

Long Run Trends in Victorian Housing Affordability and Tenure Shares

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ABSTRACT

The recent house price cycle has highlighted concerns about housing affordability. But is the recent deterioration in housing affordability a short-term problem, or is it a continuation of long-term trends? The Productivity Commission notes that the recent deterioration in housing affordability reflects cyclical price pressures, and these will eventually be reversed (Productivity Commission 2004: xii). In other words, fluctuations in house prices (and rents) are inherent features of the housing market; once prices (and rents) stabilise, housing will become more affordable as incomes catch up.

We aim to address this issue by comparing housing affordability and tenure share trends from 1981 to 2001. Specifically, we look at households by income quintiles and age group in Victoria. We find that housing affordability has deteriorated, particularly for those in the lowest two income quintiles. Most importantly, deterioration is not restricted to one inter Census period. It is a trend that is evident through every inter Census period from 1981 to 2001. Furthermore, we find that among younger households, those under 35 years of age, the share of home purchasers and outright owners is in long-run decline. This is particularly apparent amongst home owners in the two lowest income quintiles.

These patterns could reflect delay in making the transition into homeownership rather than the thwarting of homeownership aspirations over the life course. Even if it is a delay, there is a policy concern, because more people are approaching pensionable age with high levels of mortgage debt. Our findings indicate a long-run trend deterioration in housing affordability. We expect the situation to have worsened as interest rates have risen since 2001, and house prices continued to increase into 2003.

INTRODUCTION¹

Some commentators claim that the recent worsening of housing affordability is a short run or cyclical phenomena. This argument assumes that once house prices stabilise, as they have in most cities in the past year or so, income growth will ease housing

¹ The research for this paper was commissioned by the Department of Premier and Cabinet, Victorian State Government as part of the “Analysis and Development of Indicators and Data Sets for the Housing Affordability for Low Income Victorians” project. The authors wish to acknowledge the assistance of Alan Gray in obtaining the census data that is used in this study. An earlier version of this paper was presented at the National Cities Conference, Brisbane, November 30th – December 2nd 2005.

affordability as capacity to pay catches up with higher prices. In the rental sector average rents seem to track general inflation quite closely, and this observation can be interpreted as a sign that housing affordability concerns in this tenure are exaggerated, particularly if real incomes increase.

The 2005 Productivity Commission report into First Home Ownership appears to lean toward such a perspective on first home purchaser housing affordability. It claims that fluctuations in housing affordability are inherent features of the housing market. It notes in the key findings that affordability measures have fallen to relatively low levels in the year or so preceding the report's publication (Productivity Commission (2004:xii). The Productivity Commission report contrasts with the message signalled by the Barker Review (2004) in England. It notes that in the ten years to 2002 output of new homes was 12.5% lower than for the previous ten years despite a house price boom. This weak supply has coincided with a worsening of housing affordability *between cycles*.

This issue is clouded by the frequent use of aggregate measures of housing affordability that can mask divergent trends for people who belong to different income groups and communities. It is likely that divergent trends will be evident in Victoria if the recent pattern of average taxable incomes across postcodes is an indicator. Consider, for example, average taxable incomes in the 5 poorest and richest postcodes in Melbourne between 1995/96 and 2002/03, a period coincident with the recent house price boom. According to Australian Taxation office figures, average real taxable incomes increased by 43% (from \$55,834 to \$79,910) in the 5 richest postcodes, but by only 2% (from \$24,930 to \$25,434) in the 5 poorest postcodes.²

This paper focuses on two key issues. Is housing affordability worsening in Victoria over a 20-year period 1981-2001 that covers two house price booms? Do the trends in housing affordability differ across income groups in Victoria? We explore these issues using customised matrices produced by the Australian Bureau of Statistics from successive Censuses of Population and Housing covering the 20-year period 1981-2001. The paper considers the housing affordability position of both owner-occupiers and renters, and also asks whether younger Victorians are finding it increasingly difficult to make the transition into home ownership.

The remainder of the paper is organised as follows. Section 1 briefly reviews the Australian literature on housing affordability trends. Section 2 presents our analysis of census data for the period 1981-2001, which includes both housing affordability and tenure share trends. A Conclusion identifies key findings and policy implications.

BACKGROUND

The official figures, as released in ABS (2004) *Housing and Occupancy Costs*, suggest that in recent years (1995-2000) there is little evidence of a housing affordability crisis in Australian housing. Table 1 shows that for all households, the housing cost burden remained unchanged at 12 per cent of household income. The burden for lower income households is higher, but it also remains stable with only a

² The pattern is similar if we widen the comparison to the ten richest (an increase of 37% in real taxable incomes) and the ten poorest postcodes (an increase of 9% in real taxable incomes). Taxpayers in the 10 richest (poorest) postcodes account for 2.9% (1.8%) of all taxpayers in Melbourne in 2002/03.

small one-percentage point increase (from 26 percent to 27 percent of household income) for households in the lowest income quintile.

Table 1 Housing costs as a proportion of income, by income quintile, 1995-96 and 2000-01

Equivalentised disposable household income	Housing Costs as a Proportion of Income	
	1995-96	2000-01
Lowest quintile	% 26	27
Second quintile	% 16	15
Third quintile	% 13	13
Fourth quintile	% 11	13
Highest quintile	% 10	9
All households	% 12	12

Source: ABS, *Housing and Occupancy Costs* (2004) Cat. No. 4130.0.55.001

Table 2 shows that between 1995-96 and 2000-01 there is also stability in tenure shares with the homeownership rate falling only slightly from 71 per cent to 70 per cent. This masks an increase in the share of owners with a mortgage (owner purchasers) and a corresponding decline in the share of outright owners *despite population ageing*.

Table 2 Household tenure, 1995-96 and 2000-01

		1995-96	2000-01
Owner without a mortgage	%	42.8	38.2
Owner with a mortgage	%	28.1	32.1
Owner Occupier	%	70.9	70.3
Renter			
State/territory housing authority	%	6.0	5.0
Private landlord	%	19.0	21.0
Total renters	%	26.9	27.4
All households	%	100.0	100.0

Source: ABS, *Housing and Occupancy Costs* (2004) Cat. No. 4130.0.55.001

In fact, home-ownership rates have remained stable since reaching a peak of 70 per cent in the 1960s, though some commentators are now expressing concern about a future decline in the high rate of homeownership because fewer younger people are making transitions into home ownership (Percival 1998; Yates 2000; Mudd et al 2001; Burke and Ralston 2003). This trend of delayed homeownership amongst younger people emerged in the early 1980s (Bourassa *et al.* 1995). Yates (2000) identifies specific household types and income groups that have declining rates of homeownership between 1975 and 1994. In particular, the most noticeable decline in homeownership has been amongst younger low-income couple households with children. The decline in numbers of first home buyers has been attributed to younger people deferring entry into the housing market because of factors such as delays in relationship formation (Baxter and McDonald 2004), or increasing financial impediments to first entry into home ownership (Productivity Commission 2004).

