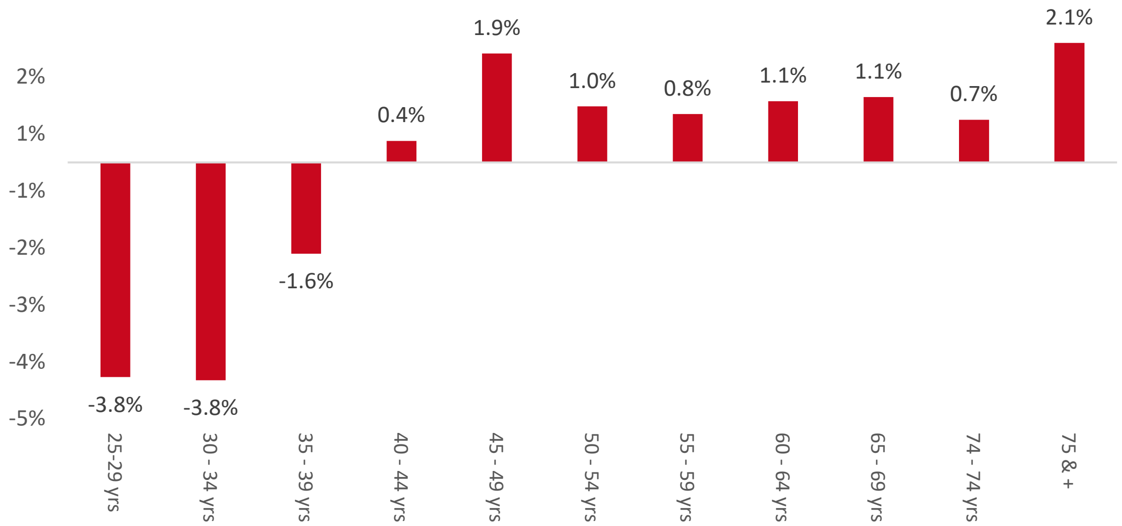
Looking at age and home ownership in isolation, the aggregate home ownership rate is a function of changes in demography and changes in access to home ownership. If the population distribution and the rate of home ownership in each cohort was unchanged then the overall home ownership rate would be unchanged. Figure 14 and Figure 15 show that both of these have changed. However, notwithstanding the large decreases in ownership for those under 40 years of age and the comparatively smaller increases for older cohorts, the overall ownership rate only declined by 4.5 percentage points for those aged 25 years and older between 1981 and 2016. This is because even though ownership rates declined dramatically for younger cohorts, their overall share of the Australian population declined too.

Figure 14: Cohort-specific change in home ownership



Source: Original author analysis of ABS Income and Housing Surveys; respective years 1988 to 2016.

Figure 15: Cohort-specific change in population distribution



Source: Original author analysis of ABS Income and Housing Surveys; respective years 1988 to 2016.

The information in Figure 14 and Figure 15 can then be used to consider the question: what would the ownership rate have been if the Australian population had not aged over this period? To answer this we re-weighed the 2016 ownership rate by the age distribution in 1981 (Appendix 2 provides our detailed findings). Summarising the application of the 1981 population shares to 2016 ownership rates gives a weighted average of 66.2 per cent home ownership. In other words, if Australia's population age distribution had remained constant and only access to home ownership had changed, the overall ownership rate in 2016 would have been a further 2.8 percentage points lower. The decline in ownership between 1981 and 2016 is therefore partially masked by the significant change in demographics.

Another way of presenting this information is to look at the ownership rate for 25–64 year olds compared to all cohorts aged over 25; see Table 3. When the over-65s are excluded the ownership rate falls from 72.6 to 64.6 per cent (1981–2016) compared to 73.6 to 68.9 per cent when the older cohort is included, with the gap getting wider (column 4). In other words the ownership rate of younger households is increasingly diverging from that of older households with implications for term ownership rates.

Table 3: Ownership rates; 25–64 and 25+ age cohorts, 1981 and 2016

Year	25–64 years	25+	Difference
1981	72.6%	73.6%	1.0%
2016	64.6%	68.9%	4.3%

Source: Original author analysis of ABS Census of Population, 1981 and 2016.

3.2 Buyer types

There are two type of purchasers: first home buyers and changeover buyers (i.e. those who purchased at a previous date and are buying again). One of the key reasons for looking at trends in the balance between these two groups is that they can hint at long-term tenure implications. The SIH enables a breakdown of the two groups that shows, for all age cohorts other than 25–34 year olds, that changeover buyers are becoming much more important in terms of accounting for the proportion of purchasers (see Table 4). First home buyers in 2015–16 only made up 14.7 per cent of all purchasers, compared to 22.8 per cent in 1996.

This is consistent with the lending data in Figure 6 and suggests that first ownership percentages are affected by a crowding-out process; that is, many more households that already have a mortgage are trading up (or in some cases down), perhaps capitalising on increased equity by virtue of dwelling price inflation. First home buyers appear trapped between two processes, with investors accessing more of the available credit on one side and trade-up buyers doing the same on the other. Both types of borrowers are likely to be preferred by lending agencies as their repayment ability and/or equity are likely to be greater than first home buyers'.

Table 3 reveals one surprising result: the contraction in purchasing among the youngest age cohort (25–34 years) is less because there are fewer first home buyers than because of a contraction in the rate of changeover buyers. The absolute numbers in the age cohort 25–34 purchasing fell by almost 57,000 between 1996 and 2016, but 70 per cent of this fall was explained by fewer changeover buyers; there was a fall from 40.2 per cent of purchasers in this age cohort to 33.1 per cent. This may link back to the ageing of borrowers; we suspect that, compared to 20 or 30 years ago, more of the first home buyers in the 25–34 age cohort are purchasing toward the upper age limit. They therefore would not be likely to have accumulated sufficient ownership time and associated equity to leverage a new loan for trading up, being in the early stages of their mortgage and with substantial debt during their remaining time in that age group.

As already noted, there are issues associated with the proportion of older households who have not achieved outright ownership. If greater numbers of households face carrying a mortgage into post-retirement, why would they change properties and take on a new (and if trading up, a larger) mortgage? Why not age in place and achieve outright ownership? These findings suggest that a good proportion of the 'mortgage in older age' issue is not decision constraints relating to late first purchase, but the choice to purchase another property in later age.

One explanation is that those carrying a mortgage into older years can afford to do so and may be engaging in a process to build a larger equity base (assuming capital gain) that can be sold off at a future date, to be converted to an income stream or used to assist children or grandchildren. Other possible explanations include (a) the incentive built into the pension system to maximise asset worth in the form of an owner-occupied property (exempt from asset tests); or (b) downsizing to enable a reduced mortgage and perhaps some surplus funds to use as income. This an area where more research is needed.

Table 4: First home and changeover purchasers, 1995–96 and 2015–16

Age cohort	First home	First home	Change-over	Change-over	Total households	Total households
	1996	2015–16	1996	2015–16	1996	2015–16
25–34	59.8%	66.9%	40.2%	33.1%	310,684	254,067
35–44	32.0%	28.2%	68.0%	71.8%	235,855	241,783
45–54	17.1%	13.9%	82.9%	86.1%	117,959	152,468
55–64	22.8%	14.7%	77.2%	85.3%	31,341	64,335

Source: Original author analysis of ABS Income and Housing Surveys; respective years 1995–96 and 2015–16.

3.3 Income quintiles

Section 2.8 highlighted the greater weakness of the labour market and associated real income growth for lower income deciles. This, combined with higher housing costs, would suggest less ability to own, which Table 5 shows is the case: in the age cohort 25–44 years, ownership cascaded downwards in a relationship almost directly related to income over the period 1988 to 2015–16. The two lowest income quintiles experienced the sharpest falls in ownership share, with much lesser falls for the other quintiles. However, income levels and distribution cannot be the only explaining factor; ownership fell across all income quintiles over the period, albeit only marginally for the top one.

The timing of falls in ownership is interesting. The lowest income quintile experienced most of its fall in ownership during the 1990s, whereas for the three higher quintiles it was in the 2000s. The second-lowest income quintile was hit at both ends of the period, experiencing a substantial fall in the 1990s, stabilising in the 2000s, and another fall in the last decade. One possible explanation is that the two lowest income quintile were badly affected by the 1990s recession and never really recovered, while the other quintiles have been more affected by the major declines in affordability during the last decade. Given the greater weakness in real income growth in recent years, it is hard to see how the future will not bring more falls in ownership, most notably for those on low to middle incomes. This is important to note, because the data clearly show ownership decline is not just a lower income phenomena—it stretches well into the middle classes.

Table 5: Percentage of 25–44 year olds in purchasing and home ownership by income quintiles

Quintile	% home owner 1988	1998	2003	2015–16	1988 to 2015–16 change
Lowest 20%	47.0%	35.0%	38.3%	34.1%	-37.0%
20–39%	66.4%	57.2%	51.8%	43.4%	-34.7%
40–59%	77.6%	65.5%	65.0%	56.2%	-27.6%
60–79%	75.8%	71.8%	74.2%	63.2%	-16.7%
Highest 20%	76.0%	74.4%	75.5%	72.6%	-4.5%
Total	68.5%	60.8%	61.2%	54.0%	-7.9%

Note: Selected age group 25–44 years; quintiles are based on disposable weekly income of that group.

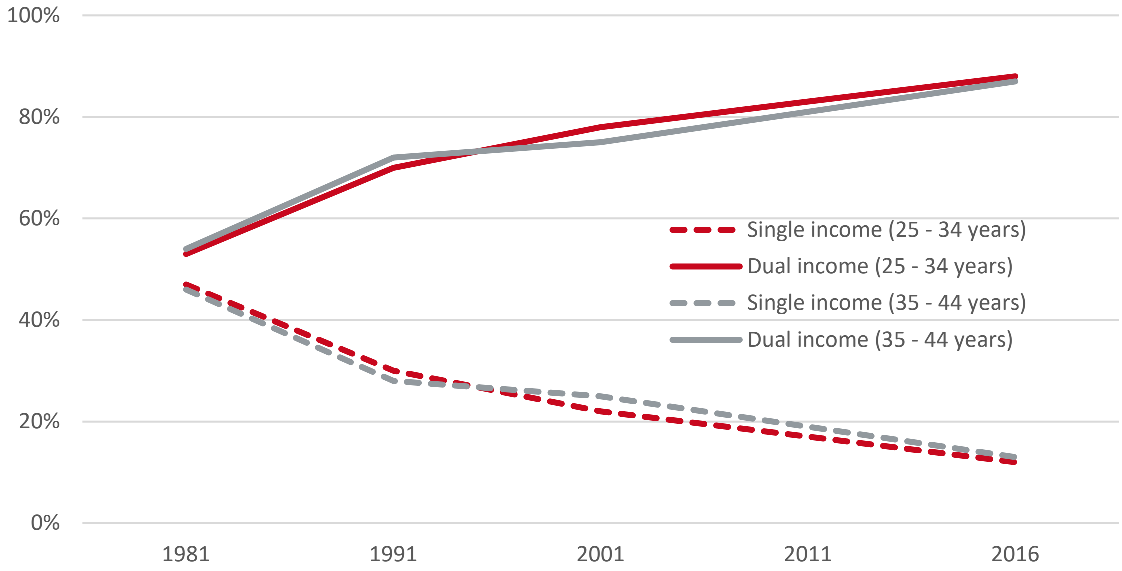
Source: Original author analysis using HES 1998, 1993, 2003 and 2015–16.

3.4 Single income and two income households

Another important change alluded to earlier is the increased labour market participation of women, particularly partnered women. During the period of Australia's financial deregulation, banks began to take households' second income into account; this meant a growth in two income households, which was notable among our study's two age cohorts. The subsequent effects of this are complex; does the formation of two income households cause an increase in dwelling demand and increase dwelling prices (the second income being amortised into higher prices), or is it an outcome, whereby reduced affordability over time has increasingly required the creation of two income households? On one level it does not matter, as what this has meant is a crowding-out of the single income household from home purchase, making life more difficult for those households that choose, or are constrained, to remain a single person, lone parent or otherwise one income household.

As Figure 16 shows, the single income household's role in the home purchase market is much smaller than three decades ago. Since 1981, among purchasers in both of the younger age cohorts, the proportion of dual income households has risen substantially—an increase much greater than could be explained solely by growth in female workforce participation. The corresponding fall in the proportion of single income purchasing households is telling, given this period has seen substantial growth in sole person households. In 1981, the ratio of dual to single income households among purchasers aged 25–34 was not that large, with dual income households accounting for 54 per cent of purchasers and single income households comprising 46 per cent. Thereafter the gap has widened markedly, so that in 2016, among 35–44 year olds, dual income households accounted for 87 per cent of purchasers and single income households only 13 per cent. The pattern for those aged 25–34 is almost the same. The data appears to confirm the popular belief that you have to be a dual income household to purchase.

Figure 16: Purchasing households, single and dual income, age cohorts 25–34 and 35–44, 1981–2011



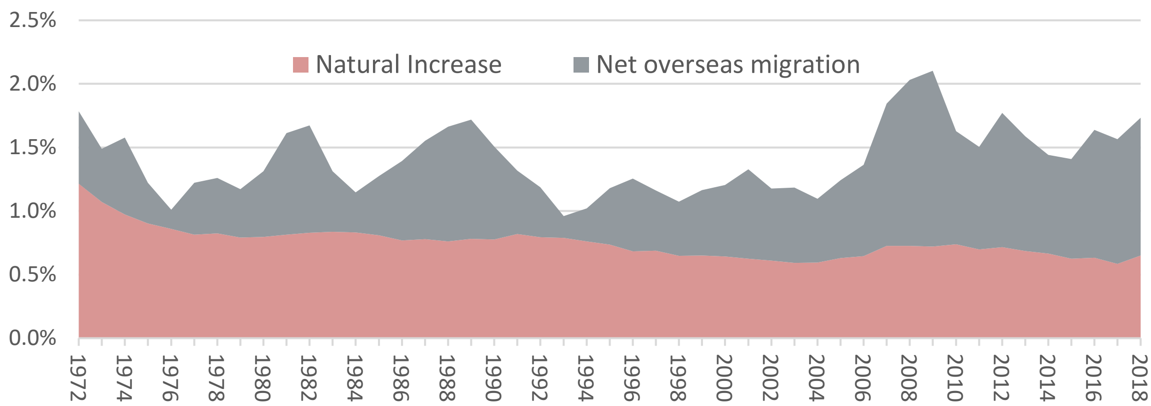
Source: Original author analysis of ABS Census of Population and Housing, unit record files, various years.

