

# **The benefits and risks of home ownership: disaggregating the effects of household income**

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# 1 INTRODUCTION

Australia is characterised as a 'home ownership society' in which it is usually taken for granted that home ownership<sup>1</sup> has multiple advantages – social, political, economic and cultural – which apply at different scales, including households, local communities and the broader economy and society. Assumptions about its multiple and layered benefits underlie both housing policies and broader public policy settings. Internationally, while there is a 'voluminous' literature on the benefits of home ownership generally (Gramlich 2007), there is rather less research into its potential risks and the extent to which benefits and risks may be experienced differentially by households on different levels of income.

There are many projected benefits of home ownership, both financial and non-financial. In terms of financial benefits, households who own their own homes may enjoy lower real housing costs over their life course, which is particularly important in older age when income is reduced (Castles 1998; Kemeny 2005; Dewilde and Raeymaeckers 2008). They may build wealth through saving for a deposit and paying off a mortgage, constituting a form of forced savings which, with the expectation of housing price increases over time, builds up housing equity (Boehm and Schlottmann 2004; Burbidge 2000; Badcock and Beer 2000). Wealth accumulated as housing equity may be drawn down in older age and/or transferred to the next generation (Helderman and Mulder 2007; Yates and Kendig 2008). Home ownership is also closely connected with the idea of home and family, providing non-financial benefits such as greater security, control, privacy, freedom from surveillance and autonomy (Saunders 1990; Dupuis and Thorns 1998). These are thought to be associated with a wide range of social outcomes including improved mental and physical health, better educational outcomes for children, lower rates of poverty among older home owners, safer and more stable neighbourhoods, inclusive and cohesive residential areas, and a more active and responsible citizenry (Bridge et al. 2003; Rohe, Quercia and Van Zandt 2007).

Home ownership also carries risks for households. For the most part, these have been seen as temporary and financial, predominantly affecting younger and more recent home buyers whose mortgage payments may exceed established affordability benchmarks, particularly if they are on lower incomes (Yates and Milligan 2007; Wood and Ong 2009). Internationally, research generated in times of economic recession has suggested that some households who purchase homes may also risk psychological stress to the detriment of their health and wellbeing, and that of their children, if they accumulate mortgage arrears, face repossession of their homes or end up with mortgages greater than the value of their property (Nettleton and Burrows 1998, 2000; Ford, Burrows and Nettleton 2001; Cairney and Boyle 2004). Some of these problems stem from disruptive life events which can occur at any age, such as family breakdown and household dissolution, but there is increasing recognition that home ownership, particularly during the earlier years of purchase, involves risks attributable to structural factors such as the effects of labour force restructuring, volatility in house prices, and credit risks such as variable interest rates (Ford and Wilcox 2005; Burke and Pinnegar 2007). The risks faced by households may lead to broader economic and social consequences, such as depressed neighbourhoods, widespread social dislocation and economic recession, as indicated by the consequences of the sub-prime crisis in the US.

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<sup>1</sup> We use the term 'home ownership' in this report to refer to owner occupation, that is, households who own the home they usually live in.

This Positioning Paper is the first report from a project which seeks to add to the research evidence base on the financial and non-financial outcomes of home ownership for households. There are many gaps in the research into households' experiences after they enter home ownership, compared with extensive research into the barriers to entry into home ownership. Where research has been conducted, it falls primarily within a debate about 'housing affordability' in which the emphasis is on mortgage repayment costs as a percentage of household income (e.g. Yates and Milligan 2007). There is less recent research which attempts to assess the benefits and risks of home ownership for households on different levels of household income or for those who purchase in different types of areas. The project is investigating some of the benefits and associated risks for households on lower incomes, defined as the lowest two-household income quintiles (lowest 40%),<sup>2</sup> relative to those on middle and higher incomes. There are many avenues open for investigation, but this study addresses three important gaps in the research:

Firstly, there is very little research into the type and level of ongoing expenditures associated with home ownership such as council and water rates, body corporate/owners' corporation fees, building insurance and repairs/maintenance. As indicated above, the focus has been on the ability of households to make regular mortgage repayments, in particular for those with incomes in the lowest 40 per cent. We do not know how these ongoing payments add to ongoing housing costs and the extent to which they add to the risks faced by lower income home owners relative to those on middle and higher incomes. Further, there is little research into how such ongoing costs have changed over time.

Secondly, while there has been some Australian research into the effects of home ownership on various measures of housing-related wealth disaggregated on a spatial basis (e.g. King 1989, 1990; Badcock 1990, 1994; Burbidge 2000), none of this has been recent. Research based on data to the early 1990s suggests that whether home ownership builds household wealth depends on a number of factors including house price fluctuations, timing and location of purchase, and levels of household incomes. It is timely to re-examine the extent to which household income is associated with wealth creation through housing after some dramatic changes in housing markets over the last 15 years, including the spatial dimensions of this issue. In particular, we ask whether lower income households are able to increase their wealth through home ownership to the same degree as middle and higher income households.

Thirdly, recent Australian qualitative research suggests that some lower income households experience stress, insecurity and lack of control which may negate the projected psycho-social benefits of home ownership and potentially limit broader social outcomes (Burke and Pinnegar 2007). This appears to accord with some international evidence. We investigate in depth whether this is the case and to what extent purchase in different types of areas may be important in affecting the non-financial benefits and risks of home ownership.

The overall aim of the project is thus to investigate whether, and to what extent, the benefits and risks of home ownership are experienced differentially by Australian households with different levels of income, in particular by lower income households (bottom 40%) compared to households in the middle-higher income range (highest 60%) The study centres on households who are already home owners, including those who have outstanding loans secured against their property (purchasers) and those who have not (outright owners). Unlike much of the research into housing

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<sup>2</sup> There are a number of important conceptual issues associated with using household income quintiles which we discuss in Section 3.

affordability, it is not the purpose of this study to compare the benefits and risks of home ownership for households on lower incomes compared to renters on similar household incomes.

The three research questions are:

1. What differences are there in the financial benefits and risks of owner occupation in terms of ongoing expenditures for households on lower incomes compared to middle-higher income households?
2. To what extent and how do lower income households build wealth through home ownership compared to middle-higher income households, taking into account the affordability of housing in particular locations and changes in housing markets over time?
3. How do lower income home purchasers experience the non-financial benefits and risks of home ownership in different types of residential location?

This Positioning Paper proceeds as follows.

**Chapter 2** outlines the policy context for the project in Australia. It also makes comparison with the US policy context in view of the scale and significance of problems facing lower income home purchasers in that country.

**Chapter 3** sets out the conceptual framework for the research and development of the research questions.

**Chapter 4** examines the Australian and international literature pertinent to the three research questions.

**Chapter 5** details the research design and research methods.

**Appendix A** presents some notes on the secondary data sets used in the research.



## **2 THE AUSTRALIAN POLICY CONTEXT AND RECENT INTERNATIONAL DEVELOPMENTS**

This chapter outlines the context for policy debates about home ownership in Australia since the early 1990s. It discusses three main policy themes: enabling transitions into home ownership for lower income households, assisting first home buyers, and responses to mortgage stress. The housing policy landscape around the world has been changed by the US sub-prime crisis, which began with difficulties experienced by lower income home purchasers. The second part of the chapter outlines the US policy context for three reasons: to enable a better understanding of some of the risks associated with home ownership for lower income households based on the US experience, to assess whether these risks are likely to be replicated in the Australian context, and to provide essential context for understanding the research evidence base about lower income households and home ownership, much of which emanates from the US and which we review in Chapter 3.

### **2.1 The Australian policy context**

In the early 1990s there was fundamental change in Australian housing policy with the elimination of the explicit measures to promote home ownership which had characterised most of the post-war period (Yates 1997: 265). Such policies had included, at various times, discounted/controlled interest rates for home mortgages, cash grants to first home buyers, sales of public housing to sitting tenants and, in some jurisdictions, development of 'affordable' lots by state land development organisations. Governments no longer saw it as their role to assist the 'marginal would-be home owner' in purchasing a home (Berry et al. 1999: 116), although they continued to provide tax advantages for those who were already owners, most notably through full exemption from payment of capital gains tax on the sale of owner occupied housing. There were a number of reasons for this change in housing policy, including greater availability of mortgage funds in the private market following deregulation of financial institutions in the 1980s. This enabled the liberalisation of credit for home purchase, with households able to take out larger loans with a lower deposit than had traditionally been the case (Schwartz et al. 2006).

Since the early 1990s, there have been three key concerns that have defined housing policy in relation to home ownership in Australia: improving pathways into home ownership for lower income households including social housing applicants and tenants on modest incomes; stimulating the demand for housing, in particular new housing, through subsidies to first home buyers; and a concern about households dropping out of home ownership due to mortgage stress. We consider each of these below.

#### *2.1.1 Assisting lower income households into home ownership*

Withdrawal of governments from housing policies to assist lower income households to buy their own homes was also in part a reaction to problems associated with state government sponsored schemes in the late 1980s and early 1990s in New South Wales and Victoria, which were intended to assist households on public housing waiting lists to buy their own home. Although these schemes differed, they involved mortgage instruments that were unfamiliar to Australian households: 'low start' loans in which repayments were set low initially but were to increase over time as wages increased, in an attempt to redistribute repayments over the life course in line with changing circumstances.

While some benefits were reported for households who otherwise would never have been able to access conventional loans (Wulff 1990, 1992), the schemes ran into difficulties due to economic and housing market volatility and failure to communicate to lower income households the risks associated with non-standard mortgage instruments developed as a consequence of financing arrangements. In the late 1980s and early 1990s interest rates rose sharply then fell. Subsequently, in the recession of the early 1990s, wage rises were lower than expected, levels of unemployment were higher and house prices declined in many markets. The combination of these factors meant that a minority of households faced difficulties in meeting repayments which increased over time, amounts outstanding ballooned, and falling house prices meant that households owed more than their properties were worth if they wanted to sell. In the context of the New South Wales scheme this has been termed 'the other subprime crisis' (Ferris 2008). The NSW HomeFund scheme was restructured in 1993 and in Victoria there are still cases before the courts relating to the Capital Indexed Loan (CAPIL) scheme.

Not all such schemes failed, and the Keystart scheme in Western Australia, which started in 1989, has assisted 57,000 households to purchase homes<sup>3</sup> (Manton 2000). This is targeted at households on 'low to moderate income and those with minimal deposits' (authors' italics) (Keystart Housing Scheme Trust 2005). This scheme was converted to a variable interest rate early, thus avoiding the problem of households' lack of understanding of the implications of alternative mortgage instruments. The states and territories have also developed, or are in the process of developing, some shared equity and shared ownership products, but these are generally on quite a small scale and for specific purposes. For example, the Goodstart shared equity loan scheme in Western Australia enables public housing tenants to buy their current rental property or an alternative one, and other households to buy refurbished ex-rental properties as part of the redevelopment of selected, older public housing estates.<sup>4</sup> It is not our purpose here to review these schemes and their effectiveness since AHURI Project 70541, which complements this study, is reviewing home ownership support programs for lower income households in Australia including 'the design, remit and objectives of current and earlier programs'.<sup>5</sup>

### *2.1.2 Assistance to first home buyers*

From 2000 to 2008, the policy context in Australia centred on responses to a historically low percentage of first home buyers in the housing market. There were two related issues: the challenge of enabling younger households to access home ownership in an environment of sharply increasing housing prices, and a desire to ensure additional demand for (new) housing to sustain the development and construction industries and to deliver broader economic benefits, even before the global finance crisis of 2008.

There is strong political and public support in Australia for addressing the difficulties faced by younger households in buying their first home in the high priced metropolitan housing markets. This has been allied with a concern that, if they are unable to buy, rates of home ownership will decline, as in New Zealand. The Prime Minister's Task Force on Home Ownership in 2003 was a response to the housing affordability problems experienced by first home buyers. It clearly distinguished between short-term problems related to stage in life cycle and long-term problems due to lack of

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<sup>3</sup> Source: <http://www.housing.wa.gov.au/key/about-keystart.htm>.

<sup>4</sup> Information leaflet, <http://www.keystart.com.au/key/documents/Goodstartbrochureoct06.pdf>.

<sup>5</sup> Description of AHURI Project 70541, <http://www.ahuri.edu.au/publications/projects/p70541/>.

income to purchase (Joye et al. 2003: 28). The task force saw the life cycle problem as capable of innovative housing policy solutions, such as a HECS type scheme<sup>6</sup> to even out repayments over a working lifetime rather than face heavy payments in early family life. However, it saw the latter (low household income) not as a housing policy problem but as an issue about income poverty and social welfare (Gans and King 2003). In other words, the primary concern for housing policy was difficulties facing younger households rather than those faced by lower income households. This concern with younger households is also apparent in countries such as the US, UK and Canada, despite ownership rates increasing over this period (US Census Bureau 2009; Statistics Canada 2008; Stephens et al. 2008), and has been a particular issue in New Zealand where the home ownership rate has been falling since 1991 (Morrison 2008).