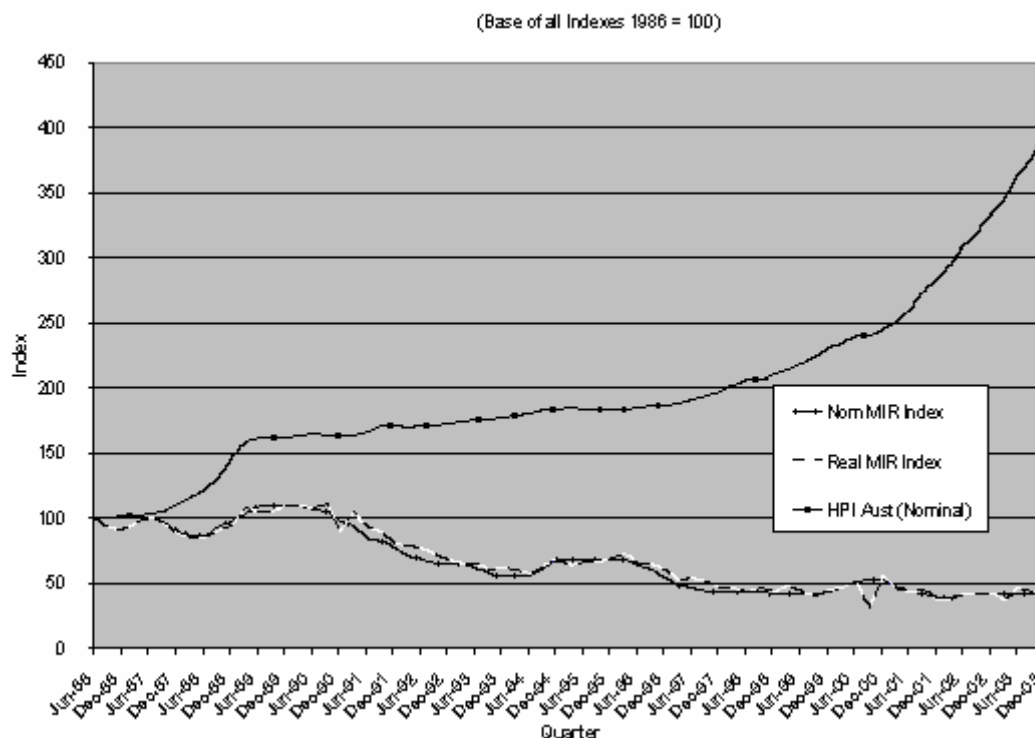
Complementing the work of Mudd et al. (2001) and Yates (2002), Burke and Ralston's (2003) study shows increasing intergenerational changes in the home owner and private rental tenure shares using the Household Expenditure Survey (ABS Cat. No. 6535.0). They demonstrate that 39 per cent of the 20-34 age cohort rented

privately in 1975-76, but this had increased to 50 per cent in 1998-99. Home purchase rates for this age cohort declined from 49 to 36 per cent in the same period. Similarly, Stone (1998) uses the Australian Family Life Course Survey (undertaken in 1996) to show that the rate of entry into homeownership for people under 30 has declined significantly since the 1970s, especially those on low incomes.

Evidence of declining rates of home ownership among low-income households implies an increased reliance on rental housing, and private rental housing in particular given declining public housing stocks. For example, the New South Wales Government states (Productivity Commission 2005) that rates of home purchase have declined in NSW, which in turn has seen an increased reliance on rental accommodation, particularly for households in the 15 to 44 age bracket.

Most commentators would agree that these tenure trends are linked one way or another with increasing housing costs and prices. Figure 1 shows that during the first half of the 1990s (nominal) house prices were relatively flat. But from 1996 onwards house prices spiralled, increasing much more rapidly than household income. Housing cost burdens for home purchasers increased according to the Affordable Housing National Research Consortium (AHNRC, 2001), and for Sydney home purchasers in particular (Randolph and Holloway, 2002). Yates (2000) and AHNRC (2001) claim that rising housing costs is made more severe for households in the bottom 40 per cent of the income bracket due to a fall in real median household incomes.

Figure 1: Comparison of Nominal and Real Mortgage Interest Rates and Real House Price index



Data Source: Australian Bureau of Statistics. 2003. House Price Indexes, Eight Capital Cities. (Cat. No. 6416.0) Canberra: AGPS. Reserve Bank of Australia. 2004. Indicator Lending Rates. Bulletin Statistical Tables. <http://www.rba.gov.au/Statistics/Bulletin/F05hist.xls>

Figure 1 also shows that real and nominal mortgage interest rates tumbled during the 1990s. Though home purchasers had to borrow more in order to finance purchases at higher house prices, the impact on housing cost burdens was cushioned by lower mortgage interest rates. The greater difficulty confronting home purchasers and first home buyers in particular is meeting the deposit requirements of financial institutions. Wood, Watson and Flatau (2006, forthcoming) argue that a binding deposit constraint was the most important impediment to first transition into home ownership during this period, and AHNRC (2001) suggest there are increasing numbers of households where one full-time earner is insufficient to meet the deposit requirements of financial institutions.

Declining housing affordability in private rental housing is a concern raised by a number of authors. Yates and Wulff (2001) use census data to show that there has been a decline in low rent housing stock. With increasing numbers of higher income households occupying this low rent stock, shortages of rental housing affordable to low income households are evident. A recently released update using 2001 Census data shows that shortages are just as severe as in 1996 (Yates and Wulff, 2004).

On the other hand, Landt and Bray (1997) and Harding *et al.* (2004) are more sanguine about the housing affordability position of private rental tenants. Landt and Bray (1997) offer evidence of decline in real rents, and stable real incomes among private rental tenants that implies improving housing affordability for private renters in the first half of the 1990s. Harding *et al.* (2004) show that there has been a fall in the proportion of private renters experiencing housing affordability stress from 1998 to 2004. They suggest the improved housing affordability position is a consequence of two factors. Firstly, according to Real Estate Institute data, rents have increased modestly between 1998 and 2004, and secondly, the income of many families has risen more rapidly than private rents, hence lifting them out of housing affordability stress. Real average national rents have risen by 24 per cent between June 1991 and June 2001 (ABS, Table 7d, Cat. No. 6401.0), and real average income has increased by 30 per cent (ABS, Table 1, Cat. No. 6302.0).

Berry and Hall (2002) estimate housing affordability stress for those in the private rental market. Despite the indexation of Commonwealth Rent Assistance (CRA) payments to offset the effects of rising rents, many low-income households are paying over 30 per cent of their income in rent. A state-by-state analysis by Burke and Ralston (2003) of average rents as a proportion of real income show a long-term worsening of housing affordability across all states. In Victoria, private rental tenants paid 42 per cent of their income on household costs in 1998-99, compared to 29 per cent in 1975-76. The Burke and Ralston (2003) estimates do not take eligibility for CRA into account. Eligibility for CRA is restricted to private renters in receipt of an Income Support Payment or Family Tax Benefit at more than the base rate, who pay rents above a low rent threshold. This assistance should alleviate housing affordability stress among low-income households but Wood, Forbes and Gibb (2005) show that it is poorly targeted. This is because those persons employed in low wage jobs are typically ineligible, and CRA cuts out at an upper rent threshold leaving private renters in expensive rental housing markets particularly vulnerable to housing affordability problems.