3.5 Migrants

Migrants provide a large part of new housing demand, as recent popular media and political commentary highlights. But does migration weaken or strengthen home purchase trends? Migration could weaken such trends if the take-up rate of purchase was lower than for previous generations of migrants, or could strengthen them if it was higher. In terms of the cohorts we are concerned with (ages 25–34 and 35–44) migrants are especially important, as overall they are younger than the Australian-born population. Moreover the timing of migration patterns is important.

Any changes in tenure trends could reflect (a) a change in the composition of migrants to culturally and linguistically diverse (CALD) populations—for example, people in different visa categories (e.g. short stay working visas) that have a low or zero capacity/propensity for purchase would weaken purchase rates; (b) more recent migrants being caught up in the same affordability and labour market barriers to ownership as the Australian-born population; or (c) changes in the rate of migration, whereby periods of high migration such as seen in 2005–08 (Figure 17) will bring down recent ownership (e.g. as in the 2016 Census), because recent arrivals tend to have low ownership take-up.

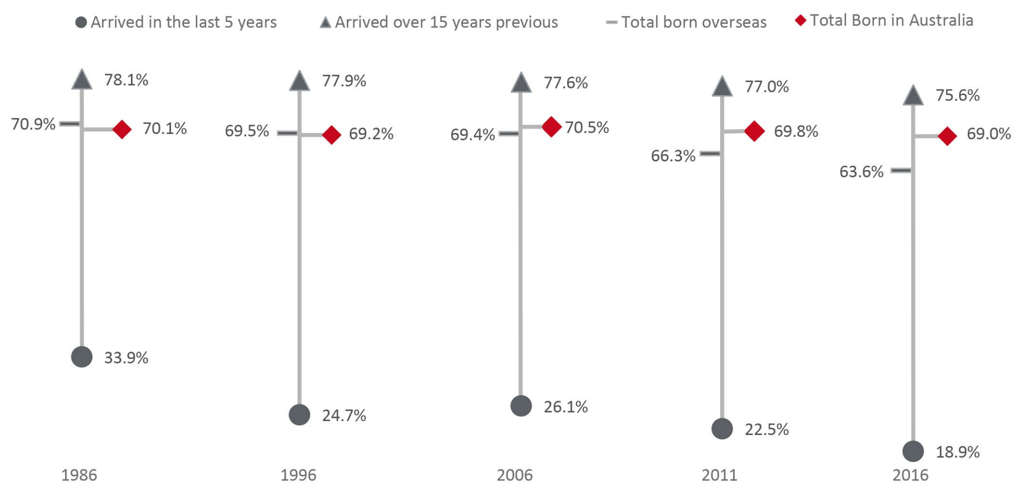
Figure 17: Population growth Australia to 2017, showing net overseas migration and natural increase



Source: Original analysis of Australian Bureau of Statistics (2019b) Australian demographic statistics, Dec 2018, cat. no. 3101.0, Table 1.

What is the story on home ownership and purchasing for migrants? The ABS Census provides data on tenure by period of residency for migrants. Figure 18 shows the results since 1986 and indicates that recently arrived migrants' ownership is contracting at a faster rate than historically was the case, as well as at a much faster rate than the Australian-born group. Some of the decline in home ownership for Australia is therefore a demographic attribute of migration.

Figure 18: Rates of home ownership among migrant (by time since arrival) and Australian-born groups, 1986–2016



Source: Original author analysis of ABS Census of Population and Housing, various years, 1986–2016.

In 1986, 33.9 per cent of migrants of less than five years' standing in Australia were owners, but by 2016 ownership among this group was down to 18.9 per cent. The rate has fallen even for those of 15 years' standing or more, although not as dramatically (from 78.1% to 75.6%). Importantly, there is quite marked change in the total ownership rates of migrants compared to the Australian-born group. Up until 2006 migrants always had a higher rate of ownership, but since then it has been much less and the gap is getting wider. Indeed, there has been remarkable stability of ownership for the Australian-born group, while ownership among the overseas-born has plummeted. Note that these percentages will differ slightly from the ownership rates of Table 1, because a different method was required to calculate the ownership of migrants.

One of the obvious reasons for this decline is that newly arrived migrants in the last decade or so confront the same affordability and labour market constraints as the Australian-born population, but there are also compositional effects; some of the more recent migrant groups (relative to the 1950–70s) have much lower rates of purchase, principally those from Oceania (principally New Zealanders), the Africa regions and the Middle East. Migrants from the Asian regions and Western Europe (now relatively few) have high ownership rates, but they are not sufficiently high to sustain the levels of ownership of earlier decades (see Table 6). Another compositional element is that compared to 15 or 20 years ago a larger percentage of migrants are now in Australia on temporary visas (for education and work) and are renters rather than owners. Thus, even after 20 years Oceania-region migrants only achieved 50 per cent ownership by 2016 compared to 71 per cent ownership among migrants from Asia. North West Europeans (i.e. those who arrived in the period 1945–70), also have high rates of 71 per cent ownership. North African and Middle East region migrants start from a very low base (only 12% ownership in 2016) but even here 20 years of residence converted to 52 per cent ownership. This is still well below the Australian-born benchmark of 69 per cent ownership.

Table 6: Ownership rate by region of migration and length of occupancy, 2011 and 2016

		2011				2016			
Region	**Tenure**	**Last 5 years**	**10y**	**15y**	**y20**	**Last 5 years**	**10y**	**15y**	**y20**
Oceania, inc. New Zealand	Home owner	23%	46%	50%	54%	20%	38%	49%	50%
	Rent+other	77%	54%	50%	46%	80%	62%	51%	50%
North West Europe	Home owner	35%	67%	71%	73%	26%	58%	69%	71%
	Rent+other	65%	33%	29%	27%	74%	42%	31%	29%
Southern, Eastern Europe	Home owner	26%	55%	63%	68%	15%	45%	59%	65%
	Rent+other	74%	45%	37%	32%	85%	55%	41%	35%
North Africa, Middle East	Home owner	15%	33%	49%	60%	12%	35%	41%	52%
	Rent+other	85%	67%	51%	40%	88%	65%	59%	48%
Americas	Home owner	15%	46%	56%	58%	11%	34%	51%	57%
	Rent+other	85%	54%	44%	42%	89%	66%	49%	43%
Sub-Saharan Africa	Home owner	29%	54%	62%	60%	24%	47%	57%	62%
	Rent+other	71%	46%	38%	40%	76%	53%	43%	38%
Asia	Home owner	25%	54%	66%	73%	23%	49%	67%	71%
	Rent+other	75%	46%	34%	27%	77%	51%	33%	29%

Source: Original author analysis of ABS Census of Population and Housing, various years 1986–2016.

Thus, the general argument is that, counter to much of postwar ownership history, migrants are no longer helping push ownership rates up. While ownership rates for Australian-born people have held up very well (falling only 1.1 percentage points in 30 years) this has not been the case for migrants. The ability to achieve ownership in the short term has become particularly challenging, but even over the long term (25+ years) there are major signs of weakness (a 6.9 percentage point fall in the last decade). If we are to establish whether this is an issue of different migrant population composition over time or migrants are experiencing greater problems in accessing ownership, for reasons of affordability or perhaps difficulty accessing finance, further research is needed.

3.6 State and territory variation and similarity

So far our analysis has been Australia-wide. But Australia is a set of sub-markets, both regional and metropolitan. Table 7 therefore shows the spatial breakdown of home purchase over time across jurisdictions, demonstrating that the different states and territories have had broadly similar experiences over the period 1947–2016; that is, there have been declines in ownership since the 1960s, but with variations in scale. Victoria is the biggest loser. From 1966 to 2001 Victoria was the dominant ownership state and reached the highest historical ownership level (75.6% in 1966) but since 1991 it has experienced the sharpest decline (-4.8 percentage points) and in 2016 was third to Tasmanian and Western Australia's levels of ownership. At 70.8 per cent, and the only one over 70 per cent, Tasmania is now the dominant ownership state. Its ownership rate is little different to more than over 50 years ago—has Tasmania's greater affordability (at least until recently) enabled this?

Table 7: Home ownership rates by state and territory, 1947–2016

State/ territory	1947	1966	1981	1991	2001	2011	2016	2011–2016	1991–2016
NSW	48.7%	72.7%	69.2%	68.1%	68.0%	68.1%	66.2%	-1.9%	-1.9%
Vic	53.2%	75.6%	73.4%	72.3%	74.2%	71.7%	69.4%	-2.3%	-4.8%
Qld	62.6%	72.9%	69.4%	66.9%	65.3%	64.9%	63.9%	-1.0%	-1.4%
SA	57.3%	73.2%	70.6%	68.5%	71.3%	69.7%	69.0%	-0.7%	-2.3%
WA	57.9%	71.1%	67.2%	67.9%	70.7%	68.7%	69.7%	+1.0%	-1.0%
Tas	54.0%	71.1%	70.2%	70.4%	72.4%	71.9%	70.8%	-1.1%	-1.6%
NT	27.3%	28.6%	34.2%	36.7%	47.1%	49.2%	48.0%	-1.2%	+0.9%
ACT	17.2%	45.7%	68.3%	64.3%	69.2%	67.9%	66.6%	-1.3%	-2.6%
Aus	53.4%	73%	67.8%	68.8%	69.5%	68.5%	67.1%	-1.4%	-2.4%

Source: Original author analysis of ABS Census of Population and Housing, various years to 2016.

If we take a longer-term perspective, Queensland has had the biggest decline, peaking at 72.9 per cent in 1966 but falling to 63.9 per cent by 2016; remarkably, this rate is only marginally greater than it was in 1947 and represents much lower ownership than the other states and territories (excluding the Northern Territory). Why Queensland has a different story to the other states is difficult to determine. In some respects ownership should be higher, given its more dispersed urban form (i.e. it is not dominated by its capital city to the same degree) and lower dwelling prices in regional areas, but another way of looking at its decline is that it may be the canary in the mine. Perhaps its much greater dominance by industries with low and casualised workforces such as tourism, hospitality and agriculture signal the future for Australia. A workforce increasingly casualised and with low pay cannot sustain, yet alone build, ownership.

These variations also suggest that factors other than affordability affect the sub-market experience. New South Wales has had a smaller ownership decline than Victoria over recent decades, despite the former having even more significant affordability problems. Perhaps in Victoria's case ownership got so high that decline was inevitable. Linking back to our migration discussion, Victoria's exceptional level of ownership in early decades may have been driven by the high rates of Mediterranean migration; at one stage Melbourne was the second-largest Greek city in the world by population. Given the subsequently changing migration composition and the role of the institutional environment that emerged post-1970s (when Melbourne was badly affected by the loss of manufacturing), such heights could not be sustained.

3.7 The mortgage burden

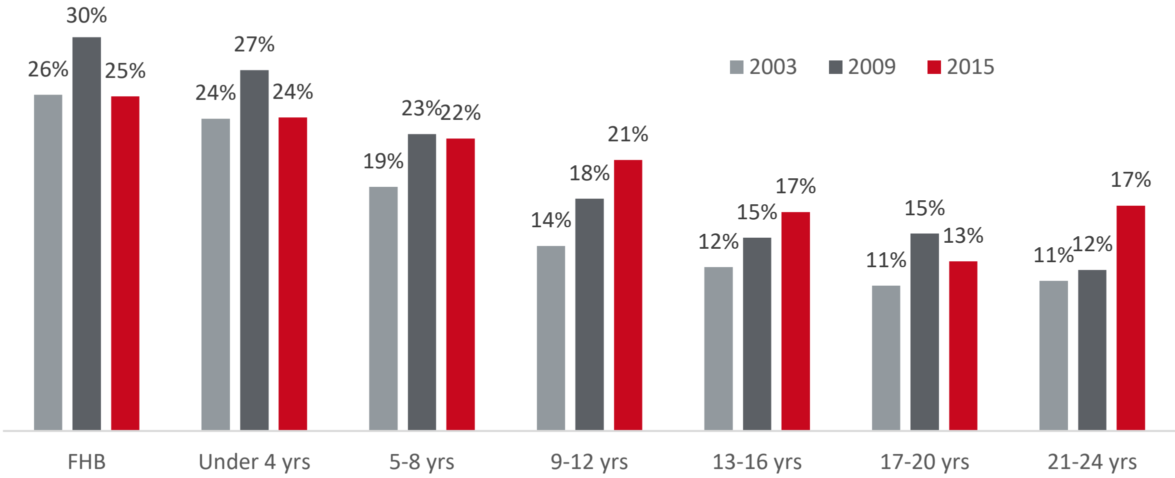
Affordability measures tend to relate to the costs at point of purchase. However, a standard variable mortgage will reduce over time relative to income, so that the mortgage burden diminishes. At what rate does this occur and is it changing over time?

Figure 19 and Figure 20 show mortgages as a percentage of income, by length of mortgage, for all households (25–44 year old sample sizes alone were too small). Figure 19 presents the data for all income groups and Figure 20 presents data for only those purchasers in the two lowest income quintiles. These figures show that mortgage burden has diminished over time, except for holders of 21–24 years mortgages, who have experienced increased burden over time (e.g. 17% of income in 2015 compared to 11% in 2003). And this burden is actually higher than for a mortgage of 17–20 years. Two things may be happening here—the first is that rather than discharging their loan, a growing proportion of households may be borrowing further; perhaps for retirement, holidays, house renovations, assisting children or consumption of other items. The second, and less likely, possibility is that older households who have a mortgage may be experiencing a greater fall in income than was the case historically.

Figure 19 also shows that even in the early years of a mortgage and for first home buyers, mortgages in 2003 and 2015 were less than the 30 per cent of income typically seen as the measure of potential housing stress. On the other hand, in 2009 first home buyers overall were at the 30 per cent mark. The subsequent reduction probably has much to do with lower interest rates. However, that the overall figure for first home buyers was at the risk benchmark of 30 per cent suggests a large proportion were also above it, indicating financial stress in the early years of their mortgages. For many contemplating ownership, the thought of such a mortgage challenge must be a barrier to purchase.

