6.3 The changing shape of housing in Australia

Housing, even in its simplest form, meets two basic human needs: shelter and security. Its influence on the welfare of households is substantial, affecting, for example, health and wellbeing, education, employment and social and community participation. So fundamental is housing that the right to it is recognised by a number of international agreements, including the Universal Declaration of Human Rights (article 25.1). Economically, buying a home is often the largest financial investment a household will make, and it provides a means of saving for millions of Australians. It is also a key source of voluntary retirement savings and financial security for a majority of age pension recipients. As well, housing is a vehicle for asset/wealth accumulation for a growing number of households and, relatively more recently, a growing number of investors.

The 'great Australian dream' of owning one's own home is slipping away for some groups of Australians. While aggregate home ownership rates (that is, households with or without a mortgage) have declined modestly in Australia over the past 20 years—from 71% in 1994–95 to 67% in 2013–14—there have been more dramatic falls for younger age groups and lower income groups, suggesting barriers for those groups wishing to buy (ABS 2015a).

The decline in home ownership has not been uniform. Underpinning the national decline is a widening disparity in ownership rates and trends across Australia. Data from the annual Australian household-based panel survey show that since 2001 the largest fall in home ownership rates has been in Victoria (7.8 percentage point decline to 66%) followed by New South Wales (4.3 percentage points) and South Australia (2.5 percentage points), with little net change in Queensland and Western Australia (Melbourne Institute of Applied Economic and Social Research 2016). Globally, the aggregate home ownership rate in Australia ranks twenty-ninth among the 35 countries in the Organisation for Economic Co-operation and Development (OECD).

Since 1945, Australians have enjoyed high rates of home ownership and relatively low housing costs. In the past few decades, however, housing trends in Australia have changed:

- High home ownership rates have been threatened as house price increases have outpaced rises in household incomes.
- Australia has experienced declining housing affordability (both rental and purchase affordability). Affordability issues are particularly affecting younger generations and lower income groups. With these groups having limited opportunities to become home owners, this trend threatens to widen economic inequalities between owners and renters and destabilise wealth transfer between generations.
- Levels of exit from ownership are higher for someone entering home ownership in 2001–10 than for someone who entered it before 2001 (Wood et al. 2013). It is estimated that 1 in 5 (22%) Australians exited home ownership in the decade to 2010, with one-third of these people never re-entering it.

AIHW

Australian Institute of Health and Welfare 2017. *Australia's welfare 2017*. Australia's welfare series no. 13. AUS 214. Canberra: AIHW.

Australia's welfare 2017

- The focus in providing direct housing and housing assistance has shifted—from lower income working families to the most vulnerable in society, such as people living with disability or experiencing domestic and family violence. The proportion of newly assisted households in greatest need more than doubled in the 12 years to 2015–16 (to 74% in public housing and 56% in state owned and managed Indigenous housing).

These trends have created policy challenges for governments of all levels. Exits from home ownership, as well as delayed and reduced rates of entry across the life course, threaten the high levels of home ownership on which Australian retirement incomes policy is based. This has the potential to place increasing demand on housing assistance, particularly on the Commonwealth Rent Assistance (CRA) scheme (Wood et al. 2013).

Further, Australia's retirement policy is largely based on low housing costs in older age. With fewer Australians tending to own their house outright at retirement, this increases pressure on the welfare system, as a greater proportion of superannuation money will be spent on housing costs. Where increasing numbers of people entering retirement are potentially reliant on social housing or private rental (as a result of their inability to own their own home), costs to government could be reasonably expected to escalate.

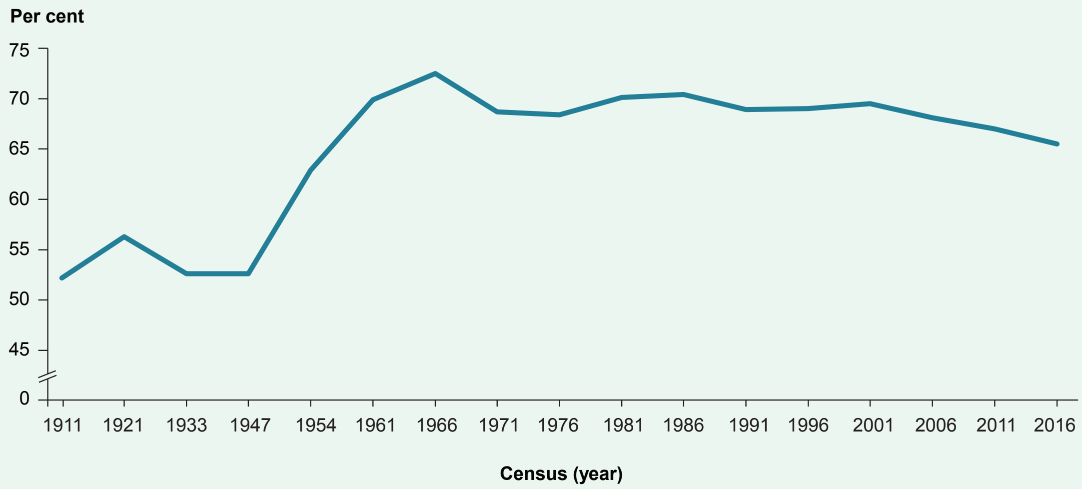
Home ownership and changing trends in housing tenure

Home ownership rates in Australia rose substantially after World War II (Figure 6.3.1). In part, this can be attributed to government policies that promoted home ownership, improving housing affordability and increasing supply, together with rapidly growing household incomes and the lifting of constraints on housing finance.

While aggregate home ownership rates have remained stable in Australia since the mid-1960s, the rates of home ownership for different age cohorts have varied markedly. This variation has been driven by substantial changes in the factors influencing the housing market over the past 20 or so years. For example, until the early 1990s, growth in the housing stock increased at a faster rate than the population. However, in 2011, the shortage of housing, relative to the underlying demand for it, was estimated at 228,000 dwellings (NHSC 2012).

Over this 20 or so year period, steady population growth, combined with other demographic changes—the growth of single-person and single-parent households (for example, as a result of more family breakdowns, and a decline in marriage rates), declining average family size, and an ageing population—placed upward pressure on dwelling stock.

Despite mortgage interest rates being substantially lower, on average, over the last 20 or so years and the government incentives to first home buyers, the overall home ownership rate has declined by 6 percentage points to 66% (Census 2016), its lowest figure since the 1954 Census (Figure 6.3.1).

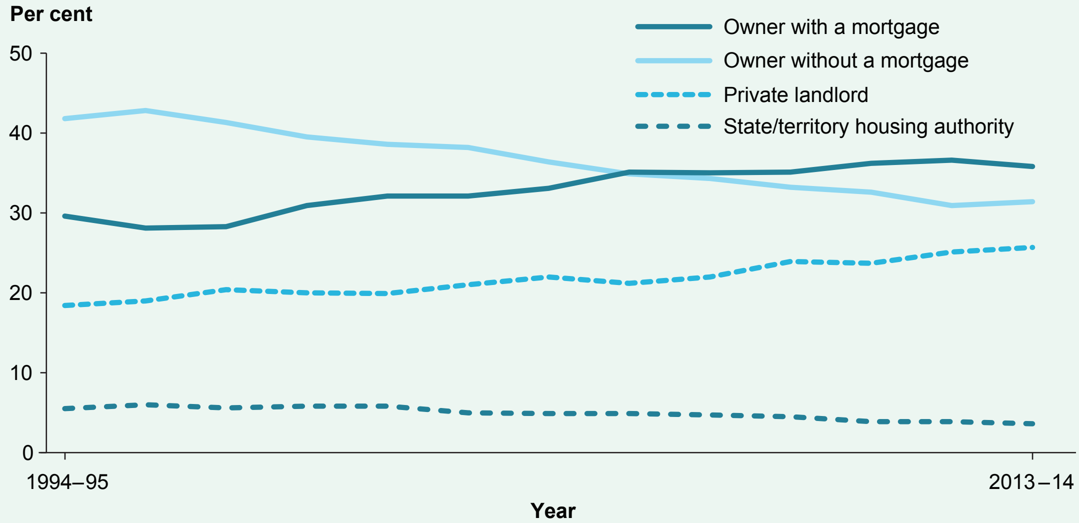


Notes
1. Percentages are of occupied private dwellings, excluding those for which tenure is not stated.
2. Censuses were conducted irregularly until 1961.