HOUSING AFFORDABILITY AND TENURE SHARES: TRENDS IN VICOTRIA 1981-2001

Most studies of housing affordability and housing tenure trends involve cross section comparisons or examination of short run changes. Many are also conducted at an aggregate level that ignores the varying housing market position of households at different points in the distribution of income. This paper adds to that smaller body of literature (Percival, 1998; Burke and Ralston, 2003; Yates and Wulff, 2005) that examines long run trends in housing affordability and tenure composition of the housing stock. Percival (1998) and Burke and Ralston (2003) describe the trends in housing affordability and tenure shares over the periods 1975/76 – 1997/98 and 1975/76 – 1998/99 respectively. Both studies use ABS Household Expenditure Surveys (HES) as the data source. Burke and Ralston (2003) cross tabulate housing affordability measures and tenure shares by age group and household income quintiles.

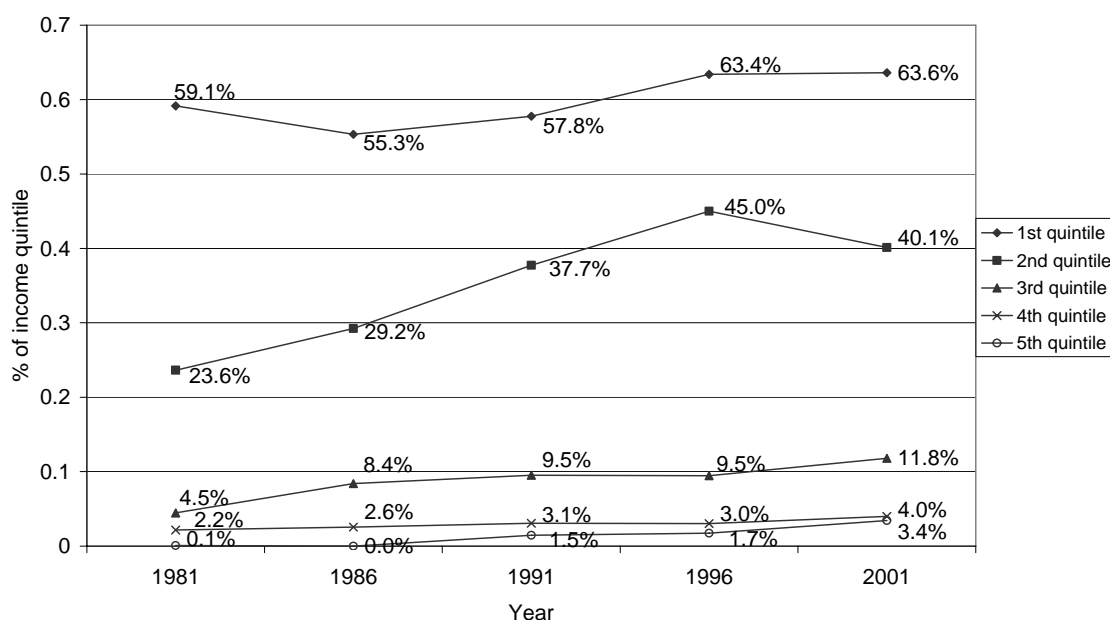


Figure 2 Percentage of renters with gross rents that are 30% or more of income, by income quintile

Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

This study differs in two important respects. Firstly, it uses customised data tables from the ABS Census of Population and Housing, which are not vulnerable to the sampling problems that might arise in using the HES. Secondly, the time frame 1981-2001 of our study captures all but the last two years of the recent house price boom that began in 1996 (see figure 1). It therefore profiles housing affordability and tenure outcomes across two house price cycles that include sharp acceleration in house prices during the years 1988-'90 and 1996-2001.

Figures 2 – 5 chart trends in Victorian rental tenures³. In figure 2 we compare the percentage of renters meeting gross rents that are 30% or more of income across income quintiles. Consider 1981, the beginning of this timeframe. Polarised housing market circumstances are very evident with 59% of renters in the lowest income quintile meeting gross rents that are 30% or more of their income, but only 0.1% of households in the highest income quintile have such a housing rent burden.

The situation of households in the lowest income quintile steadily deteriorates from 1986 onwards, eventually reaching 64% of renters in the poorest quintile who must meet gross rents that are at least 30% of income. If we take public housing tenants out of the picture (see figure 3), a higher proportion of tenants with high housing rent burdens is evident. In 2001, 81% of tenants with non-government landlords and belonging to the lowest income quintile pay 30% or more of income in gross rents. Trends in gross rent burdens are very similar whether or not we include public housing tenants, though private rental tenants in the lowest income quintile experience a small reduction in the percentage paying 30% or more of their income in gross rent from 1996 to 2001. Long run increases in the share of tenants paying 30% or more of income in gross rent are evident in all other income quintiles. In the second lowest quintile there is a sharp increase from 24% of tenants in 1981 to 45% in 1996, before a decline to 40% in the most recent inter-census period.

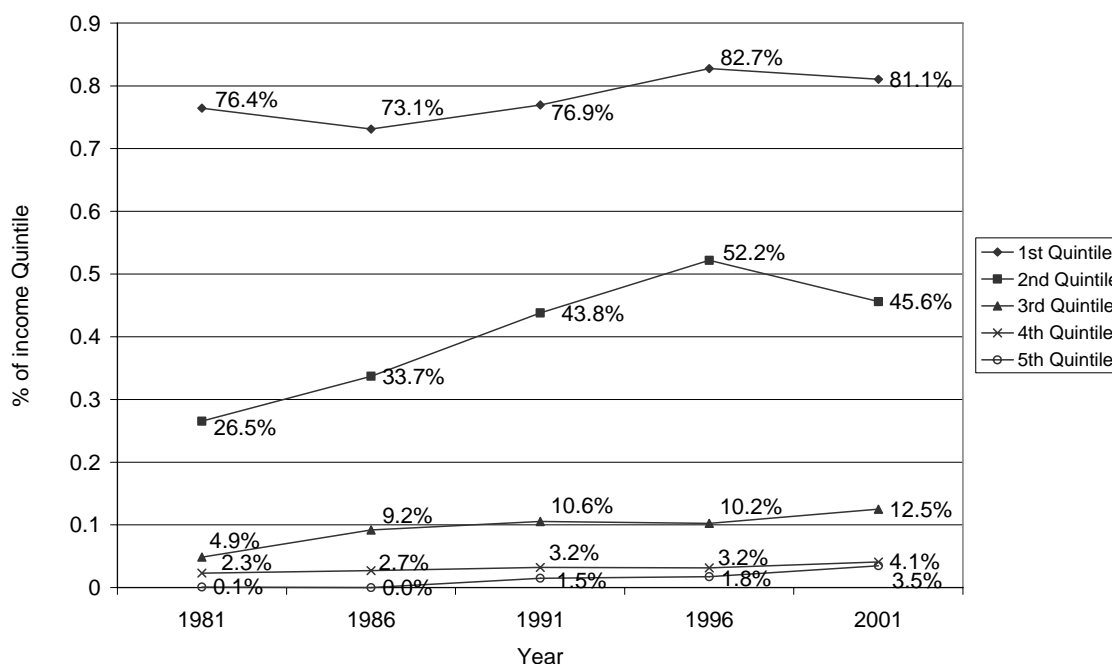


Figure 3 Percentage of renters with gross rents that are 30% or more of income, but excluding public housing renters, by income quintile

Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

³ The table below lists the population numbers of all Victorians in private and public rental. The figures show an increase in both rental tenures between 1981 and 2001.

