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Sustaining home ownership in the 21st century: emerging policy concerns

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ACRONYMS

BHPS	British Household Panel Survey
CBD	Central Business District
COAG	Council of Australian Governments
CRA	Commonwealth Rent Assistance
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HILDA	Household, Income and Labour Dynamics in Australia
NHG	Nationale Hypotheek Garantie
OECD	Organisation for Economic Cooperation and Development
RSL	Registered Social Landlord
UGB	Urban Growth Boundary
UK	United Kingdom
US	United States

1 INTRODUCTION

The idea that housing careers progress smoothly from leaving the parental home through renting and then ownership, with low housing costs matching lower income post-retirement, is losing its relevance in the 21st century. We believe there is clear evidence that home ownership will prove unsustainable for increasing numbers of Australians in the 21st century. This is due to systemic change emerging as a result of globalisation, technical change, flexible labour markets, demographic change and individualisation, high real house prices and growing indebtedness. While globalisation, technical change and flexible labour markets have boosted productivity and hence economic growth and incomes, they have also combined to usher in a new era of instability in housing markets that reflects higher levels of risk. Many Australian households are finding it increasingly difficult to cling on at the edges of home ownership.

Ironically, these higher levels of risk afflict home owners at a time when housing asset-based welfare has come to the fore, as mortgage innovation make housing equity fungible and government funded welfare programmes shrink in response to global pressures that prompt budget restraint (Doling & Ronald 2010). In Australia there is a belief among some commentators that shrinking welfare programmes such as public housing have hastened a decline in Australian government debt as a share of GDP (Di Marco et al. 2009); this has been accompanied by an increased reliance on asset-based welfare that involves the leverage of housing and other personal assets to meet acute spending needs and unanticipated drops in income. However, housing assets are unusual as owners cannot hedge house prices, even though housing equity is the most important component of household wealth portfolios¹.

Successive Australian Governments have implicitly promoted this switch to asset-based welfare by the use of tax expenditures (subsidies), concessionary asset tests (governing eligibility to allowances and pensions) and assistance to first home buyers that promote home ownership and the accumulation of savings in housing wealth. These interventions have become a cornerstone of Australian social policy as it has allowed the age pension to be set at relatively low levels as compared to other countries (Baxter & McDonald 2005). The assumption has been that older, low income persons will have relatively low housing costs because they own their homes outright, and can therefore get by on smaller pensions (Castles 1998). The small minority unable to attain outright ownership are assumed to be accommodated in public housing at affordable income related rents, or in private rental housing with housing cushioned by Commonwealth Rent Assistance. There is evidence supporting the effectiveness of this strategy. For example, on comparing six countries Yates and Bradbury (2010) find that while Australia has the highest before-housing poverty rate, it has one of the lowest after-housing poverty rates².

But the welfare role of housing wealth has grown and now reaches into earlier stages of the life course³. We have documented the growing significance of equity borrowing

¹ In 2006 Housing wealth accounted for 64 per cent of the gross wealth of Australian home owners and even if calculated with respect to all Australian households, housing accounts for 61 per cent of gross wealth (see Wood et al. 2010b). Hedging is effected when the owner of an asset purchases a guarantee that secures the value of that asset regardless of its future price. In the home ownership context an owner might be willing to pay a premium in return for the option to sell at the price prevailing today.

² Doling and Ronald (2010) report a significant positive correlation between before-housing poverty rates among over 65s and the rate of home ownership in a sample of EU countries.

³ Toussaint and Elsinga (2009) distinguish between traditional and new 'housing-asset-based welfare'. In the former, home ownership is perceived as a means to accumulate housing equity that can be tapped

as a financial buffer in Australia and the UK in the period preceding the Global Financial Crisis (GFC) (Parkinson et al. 2009; Smith et al. 2009). Younger Australians, and particularly couples with children, have been using flexible mortgages to tap into housing equity (equity borrowing). We estimate that between 2001 and 2005, 43 per cent of Australian home owners added to their mortgages without moving; and the cash sums released averaged over \$20 000⁴. Our findings suggest that equity borrowing is more often prompted by pressing spending needs than discretionary 'life style' purchases. But when the limits to equity borrowing are reached households may be forced to sell up. We know very little about the journeys travelled by these households on the margins of home ownership⁵.