The second reason for assisting (younger) first home buyers is to maintain demand for housing, particularly newly constructed homes, as reflected in the additional subsidy of \$7,000 for newly constructed dwellings. They provide additional demand for land and housing, either directly or indirectly through a filtering mechanism, unlike changeover buyers. Development and construction industry groups expressed concern about the decreasing percentage of first home buyers and their declining affordability position. For example, the Housing Industry Association's First Home Buyer Affordability Index showed the deteriorating position from the end of the recession in 1994 to the first quarter of 2008, and the association reported historically low rates of housing loans to first home buyers (Housing Industry Association 2008). While these figures reflected the cumulative effects of household incomes and interest rates, they were also used in support of an argument that house prices were too high mainly because of high development costs, infrastructure charges, planning delays and building code requirements.

In 2000, for the first time since 1993, the Commonwealth Government reintroduced assistance for first home buyers in the form of a non-repayable grant, the First Home Owner Grant (FHOG). This was intended to 'offset the effect of the GST on home ownership',<sup>7</sup> in particular, the purchase of newly constructed houses, supporting the view that demand from first home buyers should be boosted for industry support and economic reasons. Since then, the amount of payment has varied as political priorities respond to economic circumstances. It was initially \$7,000 for an established home and \$14,000 for a new home (2000-04) and then a flat rate of \$7,000 (2004-08). This was supplemented by state and territory initiatives including cash grants and other measures such as reduced rates of stamp duty on house purchases. In November 2008, when the extent of the global financial crisis was becoming apparent, the Commonwealth made substantial increases to FHOG payments until the end of June 2009, as part of its first economic stimulus package, to \$14,000 for an established home and \$21,000 for purchase of a new home, supplemented in many cases by additional financial assistance from the states and territories. In early 2009, these measures were extended, with a gradual phasing out of the additional assistance at the end of December 2009.

The FHOG is not targeted to households on lower incomes who face the greatest affordability problems as it is not means tested either in terms of assets held or household income. A lack of data about the scheme makes it difficult to calculate its distributional effects in terms of household income (Wang, Wilson and Yates 2004: 44-5). However, the Productivity Commission's inquiry into first home ownership,

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<sup>6</sup> The Higher Education Contribution Scheme (HECS) is a means of spreading out the user costs of tertiary education over working life as the costs are recouped through additional taxation.

<sup>7</sup> Commonwealth of Australia, <http://www.firsthome.gov.au/>.

conducted at much the same time as the Prime Minister's Task Force discussed above, found that first home buyers 'tend to have higher income than other households' and, in 2000-01, more than 55 per cent of such households had incomes in the top two quintiles (Productivity Commission 2004: 255). The inquiry's report argued that if the FHOG continued, it should be 'targeted to the housing needs of lower income households by restricting eligibility to homes below (regionally differentiated) price ceilings and that there should be a commensurate increase in the average size of the grant' (Productivity Commission 2004: xxxii). This recommendation was not adopted, nor was another for a public inquiry to examine the housing needs of low-income households across Australia. Following the change in Commonwealth Government in 2007, a further measure to assist first home buyers was introduced – First Home Owner Accounts. These are designated accounts for households saving for a deposit that attract a partial co-payment from the Commonwealth as well as tax advantages. Like the FHOG, they are available to all potential first home buyers irrespective of income. However, as yet there is no research and evaluation of their effectiveness.

An underlying and largely unresolved policy issue is the consequences of encouraging additional demand for housing in terms of capacity to supply housing to meet this demand (a problem of quantity) and the sustainability of new housing supply (a problem of quality in terms of urban form and the environment). Lack of housing supply in an aggregate sense has become a major policy issue, recognised in the establishment in 2008 of the National Housing Supply Council and the Housing Affordability Fund. The Supply Council coordinates information on demand for, and supply of, land and housing on a consistent national basis (National Housing Supply Council 2009) while the Fund aims to reduce barriers to supply due to high holding costs and infrastructure costs (Department of Families, Housing, Community Services and Indigenous Affairs 2008). While there is greater general awareness of the issues of sustainable urban development and the environmental impact of increased housing supply, these are currently seen as issues for state and territory governments. However, some of these issues seem to relate to housing type, in particular, the detached dwelling on its own block of land, and location rather than to home ownership per se.

### *2.1.3 Mortgage stress*

While the major policy concern was, and remains, assisting younger households to buy their first home, there was also concern with ongoing affordability once households had entered home ownership in the period 2001-08. Politically this concern was manifested in a focus on rising house prices and, for parts of this period, rising mortgage interest rates. However, relaxed credit assessments, greater average size of mortgages, and lower deposit requirements as house prices rose after 1998, also played an important role. These meant that mortgage interest payments were a higher proportion of household income in 2008 when interest rates were about 9 per cent than when they peaked at 17 per cent in 1989 (Senate Select Committee 2008: 34). Much of the debate in Australia has been about households who start out on lower incomes when they take out a housing loan and who may overstretch themselves, particularly in the early years of a loan, and be vulnerable to factors such as increasing interest rates. Only recently has there been a focus on those who become lower income households at some time after they have bought due to 'shocks' such as loss of job, illness, disability or separation/divorce (Burke and Pinnegar 2007; Berry et al. 2009).

Difficulties in sustaining ongoing repayments have been termed 'mortgage stress'. Both its definition and extent were, however, contested in the policy context of 2001-

08. There were doubts about whether paying more than 30 per cent of household income constituted mortgage stress, using a traditional benchmark for credit assessment. The economic boom meant that average household incomes increased by 19 per cent during these years, although national household income distribution remained much the same (NATSEM 2008: 3). In this context, it was argued that some households chose to spend more on buying their home and that higher income households could comfortably afford mortgage repayments which exceeded this benchmark if they chose to do so (Senate Select Committee 2008: 37-8). For this reason, the most commonly advocated measure of housing stress (which includes renters as well as purchasers) is the so-called 30/40 rule, that is, households in the lowest 40 per cent of the income distribution (lowest two quintiles) paying more than 30 per cent of their gross household income on housing payments (Yates and Gabriel 2006; Yates and Milligan 2007). In considering ongoing expenditures incurred by home owners, there has been little attention paid to other expenditures associated with ownership, such as property taxes (council and water rates), property insurance, body corporate/owners' corporation fees, and repairs and maintenance. The exception to this lies in concessions by local councils on rate payments by pensioner home owners who are generally on very low incomes.

Despite acknowledgement of mortgage stress for some households on lower incomes, debates about the ongoing sustainability of home ownership apparent elsewhere has largely been missing from the Australian policy context. This contrasts with the UK, for example, where the government started talking about promoting 'sustainable' home ownership somewhere around 1995 (Meen 2009). This appears to draw on a long-standing concern with providing a safety net for home owners who experience difficulties, including the perceived risks of public housing tenants buying their homes under the Right to Buy scheme from 1980 which increased the rate of home ownership by over 10 percentage points (Williams 2007: 3). It was exacerbated by an economic recession (1989-93) which had 'far reaching social and economic consequences' (Stephens et al. 2008), stemming from a growth in mortgage arrears, repossessions and negative equity experienced by many households where the amount that they owed on their mortgages exceeded the likely market price of their home. Nevertheless, the safety net for home purchasers facing difficulties with their ongoing housing costs (Income Support Mortgage Interest) was decreased by the early 1990s.

The Australian Commonwealth Government has not gone down this path and it is the state and territory governments who provide mortgage relief schemes, where these exist. For example, the Mortgage Assistance Scheme in NSW is by way of a loan, paid to the lender (mortgagee) not the household (mortgagor), and is seen as a 'last resort' if mortgage stress cannot be resolved in any other way (Shelter NSW 2008).

Since October 2008, the problem of housing/mortgage stress for lower income home purchasers has been recast as mortgage payments have decreased following quite sharp decreases in interest rates as a consequence of the global financial crisis and flow-on effects into the real economy. Policy debates are focusing less on household expenditures on mortgages and more on instability in incomes due to projected higher rates of unemployment. Again, this is not seen specifically as an issue for lower income households but for younger purchasers, particularly in the early years when mortgage repayments are relatively high. Governments have not provided direct assistance in such situations but rather encouraged bank lenders to negotiate with unemployed households who are finding difficulties in making their repayments. This contrasts with countries such as the UK which has ramped up its mortgage relief scheme for working age people in receipt of income support or job seekers' allowances as a response to higher levels of unemployment. New applicants are now

eligible for 100 per cent payment of their mortgage interest payments for up to two years on a loan to purchase the property or to make home improvements if the property value is below a set maximum.<sup>8</sup> There has also been discussion of other ways of providing safety nets for home owners, including rolling up government support and private insurance into a single assistance scheme and a housing tax credit (Stephens et al. 2008).

#### *2.1.4 Housing quality – not on the policy agenda*

It is notable that there has been very little focus on the quality and amenity of housing occupied by home owners on lower incomes in Australia. This is in contrast to the UK, for example, where the low quality and amenity of housing occupied by lower income home owners (and renters) has been a long-standing policy concern. In Scotland, where much stock is of poor quality (Munro et al. 2005), conditions are exacerbated by lower levels of expenditure on repairs and maintenance by lower income households (Widdowfield and Wilkinson 2002). Concern has also been expressed in Wales about unfitness for purpose, lack of basic amenities, heating and energy efficiency issues, and the costs of bringing properties up to a defined 'decent standard' (Burrows and Wilcox 2004). It is not surprising that policies to improve housing conditions have received much more attention in the UK than in Australia, as indicated by a series of grants to property owners (including home owners and landlords) for repairs and improvements to their homes from the late 1940s. However, policy changes in the last decade have placed the onus more on home owner households to maintain and improve the standard of their properties (Leather 2000a, 2000b).

The lack of concern about housing quality and amenity in Australia appears to stem from the newer stock and the association between (younger) first home buyers and new housing discussed above. However, not all lower income households own newer housing and, in particular, (older) outright owners may live in older style housing which they may be unable to maintain adequately. There was some concern for the housing condition of older owner occupiers in the late 1980s and early 1990s and some states such as Victoria did offer, albeit on a smaller scale, a grants program akin to those in the UK. These, for reasons that are unclear, no longer exist, although they probably relate to the limited budgets of state housing authorities which ran the programs. This issue is now considered a problem for individual households in terms of asset release strategies rather than an issue for governments.

## **2.2 The US policy context: implications for Australia**

The sub-prime crisis in the US and its ramifications for the global financial system, national economies and housing markets has now been much discussed (Gramlich 2007). However, there has been rather less focus on whether the benefits and risks of home ownership for lower income households need to be re-assessed as a result of this experience. As governments in the US heavily promoted home ownership among lower income households, what are the implications, if any, of the sub-prime crisis for governments in similar market liberal countries like Australia in considering policies to assist lower income households to become home owners? Consideration of this issue requires some understanding of the similarities and differences between the US and Australia. While there are many superficial similarities, in this chapter we consider three key differences which affect consideration of the implications of the US policies to encourage lower income home ownership – the conflation of socio-cultural factors with patterns of urban settlement, housing type, and institutional settings.

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<sup>8</sup> Jobcentre, Department for Work and Pensions (2009), [http://www.jobcentreplus.gov.uk/jcp/Customers/WorkingAgeBenefits/Dev\\_016128.xml.html](http://www.jobcentreplus.gov.uk/jcp/Customers/WorkingAgeBenefits/Dev_016128.xml.html).

### *2.2.1 Socio-cultural factors and patterns of urban settlement*

The US has always been a nation of home owners but many lower income households were not able to purchase their own home, in particular many Black and Hispanic minority households.<sup>9</sup> As non-home owners were concentrated in certain locations, most visibly in inner cities, policy-makers advocated that an increase in ownership among lower income groups would reduce a range of interconnected social problems such as racial tension, crime, vandalism and property vacancy rates (Retsinas and Belsky 2002; Shlay 2006). Partly in response to such beliefs, Congress in the early 1990s enacted legislation for a series of affordable housing programs targeted at lower income households and particularly minorities. At the same time, although for different reasons, it approved legislative changes to create a less regulated private sector financial environment. This combination of housing policies and financial deregulation enabled financial institutions and real estate interests to extend ownership much further down the income scale than previously (Shlay 2006). As a result, the rate of home ownership increased from 64 per cent in 1994 to 69 per cent in 2003, largely due to higher rates of ownership among lower income minority households (Schwartz et al. 2006: 15). Loans to such households increased by 94 per cent compared to only 52 per cent for middle income households (Belsky and Duda 2002a: 16).

The US has a distinctively different pattern of settlement and urban form to that of Australia. Most Americans live in regional cities and towns scattered across the country, with the exception of a small number of very large cities, whereas four in five Australians live in the six large state capital cities along the coast. The effect of this is that there is a more substantial stock of affordable housing available to lower income households in regional cities and towns compared to Australia, where lower income households seek to buy in large city markets. Housing affordability, measured simply by the ratio of median house prices to median household incomes, is typically 6.0 to 9.0 in Australian state capitals whereas in most US cities and towns it is between 1.8 and 4.0. There are also some outlier large cities such as New York, Los Angeles, San Francisco and Boston where affordability measured in this way is much lower and more similar to Australian cities (Demographia 2009),<sup>10</sup> but the point about greater affordability in the US even before the sub-prime crisis is an important one.

