

The quiet revolution in Australian housing

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Scope of talk

- Begin by drawing a broad picture of key trends in Australia's Housing System over the last 30 years
- Then explain their importance and meaning for Australia's Housing System
- Finally, I will comment on the policy ramifications

Key themes

- The theme – Australia’s housing system is strained
- It is a fluid one in which growing numbers are precariously positioned
- Home ownership’s welfare role is changing
- There is a growing demand for secure affordable rental housing

Housing affordability

1982 - 2011

Table 1: Median gross housing cost ratio (HCR)^a of households, by housing tenure, 1982-2011, per cent

Gross HCR	1982	1990	1996	2000	2002	2007	2009	2011
Owner-purchasers	11.5	16.7	16.9	15.1	15.0	17.3	17.5	18.1
Private renters	16.6	20.6	21.7	22.3	22.2	20.3	23.6	23.4

Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011 surveys of income and housing from the ABS
Notes:

a. Owner-purchasers' and private renters' housing costs are mortgage repayments and gross rents respectively. In the case of private renters, we have used the median gross income from the sample of private renters. In the case of owner purchasers, we have used the median gross income from the sample of owner purchasers.

Housing affordability

1982 - 2011



Bottom 40% of the income distribution, by housing tenure, 1982-2011, per cent^a

Gross HCR	1982	1990	1996	2000	2002	2007	2009	2011
Owner-purchasers	18.9	28.7	32.5	27.3	27.6	28.1	29.0	28.5
Private renters	27.3	34.0	35.9	38.3	35.6	31.6	34.6	39.8

Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011 surveys of income and housing from the ABS

Notes:

- a. The unit of analysis is the household. Owner-purchasers' and private renters' median HCRs are calculated by dividing median mortgage payments and median gross rents by the median gross household income of those in the relevant tenure. The 40% income threshold is drawn from the gross household income distribution.

Cost of living pressures

Table 2: Number and per cent of households^a with gross housing costs^b exceeding 30% of gross household income, by housing tenure, 1982–2011

	1982	1990	1996	2000	2002	2007	2009	2011
Owner-purchasers								
Number ('000s)	168	325	319	359	368	579	620	654
Per cent	9.6	18.1	16.6	15.2	14.6	20.4	20.4	20.7
Private renters								
Number ('000s)	233	333	473	515	553	529	646	787
Per cent	21.9	27.1	31.3	31.4	31.0	25.9	31.0	34.6

Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011 ABS Surveys of Income and Housing

Notes:

a. Population estimates are generated using household weights in the SIH.

Owner-purchasers' and private renters' housing costs are mortgage repayments and gross rents respectively.

Cost of living pressures

Low income households

Number and per cent of households with in the bottom 40% of the income distribution with gross housing costs exceeding 30% of gross household income, by housing tenure, 1982–2011^a

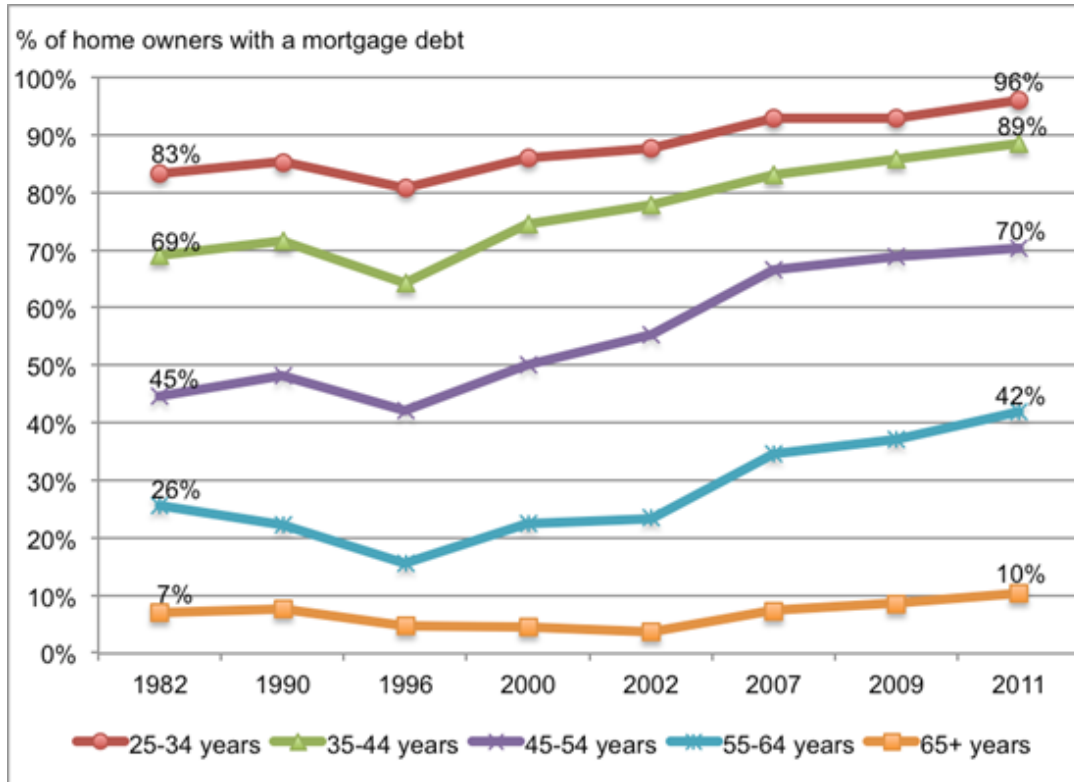
	1982	1990	1996	2000	2002	2007	2009	2011
Owner-purchasers								
Number ('000s)	133.2	142.4	148.5	168.1	181.8	226.2	250.7	286.4
Per cent	27.9	43.7	46.4	45.5	43.4	44.2	46.2	47.6
Private renters								
Number ('000s)	217.5	265.9	413.5	436.3	469.4	472.6	533.8	643.9
Per cent	40.9	57.4	68.3	66.2	62.4	57.9	62.3	72.2

Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011 surveys of income and housing from the ABS
Notes:

- The unit of analysis is the household. Population estimates are generated using household weights in the SIH. The 40% income threshold is drawn from the gross household income distribution.

Mortgage indebtedness

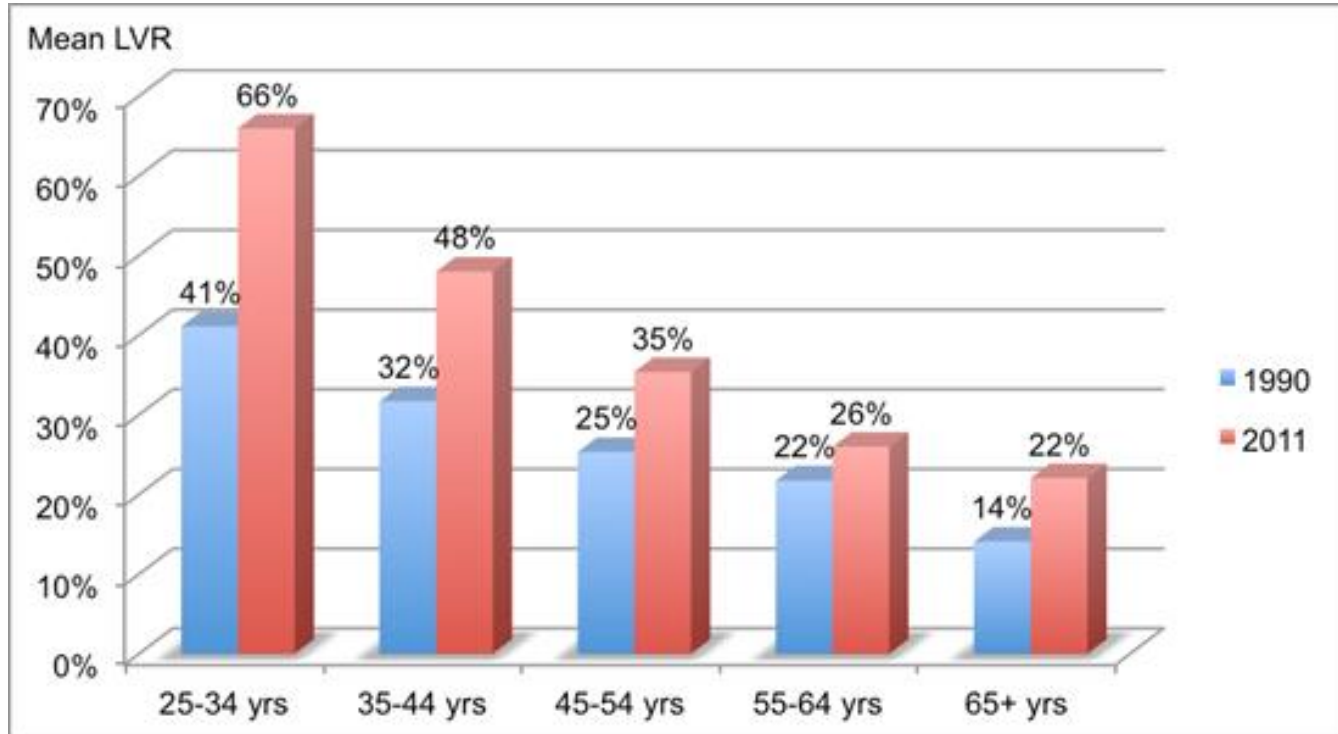
1982 – 2011 (figure 1)



Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011
ABS Surveys of Income
and Housing