Equity borrowing became commonplace in part because of soaring real house prices that inflate housing wealth to levels that many would not have anticipated when buying their homes. While there have been slowdowns in Australian urban housing markets over the past 20 years—most noticeably in the early 1990s and more recently during the post-GFC years—house price growth has decelerated and we have not witnessed the sharp declines in house prices experienced in some other countries. Moreover these periods of price stability tend to be followed by sharp acceleration in price growth once market conditions recover. Thus real house prices are being ratcheted up during each upswing of the house price cycle.

We believe that this pattern in part reflects an inflationary bias in Australian urban real estate markets that is the product of growing tensions between the fiscal treatment of land and housing, and urban planning. The key components of that fiscal treatment are the tax subsidies and asset test concessions (governing eligibility to pensions and allowances) helping fuel strong growth in the demand for land and housing, while also promoting the accumulation of savings in land and housing assets. In the early post World War II decades these demand and wealth accumulation pressures were met by expansion at the urban fringe that acted as a safety valve, such that demand pressures were accommodated without spiralling real house prices (and rents). But there are natural limits to urban growth at the fringe (e.g. topography), and emerging government concerns about negative environmental consequences have motivated the design of metropolitan planning strategies promoting more compact cities. As state governments have invoked 'command and control' planning instruments such as urban growth boundaries, and natural limits to city expansion are reached, the safety valve has been turned off. Planning systems have failed to create new safety valves in the form of (say) incentives encouraging medium and high density housing where there is demand for it. Demand pressures are now being met by land and house price increases, which accelerate each time government seeks to tighten the constraints curbing urban growth (see Wood et al. 2011).

into contingently, as a last resort, and typically late in the life course. In the latter, home equity is used as a financial resource and built up or released as needed over the life course via financial products.

⁴ Equity borrowing is one of three methods of releasing housing equity and was the most common in the lead up to the GFC. Using HILDA we estimate that between 2003 and 2007, 82 per cent of episodes of housing equity release by home owner households occurred through in situ equity borrowing. Another 8 per cent (11%) eventuated through trading down (selling up). In the post-GFC era households may revert to more traditional patterns of mortgage repayment as banks tighten lending criteria, and borrowers take a more cautious approach. This does not necessarily translate into a reduced welfare role for housing wealth; owners may turn to trading down or even selling up to release housing equity. A sign of this is a 2008–09 rise in the number of home owners who sold up from 145 408 to 200 709.

⁵ Wood et al. (2010a) follow Australian households losing home ownership between 2001 and 2006, and find that those who still rent in 2006 have a higher likelihood of receiving housing assistance than longer term renters.

These developments in the owner occupied housing sector and housing markets more generally pose dilemmas and challenges for Australian governments (federal, state, and local) and policy-makers:

1. If growing numbers of Australians find home ownership unsustainable in the 21st century, it will add to the already intense pressure on housing assistance, especially among older Australians who are less likely to bounce back into home ownership, given declining rates of economic participation in later years. It also questions a policy emphasis that targets direct subsidies on first home buyers and low income tenants, and *indirect* subsidies that offer most assistance to higher income, over 65s (see Wood et al. 2010c, Table 4.3). In a widely cited article, Burrows (2003) questions the targeting of *direct* subsidies (on tenants) in a country such as the UK where (like Australia) access to home ownership widened in the second half of the 20th century such that at least one-half of all UK households living in poverty are home owners. In Australia we estimate that 56 per cent of low income households (in the bottom quartile) are home owners⁶. Is this equitable in view of riskier footholds in home ownership and evidence (see below) of churning back and forth between ownership and rental tenures? Might we reconfigure the array of direct subsidies to offer more support to those on the fringes of home ownership?
2. If home owner tax subsidies, asset test concessions and first home buyer grants are increasingly at odds with urban planning, might it be time to ease that tension by reforms to the fiscal treatment of land and housing? Resulting efficiency gains emerging on the supply side of land and housing markets could act as a new safety valve that eases inflationary pressures in urban housing markets, and supports supplies of affordable housing.
3. Rising levels of mortgage debt and growing numbers of mortgagors (particularly in later life) signal increasing investment and credit risks. Investment risk is the threat posed when leveraged home purchase is followed by unexpected decline in house value, leaving the home buyer with negative equity. Australian house price trends suggest that this risk is low; and government interventions that lend an inflationary bias to property markets (see above) support this view, as well as comparisons of capital growth in stock markets and housing markets which show the latter to be less volatile (De Silva & Wood 2011). However, average house price trends mask spatial variation that places higher levels of risk on those owners located in submarkets that are bypassed by more typical price growth. Furthermore another part of the house price story is the strong commodity driven growth in the national economy that has helped support a buoyant labour market and earnings growth. Australian housing markets may not be so fortunate if a future downturn in the world economy is accompanied by sustained falls in commodity prices. Australian house prices have a 'long way to fall' given their historically high levels relative to incomes. Credit risk is the threat posed by unanticipated falls in income, or increases in mortgage interest rates, that result in mortgage repayment difficulties. In the riskier environment mortgagees face, is there a case for government funded protection?

The fears that underpin these policy challenges and dilemmas have a growing evidence base. For example, Yates and Bradbury (2010) project a 10 percentage point decline in rates of home ownership among over 65s by 2046. In preliminary investigations we have conducted using the Household, Income and Labour Dynamics in Australia (HILDA) Survey we find that between 2001 and 2009, 1.65

⁶ In Richards (2009, graph 8) a lower estimate of a little below 50 per cent is estimated. At nearly one in two low income quartile households home owners are well represented.

million spells of home ownership were terminated by a move into rental housing. This adds up to approximately 20 per cent of all home ownership spells ongoing in 2001 or starting between 2001 and 2009. It is in stark contrast with the UK, where under 10 per cent of home ownership spells terminated over the same period⁷. Furthermore, our estimates show that loss of home ownership is present among the over-50s as well as younger more financially stressed age groups. Intriguingly, however, around 57 per cent of those who cycled out between 2001 and 2009 later regained home ownership. Five per cent did this more than once in a timeframe that is a little less than a decade. These findings are indicative of the trends highlighted by Beer and Faulkner (2009, p.39), who note that considerable mobility is now evident within the Australian housing market, marked by 'directionless *churn* rather than purposeful steps along a housing career ladder'. There seems to be a sizeable segment of the Australian population caught on the edges of home ownership, where housing circumstances are fluid. Their journeys are as yet uncharted by researchers but deserving of attention given the riskier environment confronting those on the margins of home ownership.

Against this backdrop, our Essay charts the challenges to home ownership in the 21st century, and explores the possible policy responses to these challenges by addressing three key questions:

1. Are high levels of home ownership sustainable in the 21st century?
2. Are current policy settings toward home ownership optimal?
3. What policy changes might be implemented to address the emerging challenges threatening home ownership in Australia?

Chapter 2 draws on existing literature from a variety of disciplines to explore how globalisation, flexible labour markets, demographic change and individualisation, high real house prices and growing indebtedness threaten home ownership. We also draw on our own empirical research to argue that these developments make home ownership a riskier proposition, and have created a new, neglected group of housing consumers occupying precarious positions on the edges of home ownership. Chapter 3 assesses whether current policy settings toward home ownership are optimal. It is argued that current policy settings rest on an out-dated vision of secure linear housing careers, and an overly optimistic presumption that cashing out housing equity is a strategy (housing-asset based welfare) that growing numbers of home owners can fall back on to replace some of the safety nets we associate with a modern welfare state. Finally, Chapter 4 concludes with recommendations of potential policy responses to help address challenges confronting home ownership in Australia in the 21st century.