Different patterns of urban settlement are important as large cities tend to have less available land and more intense demand than regional cities and towns and hence lower affordability. Thus, median house prices in the US are generally lower than in Australia. In 2007, 200 of the largest 370 metropolitan areas (most with populations of less than 300,000) had a median house price of US\$200,000 (less than A\$300,000)<sup>11</sup> compared with a median house price of A\$350,000 to A\$500,000 in the six Australian state capitals. Even within larger US cities there are substantial areas of housing that

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<sup>9</sup> The terms Black, Hispanic (or Latino) and White are used widely in the US policy context to denote ethnicity; the term 'minority household' is used to describe all non-White households.

<sup>10</sup> The 5th Annual Demographia International Housing Affordability Survey covers 265 metropolitan housing markets in the US, Canada, Australia, New Zealand, the UK and Ireland, based on calculation of median house prices in those markets as a percentage of median household income. It states that ratios of 5.1 and over are 'severely unaffordable'. The methodology used has been the subject of some criticism (see for example Phibbs and Gurrán 2008).

<sup>11</sup> Kiplinger.com, on-line financial advice and business forecasts, <http://www.kiplinger.com/tools/houseprices/index.php?db=housing2008&sortby=median&orderby=flip&action=Submit>.

was (and is) affordable to lower income households and, as indicated above, these are often areas in which minority households buy homes.<sup>12</sup>

The consequence of ethno-spatial concentration and a particular type of urban settlement means that when we talk about lower income home ownership in the US we do not mean the same thing as in Australia. In the former case, lower income households are often minority households living in deprived inner city areas or smaller towns in southern and south-western states who buy houses worth A\$150,000 or less. In Australia, lower income households buy predominantly in outer suburban areas of large cities at prices in the range A\$250,000 to A\$300,000.

### 2.2.2 *Housing type*

A further difference in considering policy context is the type of housing purchased by lower income households. In the US, much lower income ownership, most notably for non-minority White households,<sup>13</sup> is achieved by buying mobile homes. Much of the growth in lower income home ownership is in the South where 40 per cent of all lower income purchases in 1997 comprised mobile homes (Belsky and Duda 2002a: 25) and overall almost one in four of all lower income households purchased mobile homes (Gramlich 2007: 55). While these vary in size and quality, most are located on the urban fringe of cities or in smallish towns. They can be bought with land or in most cases without, that is, the household purchases a mobile home but pays a site rent to the park owner. Without mobile homes, home ownership rates in the US would be three percentage points lower (Gramlich 2007: 55).

Mobile homes are very cheap (affordable) compared to other housing types, and median prices ranged between A\$120,000 and A\$150,000 in 2008.<sup>14</sup> Most are in parks with good community facilities, but many others are in much more basic parks, sometimes called 'trailer trash' parks, for around A\$20,000. Thus a substantial component of home purchase for lower income earners in the US is through a housing form which is marginal in the Australian context and not usually regarded as part of the housing stock.

### 2.2.3 *Institutional settings (housing finance)*

There are at least four key differences in institutional settings between the US and Australia in relation to housing finance that are pertinent to our understanding of the potential benefits and risks of home ownership for lower income households. These are: mortgage instruments, risk assessment processes, loan types, and industry factors.

Firstly, until the 1990s most housing loans in the US were fixed rate loans where the mortgage payments stayed the same throughout the loan period. The introduction of variable interest loans (called adjustable rate loans) in a deregulated financial market represented a change in lending culture and many households, particularly lower income first home buyers, found them confusing and were uncertain of the

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<sup>12</sup> In cities such as Detroit, Cleveland, Kansas, and Buffalo, houses in large areas of the city sold for less than US\$70,000 (A\$103,300) in 2007 while in others, such as Atlanta, Cleveland, Milwaukee, Rochester and Tulsa, more than half of all geographic areas had median house prices in 2007 of less than US\$100,000 (A\$147,500). Even cities such as Chicago and Boston had substantial availability of stock below A\$250,000 (Kiplinger.com). Prices are for 2007 before the 20 to 30 per cent price falls of 2008.

<sup>13</sup> Again following US terminology and data classification conventions.

<sup>14</sup> Median purchase price of mobile homes in the six most important states in terms of volume of sales in 2008 were Florida US\$101,000, North Carolina \$98,000, South Carolina \$88,000, Tennessee \$82,000, Alabama \$84,000 and Mississippi \$98,000,

<http://www.kiplinger.com/tools/houseprices/index.php?db=housing2008&sortby=median&orderby=flip&action=Submit>.



implications (Case and Quigley 2007). In the late 1990s these loans were supplemented by a range of new instruments designed to attract lower income households into the ownership market. These included interest only loans, typically represented by balloon mortgages whereby for periods (for example, the first five to seven years) mortgagors would only pay the interest component after which they must pay off the entire loan, the balloon payment requiring either sale of the home or refinancing at a much higher cost conventional mortgage. Another instrument, called shared appreciation loans, offered the lender a share of future capital appreciation (in most cases, most of it) for the offer of lower weekly payments. There were many variations on these products, but the effect was to enable short-term affordability at the risk of longer-term sustainability (Shlay 2006). This is in contrast to Australia where variable rate (credit foncier) loans have been a familiar mortgage instrument for decades and where changes to product types were less dramatic, such as honeymoon periods with reduced interest rates and so-called 'cocktail loans' (part variable, part fixed interest).

A second attribute of the US lending system was a more relaxed approach to housing loan eligibility credit scores. These assessed many lower income households as eligible for loans which represented 90 per cent and often more of property values. Such households would have not been eligible for conventional loans offered by most financial institutions (prime loans). They were offered so-called sub-prime loans because they had higher risks to lenders, but it was assumed that these risks could be accurately quantified and priced accordingly. As a result, they came with interest rates often three or four percentage points higher than for prime loans. These additional costs were blunted in the early years of a mortgage by lending products that deferred the full mortgage payments (Karger 2007). Households thus took out loans that, in many cases, they had no long-term capacity to pay. For finance institutions, the risk of default was not seen to be great because they were secured by the value of the property, and in the second half of the 1990s and early 2000s this was appreciating annually. While access to credit was also liberalised in Australia by virtue of lower loan to value ratios and the emergence of no or low documentation lending agencies during the same period, proportionately fewer sub-prime loans were written (DeBelle 2008).

A third major difference affecting lower income home purchasers in the US is non-recourse loans in use in 27 states, which differ from the recourse loans that are the norm in Australia. Non-recourse loans were originally intended to ensure that lenders make loans on a sustainable and prudent basis as they carry the risk if the mortgagor defaults. They are secured against the property asset, but the borrower is not personally liable for repayment. Thus, if the borrower defaults, the lender can seize the dwelling and sell it. If the property value is insufficient to cover the outstanding balance because real estate prices have dropped, the lender receives what can be recovered from the sale of the property (Gramlich 2007: 23), not the full amount of the outstanding loan, as is the case in Australia. The absence of these in Australia is one of the main reasons why there is a low repossession rate. It makes sense for Australian mortgage holders to try to meet their mortgage payments instead of having to pay rent plus repay any outstanding mortgage debt on their repossessed property. Many US borrowers simply walk away.

Finally, deregulation (i.e. relaxation of government controls) of the finance sector in the US and Australia created new financial actors, in particular, mortgage brokers. These were particularly active in the US and accounted for about 60 per cent of sub-

prime loans to lower income households.<sup>15</sup> There is considerable evidence that many of these brokers, which earned income from fees on transactions, engaged more systematically in self-interested and predatory practices (hence the term 'predatory lending') than in Australia. Many offered mortgages to lower income households who had no hope of repayment and who were unaware of all sorts of closing costs (hidden fees) which raised mortgage costs and increased the risk of failure. Targeting such households occurred when mortgage brokers were faced with loss of fees due to a downturn in the higher income refinancing market (Case 2009). Another feature of sub-prime loans in the US are the 'add-ons' such as credit life insurance and prepayment penalties. These are designed to reduce risk for the lender and to increase financial returns. Often sub-prime lenders require borrowers to carry life insurance, with high premiums, which pays off the mortgage if the borrower dies. Further, most sub-prime loans have considerable prepayment penalties if the borrower wants to pay off the loan early, making it difficult either to sell or to refinance the loan at lower rates. Fannie Mae, one of the two big mortgage lenders (along with Freddie Mac), estimated that 80 per cent of sub-prime loans had these add-ons, compared to only 2 per cent of prime mortgages (Karger 2007: 17).

#### *2.2.4 Lower income households and the sub-prime crisis*

The specific features of the US policy and institutional context discussed above fuelled growth of lending to higher risk, lower income households, adding to housing demand and house price inflation. Up to 2004 the system appeared to be working, despite some warnings of the inherent structural problems (Stone 2006: 96-9) and the disproportionate share of sub-prime loans to low income and minority households (Department of Housing and Urban Development 2000). The system depended on lower income households having the income to pay the high costs of a mortgage, particularly after 'interest only' periods expired. It also depended on increasing house prices so that, in the event of a default, lenders could recover the cost of a loan through sale of the property at a price higher than the loan value. However, with many loans in excess of 90 per cent of assessed property value at the time of purchase, any fall in prices in excess of 10 per cent or more threatened this assumption, and prices across large parts of the US have fallen considerably more than this.

As early as 2000, 12 per cent of sub-prime loans ended in foreclosure, with another 5 to 10 per cent being prepaid in distress (sold before foreclosure). In 2003, some 38 per cent of all lower income households had loans of 90 plus per cent of property values, 20 per cent had housing costs in excess of half of their household income, and 53 per cent of lower income purchasers had left ownership within five years (Haurin and Rosenthal 2005a; Herbert and Belsky 2006: 50-6). By 2006, there was growing awareness that many such households were beginning to default or were at risk of doing so as their low interest starter rates jumped to the much higher long-term rates at the same time as rises in property value ceased and in many places started to fall. By 2007, contracting house prices and increased foreclosures contributed to a collapse of the housing market in southern and south-western states with the highest rates of sub-prime loans (notably in Florida, California, Arizona and Nevada).<sup>16</sup>

As we now know, the US sub-prime crisis affected the rest of the world because the loans had been securitised and sold off to finance institutions around the world. These institutions had to sustain massive write-downs due to non-recourse housing loans in

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<sup>15</sup> In 1987 there were 7,000 mortgage broker firms in the US, but by 2004 this had grown to 53,000 firms employing 418,000 people (Gramlich 2007; Karger 2007).

<sup>16</sup> Standard and Poor's Case-Shiller Home Price Indices, Press Release, 27 January 2009, [http://www2.standardandpoors.com/spf/pdf/index/CSHomePrice\\_Release\\_012724.pdf](http://www2.standardandpoors.com/spf/pdf/index/CSHomePrice_Release_012724.pdf).

a falling property market, where sale of the affected properties after foreclosure only recovered a portion of the outstanding debt. This had the effect of severely curtailing credit around the world, including more rigorous assessment of the risks of lending to home buyers on lower incomes in countries like Australia.

In considering the implications of the US sub-prime crisis for assessment of the benefits and risks of home ownership for lower income households, it appears that despite many similarities between the housing systems of the two countries, there are some key differences which are not replicable in Australia. Firstly, there have been no similar policies to increase home ownership among particular groups of lower income households, as few areas of Australian cities approximate the concentrated disadvantage of some US cities for which home ownership was seen as a solution. The examples of urban redevelopment which have included a component of home ownership for lower income households have been very small-scale compared to the US experience. Secondly, Australian housing is less affordable using established benchmarks such that it is more difficult for lower income households to purchase homes, and where this has been achieved, purchase of conventional housing in high demand large coastal cities carries less risk for purchasers. Thirdly, financial institutions in Australia have not systematically targeted lower income households with their products; although there have been cases of predatory lending to such households who lack knowledge of the financial risks associated with purchase; this seems not to have been systemic (Debelle 2008). Fourthly, Australians are familiar with a system of variable interest rates and recourse loans which arguably makes them more aware of the financial risks associated with home purchase and more cautious about taking on home loans that they will be unable to sustain.

### **2.3 Summary**

From the early 1990s, Australian housing policy towards home ownership moved away from the comprehensive support for entry into home ownership that had characterised the post-war decades, although other public policy settings continued to provide benefits to existing home owners, most notably through the tax system. The main emphasis has been on assisting younger households to buy their first home, irrespective of household income, and providing additional demand for (new) housing. The major concern has been about initial access into home ownership rather than capacity to sustain ownership on an ongoing basis, as reflected in contestation about what constitutes 'mortgage stress' in the years 2001-08. Governments did not, in general, see it as their role to assist lower income households to purchase if they are unable to raise finance privately, with some limited exceptions at a state and territory level, such as low deposit and shared equity schemes. Instead, such households were reliant on more liberalised credit assessment following deregulation of private financial institutions.

Our review of the US policy context indicates stronger policy settings encouraging lower income households to purchase as a means of addressing spatially concentrated social problems to an extent that has not been seen in Australia. These policies were introduced at the same time as substantial deregulation of the financial sector which enabled financing for mobile homes and other forms of marginal housing, systemic targeting of home loan products to lower income households, unfamiliar mortgage instruments and, in many states, non-recourse loans. The US policy context is instructive in indicating that home ownership does not only have benefits; it also carries substantial risks, particularly for lower income households. However, the direct applicability to Australia is limited as many of the features of the US housing system either did not apply, or applied only to a limited extent, in Australia.

