



# No place like home

---

The impact of declining home ownership on retirement

PREPARED BY  
SAUL ESLAKE FOR AI<sup>ST</sup>  
MARCH 2017



Australian Institute of Superannuation Trustees

# About the author

---



## Saul Eslake

Saul Eslake worked as an economist in the Australian financial markets for more than 25 years, including as Chief Economist at the ANZ Bank from 1995 to 2009, and as Chief Economist (Australia & New Zealand) for Bank of America Merrill Lynch from 2011 until June 2015.

In July 2015 Saul started up his own economics consultancy business, based in Hobart, and since April 2016 has also had a part-time position as a Vice-Chancellor's Fellow at the University of Tasmania.

Saul is a non-executive director of Hydro Tasmania, an energy business owned by the Tasmanian Government, and of Housing Choices Australia, a not-for-profit affordable housing provider; and Chair of Ten Days on the Island, Tasmania's biennial multi-arts festival.

Saul has a first class honours degree in Economics from the University of Tasmania, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. In December 2012 he was awarded an Honorary LLD degree by the University of Tasmania.

# About AIST

---

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of the profit-to-member superannuation funds - industry, corporate and government - who employ a representative governance model.

As the principal advocate and peak representative body for the \$700 billion profit-to-member superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events. You can find out more about AIST at [www.aist.asn.au](http://www.aist.asn.au).

Enquiries about this report can be sent to [info@aist.asn.au](mailto:info@aist.asn.au) or 03 8677 3800.

# Executive summary

---

Australia's retirement income system has long implicitly taken it for granted that the vast majority of retired people will have very low housing costs – in turn reflecting a presumption that most of them will own their own homes, and will have fully paid down any mortgage debt taken on in order to finance the original acquisition of their homes; and that those who have been unable to become home-owners during their working lives will typically be accommodated in low-rental housing provided by State and Territory Governments<sup>1</sup>. Consistent with this view, the Australian Superannuation Funds Association (ASFA) retirement standard budgets – both 'comfortable' and 'modest' – assume that retirees own their homes outright and hence make no provision for housing costs<sup>2</sup>. And these presumptions have allowed successive Australian Governments to maintain age pensions at lower levels than in most other 'advanced' economies without resulting in higher levels of poverty among retirees<sup>3</sup>.

However, these assumptions are becoming increasingly dubious, as a result of three trends which have emerged over the past two decades:

- first, declining rates of home ownership among people of working age, especially those in their late 20s and early 30s;
- second, among those who have attained home ownership, declining rates of outright ownership – that is, having fully paid off their mortgage – and, conversely, a rising proportion of home owners, particularly among those in their late 50s or early 60s, who still have mortgage debt outstanding; and
- third, a declining proportion of people aged 65 and over living in accommodation rented from State or Territory housing authorities, and conversely, an increasing proportion of people aged 65 and over living in private rental accommodation, for whom housing costs represent a higher-than-average, and rising, proportion of total income.

If these trends continue – and there is little reason to think that they won't – then it is likely that:

- an increasing proportion of new retirees will use some or all of their accumulated superannuation savings to discharge their outstanding mortgage debt, meaning that a higher proportion of retirees may remain wholly or partially dependent on the age pension than currently assumed; and
- an increasing proportion of retirees will be living in privately rented housing, spending a higher proportion of their income on rent, potentially generating political pressure for increases in the level of Commonwealth Rent Assistance, in the age pension itself, or both.

In other words, there is a clear link between deteriorating housing affordability and the adequacy of Australia's current retirement income system.

---

<sup>1</sup>See, for example, Mendelsohn (1979), pp. 187-8 and 275-6; Edey and Simon (1996), p. 4, or Australian Treasury (2011), pp. 69-70.

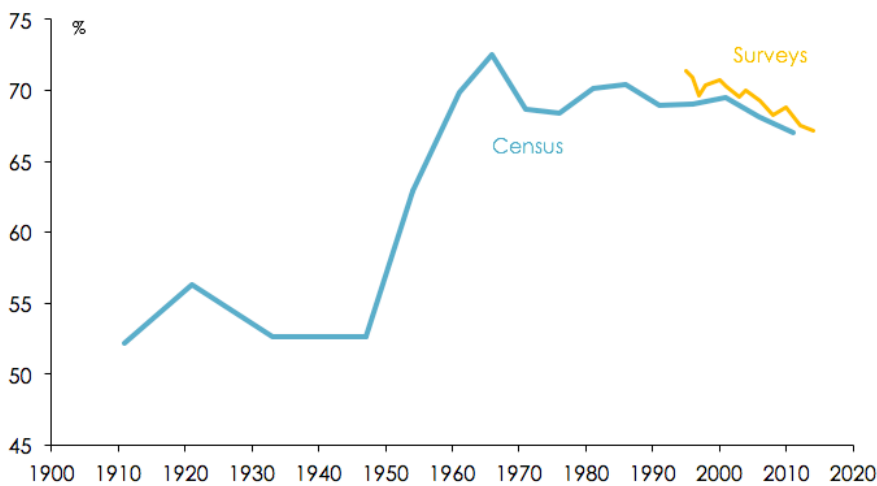
<sup>2</sup>ASFA Research and Resource Centre (2016), p. 3.

<sup>3</sup>See, for example, Jones (1980), p. 82; Warren (2008), p. 7; and Yates and Bradbury (2010).

# Home ownership rates

After rising very sharply during the 1950s, and reaching a peak in the mid-1960s, Australia's overall home ownership rate has been declining for the past 50 years. The home ownership rate at the 2011 Census was the lowest since the Census of 1954; and surveys undertaken since the 2011 Census suggest that the 2016 Census, the results of which will be released on 27th June, will show a further decline in the home ownership rate during the current decade.

**Chart 1: Australia's home ownership rate, 1900-2015**



Sources: ABS, Census data; Housing Occupancy and Costs (4130.0).

From an historical perspective the sharp rise in home ownership during the 1950s (owr, more strictly speaking, between the 1947 and 1961 Censuses) is notable for having occurred during a period of unprecedented population growth (averaging 2.4% per annum, well above the average of 1.5% per annum over the fourteen years to June 2016).

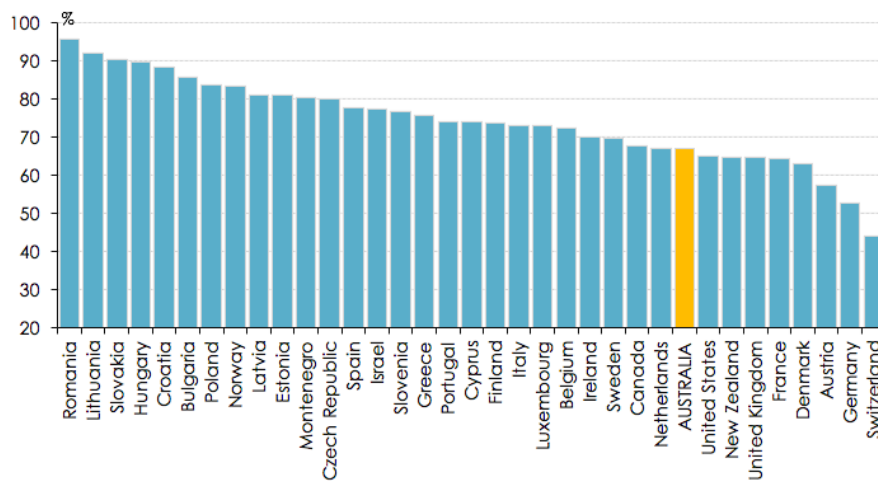
The rise in home ownership rates during this period owes much to the emphasis which public policy placed on increasing housing supply – the number of dwellings increased at an annual average rate of 2.8% between the 1947 and 1961 Censuses, far in excess of anything that has been sustained since then – as well as on fostering an increased supply of mortgage finance.