Gearing by mortgagors

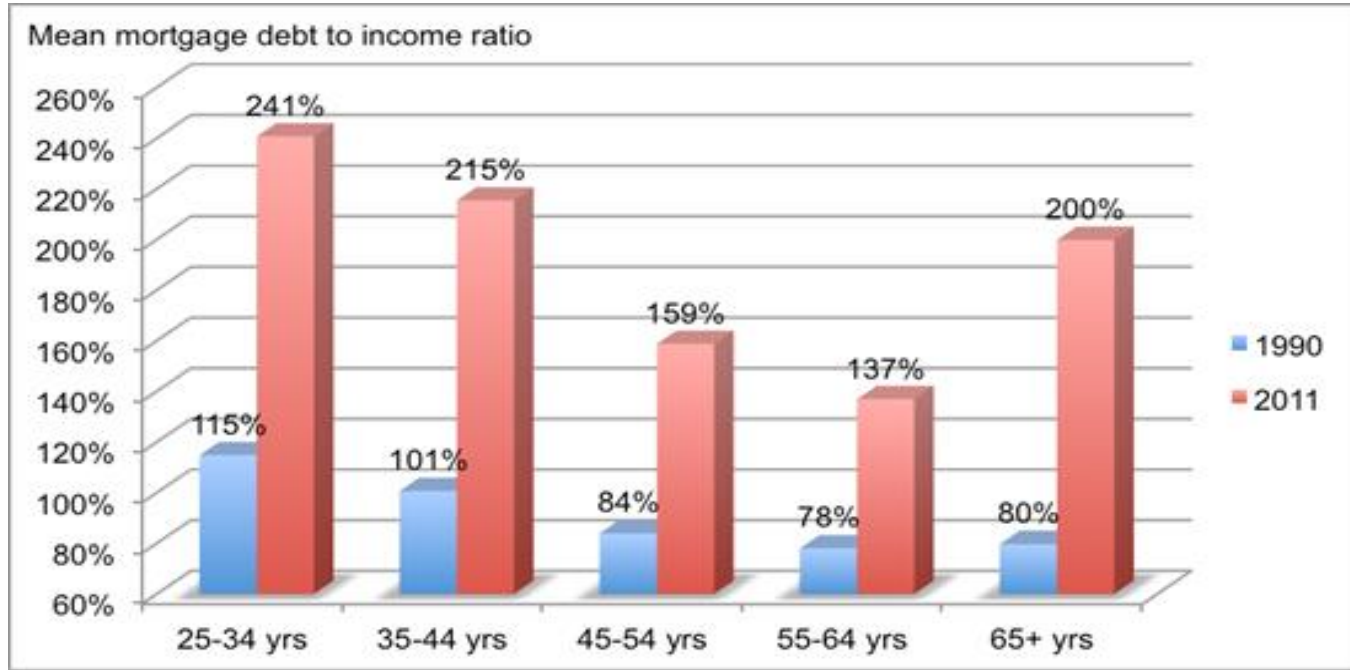
1990 – 2011 (figure 2)



Source: 1990
and 2011 ABS
Surveys of
Income and
Housing.

Mortgage debt to income ratio

1990 – 2011 (figure 3)



Note: Income is measured as annual gross household income

Source: 1990 and 2011 surveys of income and housing from the ABS.

A home owner society?

Year	25–34 yrs	35–44 yrs	45–54 yrs	55–64 yrs	65+ yrs	25+ yrs
1982	55.5	75.4	78.3	81.9	74.4	71.3
1990	52.6	76.4	80.2	82.0	79.1	72.0
1996	43.3	70.6	80.7	81.1	80.0	69.0
2000	45.1	69.7	79.2	83.2	82.3	70.1
2002	46.0	69.4	79.9	82.4	81.2	70.3
2007	38.5	63.8	74.6	81.8	82.1	67.3
2009	37.7	62.1	74.5	80.9	81.8	66.4
2011	34.0	60.0	72.4	78.7	81.0	64.3
% point change 1982 to 2011	-21.5	-15.4	-5.9	-3.2	6.6	-7.0

Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011 surveys of income and housing from the ABS

At the margins of the housing system

Table 4 The rate of homelessness per 10,000 persons and count of homeless persons

2001		2006		2011	
Rate per 10000	Count	Rate per 10000	Count	Rate per 10,000	Count
51	95314	45	89728	49	105 237

Source: ABS, 2012, Estimating homelessness, Cat no: 2049.0

Number of social housing dwellings, at 30 June 2004 – 2013

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public Housing	345335	343301	341378	339771	337866	336464	333383	331371	330906	328340