Source: ABS Censuses, as charted by Eslake 2013.

Figure 6.3.1: Australian home ownership rates at Censuses, 1911 to 2016

Over the past 20 years, there has also been a major shift in home ownership trends across Australia (Figure 6.3.2). Nationally, the proportion of home owners without a mortgage has continued to fall, while the proportion of renters has increased.



Note: Excludes 'Renter–other landlord type' and 'Other tenure type', which were steady at around 1.5% and 2.5%, respectively.

Source: ABS 2015a.

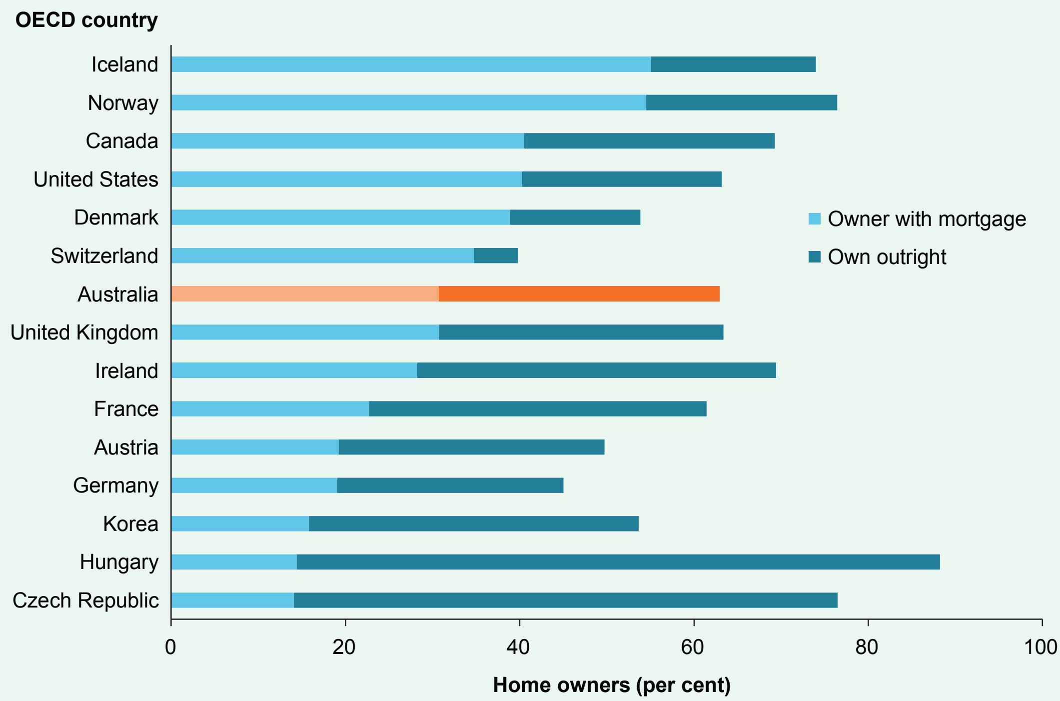
Figure 6.3.2: Changes in housing tenure in Australia, 1994–95 to 2013–14

Between 1994–95 and 2013–14, the proportion of Australians who owned their home outright fell from 42% to 31%. Over the same period, more home owners financed their purchase with a mortgage (increasing from 30% to 36%).

Australians are renting in greater proportions than 2 decades ago. The private market has seen the greatest increase in renter numbers, up 7 percentage points to 26% over 20 years. In contrast, state/territory housing authorities are contributing fewer rental properties in the market, down 1.9 percentage points to 3.6%.

Global trends in home ownership rates

Home ownership is still the most common tenure type in Australia, as it is in many other OECD countries (Figure 6.3.3). However, home ownership rates have tended to increase in many OECD countries over recent decades, unlike the Australian experience (Andrews & Sánchez 2011). Contributing to this trend overseas, at least in part, are changes in the characteristics of households (including population ageing, household structure, and income and education) and policy influences, such as mortgage market innovations (including the relaxation of deposit constraints, increasing home ownership rates among lower income households, and tax reliefs on mortgage debt financing) (Andrews & Sánchez 2011).

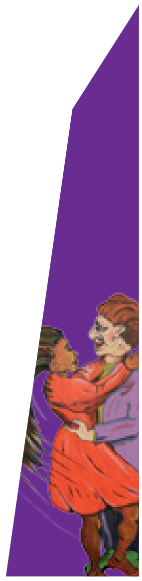


Notes

1. Year of collection and method of collection varies across countries and may affect comparisons. Data for Australia are sourced from the Household, Income and Labour Dynamics Survey 2014.
2. Percentage of renter (private and subsidised) and 'Other, unknown' not shown.

Source: OECD 2017b.

Figure 6.3.3: Home ownership distribution in selected OECD countries, 2014 or most recent year



While Australia ranks in the lowest quarter of OECD countries in terms of aggregate home ownership rates (twenty-ninth), it ranks in the top third for home owners with a mortgage (selected OECD countries are shown in Figure 6.3.3). It is similar to Ireland, Spain, Portugal, United Kingdom, Finland and Belgium at around 30%.

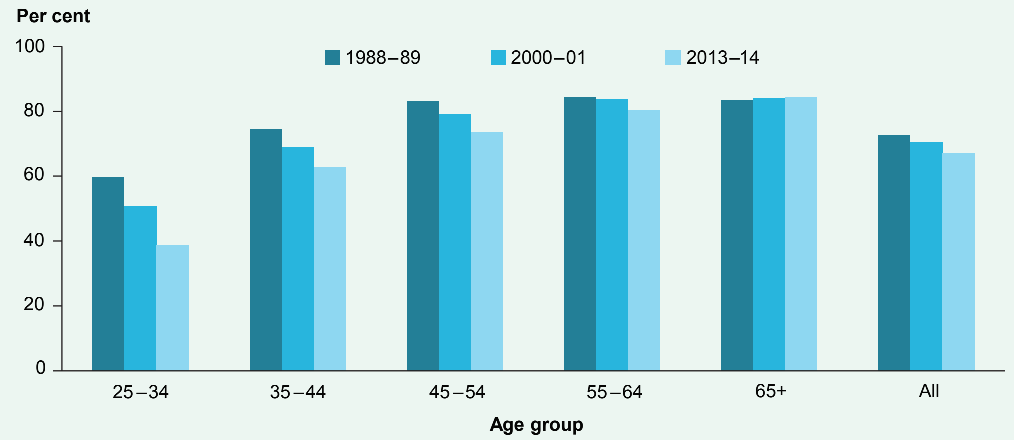
From an international perspective, national housing outcomes and policy challenges are contemporary issues. To help countries measure access to affordable housing and strengthen the knowledge base for policy evaluation, an online OECD Affordable Housing Database has been developed, with support from the European Union.

Home ownership across the generations, and changing housing careers

Housing careers can be thought of as the sequence of housing circumstances an individual or household occupies over their life (Beer et al. 2006). Research shows that Australia is experiencing generational change when it comes to home ownership, with younger households being principally affected by factors such as economic constraints, lifestyle choices and work–home preferences (Burke et al. 2014; Yates 2011).

The steepest decline in home ownership rates across the 25 years to 2013–14 has been for people aged 25–34 (Figure 6.3.4) (see Supplementary table S6.3.1). This is typically the age at which first transitions into home ownership are made. But, fewer and fewer people in this age group are entering home ownership, with a 21 percentage point decline to just 39% in 2013–14 (compared with 60% in 1988–89). Home ownership rates for people aged 35–44 also fell, but not so much (12 percentage points). People aged over 65 (the age of retirement) were the only age group to increase their rate of home ownership and, even then, the increase was marginal.

Census data from 2016 became available just prior to the release of this publication and confirm this trend of diminishing home ownership rates among younger Australians. From 2006 to 2016 Census data reveal the greatest declines in home ownership have been in the 25–34 and 35–44 year age groups (from 51% down to 45% and from 68% to 62%, respectively).