Numbers of Victorians in private and public rental, 1981-2001

Year	1981	1986	1991	1996	2001
Private	196627	193190	214463	256105	261271
Public	32117	39410	45900	45712	44888

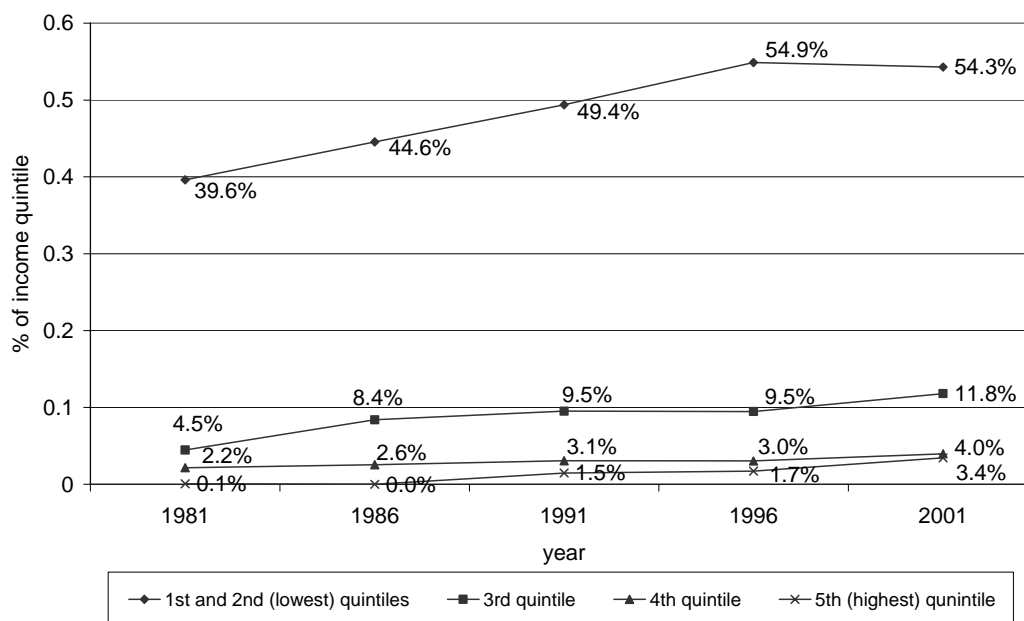


Figure 4 Percentage of renters with gross rents that are 30% or more of income, by income quintile – lowest 2 income quintiles combined

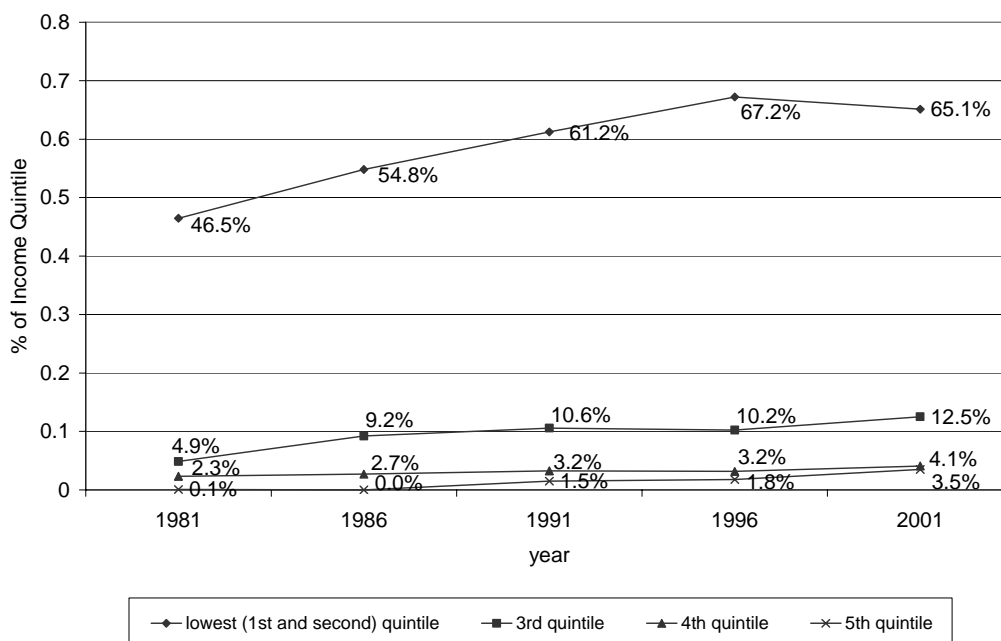


Figure 5 Percentage of renters with gross rents that are 30% or more of income, excluding public housing renters, by income quintile – lowest 2 income quintiles combined

Source (Figure 4 and 5): ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

The Federal Government’s National Housing Strategy of the early 1990s set a benchmark for the definition of housing affordability ‘stress’ at 30% or more of the gross income of households *with incomes that place them among the poorest 40% of households*. This benchmark definition has become a convention among Australian

housing analysts over the years. Figures 4 and 5 combine the lowest two income quintiles to be consistent with the benchmark. Figure 4 considers all renters including public housing tenants. A sharply increasing incidence of housing affordability stress is apparent for the period 1981 (40% of these low income tenants) to 1996 (55% of those low-income tenants), before a marginal decline sets in over the most recent 5-year period to 2001 (54% of those low income tenants). If we exclude public rental tenants the 1981-1996 increase in the incidence of housing affordability problems is steeper, from 47% of low-income tenants to 67% of low-income tenants, though there is a slight easing of housing affordability stress to 65% of low-income tenants in the most recent 5 year period.

There are various demographic and tenure composition shifts that are accommodating the steep increase in housing affordability problems. These include younger adults:

- Delaying departure from the family home
- Forming more and larger group households
- Delaying a first transition into home ownership.

These changes in housing market behaviour are likely to be among explanations for the more recent stability in housing affordability. Despite these adjustments and generally better employment outcomes during the 1990s, housing market polarisation of different income groups is starkly evident with less than one in ten higher income tenants paying 30% or more of income in gross rent.

Home Purchasers and Housing Affordability

Figures 6 and 7 chart trends in the proportion of home purchasers that are paying more than 30% of their income on housing costs.⁴ Polarised housing market circumstances have worsened over the twenty-year period depicted in these charts. In 1981, 34% of owner purchaser households in the lowest income quintile devoted 30% or more of their income to housing costs, but there were no households from the highest income quintile in such a position. By 2001, 60% of owner purchaser households from the lowest income quintile spent 30% or more of income on housing costs, a serious worsening of housing affordability in absolute terms, as well as in relative terms with only 6% of owner purchaser households in the highest income quintile paying 30% or more of their income in housing costs.