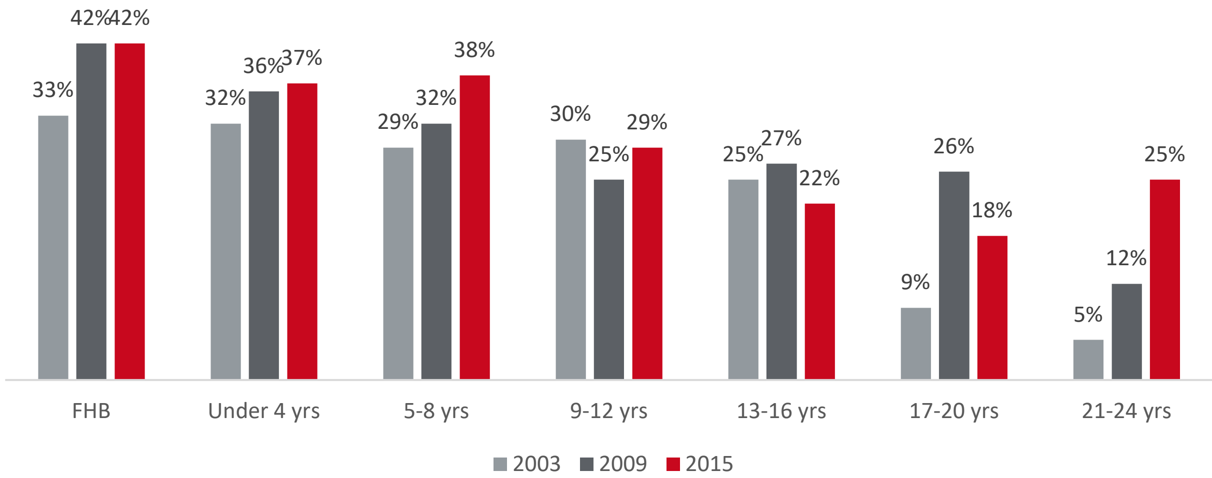
The story shifts dramatically for the lower income cohorts (see Figure 20). In this data we can see why the ownership rates for lower income groups have collapsed, and what a hardship mortgage burden must be for many who do choose to pursue ownership. For first home buyers in this group, the average rate of mortgage to income in 2015 was 42 per cent; 12 years in it was still at 29 per cent and, most surprisingly, it remained at 25 per cent after 21–24 years. This raises questions about (a) to what degree lower income households may be adopting the risky strategy of borrowing to finance continued living expenses; or (b) whether, if older, these households are carrying mortgage debt into retirement. We can see why households of this income cohort may choose not to (or be unable to) purchase. It would be quite confronting to take out a mortgage knowing not only that the burden would be great, but also that it could remain for many years.

Figure 19: Mortgage burden over time, home purchasers of different mortgage periods; 2003, 2009 and 2015; all purchasers



Source: Original author analysis using ABS SIH 1998, 1993, 2003 and 2015–6.

Figure 20: Mortgage burden over time, home purchasers of different mortgage periods, 2003, 2009 and 2015; two lowest income quintiles



Source: Original author analysis using ABS SIH 1998, 1993, 2003 and 2015–6.

3.8 The rental to ownership transition

Another way to understand the constraints to achieving ownership is longitudinal analysis. This method controls for the same household type, so changes are not affected by compositional differences in age, household type income and so on. Until recently the only source of such analysis was HILDA. However, the ABS has now created a longitudinal dataset using a 5 per cent sample from the 2016, 2011 and 2006 Census surveys. Using such data, Table 8 shows the changing ability of households in the relevant age cohorts to transition from rental to ownership and demonstrates that, consistent with other data, the transition is becoming harder. Between 2006 and 2011, 45.9 per cent of renters in the 25–34 age cohort moved into ownership but this fell to 39.4 per cent between 2011 and 2016. Contractions were also apparent for other cohorts, with renters in the 45–54 age cohort experiencing the biggest fall in the rate of transition from rental. This suggests there is now a growing cohort across all ages who are destined to spend much, if not all, of their lives in rental. This represents a break from the past, when most households were expected to become owners eventually.

The policy implications around residential tenancy provisions, income support, dwelling provision and planning are significant. This finding also provides a reality check on the housing aspirational/preference data, which highlights a preference for ownership still as strong as in equivalent surveys of decades past (see Section 2.12). It is clear many households will not realise their aspirations; blocked housing aspirations are not just an academic concept but a housing system reality.

Table 8: Transitioning from rental to ownership, 2006–11 and 2011–16

	Moved into home ownership		Stayed in rental	
Age cohort	**2006–11**	**2011–16**	**2006–11**	**2011–16**
25–34 years	45.9%	39.4%	53.7%	60.2%
35–44 years	40.8%	35.5%	58.7%	63.9%
45–54 years	35.0%	28.9%	64.4%	70.3%
55–64 years	29.5%	26.4%	69.5%	72.7%
Total	40.6%	34.7%	58.9%	64.7%

Source: Original author analysis of ABS Census of Population and Housing, Census Longitudinal Data 2006–11, 2011–16.

3.9 The future of ownership

The story so far is not a positive one for the future of ownership, and some snapshot statistics suggest the only direction is down. Table 9 shows data which is a shorthand for some of the key drivers of home purchase and ownership discussed thus far. The table compares the 10 years to 2016 with the 10 years to 1996—the second period being one which embraced the age of uncertainty and a recession, and in which home ownership recovered slightly from the falls that occurred between 1976 and 1986. Do any factors in the last decade suggest conditions are improving in such a way that another slight recovery could occur? It seems the answer is no.

These key statistics collectively represent, using the language of the Economist (2019), a '"forest" of "decision trees"' growing from variables that impact household decision making around tenure: changes in household affordability, labour market participation (the more employed the more purchase potential), ratio of household members aged 25–44 to those aged 65+ (the higher the ratio, the more in the age groups driving ownership), labour market inequality (the more equal the greater purchase potential), real income household earnings of the 25–45 age cohort, labour market security as measured by percentage underemployed of the employed workforce, and percentage of multi-unit dwelling starts compared to detached dwellings (the higher the former, the lower ownership), percentage point growth in finance to investors versus first home buyers, and interest rates. Table 9 shows the trend for all these 'decision tree' variables, with only one implying a direction toward any form of resurgence—or even maintenance—of ownership.

The outlier here is interest rates, which were much lower in the decade 2006–16. In principle this would usually suggest a positive for ownership, which was the case in that period; lower interest rates mitigated the effects of house price inflation and probably limited the fall in ownership. However, in 2019 mortgage interest rates are at historic lows, so there is no way we can expect ownership boosts from improved interest rates as seen in the past.

In summary, these indicators highlight that the current institutional environment for ownership is very different to the past and that the direction for ownership, putting aside any dramatic societal shocks, is inevitably down.

Table 9: Indicators of home ownership future

Key indicator	1986–96	2006–16	Implied ownership direction
Labour market participation persons	62.0% to 63.4%	64.8% to 64.9%	
Household affordability (ratio of housing costs to income)	15% to 15%	26% to 33%	
Ratio of 25–44 age cohort persons to 65+ age cohort persons	2.8% to 2.3%	2.1% to 2.0%	
Real income growth, 25–44 age cohort households (see Figure 11: Dwelling price and household income, age cohorts 25–34 and 35–44)	3.2%	-1.6%	
Underemployed, 24–45 age cohort, June	19.0% to 32.0%	26.3% to 34.1%	
Ratio of detached dwelling commencements to all commencements, June	76.8% to 67.4%	68.9% to 53.7	
Percentage point growth in finance; investors versus first home buyers (see Figure 6)	Minus one percentage point owner occupation (1991–96)	Minus three percentage points ownership	
Interest rates (average)	10.0%	6.2%	

Source: Original author analysis, various years as shown: ABS 2018b; ABS 1981–2016a; ABS 2019a; RBA 2018.

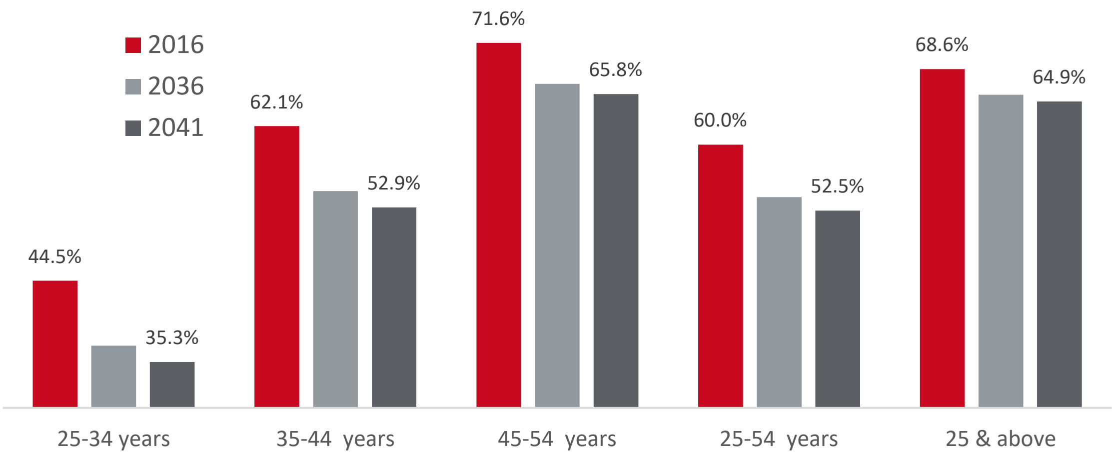
A societal shock is not a downturn in dwelling prices of the size which attracted much media attention in the first half of 2019. Rather, it would be a substantial recession with both labour and housing market impacts of the scale that other countries experienced in the GFC. The current price downturn (between 3% and 9% depending on capital city) is arguably more a correction to the excessive increases of the previous four years than a sign of housing market bust. While there has been much talk about how a downturn in prices will bring first home buyers back into the market and boost ownership, a correction which only takes the market back to the already unaffordable prices of 2017 is unlikely to have these effects. At best, it might slow ownership decline.

Putting together our analysis—which suggests a context of continued decline—with the data from actual trends in ownership, it is possible to make projections about ownership levels expected by 2036 and 2041. Broadly, our method here is to take ABS population projections (ABS 2019) to 2041 (based on 2016 Census data) and apply to them assumed ownership percentages for each age cohort based on the average annual decline in ownership for each cohort from 1996 to 2016 (see Appendix 2 for more details on methodology).

We assume (1) that there are no major policy shifts from that of the present that might affect tenure decision making (2) therefore the negative directions seen in Table 9 will hold into the future; (3) that the trends in age-specific ownership rates identified for the last 25 years will continue; and (4) that the ABS series II population projections are the most realistic. The latter projections assume that historical rates of change in demographic propensities from 2001 to 2016 will apply into the future, with gradual plateauing in later years. Under this relatively conservative assumption, by 2041 there will be a projected 12.8 million households in Australia (up from 9.2 million in 2016).

Figure 21 summarises the results of our projection, and 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 21: Projected ownership rates by age cohort, 2016–41



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

That the total population ownership rate has fallen less dramatically in recent decades than might have been expected is by virtue of the demographic effects of an ageing population. However, our projection suggests that almost half of current younger households will not have achieved ownership by the age of 54, and will spend most of their working and family life in private rental. This raises important questions: what will be the implications of blocked ownership aspirations for so many households, and is this the housing system that Australia wants?

3.10 Summary and policy implications

Two broad conclusions can be drawn from our analysis in this section. The first, flowing on from our historical discussion, is that while ownership has held up reasonably well over the last 30 years, this aggregate view disguises underlying conditions, notably for younger age cohorts, that suggest structural weaknesses in ownership. The second, related conclusion is that there appears little hope of Australia returning to its historical levels of ownership; more likely it will continue to decline, probably to around 62–63 per cent by 2031. What drives such a trend?

First, demographics. The large number of aged households that purchased in the 1950s to 1980s will have worked their way through the system by 2030, and will not hold up the rates of ownership as they have in recent decades.

Second, affordability (combined with income changes) has reached levels such that a sizeable number of younger households, mostly in the lower income quintiles, will not be able to afford purchase. Related to this, interest rates have reached historic lows, so there is no further capacity to achieve greater affordability through rate cuts. Even falls of 10 per cent will only take us back to the still-unaffordable levels of 2017.

Third, the ability to form two income households through increased rates of workforce participation appears to have plateaued. Relatedly, it is difficult to see labour market and technological change doing anything other than increasing income inequality. These income trends, which may mean continuation of the recent trend for 25–34 and 35–44 age cohorts to experience minimal real increases in household income, will limit the ability to drive ownership demand in the way they have for the last 50 years. There may be a counter argument here, however; if dual incomes are amortised into house price increases, then a plateauing of dual income households may mean slower rates of house price increase.

Fourth, and most notably in Sydney, Melbourne and Brisbane, more and more properties are multi-unit dwellings which—in size, form and indeed marketing—are pitched at the rental market and landlordism rather than home purchase.

Fifth, the international financialisation of property has turned property and land development into an industry geared to property inflation, with little evidence of this process abating despite temporary downturns.

Sixth, while migration—once a key driver of ownership—is still important, its ownership driving ability is contracting. For a range of reasons, new migrants have slower rates of ownership take-up than in the past.

Seventh, Australia's policy environment is not conducive to a regrowth of home ownership. Dealing with this requires more than incremental change; in fact, institutional reform and systems of governance are no longer able to deal with anything other than short-term incrementalism. In addition, lobbyists have emerged to support interests that are inconsistent with ownership reform and more about building rental.

In summary, in the 1940s to early 1970s Australia had a confluence of institutional attributes that fuelled a rapid growth in ownership. This was followed by a different institutional environment which was far less conducive to the growth of ownership, but still had enough features (e.g. a strong and stable economy) to prevent a dramatic fall. Now there is evidence we are confronting a new confluence of institutional attributes.

The world economy now looks uncertain. The debt levels that sustained ownership for the last few decades are now likely to act as a drag on Australia's economy and income growth, and a stable political climate that supports good policy making is looking less and less likely, not helped by the power of lobbyists and rent-seekers, few of whom have any interest in sustaining or building ownership.

So, are these factors specific to Australia? Have other countries managed to grow ownership when Australia has not? The international context of Australia's home ownership environment is this report's next area of focus.

4 International comparison

- This section compares ownership in Australia with 16 equivalent other countries with the objective of determining whether ownership decline is unique to Australia or part of a worldwide trend.
- We outline an institutional framework for locating the trends in ownership, while recognising that a country's institutional arrangement as evolved over time will shape both the timing of ownership take-up and the overall level of ownership.
- Although Australia could once be seen as the definitive ownership society, it no longer fits that role. It is now a society with middling levels of ownership. Many other countries, however, now have levels of ownership well over 70 per cent and in some cases up to 80 per cent, a level that Australia never achieved.
- With a few exceptions, Western European countries were slower starters to home ownership. Home ownership in that part of the world did not substantially increase beyond 50 per cent until the 1990s; before then, private and social rental were equally important tenure sectors. This was not due to differences in affluence or stages of economic development, but because the institutional environment—including public policy—drove such a tenure balance.
- Since the 1980s Western European ownership has increased substantially, in many cases growing beyond the rates in Australia. However, since the GFC most of these ownership markets are in retreat.
- The 'market liberal' English-speaking countries, with the exception of the UK, all experienced immediate postwar growth in ownership, although at different rates and timing; Australia and Ireland got out of the blocks early, while Canada and the US were a bit slower. None have been able to sustain ownership levels of 70 per cent. Like the European countries, all are experiencing ownership contraction, most notably since the GFC.
- Japan, with its quite different institutional environment, also promoted ownership in the early postwar years (and still does). However, what might now be labelled 'irrational exuberance' pushed property prices to excessive levels. Among other causes, this prompted a general economic collapse in the late 1980s. Ownership has never recovered, despite Japan seeing no real house pricing increases in the 30 years since.
- Overall, we can conclude that ownership is in retreat among developed countries. This is due to three major factors: the financialisation of property, to the degree that dwelling price inflation has become excessive relative to incomes; the weaker abilities of labour markets to support ownership; and governments' lack of policy commitment to build ownership.