**"COMPARED TO 15 YEARS AGO WHEN ALMOST THREE OUT OF FIVE HOME OWNERS OWNED THEIR HOME OUTRIGHT, HOME OWNERS WITH A MORTGAGE ARE NOW IN THE MAJORITY."**

Since the early 1960s, however, the focus of Commonwealth and State housing policies has steadily shifted away from promoting increases in housing supply, in favour of measures which have more typically promoted increases in housing demand – and in particular, enhancing the ‘capacity to pay’ of would-be purchasers of housing through grants and favourable tax treatment. This policy shift has been accompanied not by further increases in the proportion of Australian households living in a home which they own, but rather by a gradual but unmistakable decline in the overall home ownership rate – of 5.5 percentage points since 1966, nearly half of which has occurred since 2001.

Australia’s overall home ownership rate is no longer especially high by international standards, as shown in Chart 2 (although with the exceptions of Switzerland, Austria and Germany at the low end and a handful of former Communist countries in Eastern Europe at the high end, the spread between ‘high’ and ‘low’ home ownership rates is quite narrow).

**Chart 2: Home ownership rates by country, 2013**



Source: Reserve Bank of Australia (2015).

## Disturbing trends

The decline in Australia's overall home ownership rate masks two other, more pronounced, and disturbing, trends.

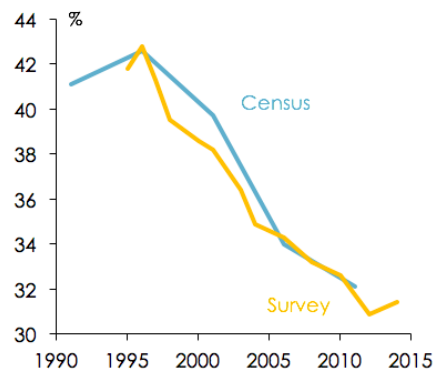
First, the proportion of home owners who own their homes 'outright' – that is, who have paid off their mortgages – has declined much more than the overall home ownership rate - from a peak of 61.7% at the 1996 Census to 47.9% at the 2011 Census, and to 46.7% in 2013-14 according to the ABS Survey of Income and Housing (see Charts 3a and 3b on page). In other words, compared to 15 years ago when almost three out of five home owners owned their home outright, home owners with a mortgage are now in the majority.

The decline in the proportion of home owners who have paid off their mortgage reflects a variety of factors, including:

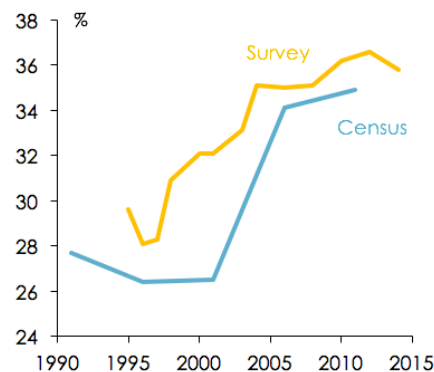
- the need for home-buyers to take out larger mortgages, relative to their incomes, as a result of the significant increases in home prices relative to incomes since the early 1990s<sup>4</sup>;
- the increase in the maximum loan-to-valuation (LVR) ratio at which lenders are willing to lend, from 80% in the 1980s to around 95% over the past decade or so, which means that mortgages typically represent a larger proportion of home purchase prices;
- the consolidation of other forms of consumer finance into mortgage debt, as a result of the development of 'redraw' facilities and the like, which have allowed home-owners to finance the purchase of other goods and services, and investment properties, by extending the mortgages on their homes; and
- the decline in inflation and in nominal interest rates since the early 1990s, which means that the real value of outstanding mortgage debt is reduced at a slower rate than in previous decades when inflation was much higher.

## Outright homeowners Vs homeowners with a mortgage

**Chart 3A: pc of occupied private dwellings owned outright**



**Chart 3B: pc of occupied private dwellings owned with a mortgage**



<sup>4</sup>Average capital city dwelling prices have risen from between 2 and 3 times average household disposable income in the 1980s to around 5 times average household disposable income since the early 2000s (Reserve Bank of Australia (2015), p. 7).

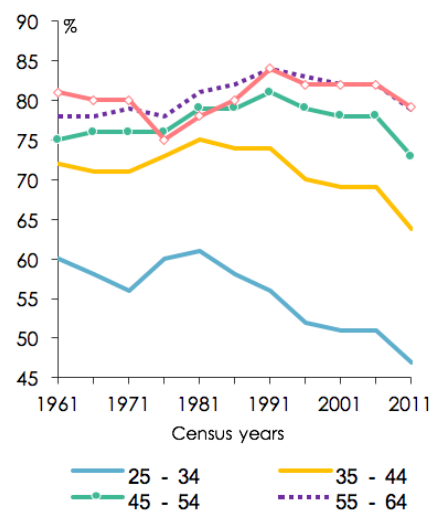
## Young Vs older households

Second, there have been some very large declines in home ownership rates among specific age groups – and not merely among those who would have been regarded as ‘typical’ of first-home buyers in previous generations (Charts 4a and 4b) – the effects of which on the overall home ownership rate have been obscured by changes in the age structure of Australia’s population.

The home ownership rate among households headed by people aged 25-34, 35-44 and 45-54 years dropped by 9, 10 and 8 percentage points, respectively, between the 1991 and 2011 Censuses (Chart 4a). The effect of these declines on the overall home ownership rate (which dropped by ‘only’ 5 percentage points over this period) was largely offset by the increase in the proportion of households headed by people aged 55 and over (among whom home ownership rates remained much higher, and fell by less, than among households headed by people aged 25-54).

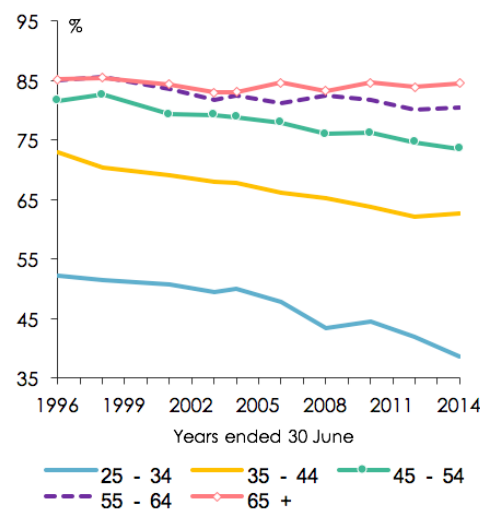
According to the ABS Surveys of Income and Housing, the home ownership rate among households headed by people aged 25-34, 35-44 and 45-54 years dropped by 13.5, 10.3 and 8.1 percentage points, respectively, between 1995-96 and 2013-14 (Chart 4b). In an historical context these are large movements. Again, the effects of these declines on the overall home ownership rate, which fell by 4.0 percentage points over this period according to this survey, were offset by an 8 percentage point increase (from 32.4% to 40.3%) in the proportion of households headed by people aged 55 and over, among whom the home ownership rate fell by less than 2.5 percentage points between 1995-96 and 2013-14.

**Chart 4A: Home ownership rates by age group – Census data**



Source: Yates (2011).

**Chart 4B: Home ownership rates by age group – Survey data**



Source: ABS 4130.0.

These declines in home ownership rates among both ‘young’ and ‘middle-aged’ households are all the more remarkable for having occurred during a period in which mortgage interest rates were, on average, little more than half what they had been between the mid-1970s and the early 1990s, and during which both the Commonwealth and State Governments spent billions of dollars on cash grants to, and exemptions from stamp duty for, first-home buyers.

