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The edges of home ownership

THE RATE OF EXIT FROM AUSTRALIAN HOME OWNERSHIP IS ROUGHLY DOUBLE THAT IN THE UK. A THIRD OF THE AUSTRALIANS NEVER REGAIN IT. AUSTRALIAN POLICY-MAKERS NEED TO CONSIDER WAYS TO ASSIST HOME OWNERS IN FINANCIAL STRESS.

KEY POINTS

- Between 2001 and 2010, one in five home owners (22%) dropped out of home ownership in Australia, more than in the UK (9%). However, nearly two-thirds of Australian drop-outs regained home ownership ('churning'), compared with less than half in the UK.
- Longer term departures from ownership (9%) are higher among the Australian sample than the UK (5%).
- Leavers in both countries score highest on nearly every indicator of financial stress; they seemingly drop out for economic reasons (in combination with other life events, e.g. separation, divorce, widowhood, health conditions and underemployment).
- 'Churning'—that is, leaving then regaining owner occupation—is more likely when households move back quickly, and are able to maintain or enhance wealth-holdings while renting. Chances are improved by being married and having employment or higher education qualifications.
- Thirty-four per cent of Australian ex-home owners access housing assistance following their departure.
- High rates of exit could be reduced by ensuring that financial institutions observe prudent lending criteria, and targeting support on those facing temporary crises, such as divorce and separation.
- Policy-makers might also reduce the rate of churn by facilitating access to equity finance that allows home owners to stay where they are but adjust their housing costs year on year.

This bulletin is based on research by ***Professor Gavin Wood*** *and* ***Dr Melek Cigdem*** *at the AHURI Research Centre—RMIT University,* ***Associate Professor Rachel Ong*** *at the AHURI Research Centre—Curtin University and* ***Professor Susan J. Smith*** *at Cambridge University.*
The research sought to understand the pattern and circumstances in which households in mainstream home ownership churn in and out of home ownership or drop out of home ownership over the long term.

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CONTEXT

High rates of exit across the life course threaten the high levels of home ownership on which Australian retirement incomes policy is based, potentially increasing demands on housing assistance programmes, in particular Commonwealth Rent Assistance (CRA). Exits also compromise the role of housing wealth as an asset base for welfare, in settings where social and individual insurance safety nets are inadequate to meet the costs of biographical disruption and financial shocks.

RESEARCH METHOD

The project used household panel surveys from Australia (Household Income and Labour Dynamics Australia) and the UK (British Household Panel Survey and the United Kingdom Household Longitudinal Study) to analyse the character and trajectories of households on the edges of ownership. The analysis employed descriptive and exploratory techniques, modelling exercises and the construction of composite biographies to look at the differences between those who attain and sustain ownership, those who achieve then leave that tenure, and those who churn back and forth between owning and renting across the study period (2001–10). Socio-economic and demographic factors were examined, as was the role that housing equity withdrawal might play.

KEY FINDINGS

How many drop out of home ownership and leave permanently?

The study turns the spotlight onto those who drop out of ownership, using ongoing home owners as a benchmark. In the combined observations for the two countries, one in seven (15%) dropped out in 2001–10, though the likelihood of this was much higher for Australia (22%) than for the UK (9%).

Some of those who drop out do so for the long run ('leavers'), and some subsequently return ('churners'). An important finding from the study is a higher rate of long-term departures from ownership among the Australian sample as compared to their British counterparts, despite the resilience of Australia's housing market and economy following the Global Financial Crisis. Leavers account for 9 per cent of the Australian sample, but only 5 per cent of the UK sample. By contrast, nearly two-thirds of Australian drop outs regained home ownership, compared with less than half in the UK.

The analysis also shows that the risk of exiting ownership declines the longer someone is in home ownership. The relatively high risk of exit in the early years of ownership might reflect investment and credit risks that fade as mortgages are paid down, and incomes rise. The risks in the UK are noticeably lower with an estimated 90 per cent of owner occupiers (compared with just 78% of their Australian counterparts) expected to continue in home ownership for more than eight years. In both countries someone entering home ownership in 2001–10 is at much higher risk of exit than a person who had attained home ownership before 2001.

What characteristics and circumstances are associated with those dropping out?

Leavers in both countries score highest on nearly every indicator of financial stress; they mainly drop out for economic reasons (in combination with other life events). Similarly, in both countries' leavers spend the least amount of their time in excellent health (compared with other groups) and the most in poor health. Employment and qualifications play a protective role—for example, educationally, leavers are least likely to have higher (tertiary) qualifications. As might be expected, enduring departures from home ownership is associated with separation, divorce, widowhood, health conditions and underemployment.

Leaving in Australia may be a reflection of the financial pressures of high leverage, together with a lack of social security support for Australian mortgagors in distress. (British households can receive state support for mortgage interest payments and co-ordinated lender forbearance). It also reflects the larger, more diverse rental sector in Australia, which makes early exit in the wake of financial shocks feasible (the UK's smaller rented sector may force Britons to struggle longer in ownership than is good for their health or their wealth).