The lowest income quintile is the only income group to exhibit an increase in the proportion of households paying more than 30% or more in housing costs in every 5 year period over the time frame 1981 – 2001. The increase in the proportion of those paying more than 30% of their income is also steep in the lowest 2 income quintiles (figure 7). Using the conventional housing affordability benchmark, the incidence of housing affordability stress has nearly doubled over the 20 year time frame from 26% to 49% (see figure 7). Thus almost one-half of owner purchasers belonging to the poorest 40% of Victorian households were in housing affordability stress by 2001.

⁴ Home purchasers include homeowners with a mortgage but exclude outright homeowners. In the Census housing costs of home purchasers include mortgage interest payments and principal repayments on mortgages. This is a narrower definition than that typically employed when using alternative data sources (see Karmel and Wang, 1998, table 1, p132).

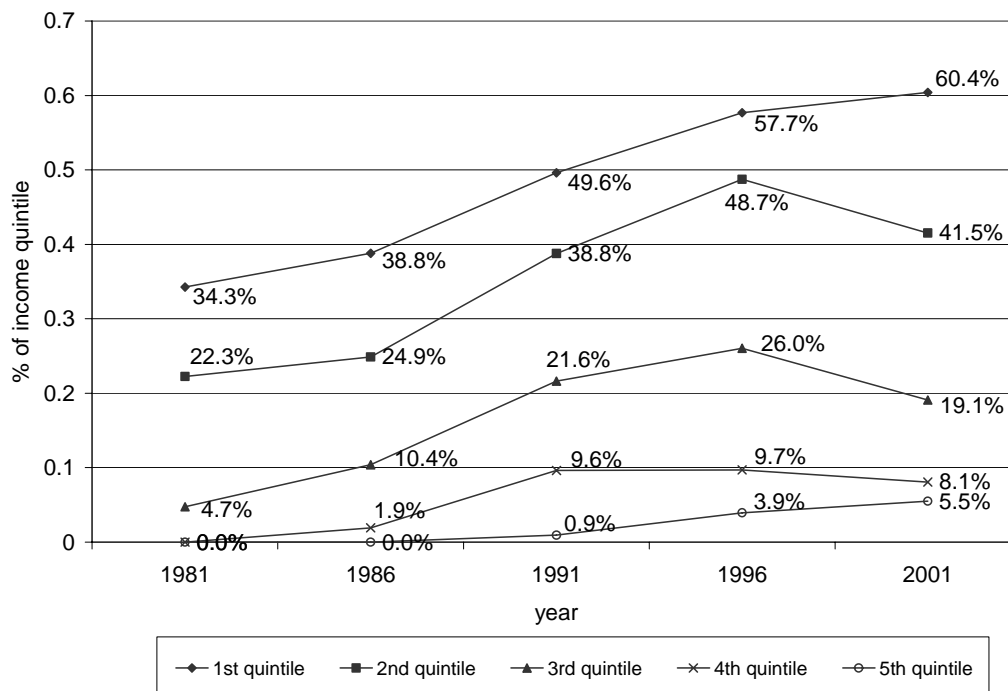


Figure 6 Percentage of home purchasers with housing costs that are 30% or more of income, by income quintile

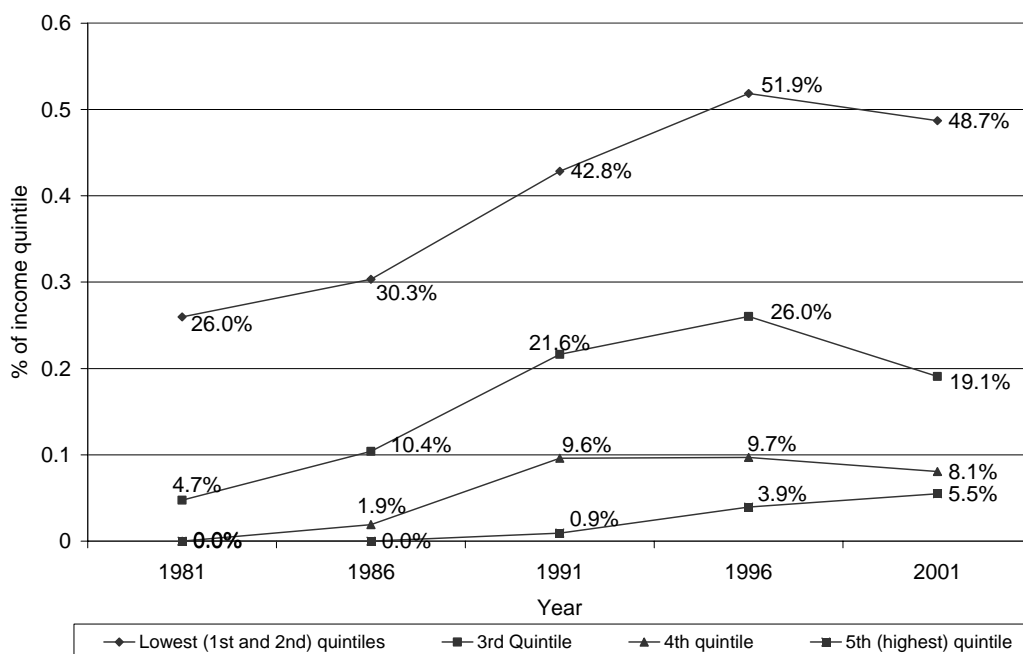


Figure 7 Percentage of home purchasers with housing costs that are 30% or more of income, by income quintile – lowest 2 income quintiles combined.

Source (Figure 6 and 7): ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

All income quintiles, other than the lowest, benefit from some fall in the proportion of owner purchasers paying more than 30% in the most recent inter-census period 1996 – 2001. This is unlikely to represent a long term reversal of earlier trends. As figure 8 shows, housing cost burdens in 1996 to 2001 were cushioned by declining mortgage

interest rates (mortgage interest rates were 9.8 percent in June quarter 1996, and fell to 6.8 percent in June 2001). But mortgage interest rates have subsequently stabilised and in recent years have even increased. Meanwhile, house prices continued to increase in the post-2001 years. By June quarter 2004, house prices in Melbourne were 38% higher than in June quarter 2001 (see figure 8).