### 3 CONCEPTUAL FRAMEWORK AND ISSUES

There is growing awareness by policy-makers and others that home ownership carries potential risks as well as providing an array of potential benefits for households. This awareness is greatest historically during periods of economic downturn, such as the recession of the early 1990s, or of economic volatility, such as periods of rapidly increasing interest rates as occurred in the mid-late 1980s. The US sub-prime crisis has heightened awareness of the risks associated with home ownership for lower income home purchasers, notwithstanding the differences between Australian and US institutional settings discussed in Chapter 2. In this chapter we provide a conceptual framework for considering both the benefits and risks of home ownership and draw out in more detail three types of benefits and related risks that may be experienced differently by lower income households and those buying in different priced areas. These underlie the research questions for this study.

#### 3.1 Conceptual framework

It is usually taken for granted in market liberal societies like Australia that home ownership has many benefits: financial/economic, psycho-social, social and political. These benefits are multi-level and can occur at the level of household, community and society/economy. Table 1 indicates some of the projected benefits of home ownership by type and scale.

**Table 1: Projected benefits of home ownership by type and scale from review of international literature**

| <i>Projected benefits</i>   | <i>Household</i>   | <i>Community</i>   | <i>Society/economy</i>  |
|-----------------------------|--|--|---|
| Financial/economic (income) | Lower housing costs over lifetime, particularly in older age   | Community able to self-provide   | Part of policy settings for older people: reduces pressure on level of age pensions   |
| Financial/economic (wealth) | Ownership of asset appreciating in value in real terms over time   | Mutual interdependence via wealth generation through housing assets  | Increases national savings and capacity to draw down on equity from housing in older age and/or transfer to next generation |
| Psycho-social               | Personal and family/household independence, autonomy, control, freedom from surveillance, 'ontological security'                           | Attachment and belonging to local community  | Attachment and belonging to broader society   |
| Social                      | Safe and stable environment for bringing up children. Basis for participation in education and employment. Good mental and physical health | High levels of economic participation, improved educational outcomes for children, high levels of social capital | High levels of social cohesion  |
| Political                   | Status of property ownership   | Participation in ways to sustain and improve communities   | 'Property owning democracy'   |

Note: the projected macro-economic benefits of home ownership are not included in the table. Some of these related to the linkages between home ownership in Australia and the demand for new housing rather than home ownership per se.

This study focuses on households and on the financial, psycho-social and social benefits of home ownership (shaded cells column 2 of Table 1). Conceptually, for each of these projected benefits there are also risks. In Table 2, the potential risks for individual households which may affect the realisation of these benefits are also shaded.

**Table 2: Projected benefits and potential risks for lower income home owners**

| <i>Type of benefit/risk</i> | <i>Benefits for households</i>   | <i>Risks for households</i>   |
|-----------------------------|--|---|
| Financial/economic (income) | Lower housing costs over lifetime, particularly in older age   | Unexpected and unpredictable housing expenditures, e.g. variations in mortgage repayments, increases in fixed costs (rates, unexpected repair bills etc.)<br>Unexpected and unpredictable changes in household income           |
| Financial/economic (wealth) | Ownership of asset appreciating in value in real terms over time   | Asset increases slowly relative to other types of assets or decreases in value in the short or longer term, leading to loss of initial deposit, negative equity, difficulty in sale, inability to trade up to build wealth etc. |
| Psycho-social               | Personal and family/household independence, autonomy, control, freedom from surveillance, 'ontological security'   | Psychological stress associated with difficulties in mortgage payments, insecurity and fear of loss of dwelling due to forced relocation or repossession  |
| Social                      | Safe and stable environment for bringing up children, children do well at school, participation in employment, good mental and physical health, social connectedness | Living in area with poor schools and lack of employment, health problems associated with physical and neighbourhood environment, little connection with neighbours and low level of social connectedness                        |

The genesis of the study was a concern that, despite a very substantial international literature on home ownership generally, research into the projected benefits and risks disaggregated by household income is more limited. Internationally, research on home ownership for lower income households is both limited and ambiguous in its findings (e.g. Dietz and Haurin 2003). Our overall aim was to investigate whether, and to what extent, the benefits and risks of home ownership are experienced differentially by households with different levels of income, in particular by lower income households (lowest 40% of household incomes) compared to those in the middle-higher income range (highest 60%). In addition, and relatedly, as indicated in Table 2, we were interested in the extent to which buying a home in lower priced and lower amenity areas influenced the associated benefits and risks.

Using the conceptual framework identified above, the project has three research questions which address three specific aspects of home ownership:

1. What differences are there in the financial benefits and risks of owner occupation in terms of *ongoing expenditures* for households on lower incomes compared to middle-higher income households?
2. To what extent and how do lower income households build wealth through home ownership compared to middle-higher income households, taking into account the affordability of housing in particular locations and changes in housing markets over time?
3. How do lower income home purchasers experience the *non-financial benefits and risks* of home ownership in different types of residential location?

## 3.2 Some conceptual issues

### 3.2.1 Lower income households

For the purposes of this research we are interested in home owners on lower incomes, in the lowest two-household income quintiles (40%). We use income quintiles and related terminology consistently as shown in Table 3.

**Table 3: Definitions of household income**

| <i>Term</i>          | <i>Household income quintile</i> | <i>Broad grouping</i>                                 |
|----------------------|----------------------------------|---|
| Low income           | Quintile 5 (lowest 20%)          | Lower income (lowest two-income quintiles or 40%)     |
| Low-moderate income  | Quintile 4                       |   |
| Moderate income      | Quintile 3                       | Moderate-higher income (upper three quintiles or 60%) |
| Moderate-high income | Quintile 2                       |   |
| High income          | Quintile 1                       |   |

Household income is dynamic and may change over time. Thus, households with lower household incomes (lowest 40%) who are home owners fall into several categories. They may have retired from the workforce and be dependent on the age pension. The lowest household income quintile (lowest 20%) had the highest percentages of households who were outright owners in Australia in 2006, reflecting the high number of retirees with low household incomes (NATSEM 2008: 13). They may enter home ownership as lower income households and their household income may not improve. They may have higher incomes but subsequently drop down to lower household incomes for a variety of reasons including separation/divorce, illness or disability, loss of all or part of one income due to caring responsibilities, and loss of overtime or paid employment. Some households decide to 'downshift' and voluntarily reduce their income for a variety of reasons (Hamilton and Mail 2003). Recent work for AHURI by Wood and Ong (2009) indicates some of this dynamism in respect of housing affordability problems in Australia.

Calculation of household income at the 40th percentile could be based on all households, all home owners, or all outright owners and home purchasers.

In this study we use different cut-offs to investigate particular issues. We use the lowest 40 per cent of all household incomes to illustrate some of the changes to the profile of lower income home owners over time. However, for more detailed analysis of the ongoing costs of home ownership we differentiate between the bottom 40 per cent of outright owners and of purchasers as their income and expenditure profile is quite different. Finally, as in other housing research, there are a range of more

technical issues around measurement of household income discussed further in Chapter 5.

### 3.2.2 Ongoing housing expenditures

Much of the debate about affordability problems for home owners centres on mortgage repayments. However, in this study, ongoing expenditures on home ownership include additional expenditures that home owners may incur, but not renters. These include council and water rates, building insurance and repairs and maintenance, and are illustrated conceptually in Figure 1.

**Figure 1: Ongoing expenditures associated with home ownership**

| <i>Ongoing housing expenditures</i>                 | <i>Purchaser</i>                |  | <i>Outright owner</i>           |
|---|---------------------------------|--|---------------------------------|
| Mortgage repayments:<br>Interest<br>Principal       | Compulsory                      |  |                                 |
| Council and water rates                             | Compulsory                      |  | Compulsory                      |
| Strata title/body corporate fees<br>(if applicable) | Compulsory                      |  | Compulsory                      |
| Building insurance                                  | Compulsory                      |  | Highly desirable                |
| Repairs and maintenance<br>(internal and external)  | Highly desirable                |  | Highly desirable                |
| Floor and window coverings<br>Insulation            | Desirable                       |  | Desirable                       |
| Outdoor: garden and structures                      | Desirable                       |  | Desirable                       |
| Contents insurance                                  | Desirable (non-tenure-specific) |  | Desirable (non-tenure-specific) |

Note: Loan repayments and expenditure on major alterations and additions not included.

Repayments on principal are included at this stage, but we note that the Australian Bureau of Statistics considers that 'for many purposes it is more appropriate to consider repayments of principal as a form of saving rather than as a recurrent housing cost. It reflects the purchase of a housing asset by increasing the equity in the property held by the household and is an addition to the wealth of the occupants' (ABS 2006: 28).

The categories used in Figure 1 reflect the different types of expenditures incurred by home purchasers compared to outright owners. They also reflect whether expenditures are compulsory, highly desirable or desirable.

### 3.2.3 Building wealth through home ownership

There is no definitive way of measuring the increase or decrease in wealth associated with home ownership. The literature reviewed in the next chapter indicates several different approaches. Table 4 indicates the most common approaches, together with some of their advantages and disadvantages.

**Table 4: Some approaches to measuring the effect of home ownership on wealth position**

| <i>Approach</i>  | <i>Advantage</i>   | <i>Disadvantage</i>   |
|--|--|---|
| Return (positive or negative) on initial deposit   | Measures return on investment in housing and enables comparison between assets   | Households with low initial deposit have a high return using this method; however, property price may increase less over time than for middle-high income households, exacerbating wealth inequalities<br>Assumes that household remains in place over time                                     |
| Capital gain or loss on house and land (current market price compared to price at purchase) – gross yield    | Measures increase in value of housing/land asset and enables comparison between areas  | It is impossible to tell how much of the increase/decrease is due to additional household expenditure on capital improvements to the dwelling or lack of expenditure on maintenance/repairs which may diminish the quality of the dwelling<br>Assumes that household remains in place over time |
| Capital gain or loss on land component only (current market price compared to price at purchase) – net yield | Measures real capital gain which captures improvement to land values not attributable to household actions   | Requires matching of data on household incomes with data on change in land valuations over time for individual households/properties. Data matching may not be possible due to privacy and other issues<br>Assumes that household remains in place over time                                    |
| Increase or decrease in housing asset component of household net worth                                       | Enables changes in value of housing net of debt outstanding to be tracked<br>Does not necessarily assume (as other methods do) that household remains in place over time | Usually relies on household assessment of net worth which is difficult and may be inaccurate  |

On the surface, measuring the potential costs and benefits of low income ownership would appear relatively simple; after all, politicians and much of the community appear to believe it is a self-evident good. However, even defining what low income is problematic and the challenges only begin there. It is therefore not surprising that when we turn to the actual evidence it is thin on the ground (particularly in Australia) and selective.



## 4 THE RESEARCH EVIDENCE

In this chapter we review research evidence about the benefits and risks of home ownership for lower income households, in particular, evidence about the ongoing financial costs including non-mortgage costs, impact on wealth (assets and equity) disaggregated by location, and realisation of the non-financial benefits of ownership. This is a very specific part of a much larger literature on the benefits of home ownership which is beyond the scope of the current study.

Australian literature on the benefits and risks of home ownership for lower income households in these three areas is quite limited. Research into ongoing expenditures on home ownership has mainly concerned measurement of housing affordability problems, based on mortgage costs relative to household income. There is little recent research into the relationship between household income, location and housing equity, although there has been more general research into housing wealth (Yates and Whelan 2009). Research into the extent to which lower income households are able to realise the projected non-financial benefits of home ownership is also limited in Australia compared to countries such as the US and the UK. In this chapter we consider the Australian research and draw on the more substantial international literature where relevant. We make particular reference to the US research since this constitutes the most substantial body of research into home ownership for lower income households and offers insights into the associated risks, notwithstanding the differences in policy context identified in Chapter 2.

### 4.1 Ongoing costs of home ownership

#### 4.1.1 *Mortgage costs*

In the period 2001-07, rapidly increasing house prices and increases in mortgage interest rates during the latter part of this period brought to the fore not only the difficulties faced by some households in entering home ownership but also evidence of difficulties in sustaining ownership over time. AHURI's National Research Venture 3 on 'Housing affordability for lower income Australians' conducted a program of research into the difficulties faced by lower income Australians in paying for their housing, including home owners and renters, the latter being beyond the scope of this report. The research used the so-called 30/40 rule to define mortgage stress as discussed in Chapter 2 (referring to households paying mortgage costs in excess of 30 per cent of household income and with incomes in the lowest two quintiles). Using this definition, in 2002-03, 346,000 lower income households in home ownership were in mortgage stress, and households of 'working age' rather than of retirement age (Yates and Gabriel 2006: 7). More alarmingly, almost half (49%) of lower income households defined as above who were purchasing their homes (rather than outright owners) were in housing stress, whilst 25 per cent of lower income purchasers were paying more than 50 per cent of their household income in mortgage repayments and were in 'housing crisis' (Yates and Gabriel 2006: 11).