⁷ This estimate is derived from the British Household Panel Survey (BHPS).

2 ARE HIGH LEVELS OF HOME OWNERSHIP SUSTAINABLE IN THE 21ST CENTURY?

There is now a multidisciplinary literature that offers rich insights into the dangers facing the home ownership tenure in the 21st century. This literature has a particular resonance in view of home ownership's importance in most Australians' housing careers, and its role as a pillar supporting key components of the country's social policy. We begin with how the literature has described these dangers and their importance as a threat to home ownership. This is followed by a brief overview of some Australian evidence documenting exit and re-entry on the fringes of home ownership, as well as trends in mortgage debt and leverage over recent decades.

2.1 Globalisation

On examining the world economy as it operated 50 years ago we see an international trading environment featuring high transport costs, widespread trade barriers (e.g. tariffs), regulated financial markets with capital controls impeding international financial flows, rudimentary information technology and western developed nations that still have large manufacturing sectors. While countries such as Australia had large export sectors, trade barriers and regulation of financial markets insulated their domestic economies and limited integration with international capital and product markets. Globalisation is the increasing international integration of national economies heralded by technical change that allows instantaneous communication across national boundaries, falling barriers to international trade and direct foreign investment and deregulation of financial and foreign exchange sectors. These changes have brought economic benefits as growing competition in domestic and international markets stimulate a more efficient allocation of resources, generate productivity gains and raise rates of economic growth. These gains have helped lift real earnings and standards of living, particularly in developed countries⁸.

But as the exposure of national economies to international competition intensified following these developments, government sovereignty over domestic economic and social policies weakened. Government fear of 'capital flight' and 'investment strikes' is believed to have motivated moves to deregulate employment conditions and thereby promote flexible labour markets (see Section 2.2 below) that feature more precarious jobs and volatile earnings. Critics argue that the need to maintain internationally competitive corporate and personal tax rates have tightened fiscal constraints, prompting privatisation programs and a general retreat of the welfare state⁹.

But globalisation has also been accompanied by changes in the personal domain. There is a literature emphasising how people perceive a lessening of control over their personal lives and a heightened sense of personal and global risks such as unemployment or some global catastrophe (Clapham 2002)¹⁰. Sociologists such as Giddens (1990, 1991) theorise that globalisation has resulted in a quickening of the

⁸ However there is a view that developing countries have not shared in these gains (see Stiglitz 2006).

⁹ While the 'roll back' of welfare programmes is evident in relation to social housing in Australia, the trends in government spending (as a proportion of GDP) do not suggest a general retreat of the welfare state. Since the 1980s, Australian government spending has remained steady at around 24 per cent of GDP (Laurie and McDonald, 2008). Between 1980 and 2007, government social expenditure on cash benefits rose from 6 per cent to 7.4 per cent of GDP (OECD 2012). If the definition is broadened to include all social expenditure, including in-kind benefits, then the increase is steeper, from 10 per cent in 1980 to 16 per cent in 2007. Moreover the short run response of the Australian governments to the GFC involved expansion of some areas of welfare spending (e.g. education).

¹⁰ Elevated risk levels are by no means uniform. Global catastrophe due to nuclear warfare is arguably lower now than it was at the height of the cold war.

pace of change in our lives, the emergence of rootlessness and search for personal identity (see Section 2.3 below). This idea has a particular resonance for housing studies because home ownership is thought by many to be an important source of identity, and as a 'means to an end rather than an end itself' in postmodern society (Clapham 2002, p.60).

