



HOUSING AFFORDABILITY IN AUSTRALIA

Owning one's own home has long been understood as the Great Australian Dream. From the early days of federation, working and middle-class Australians were far more likely to own the home in which they live than were their counterparts in Britain or the USA. In the years after World War II, home ownership came to be regarded as a key measure of security and success for ordinary Australians.

To this day, an assumption of home ownership among the majority of Australian families underpins the Australian social contract: wages, social security payments and the retirement income system all rely, to a greater or lesser extent, on widespread home ownership.

When we look beneath the rhetoric of the great Australian dream, however, the facts about Australia's housing market in the 21st Century are grim: home ownership rates are falling sharply, housing stress is increasing for both mortgagees and tenants, key workers on middle incomes are increasingly locked out of secure housing within a reasonable commute of their jobs, and we are failing low and fixed income households in need of secure, subsidised shelter.

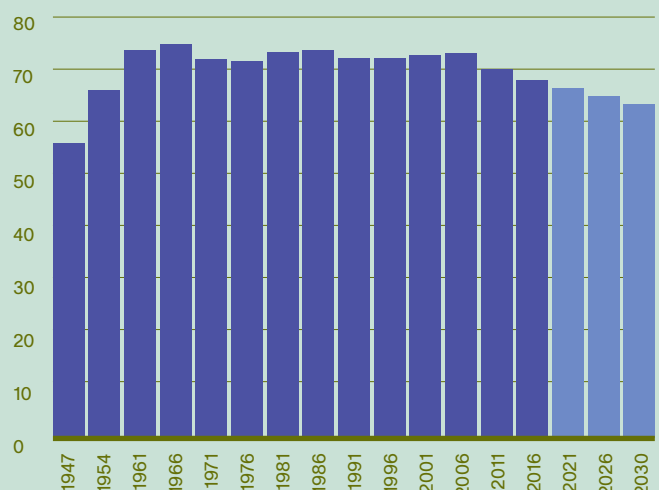
The truth is, secure housing in Australia is increasingly out of reach for a growing proportion of the population – arguably more so than in any comparable country. In fact, Australia is now behind the United Kingdom when it comes to outright home-ownership, and has fallen behind the US for owner-occupied mortgaged households. The proportion of households living in a home they own outright or with a mortgage in Australia is a full 13% below the OECD average, and falling.

So how did we get here? How do we begin to understand the social and economic consequences of such enormous changes to the role and function of housing over the past

30 years? And what, if anything, can be done to reverse course, to reposition the home as a source of shelter and security for all, rather than material wealth for a few?

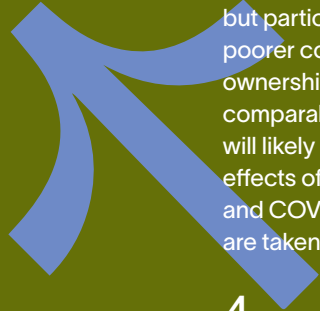
Per Capita's report for the V&F Housing Trust sets out an evidence base to assist in answering these questions. It demonstrates that housing costs are reaching a crisis point for too many Australians.

Home Ownership Rates



Key Findings

Our research suggests that:



3.

House prices are not adequately captured in Australia's cost of living indices: the impact of soaring house prices on real housing costs for a large proportion of Australian households, especially more recent entrants to the property market, is not reflected in the Consumer Price Index.

6.

Rental protections in Australia are among the weakest in the world, with no national definition of what constitutes a 'decent dwelling'. This is having increasingly negative consequences as an increasing share of the population become renters. Climate change-related weather patterns are also increasing extreme heat, cold and rain, but rental standards do not protect tenants from these changes.



1.

Home ownership is declining overall, but particularly among younger and poorer cohorts of Australians. Our ownership rates are falling behind comparable OECD countries, and will likely decline further after the effects of COVID19-related demand, and COVID19 policy responses, are taken into account.

4.

Australia is one of a small number of countries which has unrestricted negative gearing. Each of these countries has seen a stagnation or decline in home ownership.



7.

Social housing construction, maintenance and availability are failing to keep up with demand. The proportion of dwellings that are social housing has halved in two decades, to just 3%. By international standards, Australia has a very low supply of social or subsidised housing. Families applying for social housing are waiting as much as ten years.

9.

House prices during and since COVID19 have escalated dramatically, with average new mortgages increasing by 14% in just six months in 2021. Investor activity increased by 30% over the last two years, with investors significantly out spending first-time buyers.

2.