4.1 Where does Australia sit?

We now look at what is happening in other countries equivalent to Australia, for our analysis of the future of ownership. Is the decline in home ownership unique to Australia, or are we part of a broader international trend? Much housing research and media commentary on home ownership in Australia has been undertaken without reference to the wider international context, but we believe this comparative analysis can be useful and should inform our observations and conclusions.

It seems it is human nature to see the world through our own lived experience. However, the day-to-day experience of living varies widely from one country to another; we should not assume our society's trends apply worldwide nor let Australian experiences blind us to international differences. Comparative analysis can help in this regard, and may also assist to identify patterns that suggest potential risk for a country. For example, if we were to find that Australia exhibits many of the financial and housing market attributes of countries that fell victim to the GFC, we could then consider whether we are at risk of similar outcomes.

Furthermore, drawing attention to similarities and differences in the institutional environments within which countries' housing systems operate increases the ability to identify how certain institutional features might build resilience or weakness into a country's housing system. For example, consider the differences in mortgage attributes between the US and Australia. Australia has recourse loans, which means payments must be made whatever the circumstances of the borrowing household. Most states in the US have non-recourse loans, which means households can walk away from a loan if they become unable to pay. This creates potential financial risk for lending agencies in the US. Non-recourse loans are probably one of the reasons the US did not ride through the GFC, while Australia did.

Comparative analysis can also draw attention to the different policy environments and approaches between countries and whether they have worked, therefore increasing policy knowledge. For example, the performance of a country's income support system or private rental sector can affect the attractiveness of home ownership. A generous income support program or an affordable private rental system with strong tenant security (or an environment with both of these attributes) may weaken the attraction of ownership. Consideration of policy transfer implications is important here, too; factors distinctive to one country may not be easily transferred to another, thus inhibiting policy take-up.

Finally, virtually all countries are integrated into a world economy today, with trade, financial and population flows moving between countries. Few countries are immune to their influence, and the timing and rate of such flows is increasingly important to the performance of each domestic economy and its housing system. Recent controversy in Australia around the role of foreign investment in housing and associated policy interventions highlights this. Comparative analysis, then, can identify the processes common to societies and how the specific institutional attributes of a country might modify the effects of such processes.

Comparative housing analysis, however, has a number of methodological and conceptual issues. The most important are probably the need to ensure variables or concepts are commensurable, the ability to recognise and understand institutional differences between countries and their implications, and the use of a research design or approach that best fits the specific objectives of the research (see Doling 1997; Oxley 1991).

As a complementary AHURI report comparing private rental across countries has outlined (Martin, Hulse et al. 2018), there are a number of approaches to comparative research, each with various methodological and conceptual difficulties. In the case of this research, the first methodological issue is which countries to compare. One obvious approach is to select countries with a sufficient number of comparable elements, so we have selected Organisation for Economic and Cooperative Development (OECD) countries all at relatively similar levels of income, wealth and stage of economic development. Not all OECD countries have been chosen; those of Eastern Europe were left out because they have had a different historical housing tenure trajectory. Over the period we are looking at, those countries made the transition from state ownership under communism to private ownership today, and most now have levels of ownership well in excess of Australia's. Also, and with the exception of Spain, Southern European countries were not selected because historically they have had different economic experiences to Australia and, more importantly, a housing model (family-based support) that has less relevance for Australian comparison (Ronald and Elsinga 2012: 12).

This comparative section thus locates Australia in a broader context, paying particular attention to countries with which we share a broadly similar level of economic and social development. These include market liberal economies with many of the same economic and political elements of Australia's economy; that is, an emphasis on free markets, small government and light financial and policy regulation. These countries are Canada, the UK, Ireland, New Zealand and the US. The research also embraces a number of countries in Europe which, with some exceptions, have had historical tendencies to lower rates of home ownership but have increased these rates in recent decades. Finally, given the growing importance of the Asia Pacific region, Japan is also briefly examined

4.1.1 Method

The material for this section is drawn from two sources: existing secondary data on housing tenure and a selective literature review from the sizeable comparative housing literature and publications specific to each country that throw light on the structure and performance of its home ownership sector. In reviewing such literature our focus is necessarily on broad themes; detailed examination of specific policies and their effects is beyond the scope of this report.

Comparative data on home ownership used for this research comes from many sources, although we note some problems of data collection relating to the earlier years of analysis, particularly for Europe. Australians may take for granted the quality and coverage of ABS-collected data, but many of our European comparison countries did not have such a good data agency in the earlier years and, even when they did, housing tenure was not considered such an important variable on which to collect data—there was more emphasis on housing quality and conditions given the problematic state of housing for many decades following World War II. And, of course, in the earlier years, even where data was available, it was in the local languages. With English now more of a universal language, this is much less of a problem. Notably, post-1990s the emergence of a number of international data specific agencies (e.g. Eurostats, the OECD, the European Mortgage Federation) has enabled more ready access to comparable data.

Where possible, data used here comes from the various Census of Population and Housing surveys or, in the case of Europe for the last few decades, from the European Mortgage Federation or OECD. Nevertheless, just as there are differences in the ABS surveys on home ownership, we saw inconsistencies in other countries documentation that caused slight variations in the data. Moreover, the data collection intervals across countries are not necessarily the same as Australia's Census and survey years, so while we generally report according to Australian Census years, there are variations of one or two years for other countries' data.

Further complicating our analysis, we note that the concept of home ownership varies across some countries, for example by embracing forms that do not really exist in Australia, such as the cooperative or company ownership important in countries like Norway, Denmark, Finland and Sweden. These country-specific forms of ownership can add up to 10 percentage points to the ownership rates depending on the country. In some cases, such as Sweden and Finland, they are now the principal driver of ownership growth.

There is now a sizeable amount of comparative housing literature available—some of which includes Australia—although little discusses recent processes and trends. Much of this literature, and the broader comparative social policy literature of which it is a subset, is concerned with categorisation of types of society and associated subsystems, including housing. There is considerable defining and refining of these categories, and while they are of academic importance their complexity is beyond the scope of this report. Key literature in this genre includes Barlow and Duncan (1994), Boelhouwer and Van der Heijden (1992), Doling (1997), Doling and Ronald (2014), Kemeny (1998; 2001), Oxley (1991; 2001), Ronald and Elsinga (2012) and Stephens (2011).

4.1.2 The institutional environment

Each of the countries reviewed has its own specific institutional environment and, given the diversity, complexity and interdependencies of the institutional attributes of a society, it is impossible to integrate a full analysis of their attributes and roles into a short comparative analysis of home ownership trends. Our analysis is therefore selective about what institutional structures are considered, and cautious about implying causation. Our focus is drawing out potential relationships with ownership trends.

Figure 1 provided a schematic representation of the institutional attributes that frame tenure outcomes, and Table 10 fleshes out this representation. It shows the various institutional attributes important in any society, and their potential relationships to public policy, housing and the size and growth of the different tenure forms.

Table 10: Societal institutional attributes and potential tenure implications

Institutional attribute	Relationship to public policy and housing	Home ownership	Private rental	Social rental
Political system	Stable government is more suited to longer-term policy making.	Long-term housing strategies can provide basis for tenure growth of any form and direction, subject to governments' reading of societal needs.		
System of governance	Governments may be more or less pro market; the former puts greater emphasis on market choice and individual opportunity.	Greater market reliance tends to encourage home ownership.	Private rental can grow or contract depending on market incentives and form of regulation.	Larger social housing sectors tend to accompany societies with less reliance on and faith in markets.

Institutional attribute	Relationship to public policy and housing	Home ownership	Private rental	Social rental
Economic system	Economic systems vary in degree of market emphasis and performance.	Free market economies with emphasis on client choice fit with ownership, but may depend on income distribution and market incentives.	Private rental can coexist with free markets, depending on societal choices as to desired housing system.	Mixed economies often value a largish social housing sector. Social housing can coexist with a high income society depending on societal choices as to desired housing system.
Social values: individualism versus collectivism	Value differences in a society can shape attitudes to tenure and policy directions.	Societies with values of individualism and self-help are more likely to generate ownership than those with more collective values.	Societies with values of individualism and self-help are more likely to have smaller private rental, being a residual to ownership.	Societies with values of individualism and self-help are more likely to have a very small social housing sector.
Degree of urbanisation	The greater the scale and degree of urbanisation, the greater the potential for higher land costs and affordability pressures.	Very large cities generally have high property values, constraining ownership opportunities. Smaller cities with lower values may have high ownership rates.	There is greater growth of private rental in very large cities.	The size of the social housing sector is down to societal and governance choices.
Social value of familism	Strong versus weaker beliefs in the importance of family can shape housing policy.	Societies with strong family values (often religion connected) tend to encourage ownership.	Societies with weaker family values are more happy to accommodate private rental.	Societies with weaker family values are more happy to accommodate social rental.

Institutional attribute	Relationship to public policy and housing	Home ownership	Private rental	Social rental
Labour markets	Deregulated labour markets are less secure and more casualised, with potential for lower ownership.	Deregulated labour markets are less secure and more casualised, with potential for lower ownership.	Deregulated labour markets are less secure and more casualised, with potential for a bigger private rental sector.	Deregulated labour markets are less secure and more casualised, with potential for greater social housing demand.
Financial system	Deregulated financial systems have greater capacity for ownership lending.	Early years of financial deregulation are likely to build growth. Later years, with impacts on affordability, weaken ownership.	As financialisation of property strengthens, private rental flourishes.	More deregulated financial systems tend to weaken interest and investment in social housing.
Income and wealth levels	Ownership of any scale tends to require certain levels of income and wealth.	High income and wealth does not necessarily translate into ownership; this depends on housing policy direction and wider institutional environment.		
Income support system	Income support systems can be generous or lean; the latter potentially encourages ownership as a form of de facto income support.	Weak income support encourages ownership.	Strong income support can sustain private rental.	Strong income support builds social housing.
Planning system	There are complex and contested arguments as to the role of planning systems in building ownership.	If they facilitate availability of more land and reduce cost, planning systems may assist ownership. The evidence is unclear.	Inclusionary zoning can build affordable rental.	Inclusionary zoning can build social housing.

Source: Original table authors.

It is important to appreciate that most of these individual institutional factors are interdependent and some, with the weightings different from country to country, are more important than others.

4.1.3 Political systems, governance and the broad policy regime

At the end of World War II, countries had to make a huge number of decisions on topics ranging from reconstruction for those that suffered war damage to the types of future societies they wanted to be, embracing issues of economic development, types and degrees of welfare system and housing systems. The directions the various countries took reflected the broad models of governance or regimes; that is, the rules, norms and institutions that determine how government and society are constituted and organised. There is a substantial literature whereby authors have attempted to categorise countries into certain typologies of common regimes, resulting in a number of competing typologies and much criticism (Esping-Anderson 1990; 1996; Castles 1989). Some of the aforementioned housing regime categorisations build on these typologies.

The categorisation that is least problematic subsequent to the 1980s is market liberalism, with its emphasis on free markets, private ownership, small government and light financial and policy regulation. This categorisation embraces Australia, Canada, Ireland, New Zealand the US and UK. Most of these were pro ownership (with associated policies) even before becoming full market liberal societies in the 1980s but the UK only embraced home ownership in this era.

Of the reviewed Western European countries, most fall into a rough and ready 'social democrat' category; their government models are more mixed-market, with high taxes and a greater belief in social obligation than in individualism. This group embraces the Scandinavian countries, France, Germany, Austria and the Netherlands. There is still substantial institutional variation within the group, but these countries historically have more in common with each other than with the market liberal countries. One common factor, until relatively recent times, is a smaller home ownership sector (Norway excepted) and—at least until the 1980s—little desire or policy intent to expand ownership.

The tenures that expanded as the alternatives to ownership were (1) social housing, either through direct provision or through a set of facilitative financial income support and grants programs; and/or (2) private rental, with similar programs but different settings to encourage the desired investment and consumption. The social democrat categorisation of these countries is now being tested by convergence toward market liberalism, although it is too early to make the call that they are now equivalent—there are still large differences in tax levels, welfare policy and planning policy and principles.

Spain, Norway and Belgium are outliers among the European comparison countries. Belgium and Norway, while sharing many of the institutional attributes and values of their neighbours, had an immediate postwar housing emphasis on building ownership. Spain is different again, most notably in the early postwar decades when it was poorer than the other European countries and a dictatorship with a strong emphasis of family and social solidarity. The combination of less resources to build alternative housing tenures (e.g. social housing) and strong beliefs in the fit between family and ownership saw very high rates of ownership emerge (Cabre and Cabrerizo 2004; Norris 2016).

Japan does not fit easily into either the market liberal or social democrat models, although it has moved closer to the former in the last decade. As Doling (1999) points out, the unique history of Japan—including the role of large companies (corporates) in provision of housing for workers and a different ethos of social responsibility—created a system hard to categorise. From the early postwar years Japan traced a path towards large scale ownership, but hit a barrier in the early 1990s when its golden era of growth contracted. The long-term implications of this have been overlaid on a contracting population (Hirayama 2012; 2014).

In the last 30 years, as more countries have evolved economic directions and housing policy along market liberal lines, there has been greater convergence of housing tenure models. Home ownership has become much more important, and for most countries its growth was taken as a given until the GFC. Since then, of the 16 study countries, only three have had any growth in ownership. Just as in Australia, terms such as ‘generation rent’ have become common in other countries (Ronald 2017).

4.1.4 Social values and behaviours

Social analysis often involves a contest about where to put the weight on explanations for social change. Is it determined by the structures of society or the individual action of people? This is a structure versus agency debate. Institutional analysis tends to imply a structural importance, but people cannot be left out of the equation—in the end, housing tenure outcomes are a function of the collective decisions of myriad households, as shaped by their values and expectations.