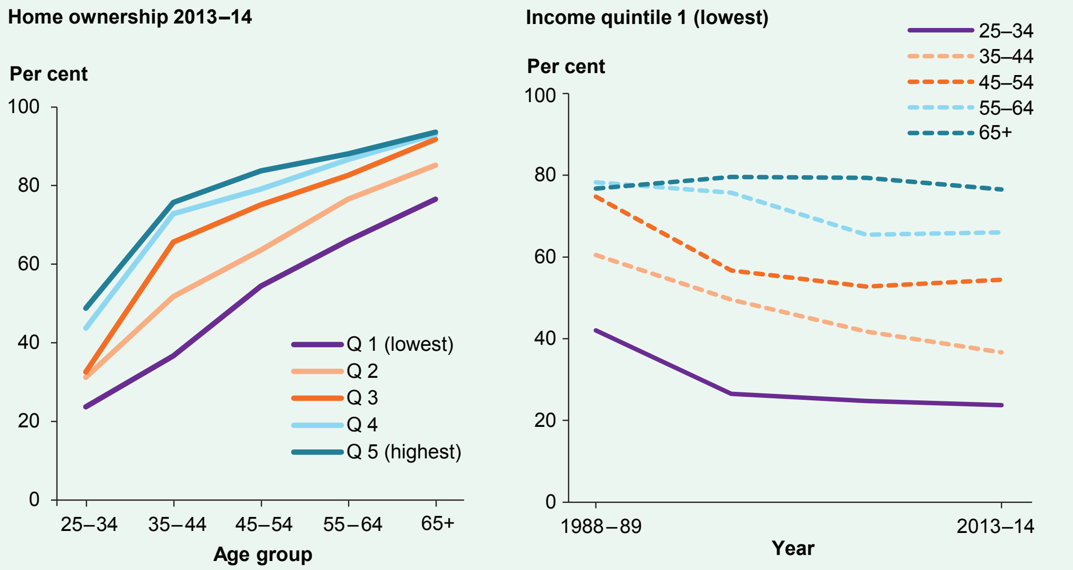
Sources: ABS 4130.0 Housing occupancy and costs 1988–89, 2000–01 and 2013–14.

Figure 6.3.4: Home ownership rates, by age group, 1988–89, 2000–01 and 2013–14

AIHW

Consistent with a decline in ownership rates among younger Australians is evidence of first home buyers being older than they were a decade ago (ABS 2015a). In 2000–01, 61% of first home buyers were aged between 25–34; by 2013–14, this proportion had dropped to less than half (49.6%). At least in part, the financial impacts of higher education costs and compulsory superannuation contributions on younger generations have been implicated in their deferral into home ownership, as they save for a deposit in a market of increasing house prices (Burke et al. 2014; Yates 2011). In the absence of real income growth, the effect of increased house prices on the time taken to save for a deposit is significant, particularly in Sydney and Melbourne. Estimates reveal that since 2006, the average number of years required to save for a deposit in Sydney increased from 5 to 8 years and in Melbourne, 4 to 6 years (Australian Government 2017).

While lifestyle preferences and choices affect purchasing decisions across all age groups, constraints that strongly impede access of younger households are largely financial. These constraints include the price of dwellings themselves, deposit requirements, and access to mortgages. For each age group, home ownership rates increase notably with household income. Over the past 25 years, however, home ownership rates have declined more steeply for younger Australians earning the least (Figure 6.3.5).



Note: Equivalised disposable household income is household incomes that are adjusted to enable analysis of the relative wellbeing of households of different size and composition, using an equivalence scale.

Sources: ABS 4130.0 Housing occupancy and costs 1988–89, 2000–01, 2009–10 and 2013–14.

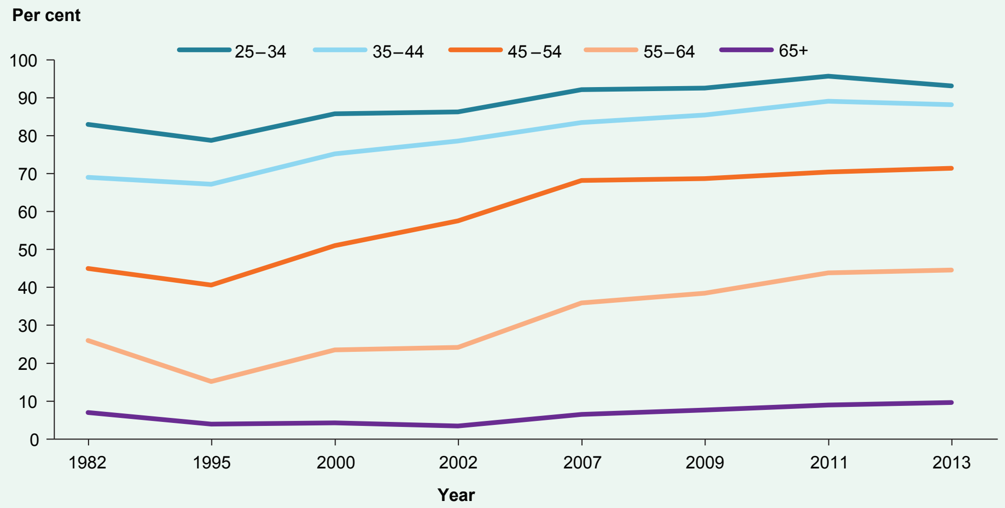
Figure 6.3.5: Home ownership rates, by age group and equivalised disposable income quintile 2013–14; and for equivalised disposable income quintile 1 (lowest), by age group, 1988-89, 2000–01, 2009–10 and 2013–14

Generational changes in mortgage indebtedness

Australian households have adapted to increased affordability pressures by not becoming home owners or, if they are home owners, taking on more debt. This latter option has been enabled both by the willingness of households to take on more debt and lenders changing their practices to offer larger mortgages (Tomlinson & Burke 2012). The current climate of low interest rates has also been an influential factor in household indebtedness.

More than 70% of Australian households had some level of debt during 2013–14, with housing debt a major component of this (ABS 2015b). For those households with a mortgage, more than 4 in 10 (44%) were servicing a total debt that was three or more times their annualised disposable income. This is a 10.5 percentage point increase since 2003–04. This greater level of debt taken on by more Australian home owners with a mortgage makes many of these households vulnerable to economic hardship. Further, repayment affordability may well become an issue for these households should interest rates rise in the future.

Among home owners, the proportion of households with a mortgage has grown across all age groups during the past 3 decades (Figure 6.3.6). This rise in mortgage indebtedness coincided with the house price boom in the late 1990s. The proportion of older mortgagors is climbing most steeply, particularly for people approaching retirement (aged 45–54 and 55–64). In 1982, less than half (45%) of people born during the Depression, from 1928 to 1937 (austerity babies), were financing a mortgage when aged 45–54. By comparison, in 2013, 71% of people born between 1957 and 1966 (mainly baby boomers), were financing a mortgage when aged 45–54. This trend is of particular concern as these households approach retirement without their home and asset base being paid off. For people looking to retire in the next 10 years, 45% of 55–64-year-olds in 2013 were still servicing a mortgage, compared with just 26% in 1982.



Sources: ABS 4130.0 Housing occupancy and costs 1982–83, 1995–96, 2000–01, 2002–03, 2007–08, 2009–10, 2011–12 and 2013–14. Graph based on that published in Ong et al. 2013.