While the quantification of mortgage stress based on affordability benchmarks is now well established, research into how such households experience affordability problems and the financial and non-financial consequences is more limited. Qualitative research for the National Research Venture indicated that, while lower income recent purchasers faced fewer problems than renters, many nevertheless reported some difficulty with ongoing housing costs: 65 per cent worried constantly about their financial situation, 59 per cent said that they did not have enough money to meet unexpected costs, 50 per cent reported that their housing costs placed stress on family/household relationships, and 46 per cent reported a constant struggle to pay

regular bills (Burke and Pinnegar 2007: 41). Further, the research found that while many experienced some difficulty, very few said that they were not managing at all. Recent lower income home purchasers adopted a number of strategies to cope, notably working overtime, increasing the balance on credit cards, borrowing money from friends and family, finding a better job, drawing on accumulated savings, and taking a second job (Burke and Pinnegar 2007: 43). Since the research was conducted, deteriorating economic circumstances have increased the risks associated with most of these strategies.

Other indicators of difficulties affording ongoing payments associated with home ownership include the extent and level of mortgage arrears and numbers of households who default on their mortgages such that their homes are repossessed. Research based on data from the early 1990s recession shows quite low rates of defaults and repossessions and, interestingly, that higher income households with managerial and professional jobs were more likely to be in arrears and in default than lower income households, indicating a complex relationship between household income and difficulty in maintaining mortgage payments (Berry et al. 1999). This work is currently being updated (AHURI project 30529)<sup>17</sup> and preliminary findings indicate a higher incidence of forced exit from home ownership in post-2008 economic conditions (Berry, Dalton and Nelson 2009).

Internationally, there is little agreement in the literature about whether mortgage arrears and defaults are caused primarily by life events affecting individual households or by broader structural factors over which they have little control. For example, Saunders (1990) contended that arrears and defaults were a very low percentage of all loans in the UK and that, for the most part, lower income households managed to sustain home ownership. Australian research also highlights the importance of life events, such as divorce and unemployment, in causing exits from home ownership (e.g. Khoo 1993). However, subsequent UK research based on data from the early 1990s recession reported that for many people home ownership had become unsustainable for a variety of reasons (Ford and Burrows 1999: 306). This suggests that risk and vulnerability could be a structural and ongoing issue<sup>18</sup> rather than a temporary one associated with life events, although some groups are more at risk than others, in particular sole parents, younger people, first time home buyers and those with 100 per cent mortgages. Burke and Pinnegar (2007), in their Australian study, also highlighted some of the structural sources of risk, associated with changing labour and housing markets and deregulation of housing finance since the 1980s, as well as the vulnerability of lower income households to disruptive life events.

Data on defaults and repossessions may only be the 'tip of the iceberg'; we do not know how many lower income households simply keep up their mortgage payments but cut back on other expenditures, take on additional debt, or reduce their housing expenditures by moving into rental or buying a cheaper house because they find

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<sup>17</sup> The research will examine the sources, nature and implications of mortgage default among Australian home owners over the last several years, since the completion of initial AHURI research in 1999. It will assist policy-makers to identify the key risk factors leading to or triggering mortgage default, and guide their responses in terms of housing assistance, educational programs or monitoring programs to track default. See <http://www.ahuri.edu.au/publications/projects/p30529/>.

<sup>18</sup> Ford and Burrows (1999) suggested six structural reasons for risk of mortgage arrears and repossessions: variable and unpredictable cost of credit leading to increased financial risk; less certain income from work due to labour force restructuring; reduction of the welfare safety net for mortgagors; increase in aggressive lending and self-certification mortgages; dissolution of households when home ownership is dependent on two incomes; and low inflation which means that households are vulnerable for a longer time.

mortgage repayments are unsustainable. Burke and Pinnegar (2007: 53-4) estimate that up to 10 per cent of the lower income renters they surveyed were 'backsliders' who had returned to renting after periods in home ownership. Many were older and had little or no prospect of getting finance to purchase again, even though this remained an aspiration.

A number of US studies found that mortgage repayments were crippling for many lower income purchasers, even before the effects of the sub-prime crisis became apparent. According to one study of lower income households who purchased homes in 1995-2003, more than half (54%) had costs in excess of 30 per cent of household incomes, while one in five (20%) had mortgage expenditures in excess of 50 per cent (Herbert and Belsky 2006: 32). Half of working families with the worst affordability problems (that is, spending more than 50 per cent of gross household income on housing costs) were home owners (Karger 2007: 15-16). These figures highlight the risks for households and lenders of reliance on mortgage payments which take up so much of the incomes of lower income households. Approval of such loans can be understood partly in terms of the activities of mortgage brokers chasing fees in the US, as discussed in Chapter 2.

The US literature indicates that many lower income households found it difficult to maintain home ownership, with various studies pointing to a figure of around half of such purchasers exiting ownership within five years even prior to the sub-prime crisis. One study using household panel data from 1976-93 found that 53 per cent of all lower income first home buyers left ownership within five years (Reid 2004 cited in Herbert and Belsky 2006: 50), while another study using different data from 1979-2000 found that the rate was 43 per cent (Haurin and Rosenthal (2005b)). These high rates of exit are not necessarily about mortgage default. Households may be forced to sell by financial pressures, including mortgage stress, but do so prior to foreclosure. It is clear from the US research that foreclosure is a poor measure of mortgage stress experienced by such households. However, not all exits are due to financial pressures alone. Vandell (1995), Getter (2003) and Elmer and Seelig (1999) found that trigger events such as loss of employment, divorce or separation, or expenses related to health care costs (which can be very significant in the US if households do not have private insurance) were important factors. Both Reid (2004 cited in Herbert and Belsky 2006: 50) and Haurin and Rosenthal (2005b), in their statistical estimates of the causal factors underlying exit from home ownership, found that household type was important. Single people and single parents have even higher rates of exit than the high rate for lower income households generally, suggesting dependency on one income is a high risk factor in sustaining ownership for lower income households.

In considering the relevance of these findings, we note that although the term 'low income home ownership' is widely used in the US, what constitutes lower income is rarely discussed. A variety of measures are used, including: a percentage of federal poverty line, e.g. 150 per cent (Harkness and Newman 2002), some percentage of median household income, e.g. 75 per cent (Boehm and Schlottmann 2004), and lower household income quintiles or quartiles, e.g. lowest household income quartile (Haurin and Rosenthal 2005a). The latter most approximates the accepted Australian definition, although it refers to a lower income group than in Australia.

#### *4.1.2 Non-mortgage costs*

There is very little research evidence in Australia or internationally on the effects of non-mortgage ongoing expenditures incurred by home owners on lower incomes. These include council and water rates, building insurance and repairs and maintenance. Some work on housing affordability does take into account council and water rates (e.g. Yates and Gabriel 2006), but this is relatively uncommon.

The most relevant piece of research was conducted by Wulff (1990, 1992) as part of an evaluation of the 1980s Victorian low start loan (Capital Indexed Loan or CAPIL) scheme targeted at households on public housing waiting lists, and discussed in Chapter 2. The research found that, on average, all families spent A\$16 per month on essential repairs but A\$55 a month on home improvements.<sup>19</sup> These added 5 and 20 per cent respectively to ongoing monthly housing expenditures, defined as mortgage repayments, rates and property insurance (Wulff 1992: 238). The research findings indicated little support for the concern expressed in much of the contemporaneous UK literature that lower income home purchasers were faced with high maintenance costs and potentially deteriorating quality of their homes. Lower income households having loans under the Victorian scheme had purchased primarily in affordable outer suburban areas where the housing stock is relatively new and in good condition. However, the Australian research was conducted only two to two and a half years after purchase, and the level of expenditures on either repairs or improvements over the longer term is unknown.

In the US, a recent study examined various types of housing expenditures over the decade to 2006, finding that these increased at a greater rate than food, transportation and even health care costs. In particular, while median household incomes increased by 36 per cent, average housing expenditures increased further: property insurance by 83 per cent, property taxes by 66 per cent, mortgage payments by 45 per cent, and utilities by 43 per cent (Brennan and Lipman 2008). The study also indicates that, in the decade to 2005, expenditure on essential repairs and replacements increased at a rate faster than household incomes. Further, expenditure on mobile home park fees increased by more than 50 per cent, while strata title fees (condominium and co-op fees) increased in line with household incomes. Half of all states have some sort of 'circuit breaker' to reduce property taxes for older people, people with disabilities and lower income home owners (Brennan and Lipman 2008). These findings are general: they refer to median household incomes and average housing and other expenses calculated from reputable sources, including the US Census Bureau. However, the specific effect on lower income home owners may be obscured. As discussed in Chapter 2, not only have lower income households in the US bought mobile homes, they often buy older, low quality homes in disadvantaged neighbourhoods that may incur higher expenditures than average on maintenance and structural repairs (Karger 2007).

While some of the non-mortgage costs of home ownership are relatively predictable and have to be paid, such as council rates, others are not predictable and may be deferred if households are experiencing financial stress, in particular, repairs and maintenance. Qualitative research involving interviews with home owners in eight European countries found that 'maintenance costs were considered as a more serious source of insecurity, particularly by marginal home owners who could not afford to save for unforeseen building or repair work or even to cover basic maintenance' (Jones et al. 2007). In the UK, research has highlighted the poor quality and amenity level of housing occupied by lower income households. This is attributed not only to such households buying less expensive housing which may be in poor condition, but also because they spend less on maintenance and repairs than home owners on moderate and high incomes (Widdowfield and Wilkinson 2002). This would force such households to live in low quality 'squalid' housing, further reducing the value of the property, and thereby affecting their capacity to build wealth (Karn, Kemeny and

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<sup>19</sup> The distinction between necessary repairs and home improvements is a contentious one. In Wulff's research, necessary repairs referred to basic structural repairs such as rewiring, restumping, roofing and treatment for rising damp, while home improvements referred to painting, improving storage, enlarging rooms and outdoor work such as building sheds and fencing (Wulff 1992: 235).

Williams 1985; Forrest and Murie 1989). Evidence from Scotland is that lower income home owners (and tenants) are more likely to live in housing with poor quality and low levels of amenity compared to middle and high income households (Widdowfield and Wilkinson 2002). Likewise, a review of home ownership for lower income households in Wales found that there are far more poor quality properties in the home owner sector than in other tenures and that such properties were more prevalent for lower income households than for those on higher incomes (Burrows and Wilcox 2004: 15). There has been no equivalent Australian analysis.

A key concept in considering the ongoing costs, and sustainability, of home ownership for lower income households is risk. Croft (2001: 738) suggests that risk does not just refer to trigger events; it is cumulative and iterative. According to this view, the ability of people to retain their home is determined primarily by their household income which is affected by multiple risks. Further, in a society in which risk is individualised, life consequences are not viewed as fate but as an outcome of personal failure or success, and individual solutions are increasingly relied on. Thus, for some households, housing risk is mainly chronic, as opposed to the acute risk experienced in some other areas (Perri 6: 1998). The research by Burke and Pinnegar (2007) supports the view that low income purchasers adopt personal coping strategies in order to manage risk and are very strongly motivated to remain in home ownership, whatever the financial and personal costs. However, their coping strategies rely heavily on income from employment and their capacity to borrow funds, which create vulnerabilities if economic circumstances change, and require life skills in anticipating and planning for future risk associated with home purchase.

## **4.2 Capacity to build wealth**

Australian research into the capacity of lower income households to build wealth through home purchase draws on, and contributes to, a long-standing debate about the role of home ownership in perpetuating or mitigating inequalities in the income and wealth position of households derived from the labour market. This research tradition dates back to seminal UK work by Rex and Moore (1967) on 'housing classes' which suggested that access to different housing tenures created divisions between groups of households that were different to those arising from the labour market. This generated a robust critique (e.g. Haddon 1970; Harvey 1973), but also further exploration of the linkages between labour market position and home ownership (e.g. Saunders 1990; Hamnett 1992; Winter 1994). Forrest and Murie (1989, 1991) concluded that housing wealth is closely related to employment history and that ownership reinforces labour markets in creating greater inequality. Theorising about, and investigating empirically, the dynamics of home ownership and wealth in Australia and New Zealand is thus more closely affiliated with UK research than with the US literature.

It is not our purpose here to attempt a detailed review of this literature about home ownership and inequality since this has been done elsewhere (e.g. Winter 1994). Rather, we discuss some Australian and New Zealand empirical studies within this research tradition that are directly relevant to the current study. For example, Thorns' (1981) pioneering research in Christchurch (New Zealand) examined different income households purchasing in five distinct sub-markets in the city, concluding that while all made capital gains, the greatest gains were made by higher income households buying into specific sub-markets. King (1987), in an analysis of Melbourne housing markets, also found that those able to buy in more affluent areas achieved capital gains in excess of those buying in less affluent areas. Thus, both Thorns and King see home ownership as reinforcing inequality. Badcock's (1990, 1992a) study of Adelaide, however, had somewhat different results, finding some redistribution of wealth among

households through capital gains as a result of home ownership. It may well be that different data periods and timing in terms of economic cycles can explain some of the difference. Indeed, Thorns' later work in New Zealand found that 'ability to gain wealth varies considerably by time, location, level of individual and family income, employment level and household type' (Thorns 1989: 293). While Thorns and King may have found that higher income purchasers increased their wealth vis-à-vis lower income purchasers, the latter were still better off in this period than low income renters who had no opportunity for any increments in wealth.