Among those in this study who permanently exit from ownership, the British are more likely to report adverse health conditions (two-thirds report poor health immediately prior to exit), and have a much higher likelihood than their Australian counterparts of securing a social housing tenancy.

Levels of wellbeing have been compared among ongoing owners, leavers and churners as their housing careers evolve. Leavers have lower levels of wellbeing than the other two groups even before they have dropped out of ownership. Intriguingly, leavers in both countries experience a slight buffering effect on their wellbeing from renting, suggesting that, in the end, for those on the edges of ownership in both countries, it can be more stressful to stay than to go.

What are the characteristics of those who churn in and out of home ownership?

'Churners' are a newly-identified group who, contrary to the assumptions of most standard economic models and sociological theories, move back and forth between owner occupation and rental housing. They show a mix of characteristics, some of which show affinities with the mainstream, while others place them close to the edges. In both countries, demographics and health are not as important in driving return to ownership as they are in predisposing exit from it.

Ex-home owners in Australia and the UK have a good chance of returning to owner occupation, if they do so quickly. However, the probabilities of returning fall off quite sharply—as a result, sizeable minorities remain renters in the long run.

Other key determinants of churning successfully—that is, of regaining owner occupation and moving towards the mainstream—include the ability to maintain or enhance wealth-holdings whilst renting, being married and having employment or higher education qualifications. Churners are more successful than leavers in carrying equity over from a previous sale, and in securing accommodation with low or no rental costs while out of ownership. The experiences and fortunes of the churners may turn out to be a litmus test for the wider workings of the housing market.

Additional calls on housing assistance

The higher exit rate from home ownership in Australia impacts on the demand for housing assistance. This was modelled by identifying eligible Australian and British recipients among those losing home ownership in 2001–09. Around 34 per cent of Australian ex-home owners enrol in housing assistance programs compared to 27 per cent for the UK. Around 40 per cent of those staying in rental housing through to 2010 received housing assistance (compared to one-third in the UK). However, in the UK assistance predominantly comes in the form of social housing (one-third of all recipients) whereas it comes as CRA in Australia (four-fifths of all recipients).

The management of housing equity on the edges of ownership

Equity exchange at the edges of ownership is common. It includes both equity injection (adding to housing equity) and extraction (releasing housing equity) via the management of mortgages or the sale of property. In aggregate equity extraction and injection broadly balance in both countries. Over half those in the study extracted equity via equity borrowing (adding to mortgages in situ), or released cash by trading down, or sold up at some point during the study period. Equity borrowing is particularly widespread.

Ongoing owners use equity exchange, if at all, to their advantage, engaging freely in equity borrowing for income smoothing and financial buffering across the study period, but balancing equity extractions, with equity injections of all kinds, especially mortgage repayments.

Churners engage even more intensively in equity exchange, and can use this to improve their housing outcomes and wider wealth position, providing nothing goes wrong. In Australia, churners typically inject more than they extract, compared to the UK, where the opposite is true.

Leavers in both countries fare least well in the equity exchange market. Despite having the smallest housing equity and high leverage, a high proportion (50% in Australia and 40% in the UK) engaged in at least one cycle of equity borrowing, while around 1 in 10 traded on at least once, prior to exiting altogether. Exit typically occurs at a point where the only remaining option to manage debts and mobilise equity is to trade in a primary residence. So even though overall leavers are the least active in equity exchange, their pathways out of ownership are often preceded by one or more equity extraction events. This is consistent with other work, including our own, which shows how equity exchange can prompt indebted households with pressing spending needs to cascade through equity borrowing to trading down and out of ownership altogether.

POLICY IMPLICATIONS

Levels of exit from ownership are higher in Australia than in the UK, and if trends persist, high rates of exit and increasing indebtedness across the life course might threaten an Australian retirement incomes policy which is based on low housing costs in older age. Departures from ownership could herald added pressure on housing assistance programs targeted on rental housing. Furthermore, evidence of relatively high rates of exit in Australia questions the targeting of direct subsidies on first home buyers, and draws attention to the limitations of tax arrangements that concentrate housing tax subsidies on the higher income over 65 years outright home owner. Shared equity schemes, greater lender forbearance or state assistance for Australian home buyers might be justified for those facing temporary crises such as separation or divorce but who are otherwise capable of meeting mortgage repayments. For others, long-term solutions in rental housing are required.

Churners are not as financially stressed as leavers on the edges of home ownership, especially in Australia. Their home values are higher than all but ongoing owners, their employment rates are high, and their health is variable but generally good. However, high rates of churning prompt consideration of options to ease transitions, such as equity finance. Churners are commonly swapping the (high) costs of home purchase for (lower) rental outlays so that wealth-holdings can be replenished in advance of a return to ownership. However, modern innovations in equity finance makes it possible for owners to stay where they are but adjust their housing costs year on year, according to whether or not they want to rent (and simply pay the user cost of occupancy) or own (and also reap the investment return) across a particular reference period. This would reduce the level of churn, reduce the costs of housing assistance for temporary renters, and protect those at the edges of ownership from the costs of residential relocation.

FURTHER INFORMATION

This bulletin is based on AHURI project 53011, *The edges of home ownership*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting AHURI Limited on +61 3 9660 2300.

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