The attributes that societies and their households value in respect of housing tend to differ over time and between societies. One of the reasons Australia has historically valued ownership was its perceived freedoms from landlords, along with its association with the detached dwelling, which offered a particular lifestyle and ability to create home in a way apartment living cannot (Burke and Hulse 2010). Overlaid with a long-held belief in the role of ownership to provide de facto income support in old age in the absence of a strong pension system (Kemeny 1981), these values nurtured the so-called ideology of home ownership and the Australian dream. The US, New Zealand and Canada have equivalent values for very similar reasons. In some other societies, ownership is associated with the strengthening of family or religion—hence the strength of ownership in the historically family-oriented and Catholic countries of Ireland and Spain (Norris 2016; Cabre and Cabrerizo 2014).

While Australia’s household aspirations to ownership are now shared with many European countries, this has not always been the case. Before World War II many of these countries had economies and income distribution in which ownership was an impossibility for most households. Moreover much of the housing stock, mostly in cities, was apartments or terraces. These two factors meant that ownership, for most, was an impossible and not necessarily desirable dream. It thus did not become an aspirational tenure form until well into the postwar years. The alternative value system, given people lived in rental, was belief in a stable, secure and affordable rental system, and this was the political push for many countries from the end of World War I into the 1980s. This manifested in policy; appropriate residential tenancy legislation and landlord subsidy meant many households chose private rental over ownership.

The same political push also meant that in many countries social housing became a viable alternative. In Australia we associate social housing with highly targeted housing for the very poor and disadvantaged. For many countries in Europe this has not been the case until relatively recently. Social housing, if not open to all on the income spectrum, was available for large proportions of the population and therefore, given its security of tenure and affordable rents, purchase was less a choice. Countries like Sweden, the UK (particularly Scotland), the Netherlands, Austria and France have had social housing of between 20 and 40 per cent of total housing stock. Changes in the availability and attractiveness of social and private rental are important in the rise and fall of home purchase.

Another relevant value system is expectations. This refers to households’ expectations of the future environment for purchase, including the state of the economy, interest rates, political stability and house price movements. Given the scale of investment required to purchase, the degree of confidence in the future is important, hence periods of economic uncertainly (e.g. post-GFC) can limit rates of purchase. Expectations about price movements are also important. Australia has experienced a long history of sustained house price increases, and for many this is the expectation—but it is not an inevitability. Germany and Japan have experienced sharp price falls and/or long periods of steady decline. Why would you purchase if there were expectations that five years hence your dwelling would be worth less than at the time of purchase?

4.1.5 Housing policy

Finally, public policy is relevant; both housing tenure policy specifically and public policy generally. In principle, every country has the same broad set of housing and housing related policies to choose from. Which ones each country chooses and their particular forms will derive from the country's particular institutional history and attributes.

The objectives of policy also vary over time and place. In some countries (e.g. Japan) housing policy has long been part of economic policy to stimulate growth (Oizumi 2007), while in the postwar years in Europe housing had an important role in reconstruction. Other broad objectives include social cohesion, and building family or community. Sometimes tenure outcomes are explicit in these objectives; other times they are accidental, emerging from the incentives and disincentives inherent in the specific policies to achieve the broad objectives. In recent decades it is probably fair to say that Australia, along with many other countries, has no coherent overall housing policy or related set of objectives, although specific policy programs such as the FHOG do.

Table 11 summarises the broad range of policies as they might apply for each tenure sector, including not-for-profit ones. While the first policy identified is a national housing strategy that sets the broad directions and parameter of a country's housing policy and weight given to each tenure, few countries actually have such a formalised strategy, and even when research and analysis has been put into one (e.g. Australia's national housing strategy of 1991–92 and Canada's of 2017), it may not be taken up. This issue derives from the politics of policy: unless a strategy has bipartisan political support, its take-up is unlikely.

Table 11: Type of housing and housing-related policy and tenure implications

Policy type	Tenure implications
National housing policy/strategy	The form and direction of an explicit or implied national housing policy or strategy will codify a society's broad housing objectives and provide a framework for desired tenure outcomes.
Income support provisions	The eligibility criteria, universality and generosity of income support systems have important indirect implications for tenure; for example, a not-so-generous system such as Australia's may encourage ownership as a form of de facto support in older age, while a more generous one may strengthen or build social or private rental.
Land ownership and management	Who owns and manages land use for housing provision (public, private or not-for-profit bodies) can affect the cost and availability of land and the tenure provision of that land; for example, government ownership of land in Hong Kong has facilitated large (35%) public housing provision.
Landlord tenancy regulations	Tenancy legislation which supports both household occupancy (e.g. security and affordability provisions) and investment provision is likely to build rental and weaken ownership (e.g. as seen in Germany)
Planning regulations	Planning regulations including zoning, density provisions and similar can encourage or weaken the development of property types that better relate to either rental (apartments) or ownership (houses).
Prudential regulations	Prudential regulations (e.g. deposit requirements, restrictions on multiple investment loans or certain lending products) can affect the availability and cost of finance to investors or home purchasers. The tenure outcomes will depend on the design and purpose of regulations.

Policy type	Tenure implications
Financial structures	How the finance system is structured can affect competition, product provision and type of financial agency, including the potential for specialist funding institutions for lower cost finance provision (e.g. non-profit savings banks, building societies).
Provider (supply side) grants	Grants to housing providers (e.g. developers, not-for-profits or government housing agencies) can be used to build whatever tenure products governments deem desirable.
Household (demand side) grants	Grants to households can be used to build whatever tenure products governments deem desirable (e.g. the FHOG scheme in Australia).
Direct provision (social housing)	The degree to which a society (i.e. government of the day) funds and provides social (non-market) housing will impact on market tenures such as private rental or ownership.
Disposal of social housing	The degree to which a society (i.e. government of the day) wishes to dispose of (sell off) social (non-market) housing will impact on market tenures such as private rental or ownership (e.g. the UK's right to buy).
Taxation provisions	How various tax provisions are structured (e.g. deductibility of loans, depreciation allowances, capital gains tax provisions and land taxes) can affect the availability and cost of land and dwellings, as well as the cost of finance to investors or home purchasers. The tenure outcomes will depend on the design of such provisions and which tenures they directly or indirectly favour.
Property title regulation	Attaching covenants or other legal provisions which only allow for certain types of tenure (e.g. ownership or certain types of property, such as detached housing) will impact on tenure choices and investment.
Residential building regulations	Building codes can encourage or weaken the development of property types that better relate to rental (apartments) or ownership (houses).

Source: Original table authors.

The choices countries make between policies, and their specific terms and conditions, will have fundamental, and sometimes unintended, housing tenure outcomes. For example, no government, in establishing the tax provisions we now label 'negative gearing', intended the major impacts those measures have had on the Australian housing market and rental investment. Similarly, the deregulation of the Australian planning system was not meant as a vehicle for the growth in mainly high-rise inner city rental apartments; that is just how the market responded.

Countries do not rely on just a few policies. Multiple policies exist—some of which are indirect housing policies rather than explicitly aimed at housing—and housing outcomes tend to be a function of how the mixture of polices interact. Thus, for example, according to economic theory Sweden and Germany should have weak, declining private rental sectors because those countries have very pro-tenant residential tenancy legislation by Australian standards (Martin, Hulse et al. 2018). Their rental sectors, however, are as big as or bigger than Australia's, and provide a real tenure alternative to ownership. That is the case because other polices (e.g. taxation polices) are designed to ensure continued supply. Evaluation of any housing or housing related policy must therefore take into account the mix of other policies which relate or connect to it.

This report does not attempt to provide a country-by-country review of the tenure and tenure-related policies of the individual comparison countries, although we comment on key policy initiatives where they are relevant.

4.2 Findings of international comparative analysis

4.2.1 Australia in context

Before our more detailed review of the international data, it is important to statistically address the often-expressed view that Australia is the definitive ownership society. Australia throughout the 1940s to 1970s could probably make such a claim, and it is perhaps no coincidence that Kemeny's path-breaking work in the early 1980s on comparative housing analysis chose Australia to represent ownership (Kemeny 1981). But this is no longer the case.

Australia's ownership rate among developed societies in 1961 was only second to Ireland's, with much of the latter's ownership being rural. But by 2016 we had well and truly slid down the ownership scale, with many European societies ahead of Australia and two, Norway and Spain, of a scale (82.7% and 78.25% ownership respectively) never approximated in Australia. If we were to include the Eastern European countries, most of which have ownership rates in excess of 80 per cent, Australia's contemporary rate of 67.1 per cent has fallen considerably.

4.2.2 The long-term trends, 1971–2016

In this section we examine the long-term trends in home ownership from 1945 to 2016, although the more detailed focus is post-1990, when more relevant data became available, notably for European countries. It would have been desirable to also have a breakdown for purchasing and outright ownership, but this data is not available for a number of the comparison countries. For the immediate postwar years data was not provided regularly or systematically for many countries, so our approach was to take the earliest year between 1945 and 1950 for each country for which tenure data was available. For ease of analysis, tables have been prepared according to years that match the Australian Census, although in many cases the other countries' data are for a year or two around the Australian dates.

Western Europe

We start with the Western European countries in part because they have a more interesting tenure history, but also because a number have been able to push ownership, even in difficult times, beyond the highest rates ever achieved in Australia. Table 12 shows the trends in ownership for Western Europe over the last 70 years in some cases (and for most since 1981).

Table 12: Western Europe home ownership, selected OECD countries, 1971–2016, percentage home ownership

Country	1945–50	1971	1981	1991	2001	2011	2016	Change 1971–2006 % point	Change 2006–16 % point
Austria			52	46.3		59.2	55.0		-4.2
Belgium	38.9	54.8	60.8	65.0	73.7	73.7	72.7	+18.9	-1.0-
Denmark	28.6					67.4	62.0		-5.4
France		44.0	48.0	54.0	54.8	62.5	64.1	+18.5	+1.6
Finland	53	43	38	35	33	73.3	71.6	+30.3	-1.7
Germany		33.5#	39#	38.0#	45.0#	41.0	51.9	+13.9	+10.9
Netherland	28	35.1	40.5	45.0	52.0	56.0	69.0	+20.9	+13.0
Norway	51					83.7	82.7		-1.0
Sweden	38	34	41	40.0	53.0	68.5	66.2	+34.5	-2.2
Spain		63.4	73.1	77.5	84.0	80.6	78.2	+17.2	-2.4

 # West Germany only.

Source: European Mortgage Federation, except Sweden 1991–2016, Norway 2006–16, Finland, Table 3 Ruonavaara 2005; Norway 1947, Soervoll 2011; Belgium 1991, ResearchGate.net, Denmark Statistikk 1953.

With some exceptions, Western European countries traced a very different tenure path to Australia up until the 1990s; only Spain, Belgium and Norway had ownership levels in excess of 50 per cent by that time, meaning that most people in the other countries lived in social and private rental.

Explaining the relative lack of ownership take-up pre-1980s in these countries requires going back to the very different institutional attributes of these decades. The systems of governance, social values, forms of income support systems and a construction system largely focused on multi-unit development meant housing systems disproportionately geared, by market liberal standards, to rental—private rental in some cases (e.g. Germany) and social housing in most others.

Second, since the 1980s most of the European countries have converged to home ownership levels equal to or even higher than the market liberal countries, including Australia. The Netherlands, for example, has gone from 45 per cent to 69 per cent ownership between 1991 and 2016. Finland, Belgium and Spain are well over 70 per cent and Norway in 2016 was over 80 per cent.

This convergence is not an outcome of economic development to the levels of the market liberal countries and associated affluence, as there is no relationship between affluence and tenure for these countries (Fisher and Jaffe 2003: 35). A number of the countries with low ownership in the period 1945–81 had higher incomes per capita than Australia (e.g. Germany), while others with much higher rates (e.g. Spain) had much lower incomes.

A number of factors contribute to the recent ownership growth. The first is state retrenchment; that is, the withdrawal of the state from a high level of welfare and housing intervention characterised by strong support for social housing, whether by grants, low interest loans or household payments through the income support system (Malpass 2008; Lindbom 2001; Ruonavaara 2012; Stephens and Stephenson 2016; Hedin, Clark et al. 2012). This has meant the pro-ownership policies have reduced the attractiveness of other tenure sectors rather than actually facilitating ownership growth. Much of the growth of ownership in the UK, the Netherlands and Sweden came from the sale of social housing (the UK), or making its financial attractiveness weaker by substantially reducing subsidies (the Netherlands and Sweden). As an option for Australia this has been long been foreclosed, as we already have close to the lowest proportion of social housing in the developed world.

The second factor is financial deregulation, in a process equivalent to that in the market liberal countries, but with time lags and in some cases less deregulation. Hitherto most European countries had regulated financial systems that limited the amounts of private finance, restricted the role of financial agencies (e.g. in the UK, banks were unable to provide mortgages) and controlled interest rates, including mortgages. More market freedom and greater competition was taken up with more or less enthusiasm in all countries, but the outcome was greater freedom of financial institutions to borrow and lend in terms of who from, who to, how much and to what purpose (Bardhan, Edelstein et al. 2012).

The degrees of enthusiasm for the opportunities offered by deregulation can help explain different ownership rates. For example, the lower and more subdued rate of growth of ownership in Germany may be explained by German financial institutions keeping the mortgage purse strings tighter post-deregulation than other countries (Lieberknecht 2012: 7).

Third, like the market liberal societies to which they have converged, most Western European countries' ownership growth has stagnated and indeed dropped back in recent years. Of the 10 Western European countries, only Germany, France (a slight increase) and the Netherlands have sustained ownership growth post-GFC, and these three countries started from a low base. In the case of Germany, the growth has only taken ownership to just over 50 per cent, equivalent to Australian ownership in the early 1950s. For all countries in retreat, this has been since the GFC.

Fourth, the European countries achieved the levels of ownership of the market liberal countries in the 2000s, but (like the market liberal countries) then appear to have hit the 70 per cent 'wall'. Few countries were able to push ownership over 80 per cent.

One explanation for the ownership 'wall' is that the effects of market liberalism on dwelling prices and affordability were experienced earlier by the market liberal countries (i.e. the 1990s and early 2000s) whereas for the European countries dwelling price inflation has only occurred in more recent years.

In short, the retreat from a less commodified housing system to one of ownership brought with it the financialisation of housing and the seemingly inevitable property price inflation and lending exuberance which creates a context for a weakening of ownership. It is almost as if ownership builds in its own self-destructive processes! In the case of Europe, the post-GFC take-up of various forms of austerity economic management, with effects on income growth and distribution, has not helped ownership rates.

An important point on Western European trends relative to Australia's: in some of these countries home ownership is different to how we understand it in Australia and other market liberal countries. In countries such as Denmark, Sweden, Finland and Norway, ownership can also include housing companies (Finland) or cooperative ownership (Denmark, Sweden and Norway). The latter means owning shares and becoming a member of a collective body which is the legal owner of the property; only members of the collective body (cooperative) can possess a dwelling in the property. As members, residents have the right to sell their property. The former is similar, but the collective body is not a cooperative—rather, it is a company in which owners have shares. Ownership is mainly of multi-unit properties. One of the attractions here compared to multi-unit development in Australia is that shareholders have control over design and development at the point of construction rather than having to take what developers provide.