Many of the subsequent studies which investigated the effects of household income on building wealth through home ownership were informed by, or were a rebuttal of, the arguments of Peter Saunders, most clearly articulated in *A Nation of Home Owners* (1990). He argued strongly, based on research in the UK, that the extension of home ownership to lower income households has multiple benefits, including enabling ordinary people to improve their wealth position through capital gains. In effect, this is a form of forced savings and an investment; home ownership enables lower income purchasers to have a share in growing real wealth. Saunders argues that home ownership is basically progressive in its effects since differences in capital gains accruing to households at different income levels are less than differences in their incomes. He also argues that financial gains from home ownership can be expressed as return on initial deposit. Using this measure, percentage returns to lower income households may be on a par with moderate and higher income households because their initial deposit is typically lower (Saunders 1990 Chapter 3).

In the Australian literature, there are three major research contributions pertinent to considering whether lower income households accumulate wealth through home ownership relative to households on other incomes in the era following financial deregulation. Studies by King (1989, 1990) and Badcock (1992a, 1994) both draw on, and contribute to, the literature discussed above. The research can be located in the context of a concern with globalisation and economic restructuring and the ways in which this played out in local housing markets. Work by Burbidge and Winter (1996) and Burbidge (2000) is more explicitly grounded in an assessment of the benefits and risks of home ownership generated by Saunders' work. Its context was the effects of deregulation of Australian financial and labour markets on housing markets.

Each of these studies started with different conceptual foundations and different methodologies. King used the then fashionable Marxist 'circuits of capital' theory (Harvey 1982) to explore whether the restructuring of cities after the 1970s through changes in capital flows was increasing inequalities in housing wealth. Using a sample of house price and rent data from the Melbourne newspaper *the Age*, King (1989) found increasing spatial segregation in terms of building housing wealth. In another study looking at three cities (Sydney, Melbourne and Adelaide), he found that there had been capital losses rather than capital gains and that these varied within the cities (King 1990), illustrating a point discussed in Chapter 4 about timing of purchase in assessing capacity to build wealth through home ownership.

Badcock (1992a, 1992b) used South Australian Valuer General's house price data for 30 local government areas in Adelaide and found that there were major changes over the time period (mid-1970s to early 1980s) in the location of capital gains, such that inner urban areas were experiencing higher rates than outer suburban areas. This was not necessarily primarily an issue of segmentation by income as inner city areas were only in the early stages of gentrification. In a later study, Badcock (1994) used a different data set (the housing histories of 269 households across eight suburbs who had sold at the peak of the 1989 boom) to determine any effects on economic inequality. In this case, the rate of return was measured by the difference in purchase

and sales price less the amount paid for repairs and renovations. Badcock concluded, contrary to his earlier more agnostic findings, that on the basis of differential gains between different income groups, housing was a factor in reproducing inequalities. However, this does not mean that there were no financial benefits for low income households, only that they were lower than for higher income ones. There is a qualification to the latter point, nevertheless, and it is related to the importance of location. Badcock did find one area, Elizabeth Downs, where even in a period of house price growth, a minority of households (20%) experienced deterioration in housing equity (Badcock 1994: 621). In short, they may have been better off renting.

The work of Burbidge and Winter (1996) and Burbidge (2000) on capital gain in Melbourne and Sydney<sup>20</sup> highlights some of the conceptual and methodological challenges in calculating changes in the housing component of housing wealth in volatile economic conditions. The study included data from a 1991 survey of 1,349 dwellings in eight areas by the Australian Institute of Family Studies. The survey provided income and housing cost data for the households occupying these properties which were merged with local government valuations of the same properties in 1986 and 1991. This approach enabled data about household incomes to be linked with data about capital gains. Capital gains were calculated on individual properties for each area, with the gain, unlike that of King or Badcock, being the difference in the rate of change in land valuation, a method that strips away the effect of any changes to the dwelling completely. Capital gain is assumed to flow from the occupancy of the land, not the attributes of the individual dwelling.

The study found that, of the variables most strongly associated with capital gain, the biggest determining factor is location. Thus, a low income household who had purchased in suburbs such as Box Hill (Melbourne) or South Sydney was likely to be better off than a higher income household purchasing in the outer suburbs of Berwick and Werribee (Melbourne) or Campbelltown and Penrith (Sydney) (Burbidge 2000: 269). However, household income was also a factor, and Burbidge found that low income households would have experienced lower capital gain than higher income households in part because they were constrained to buy cheaper properties and, in most cases, in less sought after areas. This study was done during the boom years 1986-91, and location may be less of a factor in other economic conditions. As described by Forrest, Kennett and Leather (1997: 63), 'home ownership has become a game of chance in which the time of entry can play such a crucial part'.

We saw in Chapter 2 that, in an era of rapidly increasing house prices in 2001-07, the primary policy concern was enabling younger households to enter home ownership to reap financial and other benefits, allied with some concern about the ongoing costs of home mortgages for lower income purchasers. As Smith, Searle and Cook (2009: 84) point out; most attention was paid to credit risks, with surprisingly little attention to the risks of dependence on home equity as the major component of household wealth. This is of concern when house prices historically can be quite volatile and runs contrary to established principles of spreading risk through diversification of investment. Smith, Searle and Cook conducted qualitative research into the attitudes of 150 home buyers across a range of income levels in the UK, which is in itself unusual in this field, as we have seen. The research found that home buyers across different income levels valued housing for insurance purposes, as an asset to draw on if required for their future welfare, as much as an investment with expectation of capital gains. The authors suggest that home ownership has become the prime means by which 'to manage financial risk and meet welfare needs' (Smith, Searle and

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<sup>20</sup> The earlier work (Burbidge and Winter 1996) presented some of the research findings for four suburbs in Melbourne.

Cook 2009: 90). While this study involved households across the spectrum of incomes, it raises important issues about the extent to which lower income households are dependent on one source of wealth, home equity, to manage future risks. Housing prices in Australia have, at the time of writing, not fallen to anything like the extent of those in the US and to a lesser extent in the UK, but decreases in home equity and deterioration in wealth position, even if on a temporary basis, are always a risk.

The US literature indicates that lower income households do have the ability to build wealth through home ownership, but whether this is so, and the extent of wealth creation, is dependent on timing, where a purchase is made, what was purchased, whether one remains a purchaser, and whether one trades up to more expensive dwellings over time. Most US markets experienced real capital gain in the period 1995-2003, although the relative magnitude of gain for lower income households was not as great as for higher income households (Herbert and Belsky 2006: ch. 4). There were, however, sub-markets even in this period where capital gains and wealth building did not occur. Substantial numbers of lower income households have achieved ownership status by purchasing a mobile home, but not necessarily the land it is sited on, or bought in disadvantaged inner city areas or in areas with little growth such as declining mid-west cities and towns, as discussed in Chapter 2. For many of these, capital gains have been minimal or illusory. Some researchers have argued that the poor performance of housing owned by lower income households in terms of capital gain compared to other assets means that the opportunity cost is potentially higher than if they had stayed in rental housing (Goetzmann and Speigel 2002).

The timing of purchase by lower income households is very important to wealth accumulation. Belsky and Duda (2002b) investigated property data in four markets (Boston, Chicago, Denver and Philadelphia) over the period 1982-99, finding that the average return on sales among such households was large and positive, but that this average disguised a substantial proportion (between 21% and 42% depending on location) who experienced significant financial loss. The major reason for this difference in outcomes was timing, that is, when households bought and sold. They questioned whether the substantial increase in home ownership among lower income households during the housing boom of the late 1990s and early 2000s might mean losses for many households when the boom ends. This appears prescient in view of recent circumstances. Boehm and Schlottmann (2004: 8-9) also found that housing does create wealth for lower income households, but that for any substantial increments in wealth there needs to be a process of trading up to higher priced property. The findings about wealth building are thus qualified by the large numbers of lower income households who do not have the opportunity to trade up for reasons discussed above.

The dynamics of housing tenure also impacts on capacity to build wealth. Boehm and Schlottmann (2004: 8-9) found that 19 per cent of lower income households traded up to more expensive housing, compared to 40 per cent of higher income households. A major reason for this difference was because so many lower income households had exited ownership before having the opportunity to trade up, as discussed earlier in this chapter. Not only does this negate the ability to build wealth over time, it also undermines, at least in principle, arguments about some of the benefits of ownership for health and wellbeing which are premised on greater stability and control.

In all the US studies reviewed, there are no data that quantify the number of households for whom purchase of a home has increased assets, been neutral in terms of wealth building, or resulted in a worse asset position over time. It is difficult to assess, therefore, whether in aggregate lower income households are better or worse



off for purchasing their housing. In general, the studies are not as concerned with the effects of home ownership on wealth inequalities as the Australian, New Zealand and UK studies that we reviewed above. The US studies that do investigate the effects of lower income home ownership on wealth inequality focus on whether there are substantially different outcomes in terms of housing equity and wealth building between ethnic groups, after controlling for variables including socio-economic status. For example, Krivo and Kaufman (2004: 600) find that there are 'extraordinary disparities among racial-ethnic groups in their accumulation of wealth' related to housing equity. Glick (2008) suggests that while Black and Hispanic households can accumulate wealth through purchase in gentrifying inner city areas, in the process of gentrification many such households move to other areas where capacity to build wealth through housing equity is lower. Sykes (2008) finds that the gap in housing values between Whites and non-Whites had increased in 1970-2000, largely due to the concentration of minority households in particular areas, even if they were home owners. Thus, middle income Black home owners, for example, do not buy in outer suburbs but in areas adjacent to economically disadvantaged areas.

All of the US studies above use data from before the sub-prime crisis. Recent events have changed the situation dramatically, with a recent study finding that the decrease in house prices since the middle of 2006 has resulted in a loss of more than US\$4 trillion in housing wealth – more than US\$50,000 for every home owner in the country. However, the distribution of these losses varies by household net worth and age. Preliminary research suggests that younger households with net worth in the bottom two quintiles have lost most (Baker and Rosnick 2008). Many recent lower income purchasers in the bottom third of the market have lost whatever wealth they gained and are now in a position of negative equity (Baker 2008). These include minority households who bought with sub-prime loans and who owe more on their properties than is realisable if they are sold in current market conditions. In other words, the evidence suggests that the risks of losing or not gaining wealth are greater for lower income households than for those on moderate and high incomes.

### **4.3 Non-financial benefits**

The majority of Australian households 'in survey after survey' say that they would prefer to own than rent (Baum and Wulff 2003). This aspiration is particularly strong for those who want to have children in the short term (Merlo and McDonald 2002). The aspiration to own a home is strong in Australia, not only because of the projected financial benefits as discussed above, but also because ownership is assumed to provide various non-financial benefits. Some of these are psycho-social and, as articulated by Saunders (1990: 84), are 'the sense of independence and autonomy which ownership confers – the freedom from control and surveillance by a landlord and the ability to personalise the property according to one's tastes'. Saunders (1990: 293) further argues that home ownership 'enables a greater sense of emotional security and a stronger development of self and identity' drawing on the concept of ontological security'.<sup>21</sup>

Whether the desire for home ownership is 'natural' or refers to cultural norms which are shaped and reinforced through policy setting is controversial. A contrasting view to Saunders is that home ownership is not a universal and natural desire, but a product of social norms that are in part shaped, and reinforced, by government housing policies which posit it as a natural preference: 'cultural influences and attitudes are

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<sup>21</sup> The concept of ontological security was developed by the UK psychiatrist R. D. Laing in the 1960s to refer to constancy of self. It was further developed by the eminent UK sociologist Anthony Giddens to refer not only to self-identify but also to a sense of reliability of people and things (1984, 1991).

generalised into owner occupation being regarded as a “good thing” and the natural tenure of choice, with no profound thought being given by individuals to their unique situations. It is a cultural and social phenomenon’ (Livette 2006: 476).

Much of the available research from the UK and New Zealand suggests that home ownership provides households with psycho-social benefits such as security, privacy, control and freedom from surveillance to a greater extent than households who rent (see Dupuis and Thorns 1998; Kearns et al. 2000; Hiscock et al. 2001; Hulse and Saugeres 2008 for reviews of the literature). These benefits are thought to be important not just in themselves but also as mediating factors in a range of associated social outcomes, including improved educational levels for children, better mental and physical health, and higher levels of social connectedness and participation in local community and voluntary organisations.

One of the problems with much of the research on the psycho-social benefits of home ownership is a failure to distinguish between ownership per se and dwelling type. In Australia, home ownership enables households to add on, or wrap around it, a desired lifestyle because it is closely associated with the continued dominance of the detached dwelling.<sup>22</sup> Arguably, ownership and housing type blur into one tenure-type category in a way that only New Zealand replicates to the same degree. Ownership of a detached house enables households to achieve improved privacy and freedom from surveillance, to personalise, change and extend their home, and to use external space in ways that are more difficult to achieve in other housing types (Burke and Hulse 2009). In much of Europe and Asia, and even in many US and Canadian cities, lower income households often purchase attached housing, apartments (condominiums) or, as we have seen in the case of the US, mobile homes. This point is not considered in discussing the psycho-social benefits of tenure. One could hypothesise that many of the attributes, values and behaviours that people attach to ownership in Australia stem from dwelling type as much as ownership. Whether this is the case or not is a question for further research.