House prices have increased dramatically since the introduction of the Capital Gains Tax (CGT) discount, which in conjunction with negative gearing transfers wealth from the general population to the wealthiest households, and from younger to older households.

5.

Rent prices across Australia have risen by almost 10% over the 12 months to March 2022, with the cost of renting a house up by an average of 14% and unit rent prices up by an average of 8.5%. People on low incomes, and/or who rely on fixed income support, and/or who reside in certain regions are suffering unaffordable rent increases, leading to an emerging rental crisis nationally.

8.

Housing stress, including both mortgage and rental stress, has increased dramatically. By some measures, mortgage stress has doubled in five years – from 20% to 40%. Currently 54% of low-income renters are in rental stress, and a whole new cohort of renters in rural and regional areas will enter rental stress as a consequence of COVID19-related migration.

10.

The costs and benefits of current housing policies are unevenly distributed across the Australian population, with the benefits of property tax concessions flowing disproportionately to the wealthiest households, and rental and mortgage stress concentrated among lower and lower-middle income households.

It's not just about first home buyers



The national debate about declining affordability for first home buyers too often obscures the larger issue of a lack of housing security across the life course and throughout all segments of the Australian populace: for example, it is not widely understood that, on average across the life course, renters spend a larger proportion of their income on housing than do homeowners.

Similarly, recent public debate that positions home ownership primarily as a generational divide ignores the significant disparities in wealth and housing security within generations. That is, while the popular narrative holds that 'baby boomers' are cashed-up home owners with multiple investment properties, and are locking younger generations out of home-ownership, the evidence shows that one in four older Australians lives in permanent income poverty, and that this is primarily due to the fact that they do not own their own home and must pay private rental costs on fixed retirement incomes.

What is true, and should be of utmost concern to policy makers, is that the proportion of Australians who will never own a home is increasing, with dire consequences for Australia's future prosperity and social cohesion. This is primarily because younger generations are entering the home-ownership market later than ever, if at all. The long-term impact of this trend is already apparent: the proportion of home owners aged 55 to 64 years still owing money on mortgages has tripled from 14% to 47% over the last 25 years.

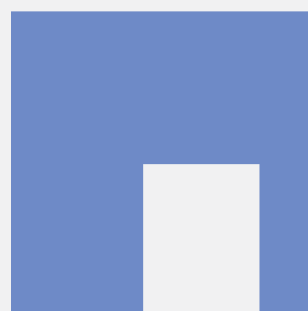
In a recent poll, two thirds of Australians responded that they thought home ownership is now out of reach for young people. This has significant consequences for intergenerational inequality and social mobility.

As this report will show, government policy decisions to tax wages from working people much more heavily than unearned incomes from rising property prices, and concessions granted to existing property owners, have, over the last 25 years, fuelled an exceptional and damaging explosion in property prices.

At the same time, those same policy makers have failed to implement alternative housing models to private ownership that could provide security for tenants. Housing security need not rest on ownership: the provision of secure rental housing, both in the private market and through public and community housing, is a source of housing security in many comparable OECD nations.

Yet, with rental prices up almost 10% across the country over the 12 months to March 2022, and vacancy rates at

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an all-time low of 1.2%, Australia is now facing a rental crisis, which will impoverish, and reduce the health and well-being of, lower income households, including key workers, welfare recipients and retirees.

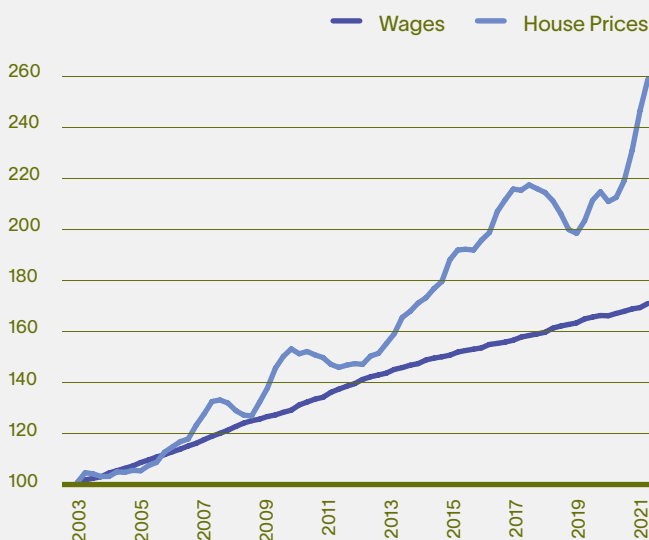
The unsustainable growth in house prices has enormous ramifications for Australia's prosperity, social cohesion, security and sustainable growth. The opportunity costs for investment in more productive and innovative assets are enormous, as is the restriction on social mobility imposed on too many of our citizens due to insecure housing.