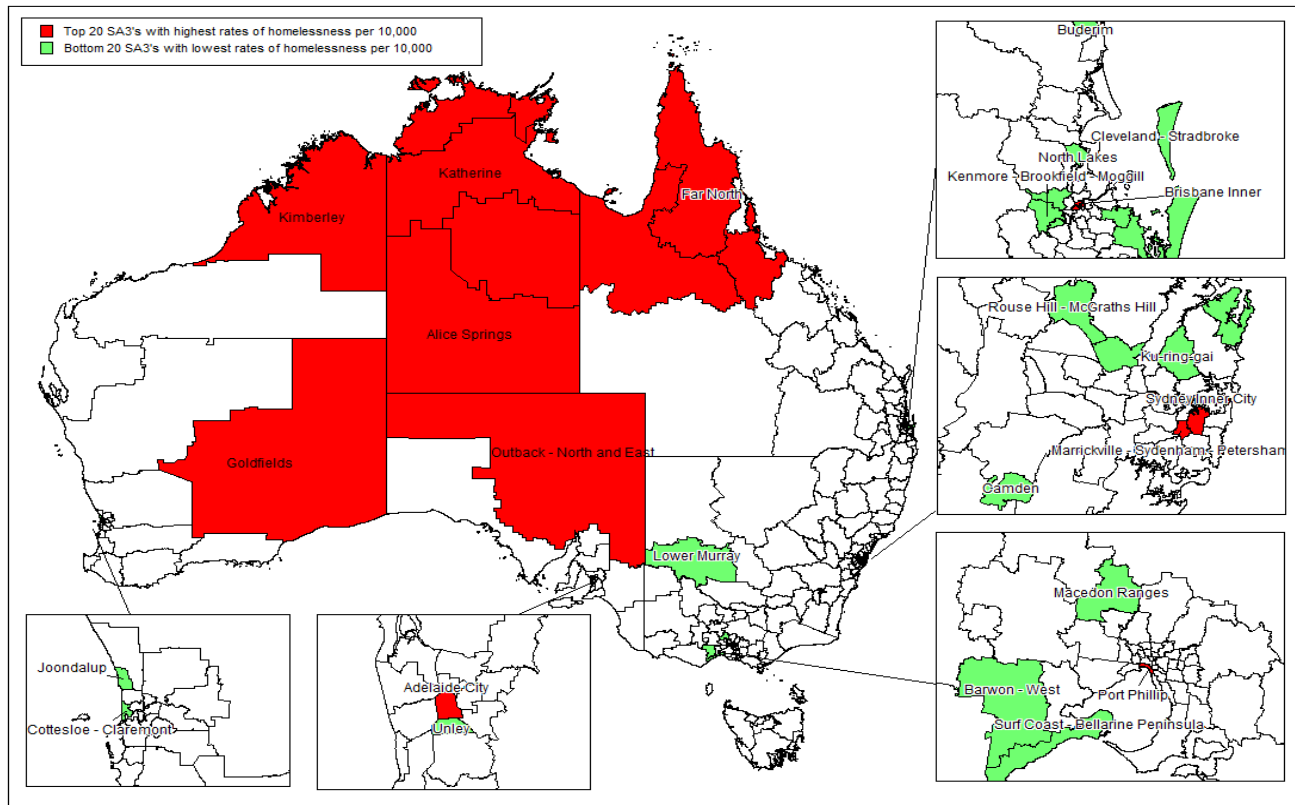
Source; Productivity Commission (2014) Report on Government Services

The geography of homelessness

Map 1



Australian Housing
and Urban Research Institute



So what?

- The Housing System is not at breaking point
- It has weathered the GFC
- Home owners have reaped large capital gains
- Mortgage defaults are low
- Rent arrears remain low
- So why should we be concerned?

Housing affordability and cost of living pressures (1)



- House prices and rents have been increasing at a faster pace than incomes for many Australians
- For many Australians (especially younger generations) these trends are lowering standards of living
- Housing Policy treats the symptoms of the ‘disease’
- But the structural causes are neglected
- In the past an ample supply of greenfield sites with easy access to the CBD accommodated the strong growth in demand without large and sustained increases in prices

Housing affordability and cost of living pressures (2)

- But in contemporary urban housing markets the greenfield ‘safety valve’ is no longer as effective
- We need new safety valves to ease the inflationary pressures in land and housing markets
- Without them there could be adverse consequences for the economic competitiveness of cities and regions especially prone to inflationary pressures
- Land is an important input for business operations

Falling rates of home ownership

- The decline in rates of ownership, especially in younger age groups, does reflect price barriers facing first home buyers
- However, in the past we have assumed that a household smoothly transitions into outright (mainstream) ownership before retirement
- But we are now witnessing a new phenomenon
- The edges of ownership - it is the area between mainstream ownership and lifetime renting

The edges of home ownership

- On the 'edges' Australian housing careers are taking a new turn in the 21st century.
- Counting every year between 2001-10 we estimate that Between 2001 and 2010 roughly 1.7 million Australians left home ownership.
- Over one-third did not return by 2010;34% journeyed onto housing assistance programmes
- Dropping out estimated to add \$393m to government spending in 2009

Mortgage indebtedness (1)

- First Home Buyers must borrow more to buy Housing that is much more expensive than 30 years ago
- But indebtedness also boosted by ‘equity borrowing’
- We find that between 2001 and 2010 roughly 60% (50%) of Australian (UK) home owners cashed in some of their housing equity by borrowing more (in situ)
- The typical amount withdrawn 2001-’10 was \$100k

Mortgage indebtedness (2)

- Withdrawals of housing equity is strongly correlated with children and adverse biographical events
- Recycling housing equity
- We estimate that roughly 6% of Australians receive a financial gift from their parents each year; roughly 1.5% a bequest
- In 2012 1.2 million Australians received gifts that were on average \$5,819 (that sums to \$6.9b)
- In 2012 240K Australians received bequests that were on average \$104,000 (sums to \$25b)

Homelessness; some new perspectives

- The chances of a person becoming homeless are not solely the product of risky behaviour, poor health and other individual characteristics
- It seems that local labour and housing market conditions are relevant
- In regions with tight housing markets some vulnerable groups are more likely to become homeless
- Moreover it is not always a temporary experience

Homelessness dynamics

Table: Does Homelessness Persist? (%)

Persons homeless in:

Also homeless:	Wave 1	Wave 2	Wave 3	Wave 4
6 months later	57.3	51.8	56.0	59.5
12 months later	45.9	49.8	51.9	.
18 months later	41.0	43.9	.	.
2 years later	35.6	.	.	.
Total	26.6	22.9	20.4	20.6

Source; Authors' calculations from Journeys Home

Note: Estimates presented only for those who respond in first five waves

Wider policy ramifications: social housing

- Rising house prices and an increasingly residual social housing sector pose serious challenges
- Where will the elderly, sole parents and disabled access affordable and secure housing?
- Could private-public partnerships in the form of secure leasing offer a way forward?