Empirical studies in Australia to investigate whether, and in what ways, home ownership is associated with better health and social wellbeing are rather limited (see Bridge et al. 2003). Unlike in the US, there has been very little research about effects on educational outcomes for children, irrespective of household income, apart from some very preliminary findings (see Phibbs 2005). Similarly, Australian research into the connections between home ownership and health is quite limited (see Bridge et al. 2003). Home ownership does appear to be associated with self-reported higher levels of social connectedness but this is mitigated by a number of factors including how long households have lived in an area and satisfaction with housing and area of residence (Stone and Hulse 2007). These linkages are very complex as indicated, for example, in some UK research into the linkages between home ownership and health (Dunn 2000; Easterlow, Smith and Mallinson 2000; Smith, Easterlow and Munro 2004). While the evidence is limited, psycho-social factors may be important in mediating the relationship between housing and mental health (Evans, Wells and Moch 2003).

While available studies often indicate what appear to be correlations between home ownership and higher levels of various indicators of health and social wellbeing, it is not clear that home ownership in itself is a causal factor. Indeed, more sophisticated multivariate analysis often indicates that the association is not as strong when other factors such as household income and location are taken into account (e.g. Kearns et

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<sup>22</sup> In 2006, 74 per cent of occupied private dwellings were single detached houses, down only slightly from 77 per cent in 1991 (ABS 2009: ‘Housing Overview’).

al. 2000). It appears that for lower income households, the condition of housing and the type of neighbourhood are important in contributing to psycho-social factors such as security; privacy and control (Hulse and Saugeres 2008). Many of the studies are based on quantitative analysis of secondary data sets and there are few qualitative studies that investigate to what extent households on different income levels and in different contexts experience the projected benefits of ownership. The Australian research by Burke and Pinnegar (2007) discussed above is notable in that it is both qualitative and focused on lower income home buyers (and renters).

Home ownership may also carry financial risks for lower income home buyers which can undermine the projected non-financial benefits. Nettleton and Burrows (1998: 743), in the context of the 1990s economic recession in the UK, found a significant relationship between difficulties with mortgage payments and poor mental health which appears to hold even when controlling for other variables such as household income, employment status and physical health. These effects are compounded when repossession occurs due to mortgage arrears (Nettleton and Burrows 2000). However, it is difficult to establish causality since mortgage indebtedness is often associated with other events such as loss of a job, family instability, sickness or injury. Another AHURI project is considering the very specific issue of mortgage default in Australia and its consequences for households (Berry, Dalton and Nelson 2009).

There is a more substantial body of research into the benefits and risks of home ownership in the US, even prior to the sub-prime crisis. This comprises predominantly statistical analysis of large secondary data sets, including econometric analysis. The pre-1990s literature generally reported correlations between home ownership and a broad range of other variables including life satisfaction, community participation, children's educational outcomes, lower levels of household mobility, and participation in employment. However, more sophisticated multivariate analysis of the same data sets in the 1990s suggests that many of these are correlations, not causal relationships. In other words, home ownership is not necessarily the causal factor and may operate in conjunction with variables such as household income and wealth, household type and location. Qualitative analysis based on the lived experiences of lower income home owners is quite unusual in the US literature, as in Australia.

Rohe, Quercia and Van Zandt (2007), in a review of the literature about the benefits of home ownership, found two main limitations: it was based on all home owners and studies were cross-sectional. This means that results are based predominantly on middle and higher income households who comprise the majority of owners and are more likely to live in comfortable homes in attractive neighbourhoods, which may help explain the findings about psycho-social benefits. The snapshot nature of the research exacerbated this effect since it was weighted towards longer-term home owners. Similarly, Herbert and Belsky (2006) begin their review for the US Department of Housing and Urban Development with a cautionary comment that people who choose to become owners may be different from renters in such things as aspirations and values. Therefore, it may not be ownership per se that creates the beneficial outcomes assumed to be attributable to home ownership, but the attributes of the households that chose ownership. They also point out that much of the literature on the psycho-social benefits of home ownership is about ownership generally, not lower income households who own.

With these qualifications, Herbert and Belsky (2006) review evidence from US research on the social impacts of ownership for lower income households: on psychological and physical health, children's education and wellbeing, and households' involvement in community organisations. The strongest evidence is for the positive effects on the children of lower income families; in particular their level of

school achievement (Herbert and Belsky 2006: 101-7) although there may be differential effects according to the level of household income (Harkness and Newman 2003). Evidence about other impacts is less strong (Rohe and Watson 2007). While studies generally show higher levels of community involvement among home owners, such as in voting and participation in community organisations, the rather limited evidence in respect of lower income households suggests that this is not the case (Herbert and Belsky 2006: 111). Herbert and Belsky (2006) find that the research evidence about the impact of home ownership on psychological and physical health for lower income households is too thin to draw any conclusions. Using a longitudinal research design, Rohe, Quercia and Van Zandt (2007) explored whether the projected non-financial benefits of home ownership are experienced by lower income home buyers. The research found that such buyers experienced positive, although modest, impacts on life satisfaction, neighbourhood satisfaction, size of social support networks and participation in neighbourhood organisations. However, those who cannot afford to make repairs or who are dissatisfied with their neighbourhoods do not experience the same types of benefits.<sup>23</sup>

Overall, Herbert and Belsky (2006) conclude that the benefits of home ownership for lower income households are under-researched and there is not the evidence as yet to confirm the positive benefits implied by either theory or political ideology. Again we reiterate that these conclusions were reached before the wave of negative equity, defaults and foreclosures as a consequence of the sub-prime and financial crisis in the US from 2007 onwards.

In brief, there is surprisingly little empirical evidence about whether low income households are able to realise the projected non-financial benefits of home ownership. This is so particularly in the early years of purchase when they may face difficulties in meeting the ongoing costs of mortgage repayments and other expenses and when economic conditions mean that wealth can be lost as well as gained in buying a home. The research that is available suggests that the effects of home ownership can be overstated and that household income, quality of housing and type of neighbourhood are important in realising the non-financial benefits of home ownership.

#### **4.4 Summary**

Our review of the Australian and relevant international literature indicates that there are substantial gaps in the research evidence base around the benefits and risks of home ownership for lower income households. The research questions developed for this project address three of these gaps and will add to the research evidence and inform policy-making about home ownership for lower income Australians.

Firstly, there is considerable research in Australia and internationally about the risks faced by lower income households in obtaining housing credit and in making regular mortgage repayments, in the context of fluctuating economic conditions and disruptions in the lives of individual households, such as family breakdown. There is, however, very little research into the other expenditures associated with home ownership, including property taxes, property insurance, repairs and maintenance, maintenance of outdoor areas (where applicable) and body corporate/owners'

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<sup>23</sup> Rohe and colleagues have undertaken substantial work into the psycho-social benefits associated with home ownership, e.g. life satisfaction and self-esteem (Rohe and Stegman 1994a; Rohe and Basolo 1997), sense of accomplishment and success (Rohe, McCarthy and Van Zandt 2002), access to opportunity (Rohe, Van Zandt and McCarthy 2002), effect on neighbourhood stability (Rohe and Stewart 1996) and participation in social networks and in neighbourhood and voluntary organisations (Rohe and Stegman 1994b).

corporation fees. This research gap is quite significant and limits our understanding of the risks faced by lower income households who are either purchasing their home with a mortgage or who own outright.

Secondly, research into the capacity of lower income households to build wealth through home ownership is quite varied both in terms of the concepts used (e.g. return on deposit, capital gain (land or house/land), equity accumulation, and nett financial benefit) and in the methodologies employed. The research reviewed in this chapter suggests that whether lower income households are able to build wealth through home ownership depends on a number of factors including time of purchase, area of purchase, ability to trade up to more expensive property, household income and household type. There is a need for up-to-date research on whether, and how, lower income households are able to build wealth through home ownership compared to other income groups and the effects of location.

Thirdly, there is quite a substantial literature in the US and the UK, although not in Australia, on the linkages between home ownership and improved health and social wellbeing, and the psycho-social factors that are thought to mediate these relationships. However, the evidence for these benefits for lower income households is somewhat ambiguous, even in the US. More qualitative research is required to investigate the perspectives of lower income households on this issue. The key research gap is the attitudes of lower income purchasers rather than lower income home owners more generally, since existing research indicates that older age and length of residence are associated with psycho-social benefits associated with home ownership. It appears from the review of the research that type of housing and type of area could be important in investigating the experiences of lower income home purchasers as well as length of time since purchase.

## 5 RESEARCH DESIGN AND METHODS

The research design is multi-method and comprises four stages with a mixture of quantitative and qualitative research methods.

### **Stage 1: Profile of lower income home purchasers and owners over time**

The first stage of the research involves building a profile of lower income households who own their housing, both purchasers and outright owners, and to examine to what extent, and how, this profile has changed over time.

The current profile will be developed from analysis of Confidentialised Unit Record File (CURF) data from the ABS Census of Population and Housing 2006 and the ABS Survey of Income and Housing (SIH) 2005-06. The latter has more detailed data on household incomes and mortgage payments/housing expenditures than the Census. Comparison will be made between the current profile and that from previous Surveys of Income and Housing.<sup>24</sup> Notes on the SIH are provided in Appendix A.

### **Stage 2: Ongoing housing costs**

The primary method in this stage is analysis of ongoing housing costs from six Household Expenditure Surveys (HES) from 1975-76 to 2003-04. Data collected for the HES is extremely detailed and enables identification of the full range of ongoing household expenditures. While some of the items have been expanded or collapsed over time, as households spend money on new or different items, in 2003-04 they included:

- mortgage repayments (interest and principal)
- local government rates and water and sewerage rates
- building insurance
- repairs and maintenance, by trade category and materials
- body corporate/owners' corporation fees.

The HES also has data on source and level of household income and household type which can be used in our analysis. Sample numbers do not enable detailed spatial analysis (see Appendix A). While the primary focus is on lower income home purchasers, the analysis will also identify the ongoing costs of outright owners on lower incomes, including many households in receipt of the age pension.

This analysis will be complemented by two further measures which investigate the degree to which lower income home purchasers experience financial stress relative to those on moderate and higher incomes. Firstly, a composite indicator of financial stress will be developed based on items in the 1998-99 and 2003-04 HES following an approach developed in Burke and Ralston (2003). Some of the relevant items are:

- comparison of standard of living compared with two years ago
- ability to manage on household income
- inability to pay specified bills on time (utilities, registration/insurance)
- pawning or selling items
- going without meals and heating due to shortage of money
- seeking financial help from friends and family.

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<sup>24</sup> The SIH was previously called the *Survey of Income and Housing Costs* (SIHC).

Secondly, data from a survey of lower income home purchasers conducted as part of AHURI NRV3 on 'Housing affordability for lower income Australians' will be re-analysed. Some of the survey questions were taken from HES items, and the re-analysis will enable a comparison between the financial stress being experienced by lower income home purchasers in the NRV3 survey and the HES. This comparison will assist in validating the measure used.

### **Stage 3: Home ownership and building wealth**

This stage is concerned with the degree to which lower income households can build wealth through home ownership. As indicated in Chapter 3, this is conceptually complex and there are a number of detailed methodological issues. As previous studies have indicated, although not necessarily with specific reference to lower income households, the ability to build wealth is related to time and space, i.e. over how long a period has wealth been accumulated (if any) and where.

The major task in this stage is a Victorian case study which aims to assess to what degree home purchase by lower income households builds wealth, taking into account the time and spatial dimensions. It will build on the work of King, Badcock and Burbidge discussed in Chapter 4 by (a) updating the time period of analysis to the 2000s; (b) extending the time period of analysis, i.e. looking at a 20-plus-year time period as well as the shorter time periods of some of these studies; (c) locating it in a different economic and social context, and (d) making it much more explicitly about purchase of housing by lower income households. The case study, by looking at a diversity of locations, should be generalisable to other states and territories.

The first step is to identify areas with high numbers of lower income purchasers, as well as some 'control group' areas of higher income purchasers, using Census data from 1981 to 2006. Lower income purchaser areas will include those that have always attracted such purchasers (e.g. Frankston) as well as other areas which had lower income purchasers 30 years ago, but where subsequent gentrification has reduced their ability to purchase there (e.g. inner metropolitan areas such as Richmond, Collingwood and Footscray). Non-metropolitan areas with a high number of lower income purchasers at various times will also be chosen. The question to be tested here is to what degree location has affected the capacity to build wealth, not just relative to areas of higher income purchase, but between different and changing areas in which lower income households purchase.

Having identified these areas, the next step is to use CURF data on house/land prices from the Victorian Valuer General to calculate (model) gross returns (capital gain less outstanding value of the mortgage) for 'typical' lower income purchasers in the areas chosen. The capital gains will be measured by the change in median dwelling prices between time periods which will be three, ten and 28 years, the latter being the longest period enabled by the data, while the mortgage outstanding will be measured by assumed borrowing costs taking into account relevant interest rates and typical lending conditions, e.g. a 25 per cent deposit in early years and a reduced percentage in later years.

A third step is to use data matching to merge the gross yields for each of the case study areas with Census data in such a way that it allows for analysis of changes in gross wealth in relation to any of the Census variables for the area. This would allow for testing the degree to which changes in wealth were correlated with lower income or whether other variables were equally or more important, for example, level of educational achievement, household type, proportion of rental stock, residential mobility and ethnicity.

A proposed fourth step will be to trial a different data set – the unimproved and improved rate value data for all residential properties – in two areas of Melbourne, an affluent inner one and a lower income outer one, access to which is currently being negotiated. The objective here is to test the degree to which changes in values (gross wealth) are affected by the greater capacity of higher income households to make renovations and additions to their property relative to lower income households.