# Factors at play

There is no single cause of the decline in home ownership rates among ‘young’ and ‘middle aged’ households. It reflects a combination of demographic, social and economic factors. It is the result of shifting preferences regarding household and family formation, and housing tenure, on the part of different generations, as well as frustrated aspirations.

Chart 4a shows, for example, that the decline in home ownership among households headed by people aged 25-34 began in the early 1980s, a decade or more before house prices started to rise sharply relative to household incomes<sup>5</sup>. As the Reserve Bank has noted, the decline in home ownership rates among this particular age group probably owes a good deal to the reversal of the “anomalously low average age at first marriage in the decades following World War II”<sup>6</sup>, and to the steady rise in the age at which people have their first children, both of which trends began in the early 1970s.

Another plausible contributing factor is that more recent cohorts of young adults have spent longer periods in formal education than their predecessors, emerging with student debt servicing and repayment obligations which their predecessors didn’t have, and having had less time in paid employment to accumulate a deposit than young people of similar age would have had in previous generations<sup>7</sup>.

There is also some anecdotal and survey evidence suggesting that a larger proportion of the most recent generation of young adults (so-called ‘Millennials’) place less importance on becoming home-owners than of previous generations, and greater importance on proximity to places of employment or sources of entertainment, and to other pursuits such as travel<sup>8</sup>.

Nonetheless, it seems unlikely that these demographic and social factors, on their own, can fully explain the declines in home ownership rates noted earlier, and especially the declines in home ownership rates among ‘middle-aged’ households (so-called Generations X and Y).

Reverting to Chart 4a above, nearly two-thirds of the decline in the home ownership rate among households headed by 25-34 year olds since it peaked in 1981 has occurred since 1991 – as has over 90% of the decline in home ownership rates among households headed by 35-44 year olds<sup>9</sup>, and all of the decline in home ownership rates among households headed by 45-54 year olds.

Prima facie, this strongly suggests that the decline in home ownership rates among households headed by people in all age groups between 25 and 54 since 1991 owes more to economic influences – and in particular to the deterioration in housing affordability over this period – than it does to demographic and other factors.

In particular, the rise in (capital city) house prices relative to incomes has more than offset the impact of declining mortgage interest rates on the proportion of average income required to service a mortgage under standard lenders’ conditions (Chart 5a); and has also greatly increased the size of the deposit required in order to qualify for a mortgage under standard lenders’ conditions (Chart 5b), something which the most commonly-used ‘ratio’ measures of housing affordability do not comprehend.

And while mortgage finance became more readily available for borrowers unable to meet the traditional lenders’ requirement for a deposit equivalent to 20% of the purchase price during the 1990s and early 2000s, since 2010 lenders have been restricting the availability of high loan-to-valuation ratio (LVR) loans, partly in response to regulatory pressure<sup>10</sup>.

Moreover, the conventional ‘ratio’ measures of housing affordability do not include the cost of mortgage insurance typically required by lenders for mortgages with LVRs in excess of 80%.

<sup>5</sup>Home ownership among the (always relatively small) number of households headed by people aged 15-24 (not shown in Charts 4a and 4b) fell from 34% at the 1961 Census to 26% at the 1971 Census, and has been virtually unchanged since then.

<sup>6</sup>Reserve Bank of Australia (2015), p. 5, and Ellis (2017).

<sup>7</sup>Wade (2014).

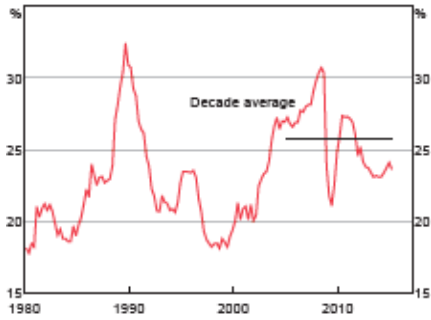
<sup>8</sup>See, for example, Kelly (2013) and (for a more satirical perspective) Salt (2016).

<sup>9</sup>A point which the RBA (2015, p. 8) appears to have glossed over.

<sup>10</sup>See, for example, APRA (2014).



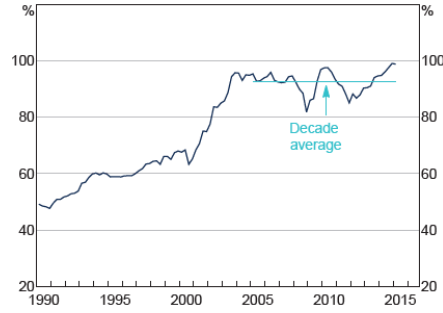
**Chart 5A: Repayments on new housing loans as a pc of disposable income**



*Note: Housing loan repayments calculated as the required repayment on a new 80% LVR loan with full documentation for the nationwide median-priced home; household disposable income is before interest payments.*

Source: RBA (2015).

**Chart 5B: Deposit for a home loan as a pc of disposable income**



*Note: Deposit calculated as 20% of the nation-wide median-priced home; disposable income excludes unincorporated enterprise income and is before interest payments; uses current NSW stamp duty and excludes any FHOGs.*

Source: RBA (2015).

These developments have resulted in a steady increase in the age at which people become home-owners for the first time. And those who do become home-buyers for the first time are taking out larger mortgages, relative to their incomes, and taking longer to pay them off, than previous generations of first-home buyers.

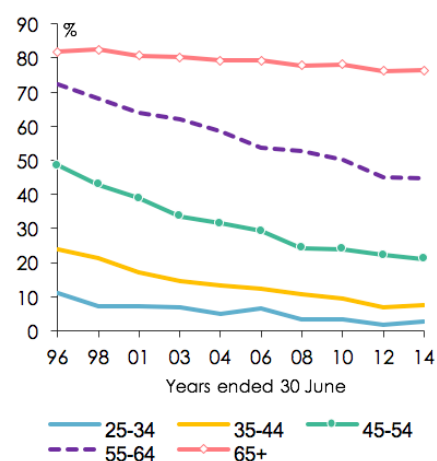
# The rise and rise of mortgage debt

This is evident from the substantial increases in the proportion of home owners aged between 35 and 64 who still have mortgage debt outstanding (as opposed to owning their homes outright) over the past two decades:

- the proportions of households headed by people aged 35-44, 45-54 and 55-64 who own their homes outright fell by 16.5, 27.5 and 27.6 pc points, respectively, between 1995-96 and 2013-14, compared with a decline of 11.1 pc points in the proportion of all households who own their homes outright (Chart 6a, on the following page);
- the proportion of households headed by people aged 35-44, 45-54 and 55-64 who own their homes but are still paying off their mortgages increased by 6.2, 19.4 and 22.9 pc points, respectively, between 1995-96 and 2013-14, compared with a 7.1 pc point increase in the proportion of all households who own their home with mortgage debt still outstanding (Chart 6b).

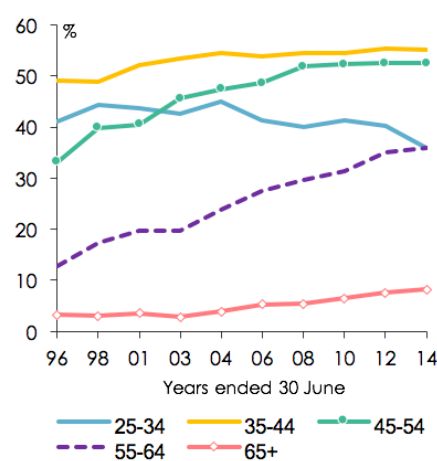
Put differently, 88.2% of homeowners aged 35-44 had outstanding mortgage debt in 2013-14, an increase of 21 pc points from 1995-96; 71.4% of homeowners aged 44-54 had outstanding mortgage debt in 2013-14, an increase of 31 pc points - or a near doubling - from 1995-96; and 44.5% of homeowners aged 55-64 had outstanding mortgage debt in 2013-14, an increase of 29 pc points – a near tripling - since 1995-96. And 9.7% of homeowners aged 65 and over still had outstanding mortgages in 2013-14, compared with just 3.9% in 1995-96.