Figure 6.3.6: Proportion of home owners with a mortgage, by age group, selected years

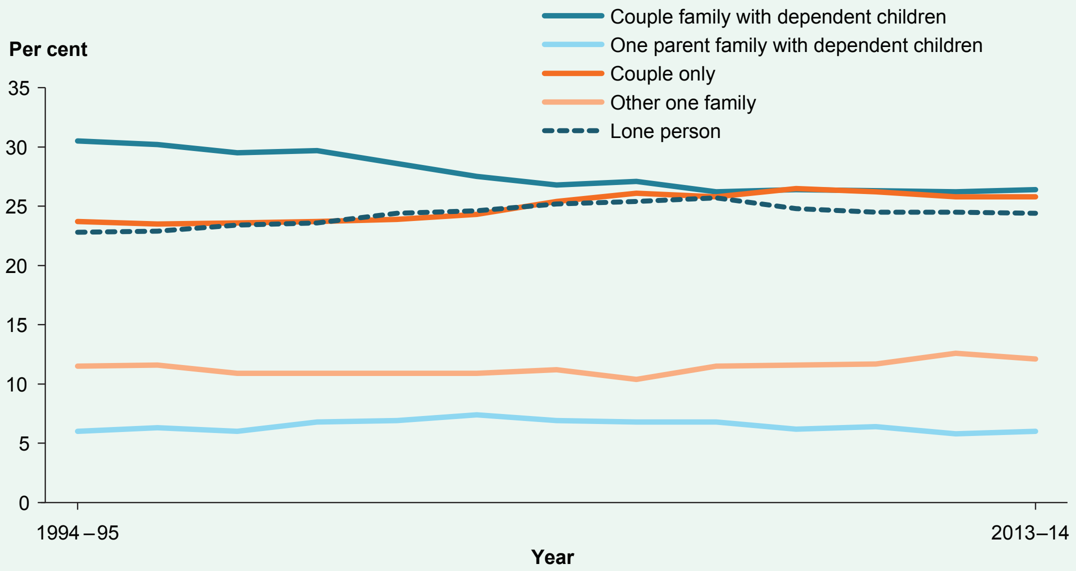
The recent housing boom of the late 1990s has seen house prices rapidly escalate, with corresponding deteriorations in purchase affordability, particularly for people trying to enter the housing market, and those rental households on low incomes. Decreasing levels of housing purchase affordability in Australia have forced many households to adapt by borrowing more, deferring the purchase of a home, moving into more affordable housing (such as apartments and townhouses) and moving to more affordable locations. Despite this, low-income and single-income working age households are increasingly being left out of the home purchase market (Wood et al. 2013).

Australian population—demographic changes and challenges

There is evidence of a decline in household formation since 2006. Between 1994–95 and 2013–14, the Australian population grew by around 31%, with accelerated growth between 2006 and 2013 on the back of increases in overseas migration. Over the same period, the number of households in Australia increased from 6.5 to 8.8 million, a rise of 34% (ABS 2015b). The number of people in these households, on average, has declined steadily for many years; by 2006 it had fallen to its lowest point, 2.5 people per dwelling (ABS 2015b). After this time, households formed at a slower rate than population growth, implying that people were not forming households at the same rate as before. Rising house prices in the face of unaccompanied growth in incomes, a lack of available dwellings (that is, insufficient or mismatched supply) and a lack of affordable dwellings have been proposed as possible reasons for a decline in household formation (AHURI 2016; ABS 2011; Reserve Bank of Australia 2015).

The composition of families is also changing, presenting its own housing challenges (Figure 6.3.7). Family households remain the most common household type, but there have been changes in their composition. Couple families with dependent children have declined from 31% in 1994–95 to 26% in 2013–14, while the proportion of couple-only families (25.8%, up from 23.7%), and multiple-family households (2.3%, up from 1.3%) have all increased.

With family structure changing, so too, are families' housing choices and preferences. The challenge is for housing options to be responsive, flexible and affordable to meet this change. For example, as the numbers of lone-person and couple-only households grow, these households may increasingly seek smaller dwellings. Increases in non-nuclear family households are likely to expose a growing number less likely to have the financial resources, or the need, to buy a large single family home. Other challenges include having sufficient options for older households who may prefer to age in their own home or in alternative appropriate accommodation.



Sources: ABS 4130.0 Housing occupancy and costs, selected years between 1994–95 and 2013–14.

Figure 6.3.7: Family composition of households, 1994–95 to 2013–14

Future projections forecast 4.3 million more households in Australia by 2036, increasing from 8.4 million in 2011 to between 12.6 and 12.7 million in 2036 (ABS 2015c), an increase of between 49% and 51%. There were about 7.8 million Australian households living in private dwellings in 2011, estimated to increase by 49% to 11.6 million by 2031. Family households are projected to have the largest increase over the projection period, remaining the most common household type in Australia.

Housing affordability: trends and distribution

Given current population projections, demand for housing will continue to grow. This increased demand will put pressure on dwelling prices, with a particularly adverse effect for low-income households.

A number of factors influence house prices, and therefore housing affordability (Box 6.3.1).

Box 6.3.1: Determinants of housing affordability in Australia

Demand for housing is influenced by factors such as:

- population growth
- changes in household composition
- economic circumstances, such as household income and the number of income earners in the household
- interest rates and access to affordable finance
- tax settings
- attractiveness to investors (profitability and percentage returns) compared with the asset classes
- rental prices and availability
- consumer preferences, such as the size, location, tenure and quality of housing; the balance between housing costs and the costs of transport; and demand for second/holiday homes.

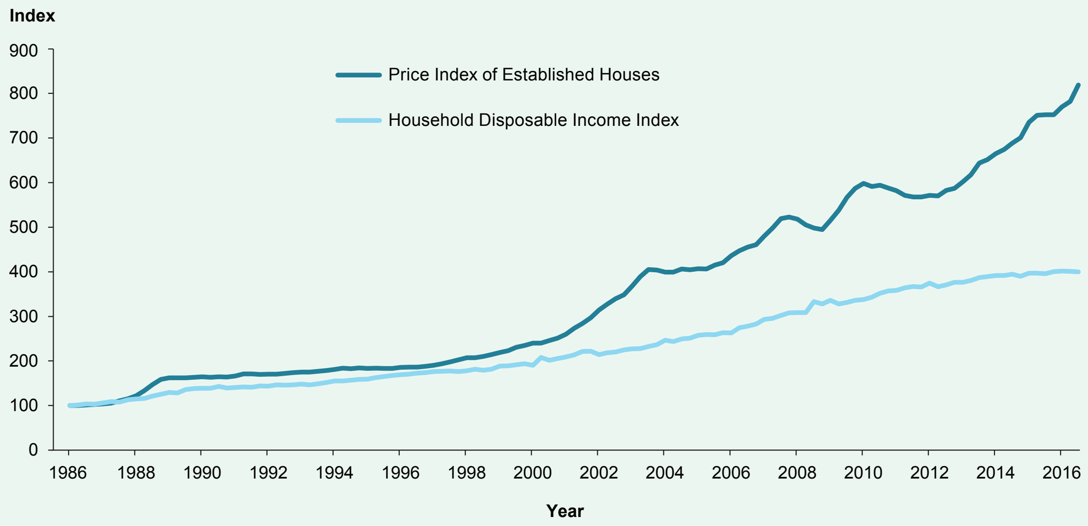
The supply of housing is influenced by a range of factors, such as:

- land availability, such as zoning and restrictions on land tenure that do not readily permit land to be developed, sold, or individually owned
- land release and development processes, including fees and regulation
- the costs of construction and providing essential infrastructure, such as water, power, and sewerage
- the availability of skilled labour in the construction industry
- the level of services (such as public transport) and employment required to attract households into locations
- government taxes and subsidies
- interest rates and access to affordable sources of development finance.

Sources: Adapted from PM&C 2014; Kirchner 2014; NHSC 2009; The Senate Select Committee on Housing Affordability in Australia 2008; URC 2008.

The gap between household income and dwelling prices in Australia has widened over the past 3 decades, creating a barrier to home ownership for many (Burke et al. 2014) (Figure 6.3.8). This gap has been fuelled by rapid house price growth, after the financial system was deregulated, with the total value of Australian housing estimated to be $6.5 trillion (CoreLogic RP Data 2016a).