Historically these two forms of ownership benefited from assistance in the form of low interest loans and controls over disposal, which tended to mean below-market purchase costs, but these have largely been abandoned as values of free markets and choice—essentially financialisation of the sector—have become more dominant. They are both becoming much more like conventional ownership forms, except for the ability to control the development and property maintenance process. Much of the ownership growth in recent years has been because of perceived problems with the rental sector on one hand and lack of new construction of conventional ownership products on the other (see Ruonavarra 2005).

This form of ownership may be one of the reasons some European countries have been able to push ownership beyond the 70 per cent barrier, given, for example, that these dwellings account for some 20 per cent of the ownership stock in Sweden and 28 per cent in Finland (Moreau and Pittini 2012). There could be lessons here for Australia, but we have to acknowledge that these tenures have evolved out of a specific historical context and require their own institutional settings of provision, finance and management in forms that have been absent in Australia.

The market liberal countries

Table 13 represents 50 years of ownership trends for the market liberal comparison countries. These countries have long been associated with high ownership, but now mostly have rates below those of Western Europe.

Table 13: Market liberal home ownership, 1971–2016, percentage

Country	1945–60	1971	1981	1991	2006	2016	Change 1971–2006 % point	Change 2006–16 % point
US	53 (1945)	62.9*	64.4#	64.2^	68.7	63.9	+5.8	-3.8
UK	39 (1960)	50.0	58.0	65.0	71.4	63.5	+21.4	-7.7
Australia	45 (1947)	68.8	70.1	68.9	69.8	67.1	+1.0	-2.7
New Zealand	61 (1951)	68.1	71.2	73.8	66.9	63.2	-1.2	-4.6
Ireland		70.8	76.0	79.0	78.0	70.2	+7.2	-8.0
Canada		60.3	62.1	62.6	68.4	67.8	+6.3	-0.8

*Notes: *1970; #1980; ^1990; &2003; +2013.*

Source: UK, Ireland 1981 and 2016, European Mortgage Federation; Australia, New Zealand, Canada, US, Census data of respective countries and years.

A number of observations can be made about the market liberal ownership trends.

All countries experienced early growth in ownership and had achieved 60 to 70 per cent ownership by the 1990s or earlier. This was not the case for the Western European countries.

The market liberal countries all had pro-home ownership governments, for many decades all had various relatively attractive tax benefits for owner-occupiers, and in all cases, for a variety of reasons, the private rental sector was seen as less attractive than ownership. Post-deregulation in the 1980s, all countries experienced greater availability of finance to feed purchasing.

The early postwar ownership take-up of these countries (Scandinavia excepted) was also a function of the lack of war damage to their cities. In Europe the scale of damage was such that there was not confidence that the private sector could meet construction needs, so many countries lead construction with social housing. Another urban form-related driver of ownership was the fact that most cities in the market liberal countries were at the suburban stage and type of development where most new dwelling supply could be in the form of detached dwellings, which are most suited to owner-occupancy.

Ownership peaked at different times for these countries. Australia peaked before any other country (1981) and then declined relatively slowly. New Zealand peaked in the 1990s and then fell dramatically, while the US, Ireland and the UK peaked just prior to the GFC and then slumped. Canada peaked in 2011, much later than Australia, and its ownership has subsequently fallen only marginally, probably because of affordability problems of the same scale as Australia's. Ireland is the only country still at the 70 per cent level, but that is down markedly from its pre-GFC level of 78 per cent.

Only Canada and Australia have enjoyed relative stability of tenure growth, but each of a different form. Australia has experienced slight ups and downs for the last 50 years, with our 2016 rate of 67.1 per cent only marginally lower than the 68.8 per cent of 1971. Canada's stability has taken the form of sustained but gentle growth for the bulk of the time.

Ownership in the UK, New Zealand and Ireland rose rapidly in the period 1971–91, peaking in all cases at rates equal to or higher than Australia's peak of 70.1 per cent. Ireland got to 80 per cent, the UK 70 per cent and New Zealand to 73.8 per cent. All have experienced plummeting ownership since, with Ireland and New Zealand erasing all their ownership growth from the last 50 years and falling back below their 1971 levels.

The UK and US are back to the ownership levels of the 1980s. The US, UK and Ireland were all badly affected by the GFC, with many households losing their homes. The substantial fall in prices subsequent to the GFC in these three countries clearly did not bring new home purchasers into the market, for reasons including loss of confidence in the ownership market, the tightening of mortgage lending (fewer mortgages and higher deposits) as troubled finance institutions attempted to get themselves in order, and in the case of the UK, the greater attractiveness for finance institutions of other mortgagees; for example, buy-to-let investors (Whitehead 2012: 124).

The UK data encapsulates its four separate countries. Scotland in particular has a housing history and policy somewhat different from the others—most notably, it has a much larger social housing sector. The UK between 1981 and 2001 had the biggest percentage point increase in ownership, but this relied to a large extent on the 1979 right-to-buy policy initiative of the Thatcher government, which gave the ability for tenants to purchase their social housing (Murie 2016). This helped boost ownership by 10 percentage points and was a policy enabled by the sheer size of the social housing sector in the UK. In contrast, Australia's social housing sector in 1981 was 5 per cent of housing stock, leaving little room for sale (even if it was desirable to do so). In the UK the social housing stock was 30.7 per cent of total (Holmans 2005: Table E7).

The US has never achieved the ownership levels of the other countries, peaking at 68.3 per cent in 2006, but then recording substantial decline. One possible reason for the lower historical levels is racial discrimination (another institutional attribute), whereby many non-white individuals have been impeded in their ability to achieve ownership by virtue of low and unequally distributed income, a historical refusal of finance institutions to provide loans and the risk for households that areas where they could buy would devalue (Conley 1999; Gyourko 2003; McCabe 2018; Picketty 2014). Even today the US's black ownership rate is only 41 per cent compared to 73 per cent for whites (Federal Reserve Bank of St Louis 2019).

The US did have a strong growth phase between 1991 and 2006 but built into this growth were some of the conditions that led to the GFC, including relatively non-regulated lending to address the weakness in low income home ownership. The inability of many lower income households to sustain their mortgages was a trigger for bank foreclosure and a banking crisis (Bratt 2012; Clark 2013). This type of risk is limited in Australia because lower income households now have a greatly reduced presence in the home purchase market. Ironically, where the US market's push to broaden ownership created risk, the unintended side effect of the Australian market (with its high prices and reduced affordability) has been to reduce risk by pushing lower income households out of purchase. This is not to deny Australia is highly leveraged, although a good share of this is likely to be for household rental investment.

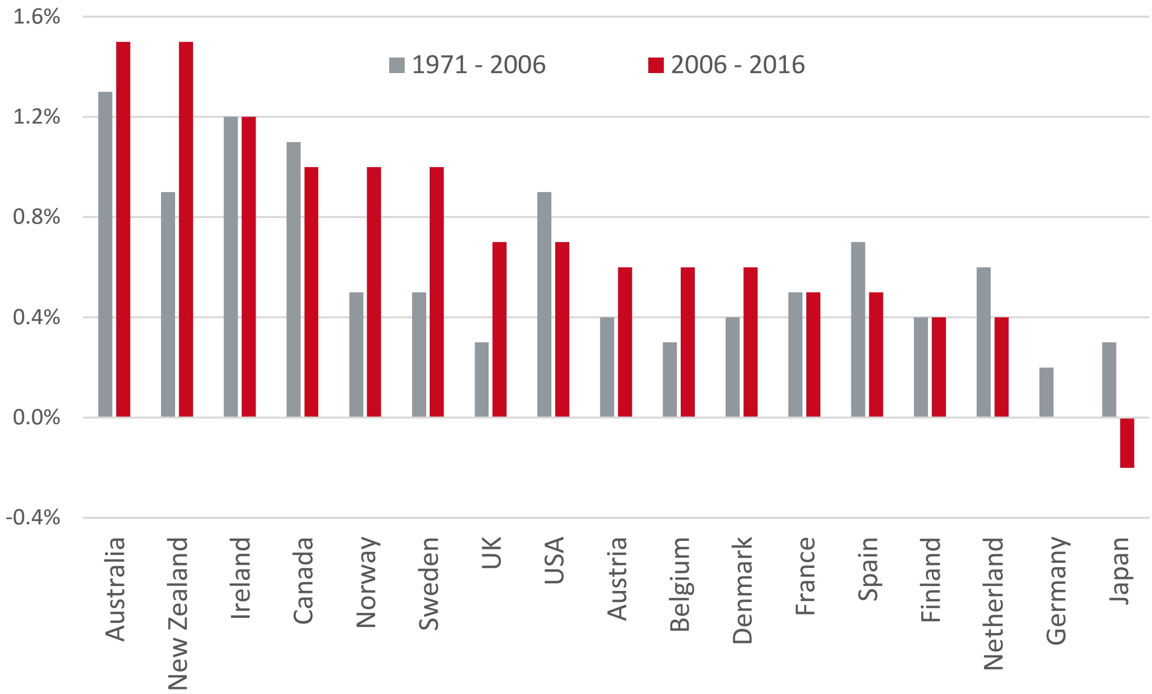
All market liberal countries have experienced falls in ownership from their respective peaks, with the biggest falls (Ireland, New Zealand, the UK and the US) post-GFC. Canada and Australia have had only minor falls by comparison. The various literature suggests that all market liberal countries have been affected to greater or less degrees and in different ways by the excesses of financial deregulation and the associated financialisation of residential property. In the case of the Ireland, the UK and the US, the interdependent relationship between deregulation and financialisation helped create the GFC, contractions in property markets and prices and falls in ownership. The paradox here is that the very deep falls in ownership occurred at the same time as property prices fell post-GFC. Part of this is about foreclosure following the GFC, as well as tightening lending conditions as banks sought to reduce risk and loss.

By contrast the residential property market in Australia, Canada and New Zealand largely sailed through the GFC—it was experienced more as a hiccup than a crisis. Nevertheless, there have been subsequent falls in ownership in these countries. The explanation here, however, is more that the financialisation of property has interacted with historically low interest rates to facilitate increases in household debt and dwelling prices. This has been a process accentuated, in an uncertain and unstable world, by the attraction of these three highly stable countries to global investment. The overall effect has been a marked worsening in affordability.

In all three countries the financialisation of property was likely helped by having highly concentrated urban forms, with a disproportionate number of households living in high demand, expensive urban markets (i.e. the six capital cities of Australia; Auckland, Wellington and Christchurch in New Zealand; and Toronto, Vancouver, Montreal, Ottawa, Calgary and Quebec in Canada). The US, the UK and Ireland have many more affordable sub-markets, although this has not helped to arrest the ownership falls.

Although there may be hiccups in the inflationary pressures, as in 2018–19, the underlying demographic pressures of Australia, Canada and New Zealand suggest sustained challenges in matching dwelling supply with demand and the associated price pressures. As Figure 22 shows, Australia and New Zealand's population growth rates are much greater than any of the other countries. Some of these (e.g. Germany and Japan) have effectively zero population growth and it is probably no coincidence that these countries have had very little house price inflation in recent decades.

Figure 22: Population growth, select international countries in comparison with Australia, 1971–2016



Source: Original author calculations based on published data from World Bank Data (population growth annual %) 2019. https://data.worldbank.org/indicator/sp.pop.grow.

Our broad conclusion is that it is difficult to see Australia, and its highly financialised property market, escaping the downward ownership direction traced by the other market liberal countries. While some may predict an increase in ownership following the price falls of 2018–19, the experiences of the UK, the US and Ireland as well as Japan (see below) suggest this might be a forlorn hope. Such price falls, particularly in the former countries, are partly associated with a tightening of lending conditions. This means that even though there is some improvement in affordability, many households cannot get a loan to allow their transition to ownership. The outcome for these countries was continued decline in ownership. There is always the risk that some exogenous event (e.g. international financial or trade crisis) could trigger Australia into following the others toward sharp rather than gentle ownership decline.

Japan

As with many other dimensions of its economic and social practice, Japan's housing system is different to Australia's—although like the Western European countries there is convergence in many respects toward the market liberal model. Doling (1999) and Hirayama (2012; 2014) provide summaries of the Japanese housing system including the role, at least until recent decades, of large companies (corporates) in provision of housing for workers and an ethos of social responsibility which—although it has parallels with the social cohesion and welfare principles of postwar Western Europe—has translated into an objective of ownership, not social rental.

From the early postwar years, through various fiscal incentives, Japan traced a path towards large scale ownership. It reached 63 per cent in 1983, after which it fell and has not recovered (see Table 14). In the late 1980s Japan's golden era of growth ended with an economic crisis, which unfortunately coincided with the end of Japan's population growth. Significantly, one of the major reasons for the economic collapse in the 1980s was rampant speculation in property (a side effect of excessive property financialisation), leading to debt crisis and long-term deflation after the bubble burst. Dwelling prices have never really recovered, with Tokyo prices in 2018 still below those of 1990, although they have increased from the lows of a decade ago.

Table 14: Japan home ownership, 1971–2016, percentage

	1958	1973	1983	1993	2003	2008	2012	2017
Japan	71.2	59.2	62.4	59.8	61.2	61.1	61.2	61.2

Source: Hirayama 2014, table 5.1 (to 2008); Statistics Japan (2019) for 2012 and 2017.

Japan's ownership peaked in 1981 at 63 per cent, but in 2016 it was still at 62 per cent despite government policies to grow ownership, including effectively cutting funds for social housing even though that sector was relatively small. The 1990s crisis itself caused an immediate fall in ownership by over 10 percentage points, with only marginal recovery since.

The data from Japan (and Germany to a lesser degree) highlight that households' expectations in relation to prices can affect ownership, as falling dwelling prices may not necessarily bring more purchasers into the market. If your experience and expectations are of continuing dwelling price falls, why would you buy? The risk to households here is negative equity and capital losses; renting or continuing to live with family helps avoid this risk, which is what Japanese households have done.

Falling dwelling prices have not been the only setback to purchase for younger households. While Japan gravitated to market liberal economic policy later than the English-speaking countries and much of Western Europe, when it did so the move to flexible and casualised labour markets was sharp and equivalent to the levels seen in Australia (Hirayama 2012: 200–203).This mainly affected the younger age cohorts, who were the potential purchasers.