**Chart 6A: Outright home ownership rates by age group**



Source: ABS 4130.0.

**Chart 6B: Mortgaged home ownership rates by age group**



Source: ABS 4130.0.

There are two important prospective consequences of these developments for Australia's retirement income system:

- the proportion of Australians owning their own home in retirement is likely to be considerably lower than the 'norm' of 80-85% which has prevailed over the last fifty years; and
- an increasing proportion of Australians reaching retirement age who do own their own homes will still have outstanding mortgage debt, and as a result appear likely to apply at least some of their accumulated superannuation savings to discharge that debt.

However, before exploring these consequences in greater detail, it is also important to note some important developments in Australia's rental housing markets which also have implications for Australia's retirement income system.

## Middle-aged and still renting

The obvious corollary of the decline in home ownership rates, especially among households headed by people aged between their mid-20s and their mid-50s, is that a growing proportion of these households are instead renting, and doing so for much longer periods than in previous generations.

As with the overall home ownership rate, the proportion of Australian households living in rented accommodation has been virtually unchanged at within 2 pc points of 30% between the 1961 and 2011 Censuses, and rising by just over 2 pc points, from 28.8% to 31.0%, between 1995-96 and 2013-14 according to the more recent data provided by the ABS Survey of Income and Housing.

However, again as with the overall home ownership rate, this apparent stability in the proportion of the total number of Australians living in rented accommodation conceals some significant changes among different age groups (see Charts 7a and 7b below).

Between 1995-96 and 2013-14, according to the ABS Survey of Income and Housing:

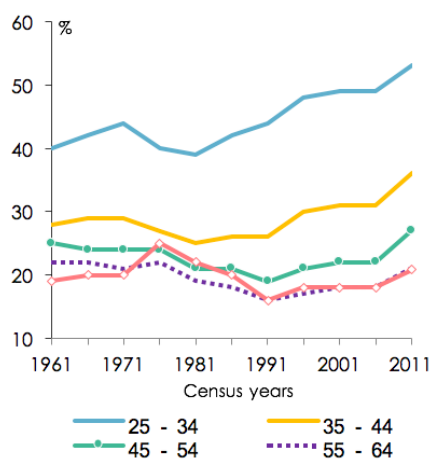
- the proportion of households headed by people aged 25-34 living in rented accommodation rose by almost 12 percentage points – or about one quarter - from 47.8% to 59.5%;
- the proportion of households headed by people aged 35-44 living in rented accommodation rose by almost 9 percentage points – or about one third -, from 27.1% to 35.7%; and
- the proportion of households headed by people aged 45-54 living in rented accommodation rose by more than 6½ percentage points, - or about one third - from 18.4% to 25.0%.

By contrast, the share of households headed by people aged 55-64 renting their homes rose by only 3 percentage points over this period, while the proportion of households headed by people aged 65 and over living in rented accommodation actually fell by just under 1 percentage point.

However, these two groups of households accounted for an 8 percentage points larger share of the overall Australian population in 2013-14 than they did in 1995-96, so that their experience had a larger influence on the change in the proportion of the total population living in rented accommodation.

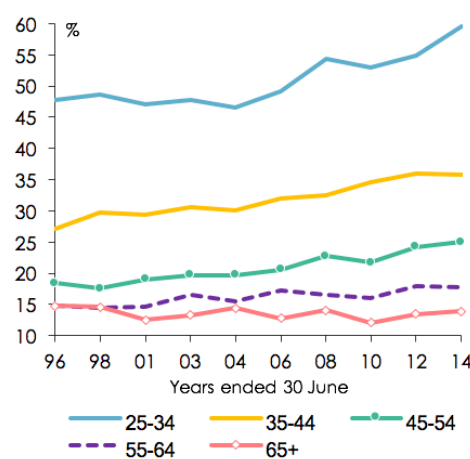
The upward trend over the past twenty-five years in the proportions of households headed by people aged between 25 and 55 who are renting their accommodation suggests that it is likely that a higher proportion of retirees will be living in rented accommodation in future decades than has been the 'norm' over the past five decades.

**Chart 7A: Proportion of households renting, by age group – Census data**



Source: Yates (2011).

**Chart 7B: Proportion of households renting, by age group – Survey data**



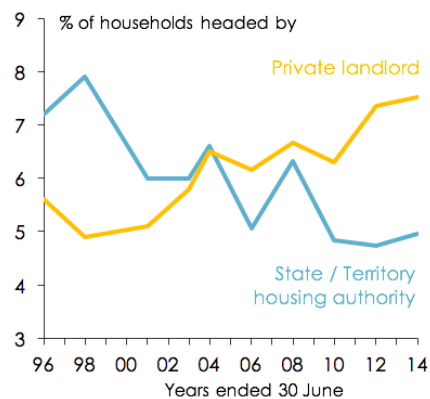
Source: ABS 4130.0.



## The impact of less social housing

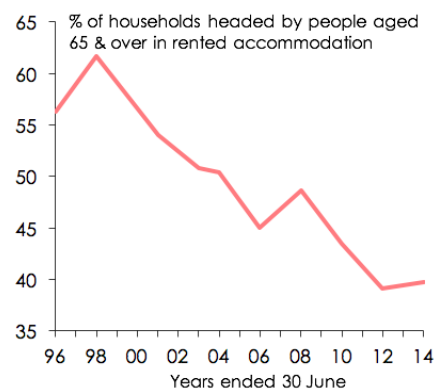
In this context it is worth noting that, although the proportion of households headed by people aged 65 and over living in rented accommodation has not changed significantly over the past two decades, there has been a significant decline in the proportion of these households who are living in accommodation rented from State or Territory housing authorities, as distinct from private landlords, as shown in Charts 8a and 8b below. Whereas historically well over half of all renting retiree households rented from housing authorities, in recent years that proportion has fallen to less than 40%.

**Chart 8A: Proportion of households headed by people aged 65 & over in rented accommodation, by landlord**



Source: ABS 4130.0.

**Chart 8B: Proportion of tenant house-holds headed by people aged 65 & over renting from housing authorities**



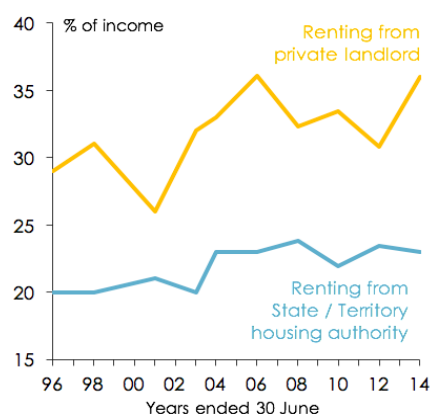
Source: ABS 4130.0.

This trend is significant for two reasons.

First, rents charged by State and Territory housing authorities are fixed as a proportion of tenants' incomes, whereas rents charged by private landlords are determined by market forces. Hence, housing costs absorb a much higher proportion of the incomes of retiree households renting from private landlords than of retiree households living in public rental housing (as shown in Chart 9).

Second, public housing authority tenants have much greater security of tenure than tenants of private landlords.