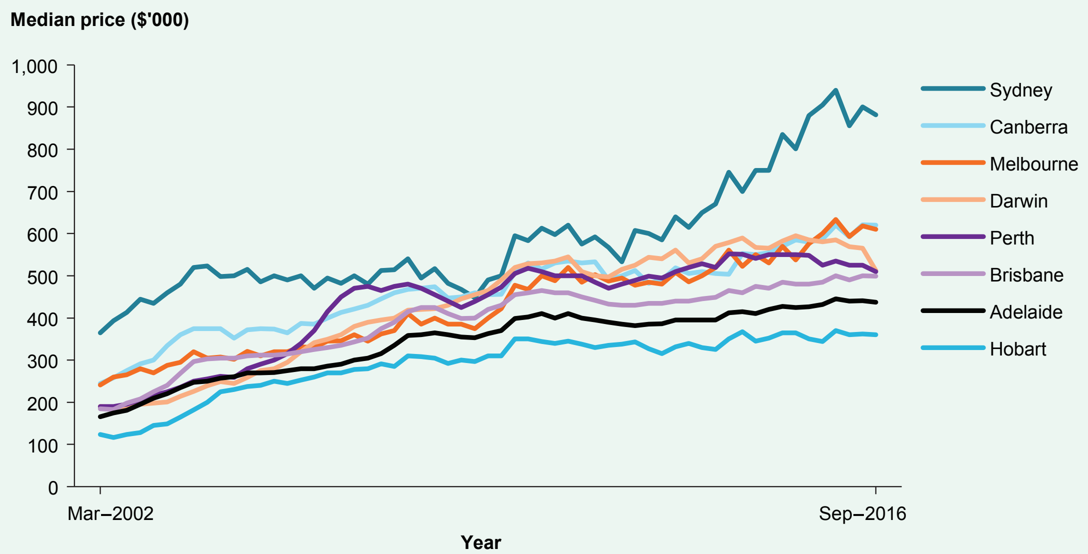
House prices in Australia have increased substantially in recent decades. The OECD noted in its biennial survey that they have reached unprecedented highs in Australia, increasing by 250% in real terms since the 1990s (OECD 2017a). The impact of higher house prices has been partially offset by lower mortgage interest rates, increased credit availability and changes in financial agency practices. These favourable lending conditions and low interest rates have encouraged buyers into the market, despite the growth in house prices themselves.



Sources: ABS cat. no. 5206.0 various years; ABS cat. no. 6416.0 various years. Graph based on that published in Burke et al. 2014.

Figure 6.3.8: Established house prices compared with household disposable income, Australia, 1986 to 2016

As Figure 6.3.9 shows, house price growth has not been uniform across Australian cities. Sydney prices have seen the steepest rises, particularly in the past 5 years, and are the most expensive. By contrast, Hobart has the lowest median house price, currently less than half that of Sydney.



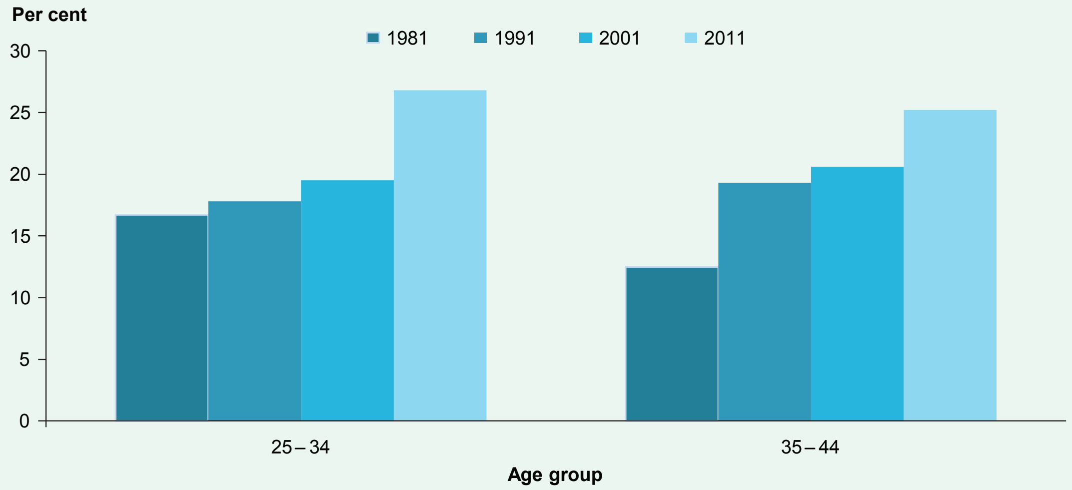
Note: Capital cities have been ordered from highest to lowest median price as at September 2016.

Source: ABS 2016a.

Figure 6.3.9: Median price of established houses, by capital city, March 2002 to September 2016

Australian Institute of Health and Welfare 2017. *Australia's welfare 2017*. Australia's welfare series no. 13. AUS 214. Canberra: AIHW.

With house prices outpacing income growth, repayment affordability is affected. The cost of mortgages rose substantially in the 30 years to 2011 (Figure 6.3.10). This rise has been particularly felt by younger home buyers. The proportion of median household income spent on mortgage repayments increased by more than 50% for people aged 25–34 between 1981 and 2011. This proportion more than doubled over the same period for people aged 35–44, with this age group paying around 25% or more of their median household income on mortgage repayments (Burke et al. 2014).



Note: Data are for all purchasers in these age groups.

Source: Burke et al. 2014, based on ABS Census unit record files, various years.

Figure 6.3.10: Median mortgage as a percentage of median household income, by home owners with a mortgage and age group, 1981, 1991, 2001 and 2011

What is affordable, to whom and where?

Generally, measurements of housing affordability focus on quantifying housing stress as a proxy for all housing affordability driven outcomes (Gabriel et al. 2005; Rowley & Ong 2012). Measurements of housing stress primarily focus on the financial aspects of housing affordability, ignoring the wider non-financial impact of housing quality, location, economic participation and social and neighbourhood issues. A key issue with common housing stress measures (for example, house price to income ratio and the 30:40 rule—that is, housing costs below 30% of household income for the bottom 40% of the household income distribution) is that they include buyers and renters, but ignore people trying to enter the housing market.

The concept of affordability means different things to different people and households, and it depends on the housing situation. Affordability for home owners relates to purchase and repayment expenses; for renters, it relates to rental expenses. For the highest income households, affordability is a matter of exercising choice, rather than being restricted in accessing the market. For people with more modest means (with lower income and/or accumulated wealth assets), affordability is, and remains, a major issue and affects their ability to access the housing market.

The level of affordability experienced by buyers is influenced by many factors, including interest rates, asset wealth, dwelling prices, household composition, and the level of household income (Box 6.3.1).

From June 1993 to June 2016, the standard variable interest rate for housing loans fluctuated but trended downward, decreasing from 9.50% to 5.35%. This has helped people with a mortgage, but not renters. House prices have outpaced income growth over the past decade, contributing substantially to the decline in purchase affordability, particularly for lower income renters, and single-income households.

Affordability for rental households

For households renting, affordability is also declining (Hulse et al 2014). Stronger demand for housing generally leads to a tighter rental market, which has a disproportionate impact on lower income private renters.

The proportion of Australians in private rental is higher than ever before, with more than one quarter (26%) of the population renting in 2013–14, compared with just 18% in 1994–95 (ABS 2015a). Over the same period, renters have had a 62% (or $144) increase in average weekly housing costs. This is substantially higher than for owners with a mortgage (42%) or public housing renters (45%) over this time (ABS 2015b).

The number of lower income households renting has also grown; there were an estimated 1.3 million households in 2013–14. The proportion of these lower income rental households in rental stress (spending more than 30% of their gross income on housing costs) (see Chapter 9.2 'Indicators of *Australia's welfare*') has also increased. Half (50%) of the estimated 1.3 million lower income rental households were in rental stress in 2013–14, up from 40% in 2007–08 (ABS 2015a). For lower income households renting in the private market (about 912,500), 62% were in rental stress in 2013–14. The growing population of lower income households who are private renters represents a growing divide in home ownership and wealth inequity in Australia.

Affordability for households entering the market

Research indicates that it is future households that will face major affordability constraints (Eslake 2013; Rowley & Ong 2012). The barriers to purchasing a home are increasingly an issue for younger Australians and lower income households as they try to become home owners.