Current prejudices in government policy are hampering civil society efforts to reverse this damaging trajectory: reluctance to address favourable tax settings for housing investors, plus an open hostility to social housing, and a failure to understand the interactions of affordable build-to-rent and rent-to-buy developments with the rest of the market appear to be based on a determination to protect the property values of existing home-owners and investors at the expense of those experiencing housing insecurity.

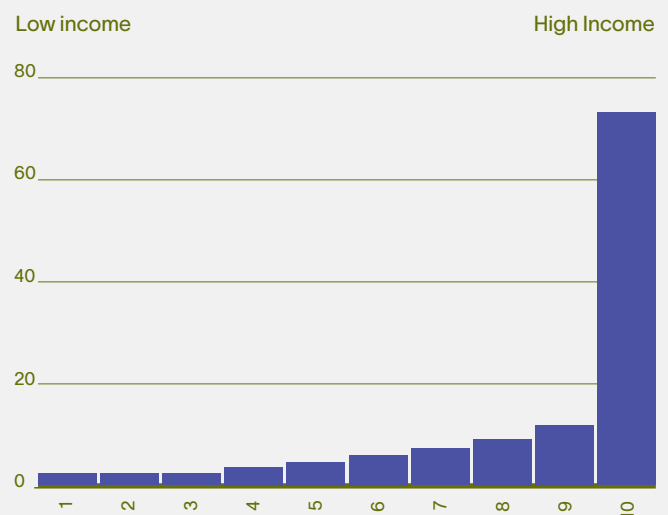
In order to reset our public conversation around housing affordability, it is necessary to reclaim the idea of housing from the extreme financialisation that has positioned it almost entirely as a financial asset to one that understands the role of a home in a secure, enjoyable and prosperous life.



House Prices vs Wage Growth



Distribution of CGT discount by household income



First principles for housing policy



1.

Shelter is a fundamental human right. Access to a secure, affordable, accessible and decent home should be the first principle underpinning any policy related to housing in a wealthy country such as Australia.



2.

Access to good quality, secure housing is well known to play a significant role in determining health and wellbeing – both physical and mental.



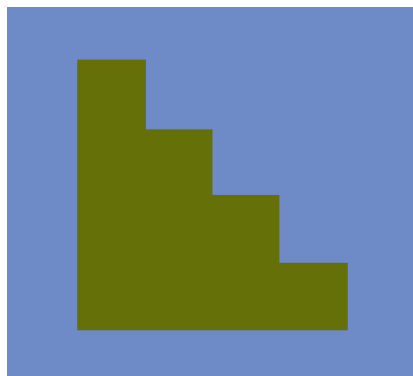
3.

A lack of housing in the right place, of the right quality or available for secure tenure periods, has corrosive effects on individuals and families.



4.

High house prices and rents increase household debt, and reduce spending capacity.



5.

Beyond individual impacts, social cohesion is detrimentally affected by property price distortions, which increase wealth inequality between and within generations.



6.

Hot local property markets can lead to low- and middle-income workers, including essential workers, unable to live close to their place of work, producing inefficient labour market outcomes.

7.

Money held in the housing market does very little to stimulate our flagging economy, which has been in a period of low and, in some years, even negative, productivity investments.

Australia is facing a unique set of challenges, and will require a unique set of policy solutions.

Australia is not unique in facing a housing affordability crisis – around the world many countries are seeing the cost of rent and home ownership increase dramatically, with many of the same drivers and consequences. But this situation is not inevitable: several other countries have chosen deliberate policy paths to reduce the social and economic problems produced by spiralling housing costs.

To ensure that all Australians have an affordable, accessible and decent home, Australia too will need to choose its own deliberate policy path. That path will require significant political engagement, to confront the collective conflict of interest we have regarding housing: as a social good and human need, we seek it for all members of our society, but as a form of wealth we will naturally resist the single thing that would best achieve that goal: a reduction in the cost of housing.

Finally, our path must be based on evidence: evidence of where we have gone wrong, who is suffering the consequences, and what will work to ensure that all Australians have access to a secure, safe and comfortable home.

This report sets out that evidence, and suggests some pathways to solutions.

Read the full report at:
vfhousing.org.au
percapita.org.au

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