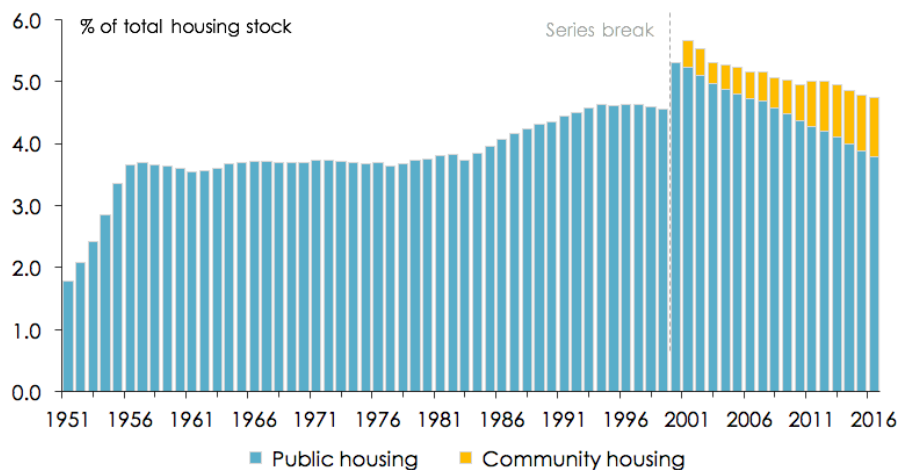
**Chart 9: Housing costs as a pc of income, tenants aged 65 & over**



Source: ABS 4130.0.

The decline in the proportion of retirees living in social housing reflects, at least in part, the decline in social housing as a proportion of the overall housing stock, as shown in Chart 10.

**Chart 10: Social housing as a pc of the total housing stock, 1951-2016**



Note: 'Total housing stock' is occupied private dwellings as recorded in Census years, with intervening years interpolated using ABS data on residential building completions. Sources: Productivity Commission (2015, p. 3, and 2017, Table 18A.3); ABS, Census data and Building Activity (8752.0).

Thus, not only is it likely that (as noted earlier) an increasing proportion of retirees will be living in rented accommodation: it also seems probable that, if these trends continue unabated, an increasing proportion of retirees will be living in less secure accommodation than in previous decades, and they will be spending a greater proportion of their incomes on housing than in previous decades.

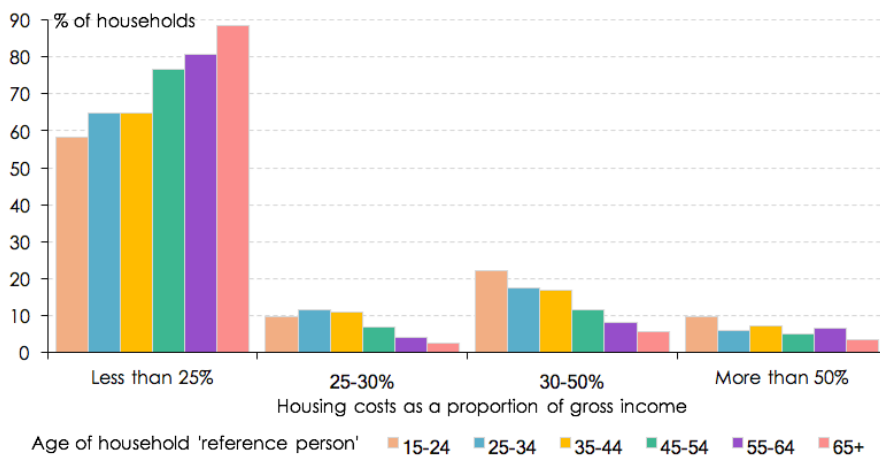
**“AN INCREASING PROPORTION OF RETIREES WILL BE LIVING IN LESS SECURE ACCOMMODATION THAN IN PREVIOUS DECADES, AND THEY WILL BE SPENDING A GREATER PROPORTION OF THEIR INCOMES ON HOUSING THAN IN PREVIOUS DECADES.”**

# Implications for Australia's retirement income system

As noted in the introduction to this paper, Australia's retirement income system has long taken for granted, or implicitly assumed, that the vast majority of retirees will have very low housing costs, because they will be living in homes which they own outright, or if they don't own their own homes they will be living in public rental housing where their rents are fixed at a (relatively low) proportion of their incomes. In this regard, home ownership or living in a subsidised rental home has been a 'fourth pillar' in Australia's retirement system, alongside the three other so-called pillars of superannuation, the Age Pension and voluntary savings.

Historically, this assumption has been by and large a valid one. In 2013-14, more than 88% of households headed by people aged 65 and over spent less than 25% of their gross income on housing costs, compared with 71% of other households; while only 9% of households headed by people aged 65 and over spent more than 30% of their gross income on housing costs, compared with more than 20% of other households (Chart 11).

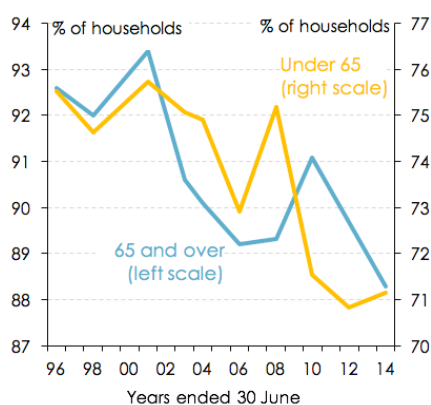
**Chart 11: Housing costs as a pc of gross income, by age group, 2013-14**



Source: ABS 4130.0.

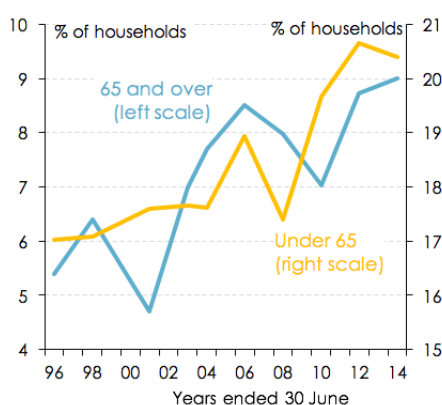
Nonetheless, this assumption is becoming less valid over time. The proportion of households headed by people aged 65 and over whose housing costs are less than 25% of their gross income has fallen by 5 pc points since the turn of the century (Chart 12a). Conversely the proportion of households in this age group whose housing costs exceed 30% of their gross income has more than doubled over the same period – which is actually a larger increase than for households headed by people aged under 65 (Chart 12b)<sup>11</sup>.

**Chart 12A: Proportion of households spending less than 25% of gross income on housing, by age group**



Source: ABS 4130.0.

**Chart 12B: Proportion of household spending more than 30% of gross income on housing, by age group**



Source: ABS 4130.0.

If the trends in home ownership rates and in rental markets identified in this report were to continue – as seems more likely than not in the absence of any changes to the policy setting which have contributed to those trends – then it seems probable that, over coming decades:

- a declining proportion of people reaching retirement age will own their own homes – and conversely, a higher proportion of people will need to rent their accommodation during their retirement years;
- an increasing proportion of people who do reach retirement age as home owners will do so having some mortgage debt still outstanding, and will (quite rationally) use some or all of their superannuation savings to pay that debt off; and
- an increasing proportion of those who live in rented accommodation during their retirement years will rent from private landlords, paying a higher proportion of their income in rent.

<sup>11</sup>Note that the left- and right-hand axes in Charts 12a and 12b are intentionally scaled to show identical ranges.



# Increased pressure on the age pension

As a consequence of these trends:

- current assumptions about the number of people who will be able to support themselves in retirement, without needing to rely on the age pension, may prove optimistic; and
- future governments are likely to face growing political pressure for further increases in the level of the age pension, and/or in the level of Commonwealth Rental Assistance (CRA) paid to pensioners and other low-income earners living in privately rented accommodation.