To highlight the difficulty in entering the housing market, the AIHW analysed a cross section of the community, to examine their opportunity to buy a home in the 2013–14 market. The population included private renter households who did not own a property—an estimated 2.3 million private rental households. An affordable dwelling price was estimated (affordable price point) using median gross household income data applied in a mortgage calculation for particular household or income groups in each Australian capital city (see 'Methods and conventions' section of this report for supplementary technical information related to the purchase affordability indicator; S6.3.1). Income data vary considerably across capital cities and therefore create quite different affordable price points; hence, outcomes are relative for each city. The proportion of dwellings sold in each capital city at or below these price points was calculated, providing an insight into the prospects for people wanting to get into the housing market. This analysis excluded Australians who were housed through social housing programs or who received government subsidised rent, as these households have different financial situations (and incomes) and are less likely to be in a position to buy a house.

Only about 1 in 6 (15%) of all dwellings sold in Australia in 2013–14 could have been bought by private rental households in Australia earning the median household income (CoreLogic RP Data 2016b).

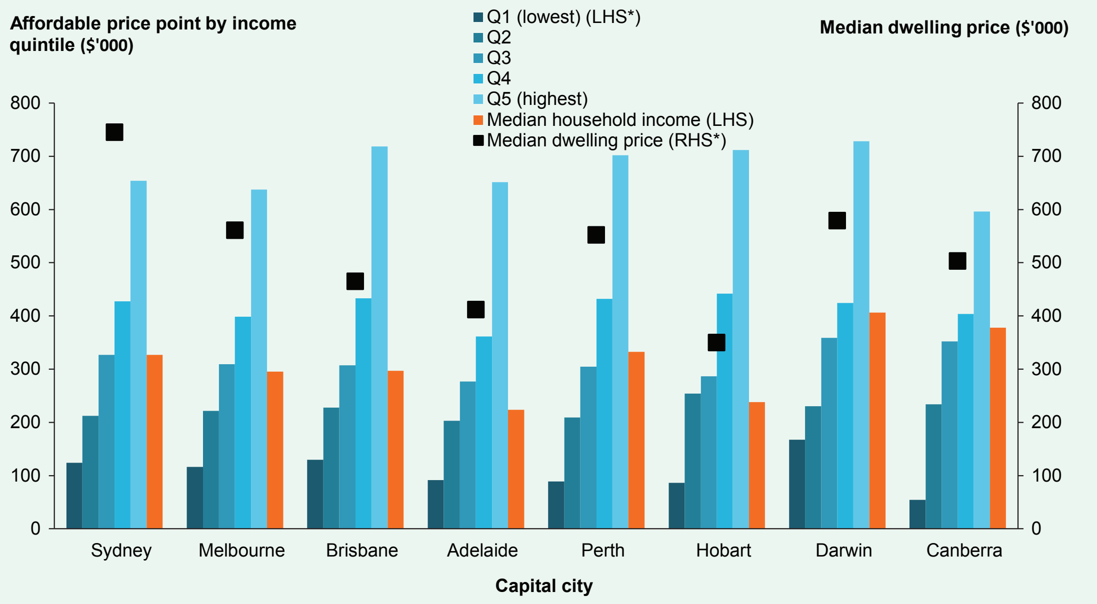
Of the 544,875 dwellings sold in Australia in 2013–14, 71% were in capital cities, with the remaining 29% across the rest of the states/territories. This reflects the distribution of the Australian population.

AIHW analyses of affordable purchase price data show the influence of broad location, income and household composition on the potential of rental populations to buy a dwelling in capital cities in Australia in 2013–14. The analyses reveal a notable degree of 'unaffordability' for these households.

Household income and affordability

Across all capital cities, both the median house and unit price exceeded the calculated maximum affordable dwelling price for the median income rental household.

The gap between the affordable price point for the median rental household income and median dwelling price was most pronounced for households in Sydney, with a median house price of $745,000. This figure is higher than even the affordable price point for the highest income quintile (Figure 6.3.11).

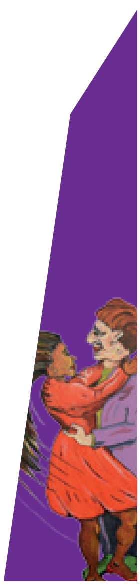


Note: Equivalised disposable household income is household incomes that are adjusted to enable analysis of the relative wellbeing of households of different size and composition, using an equivalence scale.

* LHS = left hand side; RHS = right hand side.

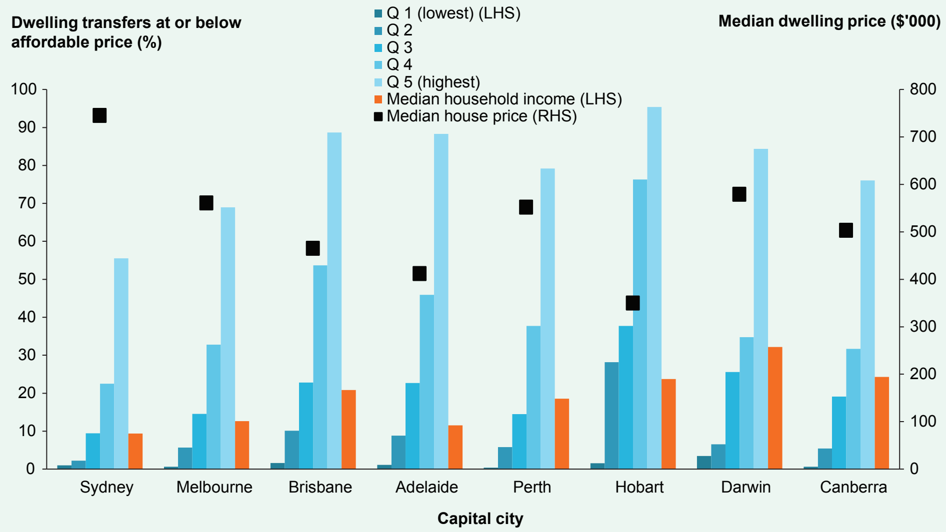
Sources: AIHW analysis of ABS 2016b; CoreLogic RP Data 2016b.

Figure 6.3.11: Median price of established houses and maximum affordable price points, by equivalised disposable income quintile and capital city, 2013–14



AIHW

Overall, the proportion of dwellings sold that were affordable to the median income rental household across the capital cities ranged from 9.4% in Sydney to around 32% in Darwin (Figure 6.3.12). These locational differences are driven by differences in household incomes and the distribution of the prices of dwellings sold during 2013–14.



Note: Equivalised disposable household income is household incomes that are adjusted to enable analysis of the relative wellbeing of households of different size and composition, using an equivalence scale.

* LHS = left hand side; RHS = right hand side.

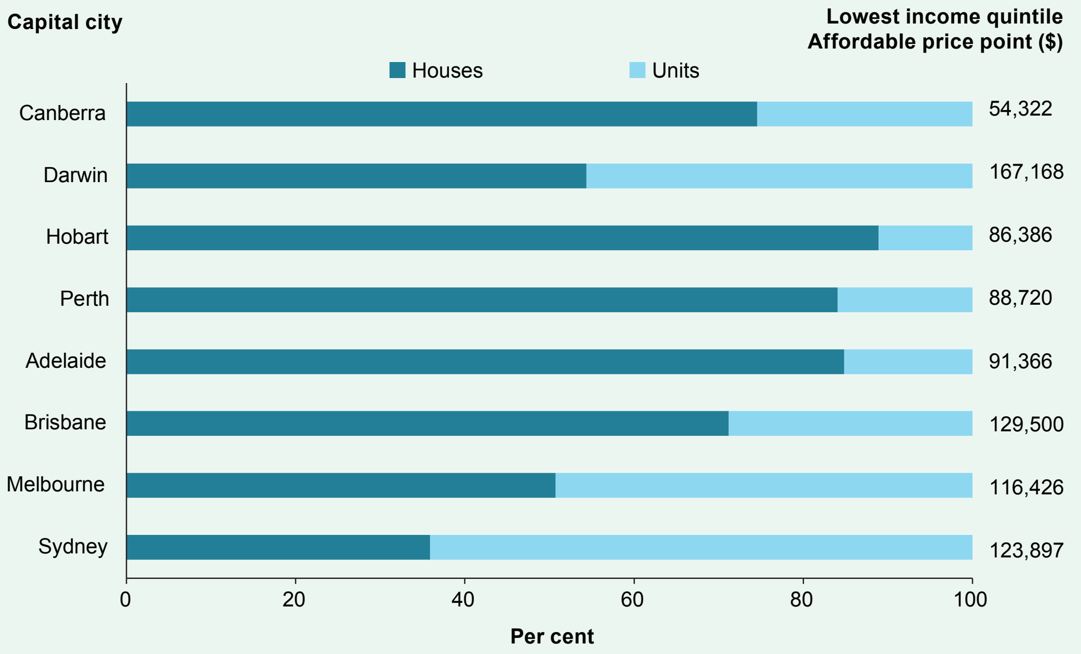
Sources: AIHW analysis of ABS 2016b; CoreLogic RP Data 2016b.