Wider policy ramifications: falling rates of home ownership



- Falling rates of home ownership will erode its traditional welfare role as a pillar supporting retirement incomes policy
- Might we recalibrate policy toward home ownership?
- Move away from measures targeted on first home ownership and instead look to support households on the edge of home ownership?
- The financial sector also has a potential role to play
- Innovative mortgage instruments that more equally share risks between borrower and lender

Wider policy ramifications: housing affordability

- This is not the time for more ‘Band Aid’ solutions
- We need new safety valves to ease inflationary pressures in our housing markets
- This is important from an economic (as well as social) policy perspective as rising land values feed into business costs and impact competitiveness
- Measures might include replacement of stamp duties by a uniform land tax
- Revisit the vexed question of planning controls that can impede supply responses
- Address fiscal distortions that cause inefficiency on the supply side of the housing market

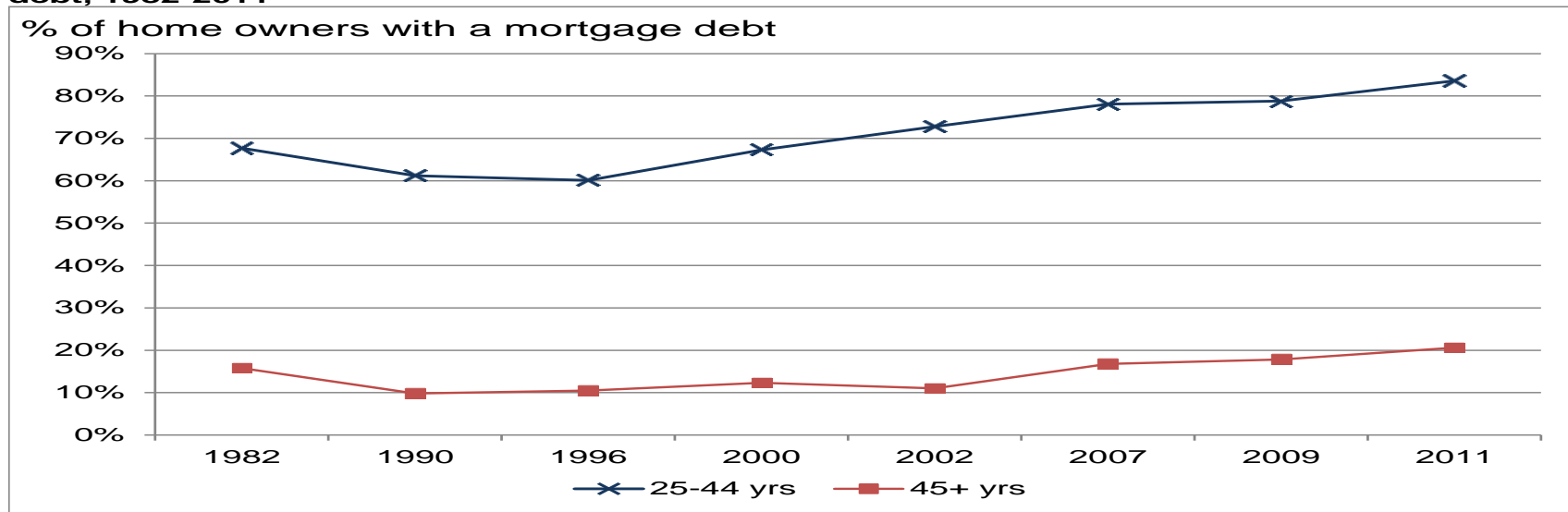


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Mortgage indebtedness

1982 – 2011 low income households

Percentage of home owners in the bottom 40% of the income distribution with a mortgage debt, 1982-2011^a



Source: 1982, 1990, 1996, 2002, 2007, 2009 and 2011 surveys of income and housing from the ABS

Note:

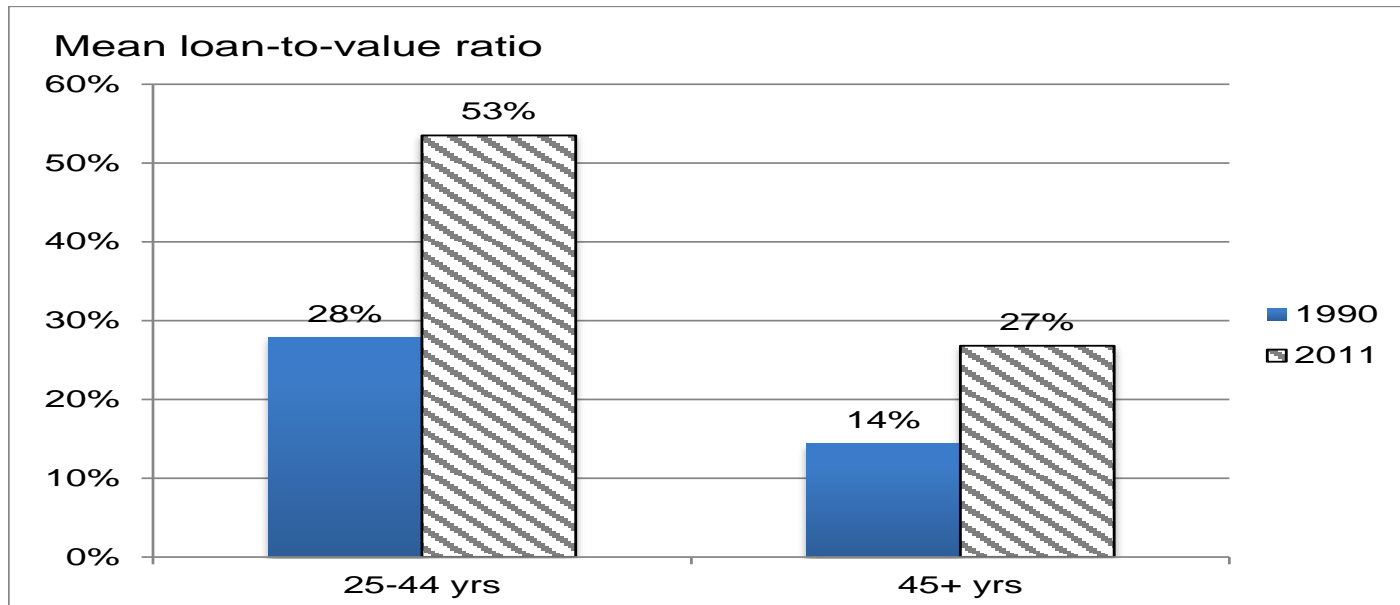
- The unit of analysis is the person. The 40% income threshold is drawn from the gross household income distribution.



Gearing by mortgages

1990 – 2011 low income households

Mean LVR of home owners with a mortgage debt in the bottom 40% of the income distribution, 1990-2011^a

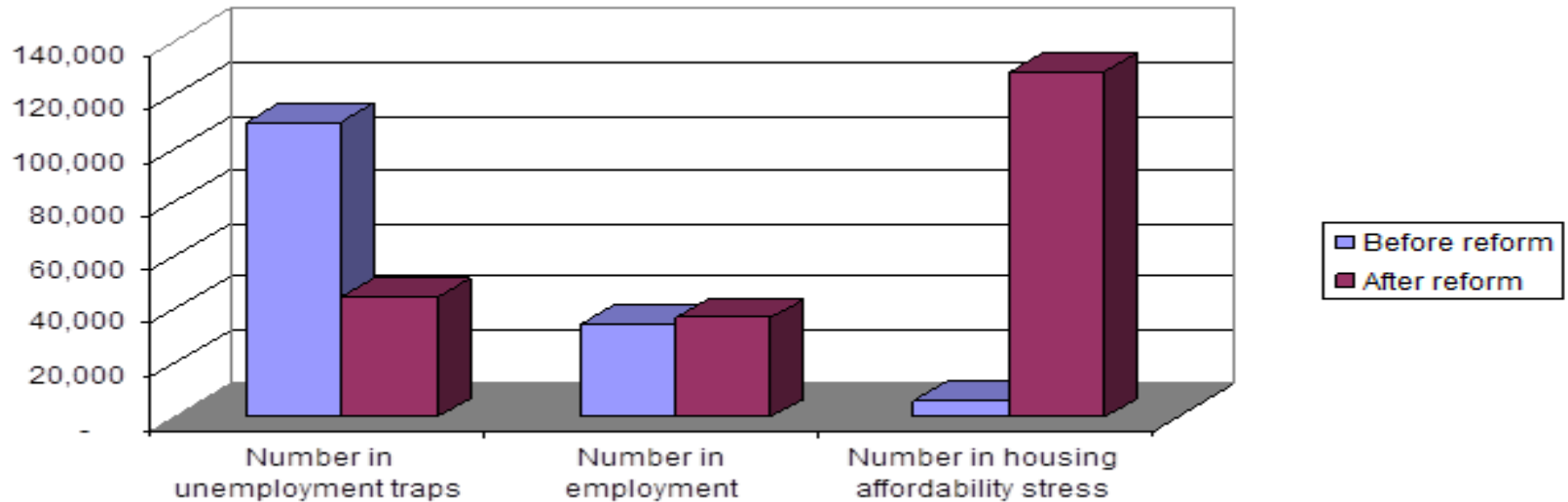


Source: 1990 and 2011 surveys of income and housing from the ABS.

Notes:

Market rents and CRA in public housing

Impacts of reforming the public housing rent formulae



Bequests and gifts (1)

Table 1: Receipt of parental transfer or an inheritance/bequest

<i>Wave</i>	<i>Inheritance/ Bequest</i>				<i>Parental Transfer</i>		
	<i>Median (\$)</i>	<i>Mean(\$)</i>	<i>Obs.</i>	<i>%</i>	<i>Mean(\$)</i>	<i>Obs.</i>	<i>%</i>
2002	20,500	62,866	182	1.4%	3,970	582	4.6%
2003	20,000	66,548	191	1.5%	4,608	666	5.5%
2004	22,500	59,831	176	1.5%	3,472	701	5.8%
2005	22,500	74,655	172	1.4%	3,165	760	6.1%
2006	20,000	115,834	167	1.3%	3,292	707	5.8%
2007	25,000	65,723	173	1.4%	4,651	676	5.5%
2008	30,000	86,904	157	1.2%	4,360	753	6.1%
2009	19,000	65,262	176	1.4%	3,567	703	5.5%
2010	27,000	77,451	191	1.5%	4,457	858	6.6%
2011	35,000	83,743	215	1.3%	7,018	1,078	6.5%
2012	25,000	104,043	264	1.5%	5,819	1,081	6.5%
<i>Total</i>	24,750	79,280	2,064	1.4%	4,572	8,565	5.9%