A final task in this stage is to analyse CURF data from the SIH 2005-06, which has data on the purchase price of housing and respondents' perceptions of the current (2005-06) worth of their property. The data enable a comparison between recent lower income home purchasers (bought within last three years) in comparison with other recent purchasers. While the data cannot be interrogated at any local level (metropolitan and non-metropolitan is the lowest level of spatial analysis), it does give some ability to examine the attributes of recent low income purchasers compared to purchasers at other income levels in terms of household type, age and ethnicity and, importantly in terms of this stage, to measure the degree to which householders themselves believe there has been a positive or negative return on their housing investment.

#### **Stage 4: Non-financial benefits**

As indicated in Chapter 3, there has been very little research into the non-financial benefits of home ownership for lower income households in Australia, in particular, qualitative research examining the non-financial benefits experienced by lower income purchasers. This stage comprises a small exploratory study with semi-structured interviews of 30 lower income households who have purchased their current home within the last ten years. In many respects, it will build on the work of Burke and Pinnegar (2007). Interviews will be conducted with purchasers living in three types of areas: those with very low median house prices (bottom 20%), those with lower median house prices (bottom 40%), and an area with lower prices that is undergoing redevelopment. The three areas will be identified through detailed analysis of Victorian Valuer General's data. Interviewees will be selected after targeted recruitment strategies, including leaflet drops, posters in local shops and facilities, and feature articles in local newspapers. As there is no sample frame for recent purchasers, this will be a purposive non-random sample. We also expect that some snowballing will be possible.

The interviews will be based on key themes including: reasons for purchasing their property, expectations of purchase, financial outcomes in terms of ongoing payments, effect of purchase on children's education and wellbeing (if relevant), any changes in health and employment attributable to purchase, and perceptions of neighbourhood and social connectedness.

All interviews will be recorded electronically with the permission of the interviewee. The recordings will be transcribed in full and analysed with the assistance of NVivo software. All identifying information will be removed prior to analysis and the interviewees allocated pseudonyms. The analysis will identify key patterns to 'map' the data, according to the themes identified above. It will be illustrated with direct quotations from the interviews.

We reiterate that this is an exploratory study, given the dearth of research in this area. The purpose is to generate debate about the non-financial benefits of home purchase experienced by lower income households in the early years of purchase.

The research design, approach and methods are summarised in Table 5.



**Table 5: Summary of research design, approach and methods**

| <i>Stage/research question</i>   | <i>Approach</i>  | <i>Method</i>   |
|--|--|---|
| Stage 1: Establish profile of lower income home owners and changes in profile 1981-82 to 2005-06 | Identify characteristics of lower income home purchasers and owners and changes in composition of over time  | <ol style="list-style-type: none"> <li>1. Analysis of Confidentialised Unit Record File (CURF) data from <i>Survey of Income and Housing</i> (SIH) 2005-06 and ABS 2006 Census</li> <li>2. Compare changes over time using data from previous Surveys of Income and Housing (Costs) 1981-82 to 2005-06</li> </ol>   |
| Stage 2: Ongoing costs of home ownership<br>(Research question 1)                                | Unpack components of ongoing housing expenditures for home owners including mortgage repayments, property taxes, insurances, repairs and maintenance. Identify changes in key ongoing expenditures over time | <ol style="list-style-type: none"> <li>1. Analysis of data from six ABS Household Expenditure Surveys (HES) 1975-76 to 2003-04 (CURF level)<br/>Disaggregation of data by home owners and purchasers and by level of household income</li> <li>2. Use of financial stress composite indicator to assess outcomes for households in different age and income categories (HES 1998-99 and 2003-04 only)</li> <li>3. Re-analysis of primary survey data on ongoing expenditures of lower income home purchasers collected in 2006 as part of AHURI's NRV3</li> </ol> |
| Stage 3: Capacity to build wealth by household income and location<br>(Research question 2)      | Victorian case study to model changes in gross housing wealth for lower income purchasers compared to other purchasers over time and by area   | <ol style="list-style-type: none"> <li>1. Modelling of changes in gross housing wealth for lower income households buying into areas with different levels of housing prices, using Victorian Valuer General's data from 1981 onwards and CURFs from ABS Census of Population and Housing (various years)</li> <li>2. Analysis of purchase price of dwelling and self-reported current gross worth (price) for recent lower income home purchasers (less than three years) compared to other groups, using data from SIH 2005-06</li> </ol>                       |
| Stage 4: Non-financial benefits/risks for lower income households<br>(Research question 3)       | Qualitative study of the attitudes and views of lower income purchasers on the non-financial benefits of home ownership  | Semi-structured interviews with 30 lower income home purchasers (within five years of purchase) in three areas with different median price levels, one undergoing redevelopment   |

## 6 CONCLUSION

Many benefits are claimed for home ownership, including reducing ongoing housing costs over the longer term, building wealth, and improved health and social wellbeing. The issue addressed by this study is whether, and to what extent, such benefits accrue to lower income households (lowest two quintiles), compared to those on middle and higher incomes, and the risks associated with home ownership for such households. This is a very important and topical issue for lower income households, communities, mortgage lenders and governments.

In Australia, policy-makers have, over the last 20 years, focused on assisting first home buyers rather than lower income home purchasers. These are not one and the same, as many first home buyers have middle and higher incomes. Surprisingly, there is hardly any research on first home buyers who receive government assistance or on the effectiveness of that assistance. States and territories have some interest in encouraging lower income households to buy, in part to provide a pathway for social housing tenants, but there is some nervousness after state-run schemes of the 1980s ran into problems. For the most part, the emphasis has been on getting younger households into home ownership rather than assessing outcomes for lower income households who have bought their own homes, as discussed in Chapter 2. A major policy response to current global financial instability and economic downturn has been to increase assistance to first home buyers, as part of economic stimulus initiatives to retain employment in the building and construction industries. A conceptual confusion in the Australian policy context is that the benefits of home ownership are often conflated with housing type, in particular, owning a single detached dwelling, which makes it difficult to disentangle the benefits of ownership per se.

We investigated the US policy context, comparing this with that of Australia. As we say in Chapter 2, governments and private lenders had encouraged lower income households to purchase, including many who had no previous experience of home ownership. Even before evidence about the US sub-prime crisis became compelling, there was some research indicating that lower income households faced risks, with a substantial minority exiting home ownership. However, many of the factors which precipitated difficulties in sustaining home ownership for lower income households in the US are not necessarily applicable to Australia. These include patterns of ethnic segregation and urban settlement, variations in housing type and the institutional settings for housing finance. Notwithstanding these differences, the broader ramifications of the sub-prime crisis on the global financial systems and national economies are likely to affect lower income home purchasers in Australia through credit rationing and increased risk of income loss through unemployment or short-time working.

The conceptual framework for the study, outlined in Chapter 3, indicates considerable complexity. It focuses on potential benefits and risks of home ownership for lower income households (compared to other households) in terms of ongoing costs, housing wealth and non-financial benefits. There are important conceptual issues around the definition of lower income households, the categorisation of ongoing housing costs associated with home ownership, and approaches to measuring changes to wealth position associated with owning.

Despite 'taken for granted' assumptions about the many and varied benefits of home ownership, the research literature is surprisingly patchy and sometimes ambiguous in respect of lower income households. In terms of the ongoing costs of ownership, the Australian research primarily involves quantitative assessments of the number of households whose mortgage costs exceed established affordability benchmarks.

There has been little attention to the other ongoing costs, including rates, maintenance, insurance, and repairs and maintenance. The rather sparse qualitative research into the effects of financial stress on lower income home purchasers suggests some drop out of ownership, although often there is a personal or family trigger for this, while others develop coping strategies including cutting down on other expenditures and taking on additional work. These strategies expose lower income households to additional risks in an economic downturn, as indicated above.

Research in Australia about the wealth effects of home ownership, reviewed in Chapter 4, is located within the UK tradition of research into home ownership and inequality and has not primarily been concerned with lower income households. This differs from the US research which is framed primarily in terms of building wealth, without comparing across households with different levels of income. Australian research suggest that home ownership increases economic inequalities as lower income households make smaller gains through housing wealth, if at all, than higher income ones. Whether lower income households build wealth through their housing is dependent on many factors, including the area of purchase and the timing of purchase and sale in the context of economic cycles. This research uses data to the early 1990s and uses relatively short time frames, and there is an urgent need for reconsideration of the wealth effects of home ownership for lower income households using more recent data and data over a longer time period. In the US, even prior to the problems with sub-prime loans, the research suggested that while some lower income households made financial gains, others suffered financial losses. Some were over-stretched in making mortgage repayments and had not factored in mortgage 'add-ons', increases in interest rates, and the other ongoing costs of owning, such as repairs and maintenance.

Australian research into the non-financial benefits of home ownership is very limited and the evidence base relies heavily on UK research which suggests that some of the social outcomes of home ownership are mediated by psycho-social factors, including the degree of control over circumstances. Recent reviews in the US find that evidence for the non-financial benefits of ownership for lower income households is too thin to draw definitive conclusions, with the strongest evidence being the positive effects on children's education. Most existing research cautions against causal explanations based on correlations between owning and a variety of social outcomes. It suggests that middle-higher household income, quality of housing and type of neighbourhood are important factors in contributing to the sort of social outcomes often attributed to home ownership.

The research design for the project is mixed method and combines quantitative and qualitative research methods. In terms of quantitative methods, the research will use successive Household Expenditure Surveys to investigate the ongoing costs of home ownership for lower income households. It will investigate the effects of home ownership on housing wealth in a case study of Victoria using three data sets: the Survey of Income and Housing, the Census of Population and Housing and the Victorian Valuer General's dwelling and land price data. Using qualitative research methods, the study will also investigate the perspectives of lower income households who have purchased within the last ten years on the financial and non-financial benefits and risks of home ownership. The research design is ambitious, and there are many methodological challenges that will be discussed in full in the Final Report for the project.

## **APPENDIX A: NOTES ON SECONDARY DATA SETS USED IN THE RESEARCH**

### **A1 *Survey of Income and Housing (SIH)***

The *Survey of Income and Housing* (SIH) is a national sample survey conducted by the Australian Bureau of Statistics. It collects detailed information every two years about income and personal and household characteristics of people aged 15 years and over who live in private dwellings throughout Australia. In some cycles, information on other topics (such as assets and liabilities) is also collected (ABS 2008).

The last two collections were in 2003-04 and 2005-06. In 2003-04, the SIH was integrated with the *Household Expenditure Survey* (HES); the HES questions are asked of a sub-sample of participants. The SIH was previously the *Survey of Income and Housing Costs* (from 1994-95) and prior to that the *Survey of Income and Housing Costs and Amenities* (from 1981-82). The series provides good historical data on housing costs although, as with other ABS sample surveys, data items and data definitions are subject to change over time.

The final sample size of the SIH in 2005-06 was 9,961 households. This limits the potential for analysis on a spatial basis except for a capital city and 'rest of state' comparison.

SIH data on housing costs refer to mortgage repayments and property rates only; the SIH does not include data on other ongoing costs of home ownership, for which we have to use the HES as discussed below. Mortgage repayments are included in housing costs for owner occupied dwellings if 'the purpose of the loan when it was originally taken out was primarily to build, buy, add to or alter the occupied dwelling' (ABS 2006: 27). The ABS calculates that in 2005-06, about 40 per cent of the housing costs of purchasers with a mortgage comprised repayment of principal on the loans and 60 per cent interest payments. Unfortunately, data are not available to make this calculation for earlier surveys (ABS 2006: 28).

### **A2 *Household Expenditure Survey (HES)***

The HES is a national sample survey conducted by the ABS every five or six years: 1975-76, 1984-85, 1988-89, 1993-94, 1998-99 and 2003-04. It contains very detailed information about household expenditure across many items and is used for various purposes, including weighting of types of expenditures for calculation of the Consumer Price Index as expenditure patterns change over time. The HES is not a household panel survey, and a different group of households is selected for each survey. The last survey (2003-04) was conducted jointly with the SIH, and the HES sample was a sub-sample. This will continue and the HES will be conducted every six years in the future. As with other sample surveys, data items and definitions are subject to change as expenditure patterns change (ABS 2006).

Sample numbers vary somewhat over successive HES, with the 2003-04 final sample comprising 6,957 households. It is not possible to do detailed spatial analysis using the HES due to the sample size although, for some limited purposes, comparison can be made between households in metropolitan and non-metropolitan areas.

### **A3 *Victorian Valuer General's data***

The Victorian Valuer General's data include mean, median, median price per unit or median block size for all residential dwellings recorded for stamp duty purposes in

Victoria, categorised into detached dwellings and units/apartments and blocks of land. Some data are subject to a time lag due to the operation of the stamp duty system, for example, an apartment sold in 2006 off the plan may not be recorded until stamp duty is paid in 2008. This means that the data are constantly being adjusted. Despite this difficulty, which mainly occurs in respect of larger blocks of units/apartments, Valuer General's data are the most accurate source of housing prices as they are based on a 'population' rather than a sample survey which is subject to sampling error. In this study we use CURFs which enable reworking of data into any spatial categorisations required.

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