It also seems plausible that, if the proportion of people entering retirement as home-owners continues to decline, a growing proportion of those who subsequently need to enter residential aged care will be unable to post an accommodation bond financed from the proceeds of selling their house. This would lead to further pressure for additional government spending on aged care.

In other words, not only do the emerging trends in Australia's housing market spell trouble for those who will be entering retirement over the next three or four decades: they also spell trouble for Australia's public finances, and for the governments who will preside over them.

These prospects should encourage Australia's current generation of political leaders to give more thought to what can and should be done to ameliorate or reverse the long-term decline in home ownership rates among people currently aged between their mid-20s and their mid-50s, the growing difficulty which people in these age ranges and older are experiencing in paying off their mortgages before they reach retirement, and the diminishing availability of affordable rental accommodation for those who have not been able to attain home ownership by the time they reach retirement age.



# What to do – and what not to do

Policy options for improving housing affordability and arresting the decline in home ownership rates have been widely canvassed in a series of official inquiries, and submissions made to the bodies conducting them, over the past 15 years<sup>12</sup>, and in a large volume of academic research<sup>13</sup>: this report does not seek to recapitulate or evaluate those options at length.

There are however two general principles which emerge from these reports and this research which should inform the way in which policies for improving housing affordability and promoting home ownership are developed:

- first, governments should, where feasible, retreat from existing policies which serve primarily to inflate the demand for housing (especially for existing housing), and avoid embracing new policies which would further add to the demand for housing; and
- second, governments should instead adopt policies which reduce impediments to increasing the supply of housing, or indeed adopt policies which directly increase housing supply.

This might seem, at first glance, to be a statement of the obvious.

Despite that, however, over the last fifty years, successive federal and state governments have pursued policies whose effects have, for the most part, been to inflate the demand for housing and to constrict the supply of it<sup>14</sup>.

Thus, long-standing federal and state government policies such as cash grants to first home buyers, favourable tax treatment of the net income from investment in housing (relative to, for example, income from wages and salaries or interest), stamp duty concessions for first home buyers and land tax exemptions for home owners all have the effect of allowing purchasers of housing to pay more for the housing which they purchase than they would have done otherwise.

In markets in which ‘underlying’ demand consistently exceeds supply (as has been the case with most Australian capital city housing markets in the past two decades), the inevitable result of such policies has been to put additional upward pressure on residential property prices.

There’s little doubt that first-home buyers have been ‘squeezed out’ of the housing market by investors over the past 25 years – as illustrated by the profound shifts in their respective shares of housing finance commitments over this period, depicted in Chart 13.

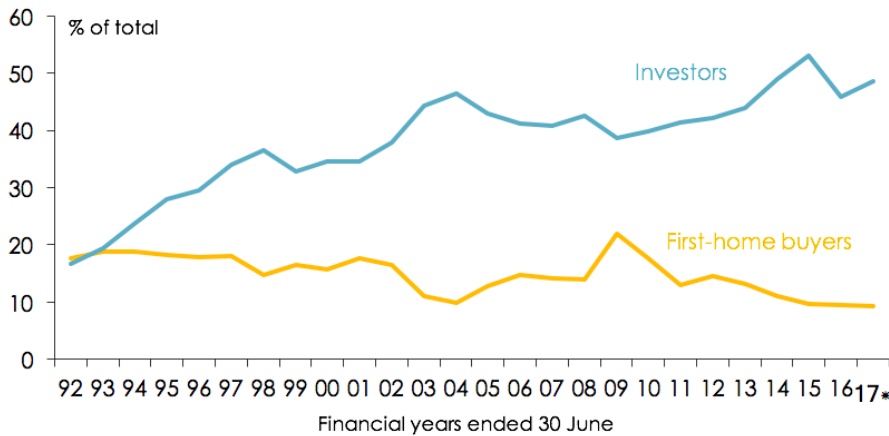
**“GOVERNMENTS SHOULD RETREAT FROM POLICIES WHICH SERVE TO INFLATE THE DEMAND FOR HOUSING”**

<sup>12</sup>See, for example, Productivity Commission (2004); Senate Select Committee on Housing Affordability (2008); Senate Economics References Committee (2015); and submissions to House of Representatives Standing Committee on Economics (2016) whose unfinished inquiry into home ownership lapsed ahead of the 2016 elections.

<sup>13</sup>For example, Yates (2007); Wood and Ong (2012); Yates (2011); McLaren, Yeo and Sweet (2016).

<sup>14</sup>See Eslake (2013).

**Chart 13: Shares of housing finance commitments to first home buyers vs investors**



Note: Totals exclude re-financing. 2016-17 data are for the seven months ended January 2017.

Source: ABS, Housing Finance (cat. no. 5609.0).

In 1991-92, both groups accounted for around 17% of total lending for housing (with the balance being for existing home owners ‘trading up’). By 2014-15, the share of housing finance commitments going to investors had risen to 53%, while that going to first-home buyers had declined to less than 10%. The share of finance commitments to investors fell back to just under 46% in 2015-16, reflecting the supervisory measures taken by APRA in early 2015, but has risen again thus far in the current financial year.

State and local government policies which restrict the supply of ‘greenfields’ land for new housing development or add to the ‘up front’ costs of developing such land for residential housing, and policies which add to the cost and or the time entailed in redeveloping existing urban land at higher densities, have also had the effect of putting upward pressure on the prices of existing residential properties, by enhancing their ‘scarcity value’.

Arguably, under-investment in public transport or arterial roads which would increase the accessibility of outer suburban areas to places of employment, recreation and entertainment has also had the effect of enhancing the ‘scarcity value’ (and hence the price) of housing which does enjoy more favoured access.

It is perhaps worth noting in this context that almost 6mn households, representing at least 9 mn enrolled voters (out of a national total of 15.7 mn), own at least one residential property – and that more than 2 mn taxpaying individuals own at least one investment property – whereas in each of the past six years, fewer than 100,000 people have joined their ranks as first home buyers (down from an average of 117,000 per annum in the preceding 15 years).

Hence, as a matter of electoral arithmetic, policies which have the effect of inflating residential property prices are likely to be prima facie appealing to a majority of voters: whereas policies which can be portrayed as likely to result in downward pressure on property prices provide potentially fertile soil for ‘scare campaigns’.

That electoral calculus may change to the extent that voters attach greater importance to factors other than their own material gains – for example, the prospects for their adult children being able to attain home ownership (or the financial contribution which they may have to make to their adult children attaining home ownership).

However, for the time being at least, it seems politically unrealistic to expect governments to favour policies which would actually make housing cheaper. Rather, the best that can be hoped for is that governments will resist policies which would further inflate residential property prices, and instead adopt policies which will lessen the rate at which prices continue to rise.

# Three reasons why tapping into super to buy a home is a bad idea

A topical and, in the context of this paper, pertinent example of the former is the oft-made suggestion (most recently by the business think-tank CEDA, former Treasurer Joe Hockey, and Senator Nick Xenophon) that first-home buyers be allowed to draw down their superannuation savings to assist with raising the deposit required to qualify for a mortgage<sup>15</sup>, as is allowed under certain conditions in Canada and New Zealand.

There are at least three objections to this proposal.

First, such a proposal, if implemented, would have exactly the same effect as measures such as cash grants to or stamp duty concessions for first time buyers – namely, that it would allow first time buyers who took up the opportunity to use their accumulated superannuation savings in order to put down a larger deposit on the purchase of a first home to pay more for their first home than otherwise; and hence that the likely result, in a market where the demand for housing exceeds the supply of it, is higher housing prices, rather than higher rates of home ownership.