Bequests and gifts (2)

Table 1: Weighted count and % of individuals who have received a bequest/inheritance or parental gift/transfer, by year

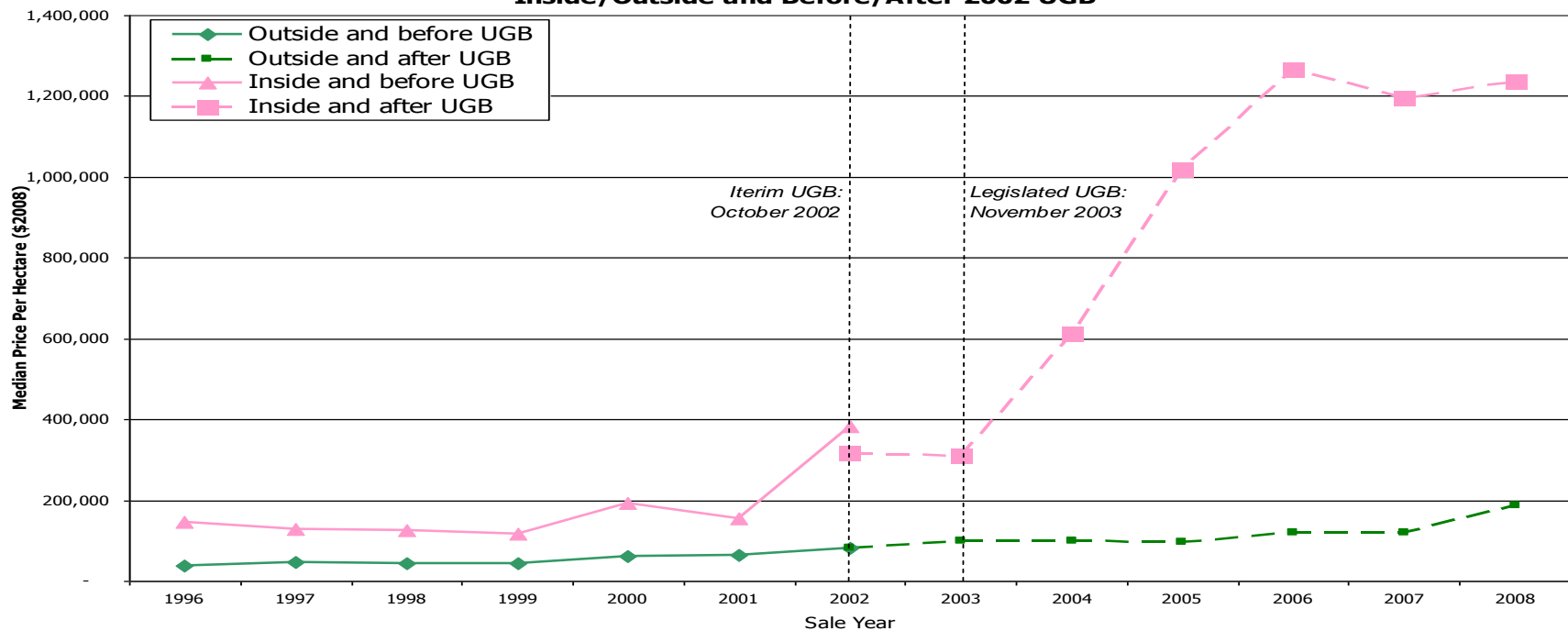
Year	No. of bequest/inheritance recipients		No. of parental gift recipients	
	Count	% of total population	Count	% of total population
2002	210,646	1.4%	721,240	4.7%
2003	210,128	1.4%	842,222	5.4%
2004	197,254	1.3%	936,010	6.0%
2005	197,833	1.2%	1,011,204	6.3%
2006	193,846	1.2%	941,324	5.8%
2007	195,639	1.2%	915,266	5.5%
2008	193,009	1.1%	996,465	5.9%
2009	215,708	1.2%	925,499	5.3%
2010	215,254	1.2%	1,123,514	6.4%
2011	208,745	1.2%	1,225,032	6.8%
2012	243,148	1.3%	1,245,569	6.8%

Note: Authors' own calculations using Household, Income and Income Dynamics Survey- Responding Persons files, waves 2-12. Cross-sectional population weights are used to adjust for population.