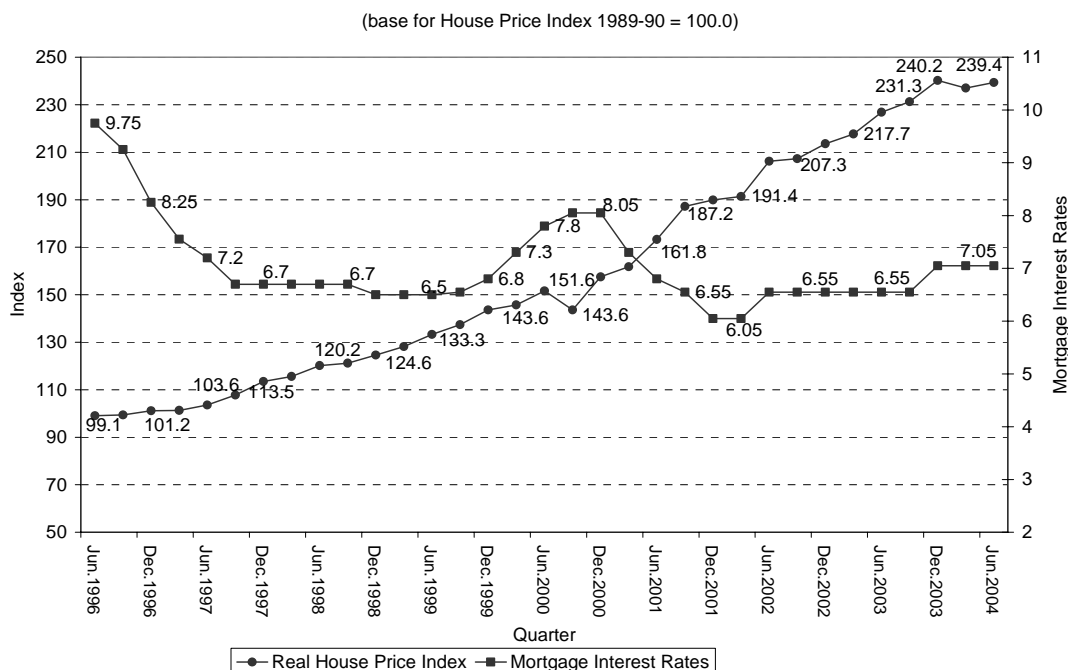


Figure 8 House Price Index Melbourne: June 1996 to June 2004

Source: ABS, 2004. House Price Indexes, Eight Capital Cities (Cat. No. 6416.0), Canberra: AGPS; Reserve Bank of Australia, 2004. Indicator Lending Rates: Bulletin Statistical Tables, <http://www.rba.gov.au/Statistics/Bulletin/Fo7hist.xls>

Trends in Transition into First Home Ownership

Figure 9 charts the 1981-2001 trends in tenure shares among all Victorian households. The share of homeowners has marginally increased from 73% to 75% of all Victorian households, but this overall trend masks important changes in the composition of homeowners. Since 1981 there has been a steady decline in the share of owner purchasers from 37% to 29% in 2001, and a steady increase in the share of outright owners from 36% in 1981 to 45% in 2001. Meanwhile, the share of renters (public and private) has varied within a narrow range of between 25% and 28% of all households. The homeowner trends partly reflect an ageing population – older households are more likely to be home owners, and as they become an increasingly large share of the population this boosts the rate of homeownership. In 1981 the percentage of all Victorian households with a head of household older than 34 years was 44%, but by 2001 it had increased to 50%

Typical Australian home owners make their first transition into home ownership between the ages of 15 and 34, hence the share of owner purchasers among all households in that age category is indicative of longer run trends in home ownership. The Australian Housing Survey (1999, Cat. No. 4182.0) shows that in the three years to 1999, 71 per cent of people aged 15-34 were first home purchasers. If this share is falling it means that younger adults are either delaying home purchase by comparison to earlier generations, or an increasing number of households are finding it financially

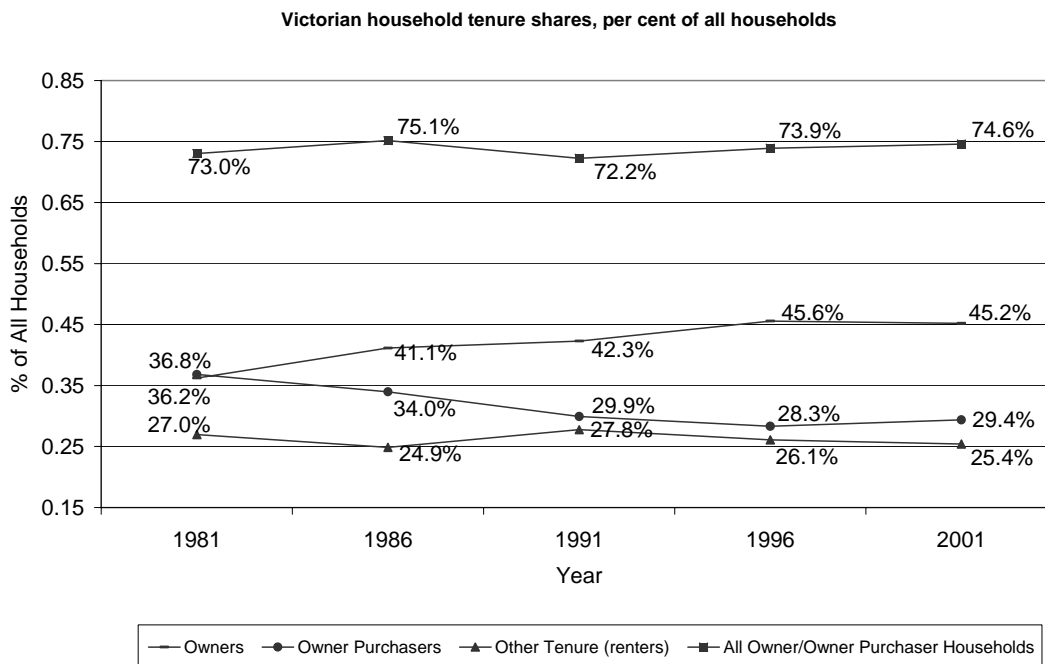


Figure 9 Victorian household tenure shares, per cent of all households
 Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

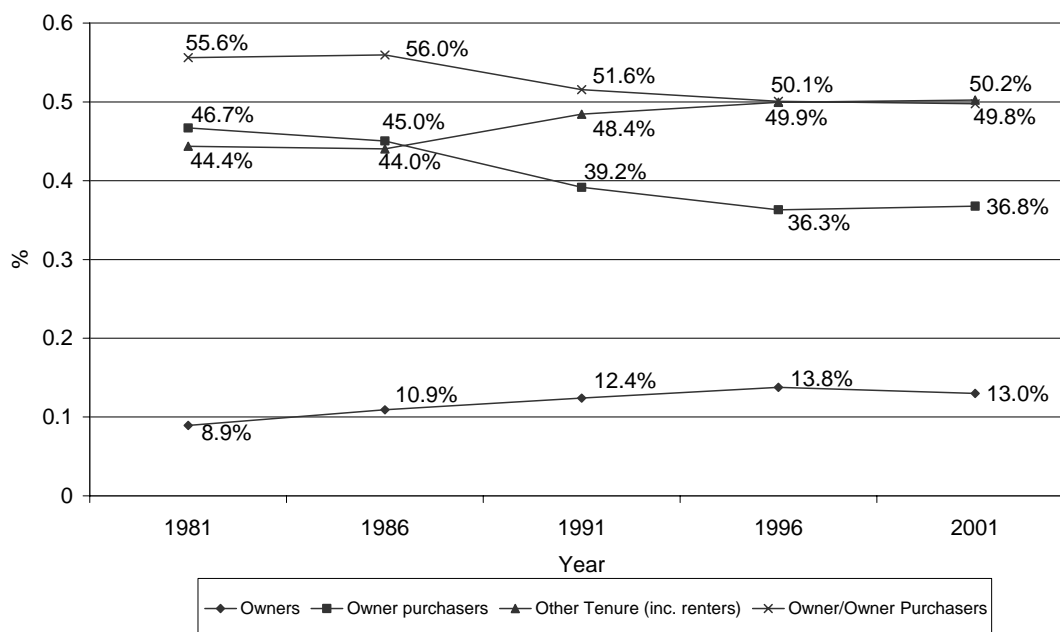


Figure 10 Tenure shares – ages 15-34
 Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

impossible to attain home ownership at any stage in their housing careers.⁵ Figure 10 focuses on tenure shares among this group of younger Victorian households. The share of homeowners declines from 56% of younger Victorian households in 1981 to

⁵ This assumes that most households in this age cohort continue to have as strong a preference for home ownership as those revealed by the housing choices of earlier generations.