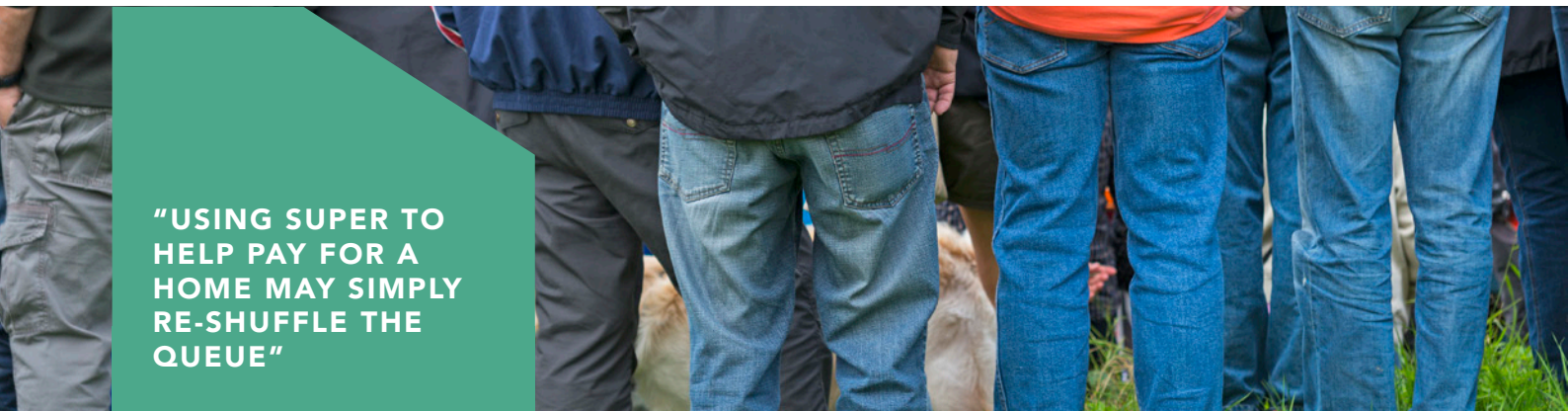
Such a proposal may instead simply ‘re-shuffle the queue’ of aspiring first-home buyers, enabling those who do use their superannuation savings to put down a larger deposit to outbid those who do not, or cannot.

Second, such a proposal would result in those who take it up accumulating lower retirement savings than they would have done otherwise. Since the average rate of return on superannuation savings is typically higher, over the long run, than the mortgage rate (especially in after-tax terms), a person who used some or all of his or her superannuation savings to finance part of the deposit on the purchase of a first home would likely be worse off, financially, than someone who accumulated the required deposit over a longer period from non-superannuation savings (and thus entered home ownership at a later stage)<sup>16</sup>.

Ultimately, that runs counter to the principle objectives of the superannuation system, which are to enhance people’s capacity to support themselves in retirement, and to reduce the proportion of the retired population who are wholly reliant on the age pension.

Third, this proposal would entail a potentially significant budgetary cost to the Commonwealth Government by way of foregone revenue. That’s because earnings (including capital gains) on superannuation savings are taxed at 15%, whereas capital gains on owner-occupied housing are exempt from taxation.

Accounting firm PricewaterhouseCoopers has estimated the revenue loss resulting from a scheme similar to Canada’s as \$1.1bn in its first year, \$0.6-\$1.0bn per annum over the following nine years, rising to \$2.1bn after 35 years, for a total to the budget bottom line of \$31bn over 35 years<sup>17</sup>.



**“USING SUPER TO HELP PAY FOR A HOME MAY SIMPLY RE-SHUFFLE THE QUEUE”**

<sup>15</sup>See, for example, Pash (2014); CEDA (2015); Hutchens (2015); and Gottliebsen (2015).

<sup>16</sup>See, eg, Whittaker (2017).

<sup>17</sup>Greber (2015).

# Measures to improve outcomes

If the Commonwealth Government could make a much more effective contribution towards enhancing people's capacity to become home-owners, and to have paid off their mortgage debt by the time they reach retirement age, by adopting measures such as:

- reducing the competition prospective home-buyers face from domestic investors by modifying the way in which the income tax system treats investors' borrowing costs – ie either abolishing or modifying negative gearing which allows interest borrowing to be deductible at taxpayers' full marginal rates in the year incurred ) and/or the way the tax system treats capital gains (taxable at half the marginal rates applicable to taxpayers' other income, in the year in which capital gains are realized);
- reducing the competition prospective home-buyers face from domestic investors by requiring APRA further to lower its 'ceiling' on the rate of growth in aggregate lending to residential property investors, and/or further tightening the criteria used by mortgage lenders in making residential property investment lending decisions;
- reducing the competition prospective home-buyers face from foreign investors by further tightening FIRB rules governing the circumstances under which foreign investors are permitted to purchase established dwellings, and/or bringing real estate agents within the purview of anti-money laundering rules and AUSTRAC reporting requirements;
- Pressuring State and Territory Governments to exempt pensioners from stamp duty when 'downsizing';
- using fiscal policy more actively, when economic conditions require measures aimed at boosting economic activity or employment, so as to reduce the need to rely predominantly on monetary policy (in the form of low interest rates) for that purpose.

Additionally, although most aspects of housing supply fall within the responsibilities of State and Territory Governments rather than the Commonwealth, the Commonwealth could facilitate increases in the supply of affordable rental housing (which as noted earlier is likely to become a more pressing issue for a growing proportion of people reaching retirement age without owning a home) by:

- providing grants or low-interest loans to State and Territory Governments for the construction of more new affordable rental dwellings, either by State and Territory housing authorities or community housing organizations (as previous federal governments have done);
- providing tax incentives for institutional or individual investment in new affordable rental housing (perhaps funded by reductions in existing tax incentives for speculative investment in established housing); and
- providing support (in the form of loan guarantees or interest subsidies) for borrowings by community housing organizations and other not-for-profit providers of affordable rental housing.

State and Territory Governments could also contribute towards enhancing people's capacity to become home-owners by:

- scaling back cash grants and tax exemptions or concessions for first-time buyers which simply allow buyers to pay more to vendors than they otherwise would;
- replacing stamp duties with a more broadly-based land tax (with no exemptions for owner-occupied land, but with appropriate transitional provisions to avoid 'double taxation' of recent purchasers) so as to eliminate the disincentives which stamp duties create for people to 'move home' as their needs change, as well as to provide State and Territory Governments with a more predictable and stable source of revenues;
- reducing up-front taxes and charges on land developers and builders for the provision of suburban infrastructure, permits and inspections (or simply revenue-raising) – whilst recouping revenue foregone through increased municipal rates or land tax, and working with the ACCC to ensure that reductions in up-front taxes and charges are passed on to new home buyers;
- reforming planning laws to reduce the scope for frivolous or vexatious objections to redevelopment of existing residential sites at higher densities; and
- increasing investment in urban transport infrastructure to improve access to and from new suburbs to places of employment, entertainment and recreation.

State and Territory Governments could also improve the supply of affordable rental housing by building more of it themselves, or by funding community and not-for-profit housing providers to do so (including by transferring some of their existing housing stock to such organizations, allowing them to leverage it in ways that State and Territory Governments have become unwilling to do); and by making unused or under-utilized state-owned land available for the provision of more affordable rental housing. State and Territory Governments could also provide support for borrowings by community and not-for-profit affordable housing providers in the same way as suggested for the Commonwealth above.

Because housing affordability traverses the traditional delineations of responsibility between all three levels of government in Australia, it has become too easy for each level of government to shift the ‘blame’ for deteriorating housing affordability and declining home ownership to the other levels.