The sustained fall in Japanese dwelling prices was long term reaction not only to the property bubble collapse 1989–90 but also to a contraction in population. With virtually no migration to compensate for falling national birth rates, Japan's population growth in the period 2006–16 was minus 0.3 per cent per annum. Where Australia has high demographic demand, with the housing system battling to keep supply consistent with growth, Japan has minimal new demand. In this context overall price rises would be not be expected, although specific sub-markets (e.g. key economic centres such as Tokyo) will still experience increases. With low confidence in the future of households' income, a population in decline and minimal dwelling price increases, a return to ownership growth is not likely.

4.2.3 Beyond tenure: general observations

We have summarised long-term trends on tenure patterns with specific reference to ownership. The texts and reports, including multiple-authored ones, from which the trends and explanations were extracted were not necessarily about tenure but canvassed, in a comparative context, a whole range of housing issues and problems. These still, however, raise issues about tenure directions and policy. From these can be synthesised, briefly, (1) some shared commonalities and concerns; and (2) observations about gaps and limitations of comparative housing analysis.

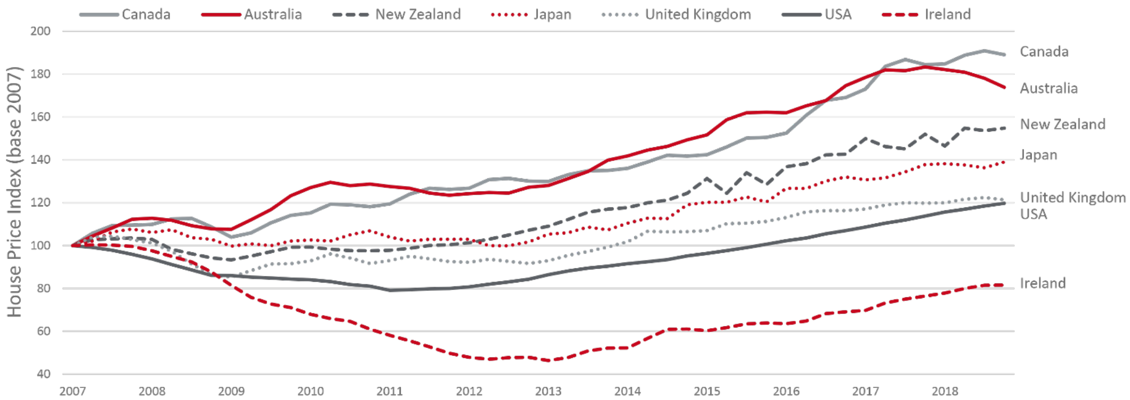
Commonalities

Despite, in some cases, markedly different institutional conditions between countries, common external challenges—notably globalisation of finance and increasingly unstable or flat international economic growth—are tending to shape a common set of housing problems. Dwelling price inflation and related household debt is the major one in most countries, but issues of homelessness, wealth and spatial inequality, and/or segregation are also of increasing concern.

A particular concern for many countries, with obvious implications for home purchase, is the escalation of dwelling prices post-GFC. Quantitative easing in response to the GFC has reduced interest rates to historic lows. While this was designed to stimulate world economies, a decade on it appears to have been less successful in that objective than it has in stimulating housing markets. In many cases prices are much higher than before the GFC, with Australia at the upper end. Figure 23 and Figure 24 show the direction of dwelling prices post-GFC, and highlight that most countries are now above the GFC levels (at the time already seen as high). Ireland, Spain and Denmark are the exceptions.

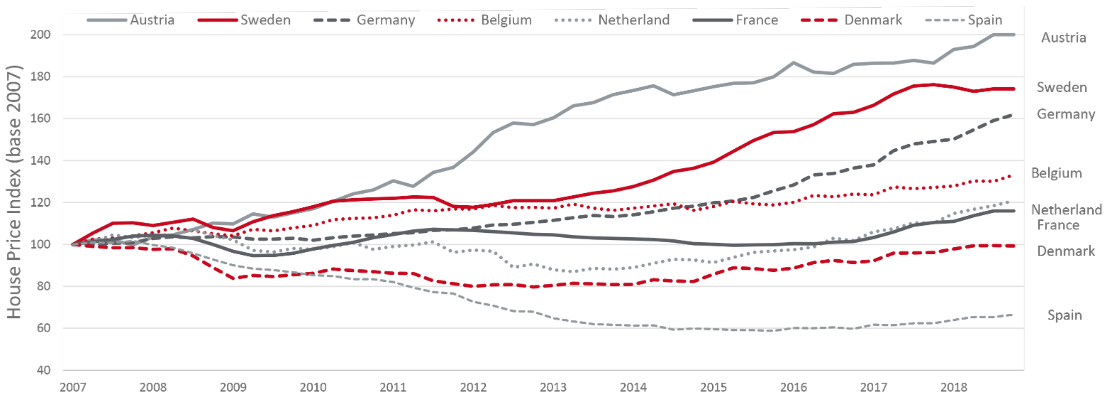
Overall, the rate of increase tends to be greater in the market liberal countries than in Europe, and Australia's recent (2018–19) downturn still keeps us at the high end of dwelling price growth. It is little surprise, then, that ownership has fallen in most of these countries. The cheap finance available has flowed more into the financialisation of property than into helping build ownership; indirectly, cheap finance may unintentionally be undermining ownership.

Figure 23: Dwelling price change: market liberal countries and Japan



Source: Global Property Guide: financial overview; house prices, www.globalpropertyguide.com. Global Property Guide dwelling data derived from multiple databases and are different for each country (explained in their reports for each country).

Figure 24: Dwelling price change: Western European countries

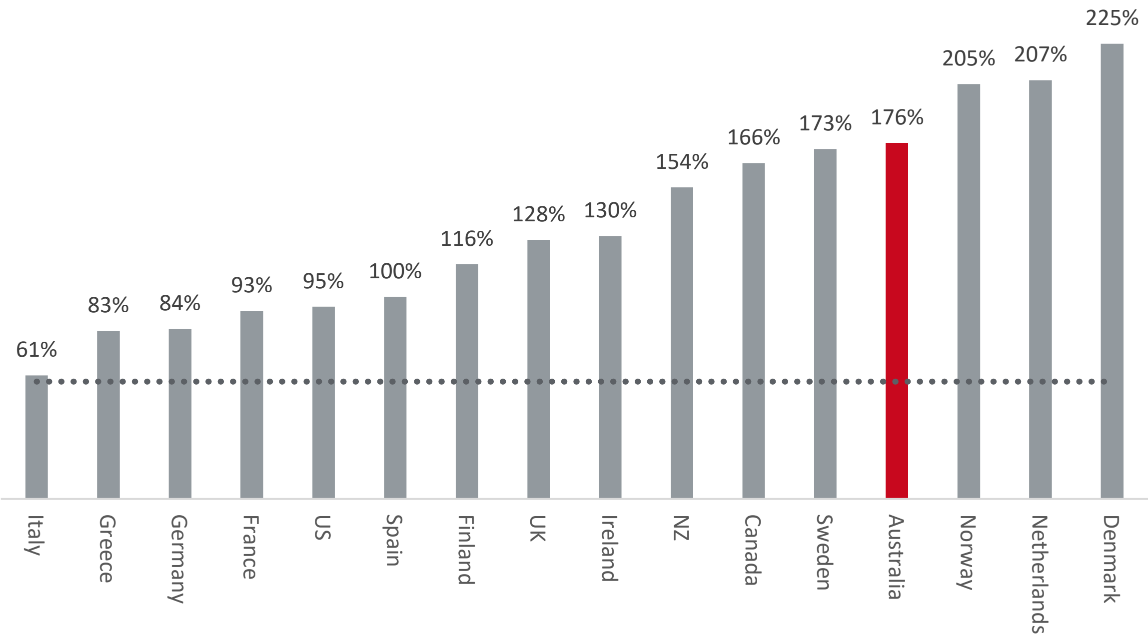


Source: Global Property Guide: financial overview; house prices, www.globalpropertyguide.com. Global Property Guide dwelling data derived from multiple databases and are different for each country (explained in their reports for each country).

Household debt is a major concern of the literature for many countries and gets considerable media coverage in Australia. High levels of debt pose both household and societal risk. For a household a large debt can put a strain on finances, especially if the household is hit by unpredicted events such as unemployment or illness. For a society it is risky if large numbers of households cannot sustain this debt—this destabilises the financial system and, in the worst case, leads to a financial crisis; and also households are constrained to reduce consumption in other areas (e.g. retail spending), with impacts on employment and macro-economic stability.

Figure 25 shows household debt as a percentage of household income for our study countries. It includes, as a historical benchmark, the percentage of such debt (58%) in Australia in 1986, the year of the beginnings of financial deregulation. The figure suggests why debt is now a concern; many countries, including Australia, have very high levels of debt, although unlike for housing affordability there does not seem to be an agreed benchmark for what is considered excessive debt. Nor is there much literature on the nature of that debt and to what degree it is backed by assets (i.e. how it might translate into risk).

Figure 25: Household debt as percentage of household income



Source: Author calculations from RBA 2019, OECD 2019, Eurostat 2019, RBNZ 2019, Statistics Canada 2019.

Australia is at the high end of the debt spectrum, but there are three European countries—Denmark, the Netherlands and Norway—with even higher levels. So are the high debt countries high risk? Not necessarily. The risk of debt comes from who holds the debt (higher or lower income households) and to what degree it is backed by a stable, secure and rising income stream, and by an asset value much greater than the borrowings. In the case of Norway, with ownership levels of 80 per cent and over (and more households with a mortgage) a higher level of debt is to be expected. Similarly, in the Netherlands, the ownership rate has expanded greatly in the last 20 years—we can expect a much higher proportion of households with a mortgage compared to Australia, which has a much more mature ownership market. Sweden is likely to be similar to the Netherlands.

Australia and Denmark are different, as their debt has increased to very high levels while ownership has contracted. While this may not be a risk issue, it raises the question for both countries: what is the point? Why should households be taking on more and more debt while not building ownership?

In the case of Australia, much of that debt is now going into building private rental—in addition to purchasing for occupation, households are incurring debt to buy rental property. Whether this is a good thing for the housing system can be debated, but it does mean a sizeable proportion of debt is backed by an income stream (the rent) which potentially reduces the vulnerability of the system to any economic shocks (e.g. increases in unemployment rates). Moreover, much Australian debt is held by higher income earners who are more likely to have robust finances and sufficient scope in their budgets to handle rising interest rates (RBA 2019). They are also likely to be in professions less impacted by increased unemployment.

In short, it is difficult to conclude the degree of risk to any country without the details of the risk context. However, the huge levels of debt in recent years compared to 20 or 30 years ago can be seen as a metaphor for the financialisation of property and the challenges to ownership.

Blocked housing aspirations for younger households and generational divides in ownership are a major concern, but there is limited research on what they will mean for individual households and society.

The move of most housing systems towards ownership and its association with wealth inequality is also a concern in most countries. At one level, and guiding this report, there is an emergent literature on the need for reassessment of housing policy generally (Clapham 2018; MacLennan and Miao 2017; Madden and Marcuse 2016) and at another level there is more focused writing on issues surrounding the transfer of equity into asset-based welfare (see, for example, Doling and Ronald 2010; Ronald, Justin et al. 2015; Toussaint and Elsinga 2009). The latter is seen as a way of addressing inequality, but also as winding back of income support. There does not yet appear to be great progress in translating the issues and ideas into policy practice.

There is a concern that contemporary governments, with a few exceptions and to different degrees, have an underlying market liberal (pro-market) philosophy of government and policy at a time when the limitations of markets in providing positive housing outcomes for lower to moderate income households and across different locations are being increasingly demonstrated and questioned. Many people are well housed, but much of this is a legacy of history. For younger and newly forming households, the nature of contemporary markets is highly challenging.

However, the comparative literature does not suggest pulling down market liberalism. The broad thrust of the literature appears to be remaking market liberalism in such a way that its advantages can still be realised, but without the excesses that have occurred in recent decades. Germany, for example, highlights how a highly successful competitive economy can produce a housing market without the extremes of inequality or household insecurity and debt of other countries.

The implied policy directions appear include more effective regulation and de-commodifying housing somewhat, in part by increasing the amount of non-market (social) housing and in part by restructuring taxation and prudential controls to reduce the role of housing as an investment good and instead return its role as ‘home’ (Clapham 2018; Ronald and Elsinga 2012).

Governments appear to have lost the capacity to develop housing strategies and system-wide policies that could give substance to building ownership; even when the rhetoric is there, the practice is not. The increasing impacts of globalisation, greater regional and generational inequalities and social discontent—often manifested at the ballot box—appear to have created uncertainty and inertia around policy directions and reform. Tinkering at the edges of policies and programs appears the most common policy response, although in some countries doing nothing and hoping for the best is the position.

4.2.4 Gaps and limitations in comparative analysis

Comparative housing research, by virtue of its scale, tends to be country-wide and not pay sufficient attention to the spatial diversity within countries. This tends to underplay the fact that many of the problems analysed are more about key cities within a country than the country as a whole. Comparative research on housing in specific metropolitan areas and how these areas are best managed to address their housing problems is limited. It may well be that the process of policy transfer needs to centre around specific locations and cities, not countries as a whole.

Housing research (both comparative and national) rarely makes connections to the other markets or systems to which housing systems relate, other than the early work on income support systems (Kemeny 1981; 2001). There is passing commentary, for example, on changing labour markets (as in this report) but rarely with any detail about how its connections shape the decision making of households, developers, employers and so on, and what the implications are for dwelling prices, employment opportunities and labour market productivity. The key cities tend to be the ones that are the economic engines of a country. Thus, we need to know more of the housing dynamics of the leading cities than we do of countries as a whole.

Housing analysis tends to take place independent of land analysis. So much of the financialisation of property and associated affordability implications referred to in housing texts is about the cost and availability of land. But very little comparative analysis pays attention to land costs and drivers and their implications for housing affordability and availability. There is an entire literature on land economics, but it is disconnected from housing literature; within land economics much of the analysis is constrained by the limitations of its dominant neo classical economics framework.

The requirement to provide sweeping overviews in comparative reports means we tend to downplay the role of power and politics in understanding tenure and housing policy change. The exercise of power in and through policy has always characterised social change, but how it plays out in any society is different. Understanding who has power, where that power emanates from, how power is exercised and its impacts on housing policy and housing outcomes is essential to understanding policy reform in any society. There are, however, few texts or reports on this in the housing domain. We can, of course, pretend that power and politics are not part of the housing game, but failure to do that does little to enable policy that produces social good rather than rent-seeking outcomes. This is the classic problem of path dependency: even though by many criteria the ownership model is not working, governments continue on the old well worn path with little ability or desire to step off it.