Median land prices per hectare (\$2008)

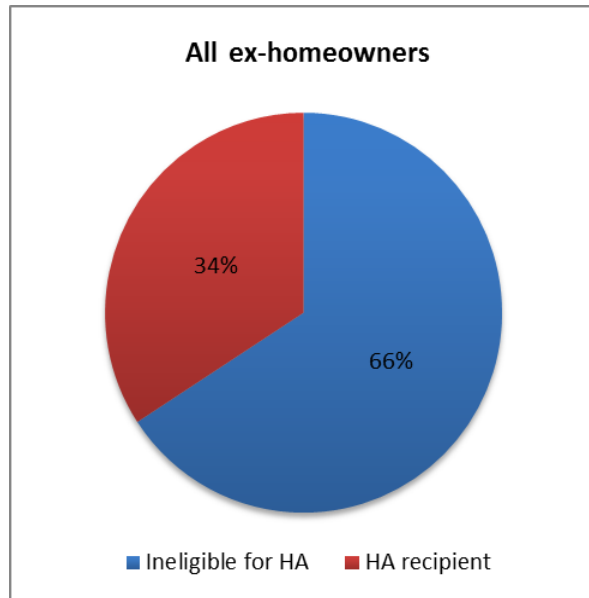
by sale year and UGB status (figure 4)

**Median Sale Price Per Hectare, by Sale Year and UGB Category
Inside/Outside and Before/After 2002 UGB**

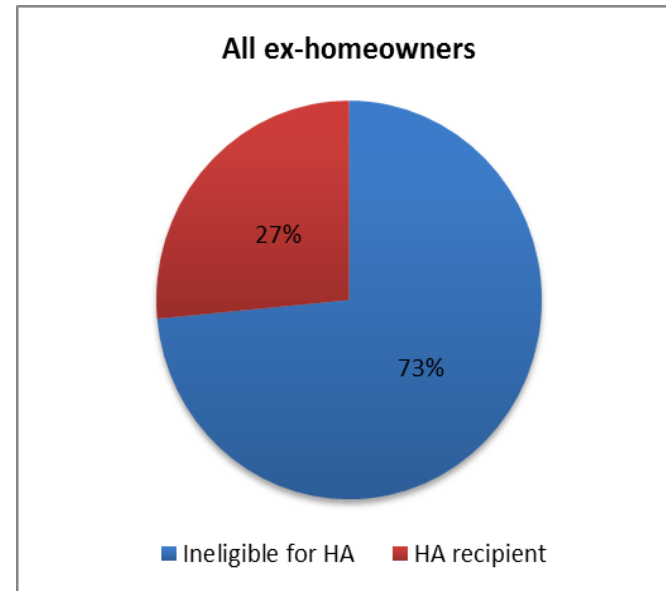


Percentage of ex-owners who journey into housing assistance programs 2001–2010 (figure 5)

Australia

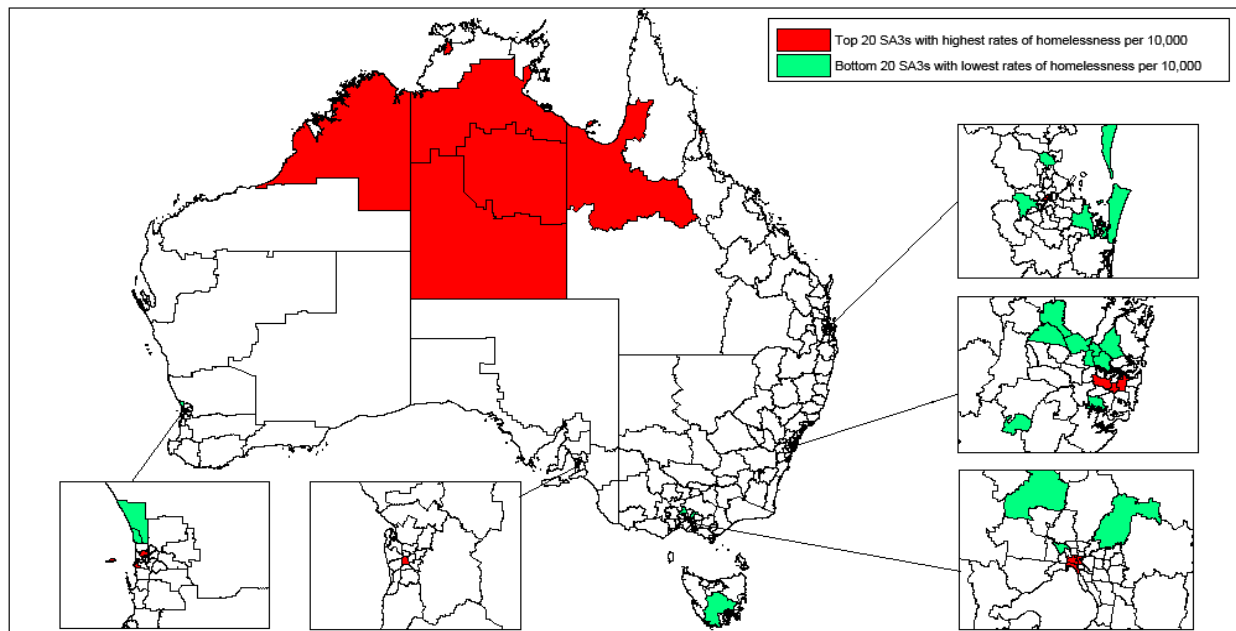


UK



The geography of homelessness

The top and bottom 20 local regions (SA3s) with the highest/ lowest rate of homelessness per 10,000 persons in 2011, using the cultural definition of homelessness.



Source: Authors calculations using ABS homeless estimates.