Figure 6.3.12: Median price of established Australian houses and proportion of dwellings transferred at or below the maximum affordable price point, by equivalised disposable income quintile and capital city, 2013–14

For rental households in the lowest equivalised disposable household income quintile (the lowest income earners), there were considerably fewer opportunities to enter the property market. For example, from less than 1% of dwellings sold in Perth to 3.5% in Darwin were affordable for these households (Figure 6.3.12).

By comparison, households in the highest equivalised disposable household income quintile, (the highest income earners) could afford to buy up to 95% of dwellings sold in Hobart and more than 75% of dwellings in all other capital cities, except for Sydney and Melbourne. Only 56% of dwellings sold in Sydney were affordable to the highest income earners and 69% in Melbourne.

There were not only fewer opportunities for financially constrained households to buy an affordable property, but also limited choice in the type of dwelling, depending on location (Figure 6.3.13). Sydney was the only capital city where there were more units than houses transferred below the affordable price point for people in the lowest two income quintiles (quintile 1, 64%; quintile 2, 52%). In Darwin, Melbourne and Brisbane, where the affordable price point was also high, renters in the lowest income quintile would have had fewer opportunities to buy a house than renters in capital cities with lower affordable price points (Hobart, Adelaide, Perth and Canberra). These analyses imply that, for renters in the lowest income quintile living in capital cities with the highest affordable price points, choice of dwelling type would be constrained.



Note: Equivalised disposable household income is household incomes that are adjusted to enable analysis of the relative wellbeing of households of different size and composition, using an equivalence scale.

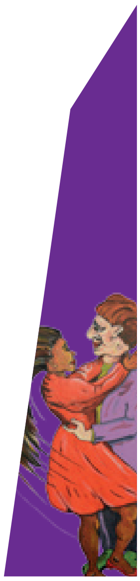
Source: AIHW analysis of CoreLogic RP Data 2016b.

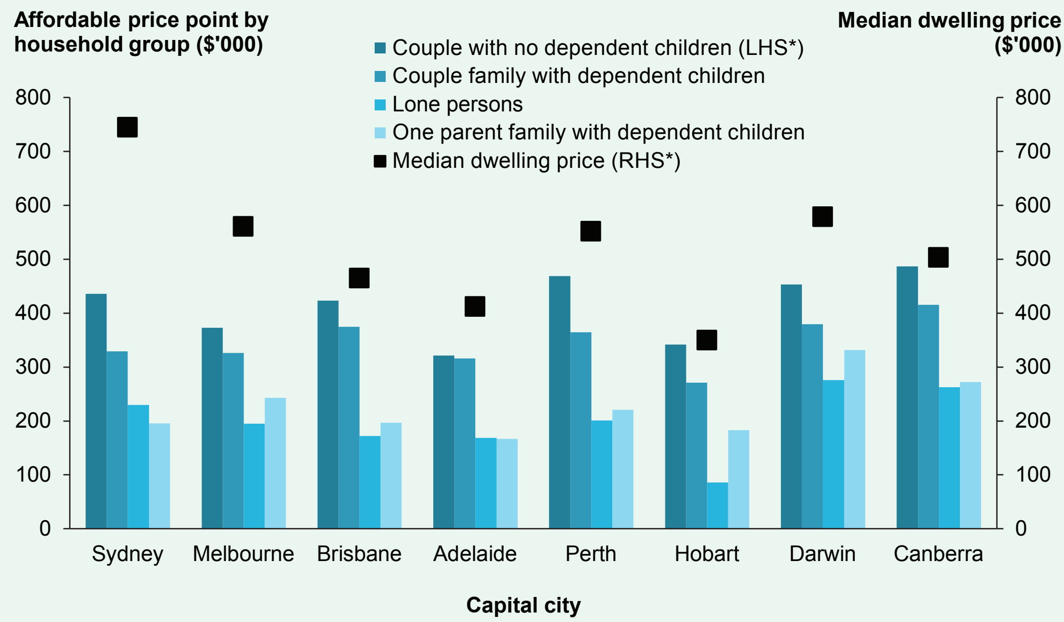
Figure 6.3.13: Proportion of houses and units transferred at or below affordable price points for lowest equivalised disposable income quintile, by capital city, 2013–14

Household composition and affordability

Purchase affordability is influenced not only by household income, but also by the composition of the household itself. Households with a single income and/or dependants have reduced borrowing capacity, while the adequacy of the dwelling is influenced by family size. While calculated affordable price points varied across household types and capital cities, one thing remained constant: the median house price across all capital cities was above the maximum affordable dwelling price point across all household types.

For certain household types, the gap between median income and affordable price point was greater than others (Figure 6.3.14). Across most capital cities, this gap was largest for lone-person households, followed closely by single-parent households with dependent children.





* LHS = left hand side; RHS = right hand side.

Sources: AIHW analysis of ABS 2016b; CoreLogic RP Data 2016b.

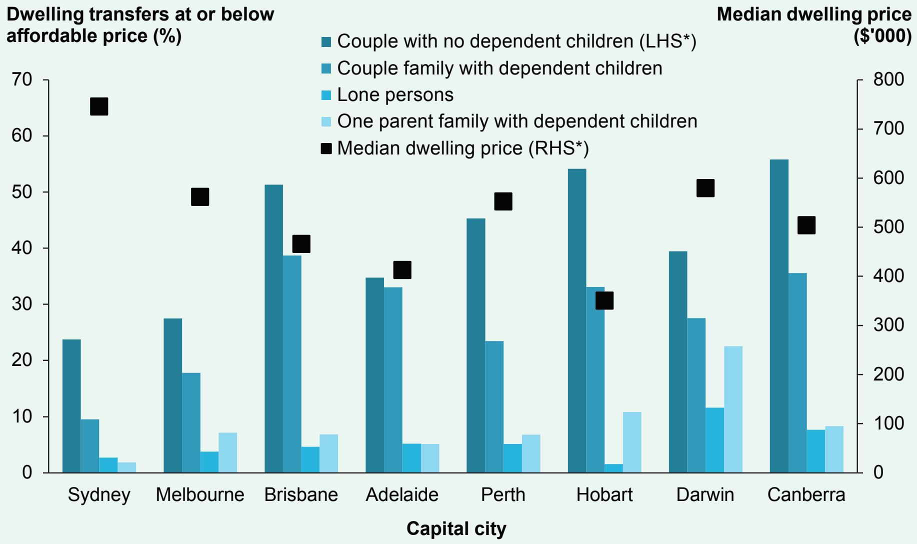
Figure 6.3.14: Median price of established Australian houses and affordable price points, by family composition of household and capital city, 2013–14

The vast majority of affordable dwellings transferred across all Australian capital cities in 2013–14 were not affordable for single-income households; that is, one-parent families with dependent children and lone-person households (Figure 6.3.15).

Sydney was the least affordable capital city. For single-income households, just 1.8% (or 2,144) of dwellings sold in 2013–14 were deemed affordable, and for lone-person households just 2.7% (or 3,180). A similar trend was observed for single-income and lone-person households in the four other capitals, ranging from a 10% in Adelaide to 12% in Perth and Brisbane.

Couples with no dependent children had the greatest opportunity to buy a house across all capital cities. For example, a couple with no dependent children earning the median income could have bought about half of all dwellings sold in Canberra, Hobart, Perth and Brisbane. However, in Sydney, even these households could only have bought around 24% of properties.