4.3 Summary and policy implications

What can we conclude from our international comparison? Earlier we offered a five-point rationale regarding what comparative analysis can offer. The first point was that comparative analysis can tell us about our own unique viewpoints and characteristic qualities. Our examination makes it clear that home ownership, although once a distinctive and even defining element of Australian society, is no longer so. Australia is now just a middle-ranked ownership country and, like many others, is on a path to ownership decline. And, as a market liberal society, we face the risk that the rate of decline could be more rapid than in many other developed countries.

The second point is that comparative analysis can identify shared risk. In this case, it has helped us show that Australia's debt levels have pushed us to near the top of the comparative international scale. High debt levels have the potential to become problematic when there are shocks to the housing system or wider economy, and a major shock such as a recession could certainly hit hard in light of current high household debt.

More obvious is the risk that Australia will not be able to sustain high ownership levels and will fall back on a mixed tenure model, like a number of our European comparison countries, but without the policy safety nets needed to ensure the wellbeing of households unable to access ownership; much greater economic, social and spatial inequality will be the likely outcome, with associated political and social problems.

The major hangover effects in a number of countries from the GFC highlight further risk implications. Countries where financial institutions have combined with speculative housing development to push housing provision beyond rational and sustainable limits (e.g. the US, the UK, Ireland and Spain) have all experienced major falls in ownership despite contractions in dwelling prices. At this stage (early 2020) it is difficult to assess to what degree multi-unit development in Australia is speculative (and a risk factor) although detached housing is low risk, as most of it is contract built.

The third point is the ability of comparative analysis to draw attention to institutional similarities and differences that can build strength or cause weakness in a housing system and its tenures. Australia appears to have institutional attributes that do both. Australia's political system and forms of governance are such that we are seen as a highly stable society. Therefore, with both benefits and costs, Australia—both its housing markets and the country as a whole—is attractive for international investors. Such confidence and associated financial flows may bring strength into the housing market, but they may also mean (in a context of property financialisation) potential inflationary pressures and displacement of ownership by investors.

Similarly, we can point to Australia's highly concentrated urban form, which is dominated by capital cities. This concentration means diverse and strong urban economies, providing a large number of people with excellent employment opportunities; by contrast, many other countries have a largish number of weak urban economies, with associated employment and income effects. The converse consideration is that Australia has few large housing sub-markets that can offer good affordability.

Demographic growth and migration are another point of (mostly positive) difference. By comparative standards, Australia has exceptionally high rates of migration that have historically helped to build rather than weaken ownership. This has also boosted economic growth, although we note that migration and its demands place pressure on housing markets and infrastructure if not matched by appropriate supply.

By comparison, Germany and Japan have historically had low to negative population growth. This has, outside of a few key cities (e.g. Tokyo, Frankfurt and Munich), kept dwelling prices low. However, low prices do not necessarily mean greater ownership—where there are expectations of capital loss, households tend to question the desirability of home purchase. This accounts in part for Japan's flat ownership pattern over almost 30 years and Germany's relatively low ownership rates despite recent growth.

The final point is that comparative analysis assists in identifying the effects and processes of a globally integrated world. Over the last 50 years many more economies have opened their markets and the flows of finance and labour between counties have increased greatly. So has the flow of knowledge, ideas and policy. One of the most identifiable attributes of this international process is the more or less common acceptance of a market liberal model of economic management, although there is still considerable variation in terms of social, environmental and demographic policy.

In regard to housing, market liberal models tend to mean three things: (1) more deregulated labour markets, with the associated income distributional implications and more households unable to achieve ownership; (2) in virtually all countries, major financial deregulation that enables substantial financial flows into housing and, in many cases, substantial household debt and demand pressures; and (3) generally as an unintended side effect, the financialisation of housing markets. In most countries the latter has created increasingly commodified property markets in which a dwelling is as much, if not more, an investment good as a consumption good (i.e. a home). Although there are substantial sub-market variations, this has sharply affected dwelling purchase affordability.

Market liberalism has also meant the reviewed countries have broadly similar housing policy intent; that is, to reduce the burden of housing costs on the state, with implications for housing assistance and market behaviour. While some countries have explicit ownership programs, they do not offer financial or regulatory support of the scale of 30 plus years ago.

The few countries that have continued to grow ownership in the last decade (e.g. Germany, the Netherlands and Sweden) have done so from a low base (all had around 50 per cent ownership in 1991), and Sweden's ownership rate has started to fall again in recent years. In the case of the Netherlands and Sweden, ownership growth has been the result of specific policy outcomes (similar to the UK's) that are as much about reducing the viability and size of social housing sectors as about growth of ownership.

With the exception of a few countries, the literature and our analysis indicate that ownership as a tenure has burnt itself out and private rental is the growth housing sector (prompting international commentary on 'generation rent'). Many countries are still committed, at least in terms of policy rhetoric, to the concept of ownership but appear unable to back this commitment with effective policy. Like Australia's, the existing housing systems of most countries are now not working to build or even sustain ownership, but few governments appear able to come up with feasible alternatives. In much of Europe this is less problematic because there is a history of well-regulated rental sectors providing protection for tenants and landlords in ways that ensure rental supply as well as tenure stability and housing quality for tenants. But even tenure-neutral policies do not deal with the widely seen long-term wealth inequality issues.

5 Final remarks and policy development implications

- Decline is the only direction for Australian ownership, and this requires a new national narrative about tenure futures.
- Three related directions of institutional and housing system thinking change are therefore needed:

— The first is developing a transition from Australia's mono-tenure housing system dominated by ownership to a dual tenure system that gives equal weight to ownership and rental—what some call a 'tenure neutral' policy.

— The second system change is addressing the socio economic implications of the generational and wealth divides. 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.

— The third change is taking the policy focus for housing reform 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 these have to be woven into policy directions.

This report is more expository than prescriptive. Combined, the findings from our historical review, data examination and comparative analysis suggest that Australia is at a tipping point in housing provision which requires significant shifts from what has gone before. The domestic conditions for any growth in long-term ownership are weak (the window of opportunity is well and truly over), and comparison to equivalent countries only reaffirms our view that the days of ownership as a form of near universal tenure are over. Applying ABS households projection data to long-term ownership trends for Australians aged under 55 indicates a fall in the home ownership rate for this age cohort to around 50 per cent and for all age cohorts to around 63 percent by 2041—and the fall would be greater if not for Australia's ageing, ownership-rich population holding up the rate. However we look at it, decline is the only direction for Australian ownership and this requires a new narrative about tenure futures. But the key question is, does the decline of ownership matter?

It could be argued that households will simply make the trade-offs necessary to live within this new housing and urban system. Most probably will, perhaps facilitated in doing so by industry adaptations such as building multi-unit apartments more suited to ownership or long term rental (build to rent) or new products such as shared equity. However in making such adaptations many will bear the personal costs of rental insecurity and limited wealth unless there is major policy reform. The system also has the potential (given the evidence already exists) to create social problems of wealth divides, increasingly polarised cities and generational inequity and blocked aspirations; all ingredients in a recipe for weakening social cohesion and trust in societal institutions. This is a risk to be avoided.

Arguably, a new tenure narrative requires three directions of institutional and housing system thinking. The first is developing a transition from what has been a mono-tenure housing system dominated by ownership to a dual tenure system that gives equal weight to ownership and rental—what some call a 'tenure neutral' policy. This recognises that ownership cannot be rebuilt without a very different and unlikely institutional environment, while a dual tenure vision incorporating ownership and rental (both private and social) could be created to mesh more successfully within the institutional environment likely to be predominant in coming decades.

This means (1) building an understanding of the relationship between the institutional environment and housing tenure and (2) within such a framework, fleshing out the attributes of a dual tenure system—including rebuilding social housing and moulding private rental into a sector that can offer long-term security, livability and affordability. It does not mean giving up on ownership; however, arresting the decline in ownership will require more strategic policy thought than has been offered in recent decades. Nor does it mean reducing policy commitment to social housing.

The second system change is addressing 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 half (owners; predominantly older households) acquires wealth and the other half (renters; generally younger) is a recipe for long-term social problems. Addressing the generational divide 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. In addition, it will require greater income support for households in older age.

Policy instruments could include death duties, exempting ownership from income support, land tax reforms and a restructuring of income support, however great care would need to be made in implementation as there is the risk that such policy directions could further undermine ownership. This system change may also mean an overall increase in taxation, requiring Australia to move from being one of the lowest taxed countries in the OECD to taxation that is closer to the OECD average (OECD 2018).

The third change is taking the policy focus for housing reform well beyond housing; tinkering with existing policies such as home ownership grants, incremental tax changes, small boosts to housing assistance and simplistic appeals to deregulation of the planning system will be sufficient given the scale and nature of the problem. This change requires recognition that all tenures are a function of broad range of attributes that make up an institutional environment. 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.

Further research is needed into the relationships between these variables and housing to provide guidance for policy. We also need to recognise that the relationships may vary across regions and cities and their sub-markets, implying a locational specific context for research and policy.

Research on the connection between these areas and housing tenure is still relatively weak. There is little systematic integration of housing policy interventions in Australia at various government levels, nor is there adequate consideration of how the housing system in its entirety integrates with other key systems in the economy and society. Limited evaluations about the relative efficiency and effectiveness of government provision of direct and indirect forms of housing assistance and supply-side incentives are often due to data access limitations and reticence on the part of some jurisdictions and arms of governance to disclose data transparently for independent, public scrutiny.

Being expository in nature, this report is not about finding specific policy solutions but about raising awareness and building knowledge of a housing problem of a scale that raises questions about what type of society Australia wants to be, or will be in the absence of policy and institutional reform. Working out where we want to be requires locating Australia in a global context and identifying the emergent threats within that global context. Migration flows and refugee movements, climate change, greater instability of markets and the emergence of populist political movements making policy decision making more difficult are some of the issues that have enormous implications for housing and for how we think about what we want from Australia’s housing system and its key tenures.

It is also increasingly apparent that interest rates (domestically and internationally) have little scope for downward shifts, and that fiscal austerity combined with easy credit availability has done little to boost economic productivity and growth—although it has boosted property inflation, reduced affordability and brought more investors rather than owner occupiers into the market. Perhaps it is time to see housing, particularly more affordable housing, as a form of key infrastructure provision which could build growth and social wellbeing. But this needs the appropriate institutional framework to prevent such provision becoming just another mechanism for property price commodification and further erosion of affordability.

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. We hope that by raising the importance of an institutional framework, this report may promote discussion around new housing policy directions.

The alternative of doing nothing (or tinkering with more small-scale incremental policy reform) is problematic. All the signs suggest large-scale property and spatial divides, substantial and potentially risky household debt, blocked aspirations for younger generations and insecure rental living circumstances for growing numbers. Households will make adaptations and trade-offs to deal with this difficult housing environment, but many of these may be troublesome in themselves. More research is needed into household trade-offs and the adaptations and problems that may flow from them. Good policy requires big picture understanding of the institutional context of housing change, but also bottom-up understanding of how context modifies and directs the values, behaviours, preferences and trade-offs of households (and investors and developers) who experience them.

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Appendix 1: Creating median household disposable income

1 The *household reference person*. The household reference person was established for relevant Census years.

For 1988 the household reference person is the person so nominated by household member(s).

For 2003 the tenure type was not collected at the income unit level; consequently the selection of the household reference person is not influenced by differing income unit tenure types within the household. Here the reference person for each household is chosen by applying, to all household members aged 15 years and over, the selection criteria below, in the order listed, until a single appropriate reference person is identified:

- one of the partners in a registered or de facto marriage, with dependent children
- one of the partners in a registered or de facto marriage, without dependent children
- a lone parent with dependent children
- the person with the highest income
- the eldest person.

For example, in a household containing a lone parent with a non-dependent child, the one with the higher income will become the reference person. However, if both individuals have the same income, the elder will become the reference person.

For 2009 onward the household reference person for each household is chosen by applying selection criteria to all household members aged 15 years and over. The selection criteria below are applied in the order listed, until a single appropriate reference person is identified:

- the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure
- one of the partners in a registered or de facto marriage, with dependent children
- one of the partners in a registered or de facto marriage, without dependent children
- a lone parent with dependent children
- the person with the highest income
- the eldest person.

For example, in a household containing a lone parent (owner with a mortgage) with a non-dependent child, the one with the higher tenure (i.e. the lone parent) will become the reference person. However, if both individuals have the same tenure (e.g. a couple, owners with a mortgage), the one with the highest income will become the reference person.

2 *Incomes* ; The median incomes of 25–34 and 35–44 years olds were taken from 1988, 1998, 2003, 2009 and 2015. From there, between each of the years, the income in equal widths between them is calculated. Thus, from 1988 to 1998, then from 1998 to 2003, etc.

Real incomes: incomes have been indexed to 2018 using the Australian CPI (all groups).

Appendix 2: Projecting home ownership

To project likely home ownerships rates a number of assumptions and methods were made.

1. It is assumed that there a no major policy redirections or external disruptions that change the underlying ownership trends for the last thirty years—that is, the negative directions seen in Table 9 will hold into the future.
2. This enables the assumption that trends in the age-specific ownership rates for the last 20 years will continue into the future at the rate experienced for that twenty year period. These were projected for each cohort by the average of the percentage change in the homeownership rate for every census year since 1996 (see Figure 26 below).
3. That for projection purposes it was assumed the ABS series II population projections are the most realistic. The latter projections assume that historical rates of change in demographic propensities from 1981 to 2016 will apply into the future. Under this ABS assumption, by 2041 there will be a projected 12.8 million households in Australia (up from 9.2 million in 2016). For projection of ownership rates ABS series 2 Projected persons by living arrangement projections was used (ABS 2018e).
4. To enable projections the cohort data had to converted to a reference person. Thus each cohort was were converted assuming one person for lone and sole parent households, two persons for couples and couples with children, and group households being two plus members.
5. Having a reference person for each cohort enabled the application of ABC demographic projections and thus using this method the number of ownership households were established for 2036 and 2040. This methodology allowed us to obtain the reference person, therefore determining the same age specific basis that was used from 1981-2016. As a test of accuracy the ABS projection for 2041 was 12,871,726 households and our methodology calculated 12,909,378 a difference of only 0.3%.
6. The above methodology of determining the reference person allowed us to also include a category of 25-54 and 25+ based on the actual projected population of reference persons.

Figure 26: Average Percentage change Age cohorts 25 plus 1996-2016

25–34 years	35–44 years	45–54 years	55–64 years	65–74 years	75 & above
1.75%	2.15%	1.70%	1.18%	0.60%	-0.35%

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Australian Housing and Urban Research Institute

Level 12
460 Bourke Street
Melbourne Victoria 3000

T +61 3 9660 2300
E information@ahuri.edu.au

ahuri.edu.au

ACN 090 448 918

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