50% in 2001. Behind this trend there lies a large fall in the share of owner purchasers – from 47% in 1981 to 37% in 2001. Though outright owners have increased from 9% to 13%, this has not been enough to offset the decline in owner purchasers, and as a result the share of renters has increased from 44% to 50% of younger Victorian households⁶. Figure 11 presents the proportion of owner purchasers among households who have a head of household aged 15-34 by income quintile. If we compare the first and last census years, there is a decline in every income quintile. The share of owner purchasers in the highest income quintile systematically declines in every inter-census period, though it begins at a relatively high share of 55% in 1981. Unsurprisingly, the share of owner purchasers is lowest among the poorest 20% of households, with only 18% of 1981 15-34 households achieving owner purchaser status, declining to 13% in 2001.

There is an increase from 1996 to 2001 in the share of owner purchasers in all but the highest income quintile. This is most likely due to the impact of the First Home Owners Grant (FHOG) rather than a reversal of long-term trends. The Federal Government introduced the grant in June 2000 and it was originally set at \$7000. In March 2001, the Government announced an additional \$7000 grant for first homeowners who built their own home or purchased a newly constructed home.⁷ In July 2002 the FHOG was wound back to \$7000, and though the 2004 Victorian budget introduced a \$5000 first homebuyer bonus the impact will be offset to some degree by the removal of stamp duty exemptions.

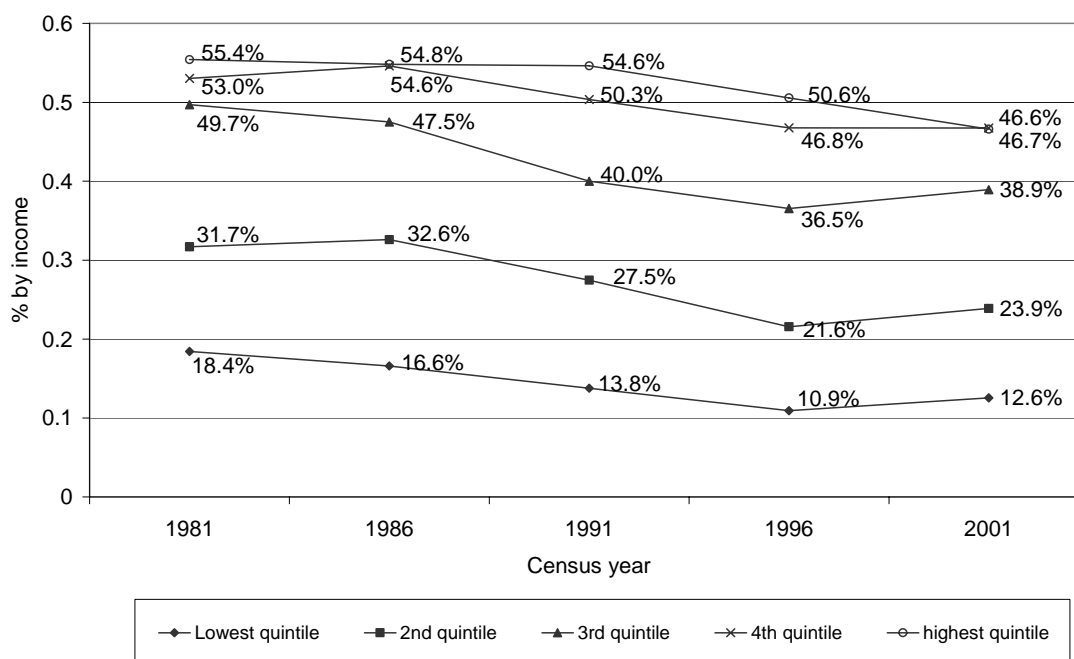


Figure 11 Percentage of owner purchasers among all households with head of household aged 15-34, by income quintile

⁶ The surprising rise in share of outright owners could reflect trends in bequests and gifts from parents or other close relatives.

⁷ The Commonwealth additional grant was available from 9th March until 31 December 2001. The terms and conditions of the grant were revised in October 2001, and was reduced to \$3000 from 1st January until 31st June 2002. From the 1st of July 2002, first home owners can only access a grant of \$7000.

Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

The introduction of the Commonwealth Additional Grant (CAG) of \$7000 in 2001 explains the surge, and then the subsequent decline in First Home Owner Grant applications in Victoria (see table 3). There were 33,900 FHOG applicants in Victoria 2000-01. According to the 2001 census this represents 7.1% of all owner purchasers in that year in Victoria, and 25% of owner purchasers in the age group 15-34. This increased to 10% (34.9%) in 2001-02, and then declined to 7% (24.4%) in 2002-03 (when the CAG ceased), and 6% (21.6%) in 2003-04.

Thus the First Home Owners Grant will have given a short run boost to the share of owner purchasers in the age group 15-34, but as the FHOG has been wound back we can anticipate its impact to lessen over time.

Table 3. FHOG and CAG applications in Victoria

Year		FHOG (\$7,000)	Commonwealth Additional Grant (CAG)
2000-01	Payments	\$240.3m	\$7.1m
	Applications	33,900	1009
2001-02	Payments	\$321.9m	\$86.7m
	Applications	46,346	12,295
2002-03	Payments	\$223.3m	\$29m
	Applications	32,480	6,090*
2003-04	Payments	\$200m	\$3.2m
	Applications	28,705	697*