An appropriate way of overcoming this might be for the Prime Minister to convene a ‘summit’ of all levels of government focussed on housing affordability, with the aim of reaching agreement on shared objectives and a policy framework credibly directed towards achieving those objectives.



# Conclusion

---

This report has shown that Australia's overall home ownership rate has been declining gradually over the past fifty years, and more rapidly since the turn of the century; and that the decline in the overall home ownership rate conceals much sharper declines both in the rate of outright (that is, debt-free) home ownership and in the rate of home ownership not only among 25-34 year olds, but also among people aged from their mid-30s through to their mid-50s.

These trends, if continued – and there is little to suggest that they won't be – suggest that an increasing proportion of Australians will reach retirement age having either never attained home ownership, or still having at least some mortgage debt outstanding on their homes, which they will then rationally pay off using some or all of their superannuation savings.

In addition, this report has shown that an increasing proportion of retirees who do not own their own homes are renting from private landlords, and as a result paying a much higher proportion of their incomes in rent than has historically been the case.

This developments suggest that one of the crucial assumptions which has long underpinned Australia's relatively parsimonious – by comparison with most other 'advanced' economies – retirement income system – namely, that the overwhelming majority of retirees will have very low housing costs – will become increasingly untenable.

Failure to address the ongoing deterioration in housing affordability will condemn future generations of Australians to poorer standards of living in retirement, and ultimately result in increased demands for higher levels of financial assistance to retirees, leading in turn to a higher burden of taxation on the diminishing proportion of the Australian population who will still be working.

**“FAILURE TO  
ADDRESS THE  
ONGOING  
DETERIORATION  
IN HOUSING  
AFFORDABILITY WILL  
CONDEMN FUTURE  
GENERATIONS OF  
AUSTRALIANS TO  
POORER STANDARDS  
OF LIVING IN  
RETIREMENT”**

# References

- Andrews, Dan, and Aida Caldera Sánchez (2011), [‘The Evolution of Home Ownership Rates in Selected OECD Countries: Demographic and Public Policy Influences’](#), OECD Journal: Economic Studies, Vol. 2011/1.
- APRA (Australian Prudential Regulation Authority) (2014), [Reinforcing sound residential mortgage lending practices](#), Letter to authorised deposit-taking institutions, 9th December.
- ASFA (Association of Superannuation Funds of Australia) Research and Resource Centre) (2016), [ASFA Retirement Standard](#), Sydney.
- Australian Treasury (2011), [‘Towards higher retirement incomes for Australians: a history of the Australian retirement income system since Federation’](#), Economic Roundup No. 65, pp. 65-91.
- Burke, Terry, Wendy Stone and Liss Ralston (2014), [Generational change in home purchase opportunity in Australia](#), AHURI Final Report No. 232, Australian Housing and Urban Research Institute Limited, Melbourne, November.
- Committee for Economic Development of Australia (CEDA) (2015), [The super challenge of retirement income policy](#), Melbourne, September.
- Daley, John, Danielle Wood, Ben Weidmann and Cameron Harrison (2014), [The Wealth of Generations](#), Grattan Institute, Melbourne, December.
- Edey, Malcolm, and John Simon (1996), [‘Australia’s Retirement Income System: Implications for Saving and Capital Markets’](#), Research Discussion Paper 9603, Reserve Bank of Australia, Sydney, September.
- Ellis, Luci (2017), [‘Opening Remarks to Plenary Panel at the Australasian Housing Researchers Conference’](#), Melbourne, 16th September.
- Eslake, Saul (2013), [Australian Housing Policy: 50 Years of Failure](#), Submission to the Senate Economics References Committee inquiry into Affordable Housing, December.
- Gottlieb, Robert (2015), [‘First-home buyers should be able to dip into super’](#), The Australian, 10th March.
- Greber, Jacob (2015), [‘PwC says Joe Hockey’s super-for-housing would cost \\$31b by 2050’](#), The Australian Financial Review, 12th March.
- House of Representatives Standing Committee on Economics (2016), [Submissions to the Inquiry into Home Ownership](#), Canberra, May.
- Hutchens, Gareth (2015), [‘Joe Hockey raises prospect of first home buyers using super to enter property market’](#), The Sydney Morning Herald, 6th March.
- Kelly, Jane-Frances (2013), [Renovating Housing Policy](#), Grattan Institute, Melbourne, October.
- Jones, Michael A. (1980), *The Australian Welfare State*, George Allen & Unwin, Sydney.
- McLaren, John, Allan Yeo and Michael Sweet (2016), [‘Australia is Facing a Housing Affordability Crisis: Is the Solution to this Problem the Singapore Model of Housing?’](#), Australasian Accounting, Business and Finance Journal, Volume 10, Issue 4, pp. 39-57.
- Mendelsohn, Ronald (1979), *The Condition of the People: Social Welfare in Australia 1900-1975*, George Allen & Unwin, Sydney.
- Pash, Chris (2014), [‘Nick Xenophon Wants The Rules Changed So Young Home Buyers Can Use Retirement Savings’](#), Business Insider, 28th July.
- Productivity Commission (2004), [First Home Ownership](#), Report No. 28, Melbourne.
- Productivity Commission (2015), [Housing Assistance and Employment in Australia, Volume 2: Background Papers](#), Melbourne, April.
- Productivity Commission (2017), Report on Government Services, Volume G, Chapter 18, [Housing and Attachment Tables](#), Canberra, January.
- Reserve Bank of Australia (2015), [Submission to the Inquiry into Home Ownership](#), House of Representatives Standing Committee on Economics, June.
- Salt, Bernard (2016), [‘Moralisers, we need you!’](#), The Weekend Australian Magazine, 15-16th October.
- Senate Economics References Committee (2015), [Out of reach? The Australian housing affordability challenge](#), Canberra, May.
- Senate Select Committee on Housing Affordability in Australia (2008), [A good house is hard to find: Housing affordability in Australia](#), Canberra, June.
- Wade, Matt (2014), [‘Higher student debts will hit chance of buying home’](#), Sydney Morning Herald, 17th May.
- Warren, Diane (2008), [‘Australia’s Retirement Income System: Historical Development and Effects of Recent Reforms’](#), Working Paper No. 23/08, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, November.
- Whittaker, Noel (2017), [‘The case against letting first-home buyers use super’](#), Sydney Morning Herald, 3rd March.
- Wood, Gavin and Rachel Ong (2012), [Sustaining home ownership in the 21st century: emerging policy concerns](#), AHURI Final Report No. 187, Australian Housing and Urban Research Institute Limited, Melbourne, April.



Yates, Judith (2007), [Affordability and access to home ownership: past, present and future?](#), Australian Housing and Urban Research Institute, National Research Venture 3 (Housing affordability for lower income Australians), Research Report No. 10, Sydney, November.

Yates, Judith and Bruce Bradbury (2010), *'Home ownership as a (crumbling) fourth pillar of social insurance in Australia'*, Journal of Housing and the Built Environment, Vol. 25, No. 2, June, pp. 193-211.

Yates, Judith (2011), *'Explaining Australia's Trends in Home Ownership'*, Housing Finance International, Volume 26, No 4 (Winter), pp. 6-13.

**Australian Institute of Superannuation Trustees**

+61 3 8677 3800

[info@aist.asn.au](mailto:info@aist.asn.au)

[www.aist.asn.au](http://www.aist.asn.au)

 [@aistbuzz](https://twitter.com/aistbuzz)

 [Australian Institute of Superannuation Trustees](https://www.linkedin.com/company/aist)

© Australian Institute of Superannuation Trustees (AIST) 2017



Australian Institute of Superannuation Trustees