These data show that, for most rental households across most income quintiles, median house prices were well above what these households could comfortably afford. Despite this price issue, the Australian housing market continues to grow, with more and bigger houses being bought. Higher income earners accessing bigger and better homes, and investors entering the housing market, have been responsible for some of the economic pressures contributing to rising real house prices.



* LHS = left hand side; RHS = right hand side.

Sources: AIHW analysis of ABS 2016b; CoreLogic RP Data 2016b.

Figure 6.3.15: Median price of established Australian houses and proportion of dwellings transferred at or below the affordable price point, by family composition of household and capital city, 2013–14

Housing assistance

Direct housing assistance

Increasing affordability issues have the potential to increase the number of households in housing stress and hence the demand for direct housing assistance. A range of incentives and programs are available to directly assist low-to-moderate income households and households who are particularly disadvantaged or vulnerable. These include measures to help households pay for housing, to increase the supply of affordable housing and to assist with rental subsidies and the provision of social housing.

Social housing programs are available for lower income Australians who need housing and meet eligibility criteria. Latest figures estimate that Australia has nearly 433,000 social housing dwellings (public rental housing, mainstream community housing, state owned and managed Indigenous housing, Indigenous community housing). This stock, however, is shrinking; it is not keeping up with household growth (4.7% in 2016, down from 5.1% in 2007–08) (AIHW analysis of National Housing Data Repository), effectively reducing the number of social housing dwellings available. The composition of the 'Australian population' accessing social housing assistance has changed over time, with the most disadvantaged groups (for example, the homeless, people with disability, and Indigenous populations) accounting for a growing proportion of people who receive housing assistance (see also Chapter 6.1 'Social housing').

A growing proportion of Australians are renting in the private market, including many lower income households. As social housing dwellings as a proportion of all dwellings decrease, lower income households find themselves having to rent in the private market. Where lower income households remain in the private rental market, they may be helped financially through the CRA scheme. The growth of the CRA over the past 10 years, both in terms of the number of recipients and government expenditure, indicates a growing reliance on this funding in a rental market with increasing rental costs and a growing population of lower income renters. The number of CRA recipients increased by 43% to 1,346,000 income units in 2015–16, while real government expenditure increased to nearly $4.4 billion, up from $2.6 billion over the same period.

An adequate supply of affordable, sustainable rental housing is a key requirement to meet the increasing demand on social housing. The Australian Government has responded to this need by establishing an Affordable Housing Working Group, following a request from state and territory Treasurers at the Council on Federal Financial Relations meeting in October 2015. The Working Group's final report was considered by Treasurers in December 2016. Following this, the Australian Government established an Affordable Housing Implementation Taskforce that is investigating innovative ways to harness private sector investment in the social housing sector including through the National Housing Finance and Investment Corporation (NHFIC). NHFIC will operate an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer-term finance to registered providers of affordable housing.

Indirect housing assistance and affordability

Indirect housing assistance provided through so called tax expenditures (for example, capital gains tax and negative gearing) is a major contribution towards housing assistance in Australia.

The value of housing tax expenditures reported for 2015–16 was about $60 billion (Table 6.3.1), an increase of almost 40% since 2005–06. This increase reflects the increase in housing wealth accumulated over this period.

In 2015–16, indirect assistance to owner–occupiers via the capital gains tax exemption on the family home was estimated at almost $55 billion (Table 6.3.1) in the 2015 Tax Expenditures Statement (Treasury 2016b).

The 50% discount on capital gains was estimated to provide up to a further $6 billion to investors in residential property in 2015–16.

These estimates represent an upper bound of the benefits to housing investors, since the data apply to all investments that generate capital gains. The Grattan Institute provided an estimate of about $5 billion in 2011–12 from the capital gains tax discount for investors in residential property, to which it adds about a further $2 billion, considering the negative gearing opportunities provided by the asymmetric treatment of income and expense (Kelly et al. 2013). As at 2011, total quantified tax expenditures were estimated to account for almost 9% of gross domestic product, with housing tax expenditures accounting for around one third of the total (Treasury 2011).

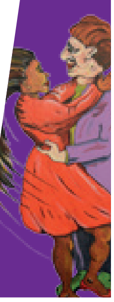


Table 6.3.1: Large housing tax expenditures and capital gains tax 2005–06 to 2015–16 (estimated)

Year	CGT main residence exemption ($b)	CGT discount for individuals and trusts ($b)
2005–06	40	5
2006–07	40	6
2007–08	41	10
2008–09	29	9
2009–10	40	4
2010–11	37	4
2011–12	32	5
2012–13	36	4
2013–14	46	4
2014–15	55	6
2015–16 (estimated)	55	6

* CGT = Capital Gains Tax.

Note: All estimates are based on a revenue foregone approach.

Sources: Treasury 2016b and earlier years.

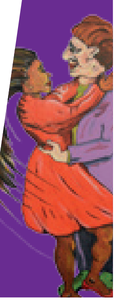
Regardless of what impact measurement issues have on revenue or what tax benchmark is used to identify them, tax expenditures have a substantial impact on the equity and efficiency outcomes of Australia's housing system.

Housing wealth, both in the form of owner-occupied (Figure 6.3.16) and other residential property wealth, has increased more rapidly for households in the highest income quintile over the past decade than it has for households in all lower quintiles. Households in the top income quintile, therefore, have benefited more from the tax concessions accorded to owner-occupied housing and to investment housing than have all other households.

Tax concessions that exempt some or all the income earned from housing—whether this is earned by owner–occupiers or by investors—make investment and speculation in residential property more attractive than it otherwise would be (Treasury 2010).

Investors compete directly with potential home buyers; established owners are encouraged to improve their housing living standards. Both responses add to demand pressures in the housing market. In light of the relatively sluggish supply responses across Australia, they contribute to upward pressures on dwelling prices and to the increasing difficulties faced by would-be home buyers.

Subsidies for home ownership are often justified because of the associated economic and social benefits. Of these, contributions to wealth accumulation and to protection against poverty in older age are central. As increasing proportions of younger, and particularly lower income households, are excluded from home ownership, these arguments become less compelling. As argued almost a decade ago, tax expenditures support home owners, not home ownership (The Senate Select Committee on Housing Affordability in Australia 2008).



Note: Equivalised disposable household income is household incomes that are adjusted to enable analysis of the relative wellbeing of households of different size and composition, using an equivalence scale.

Source: Reserve Bank of Australia statistics, Analysis of Australian Housing and Urban Research Institute data.

Figure 6.3.16: Ratio of quintile median dwelling wealth of primary residence to median dwelling wealth of all households, by equivalised disposable income quintiles, 2002, 2006, 2010 and 2014

Direct housing assistance, such as that provided through CRA, is often justified on equity grounds. This assistance is relatively tightly aimed at lower income households at risk of facing financial stress as a result of high housing costs in the private rental market. Indirect housing assistance, however, is not so focused, with the greatest assistance going to high-income and high-wealth households. This inequitable distribution of assistance has been well documented over the past 25 years.

What is missing from the picture?

With generational changes occurring with home ownership, there is limited information in the following areas:

- the housing aspirations of different population groups—whether by choice or necessity, what trade-offs are individuals and households willing to make when it comes to housing? Population groups of particular interest include, for example, youth, aged people, the homeless, people with disability and Indigenous people. Trade-offs might include increased mortgage repayments during periods of low interest rates, increased indebtedness, tenure options, location, and quality across the life course
- measurements of affordability—these are currently limited to measuring the cost burden on households and do not include, for example, the wider non-financial impact of housing quality or location
- housing stress—this measure examines only the position of households currently in home ownership; it does not quantify, for example, the would-be households who are unable to form.

The supply of housing and drivers of supply are outside the scope of this article.

Australia's welfare 2017

Where do I go for more information?

More information on housing assistance in Australia is available at: www.aihw.gov.au/housing-assistance/haa/2016/. More information on OECD housing affordability measures is available at: http://www.oecd.org/social/affordable-housing-database.htm.

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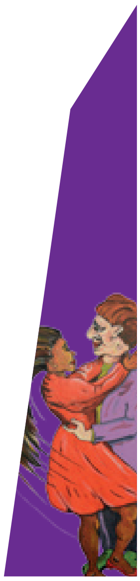

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