Note: *CAG applications were still being processed at this time

Source: State Revenue Office Victoria, Annual Review, 2001, 2002, 2003, 2004

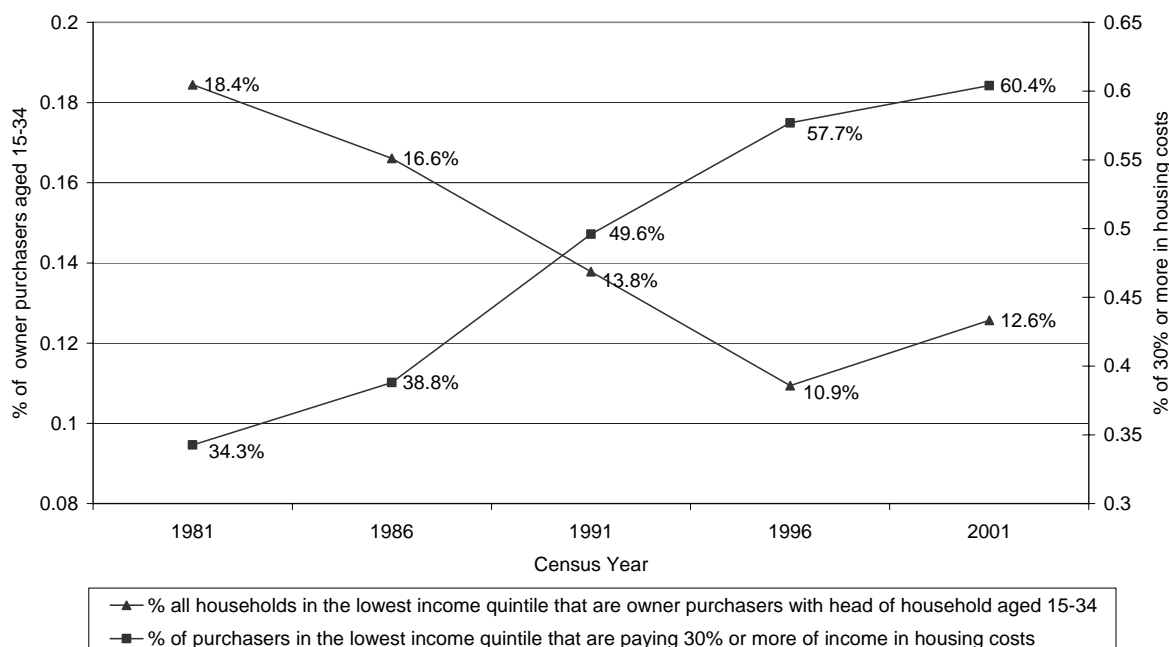


Figure 12 First transition into homeownership and housing cost burdens: lowest income quintile

Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

The systemic increase in low income purchasers (age 15-34) with high housing cost burdens - from 34% to 60% for the lowest income quintile and from 26% to 49% for the lowest 2 income quintiles (see figures 12 and 13) - is accompanied by a decline in the incidence of households successfully making the transition from renting to home ownership, from 18% in 1981 to 13% in 2001 in the lowest income quintile, and from 28% in 1981 to 18% in 2001 in the lowest 2 income quintiles. The strong negative relationship illustrated in figures 12 and 13 is surely indicative of increasing financial difficulties that are impeding younger (particularly low income) Victorians' first transition into home ownership.

If they continue, these long run trends will be reflected in an overall decline in the share of homeownership among Victorian households – the positive influence of an ageing population being more than offset by a declining share of home owners among younger adults. There will also be an increasing contrast between the housing market fortunes of Victorian households between lower income groups, for whom home ownership is a fading prospect, and higher income Victorian households for whom home ownership remains a realistic prospect.

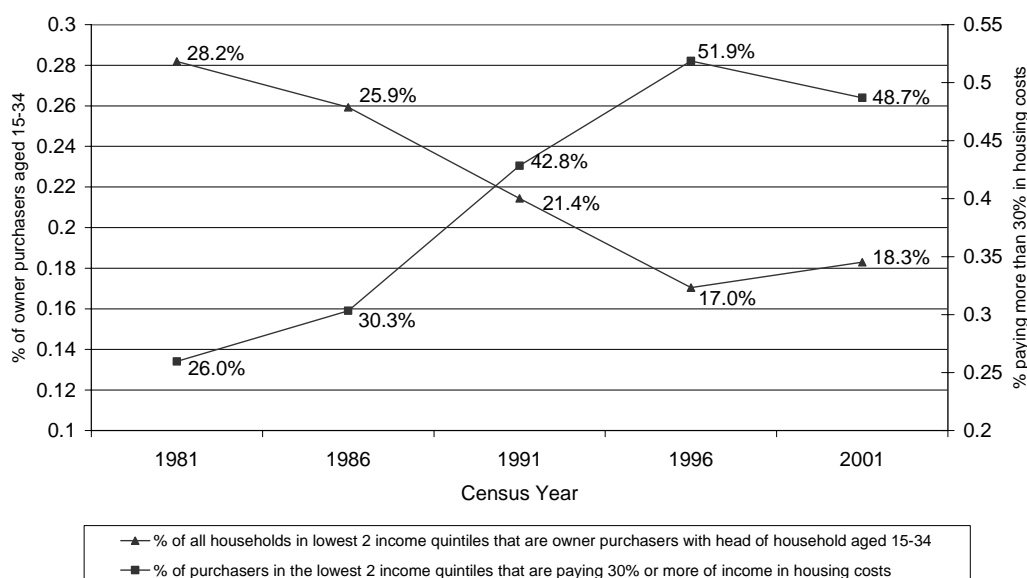


Figure 13. First transition into home ownership and housing costs burdens: lowest 2 income quintiles combined

Source: ABS Customised data tables from the ABS Census of Population and Housing: 1981, 1986, 1991, 1996, 2001.

CONCLUSION

The findings reported in this paper support an important conclusion. There appears to be long run deterioration in housing affordability between housing cycles. The argument that household incomes ‘catch-up’ once house prices and rents stabilise at the peak of housing cycles cannot be sustained in the Victorian context. The group that are most adversely affected are low-income Victorian households. Among the poorest 40% of Victorian households there has been an alarming increase in the proportion paying more than 30% of income in housing costs since 1981. This is true of both private renters and home purchasers among low-income Victorian households.

These trends deserve scrutiny from State and Federal government policy makers. They need to be addressed if housing affordability stress is more than a *transient* phenomenon that afflict individuals at only one stage of their life course, in part because the home ownership aspirations of young Victorians are then threatened. But we should also add that living standards among low income households are threatened by housing affordability stress that *persists* across the life course. The persistence or otherwise of housing affordability stress is a research question warranting attention.

The longer run consequences of housing affordability trends for housing tenure outcomes have also been explored in this paper. Among younger Victorian households a long run decline in the share of home purchasers is evident. This could reflect delay in first transition into home ownership that could be prompted by demographic factors as well as housing affordability problems. This is a more likely explanation if housing affordability stress is typically transient.

Delay in making a first transition into home ownership is a lesser policy concern as compared to insurmountable impediments that thwart home ownership aspirations over the life course. Delay nevertheless raises policy issues as households take on mortgages later in life, with adverse impacts on asset accumulation and greater reliance on publicly funded age pensions, health and aged care related services as potential consequences later in life⁸.

If the long run trends in housing affordability and home purchase rates are evidence of a serious threat to the home ownership aspirations of younger Victorians, a decline in home ownership rates can be anticipated⁹. The Barker Review in England takes a more pessimistic view of housing affordability and prospects for home ownership than that contained in the comparable Productivity Commission report in Australia. The former advocates a more flexible housing market aided by planning system reforms that strengthen supply responses to market signals. If reforms are not introduced, the Barker Review warns that the present housing system will both fail to deliver sufficient affordable housing as well as hinder labour market flexibility, contribute to macroeconomic instability and constrain economic growth (Barker Review, 2004, p1). If this analysis is generalisable to a similar Australian institutional setting, our present State and Federal Government policy stance will prove to be a complacent one.

⁸ These conclusions are subject to qualifications. In particular, Guest (2005) has shown that households first entering home ownership later in their lives will *ceteris paribus* demand more housing, and may therefore spend less and save more than if they entered at a younger age when demand for housing is smaller.

⁹ The early signs of such a downturn can be discerned. Though actual home ownership rates in Victoria increased from 73% to 75% of households in the timeframe 1981 – 2001, the age weighted home ownership rate falls marginally by one percentage point to 72%. The age weighted home ownership rate has been computed holding constant the age distribution of the Victorian population at 1981 values.

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