Globalisation has had important consequences for the regulation of housing systems and fiscal interventions in housing markets. Closed housing finance circuits dominated by specialist housing finance institutions have been largely replaced by mortgage markets where specialists must compete with banks, including international competitors (Doling 1997). Technical change, securitisation and deregulation have fostered the separation of origination, financing and servicing functions (though to a lesser degree in Australia than some other countries). While access to mortgage finance for those on the fringes of home ownership has improved, these developments have arguably contributed to greater instability in housing systems, as evidenced by house price volatility (see Section 2.4 below), and rising levels of indebtedness among owner occupiers as new financial instruments (flexible mortgages and sub-prime) allow individuals to access the wealth stored in their homes, or induce those on the edges of home ownership to leverage house purchases. Fiscal interventions have been radically redrawn as housing finance circuits have been opened up. State-owned and financed housing stock is increasingly privatised, while other supply-side subsidies have been withdrawn as greater reliance is placed on 'market friendly' demand side assistance in the form of housing allowances. Tightening budget constraints have spurred governments to target these allowances on those in greatest housing need, and to encourage home ownership and asset-based welfare. Curiously, encouragement has often been delivered via tax subsidies that erode the tax base and make the task of maintaining internationally competitive personal income tax rates that much harder.

2.2 Technical change and flexible labour markets

Ironically, governments desire to embrace home ownership and ease pressures on the welfare state must grapple with some developments in labour markets that do not support home purchase. Accelerating technical change demands continuous updating of workers' skills as they strive to adapt to changing employer demands, as well as flexibility, since jobs become obsolete more quickly in an era of rapid technical change. These features imply fluctuations in earnings as work careers become more fluid, a development that is unhelpful as far as meeting fixed long term commitments such as mortgages are concerned.

There are other features associated with contemporary labour markets that can deter access to and maintenance of home ownership—increasing non-standard forms of employment, flexible/restructured/less predictable work patterns, and growing self-employment—each representing a shift in risk from the state and employer to the employee (Clapham 2005). In the Australian context, Beer and Faulkner (2009) note the incompatibility between these forms of insecure and short-term employment and the long-term financial commitment required from mortgagors. They argue that insecure and short-term employment is particularly prominent among younger households that have yet to make first transitions into owner occupation, and is therefore a significant threat to future attainment of home ownership.

Globalisation has also prompted a policy discourse around the idea that flexible, deregulated labour markets are an appropriate response. There are implications for housing policy and four questions are prominent; can households move easily to access employment opportunities? Is housing being constructed in the right place to

support economic development? Does the 'organisation of housing' enable unemployed households to access employment opportunities (Clapham 2005)? Can key workers rent or buy affordable housing accessible to their workplaces? These questions have prodded housing policy-makers to think about how the allocation and pricing of social housing might result in welfare dependence, or how housing allowances lift effective marginal tax rates and blunt work incentives (Dockery et al. 2008). But it is puzzling that home ownership has not featured in policy debates in this context, despite a controversial academic debate around the Oswald thesis (societies with high rates of home ownership have higher rates of unemployment), and fears that widening regional house price differentials and transaction costs impair labour mobility.

2.3 Demographic change and individualisation

While population ageing has helped maintain rates of home ownership, other important demographic trends have been unhelpful, and two in particular—higher divorce rates since the 1970s and growth in single person households (singles)—deserve attention (Dawkins et al. 2002; Qu & Weston 2011). As is well known, a couple can live much more cheaply than two singles because living apart means that two singles need two kitchens, two bedrooms and so on. Couples can share and so scale economies are realised that lower costs of living including housing costs (Lupton & Smith 2003; Zagorsky 2005). Couple households also capture risk sharing benefits since one partner's loss of earnings can be cushioned by the other's earnings, and this can give couples a competitive edge when it comes to borrowing for house purchase. Divorce adds other negatives as far as home ownership is concerned because it usually requires at least one spouse to find a new home, the division of assets is often costly and separation can reduce earning opportunities for one or both ex-partners when children are involved (Dewilde 2008; Wood et al. 2010b).

There are other demographic changes that could be having significant negative effects on rates of home ownership. Transitions into marriage have been delayed to later in life and rates of non-marital cohabitation have risen. Cohabiting couples are thought to be less inclined to engage in relationship-specific 'investments'—that is commitments that are costly to unwind or manage in the event of separation. Marriage is in principle a public commitment for life and underpins a preparedness to make relationship-specific 'investments'. Apart from children, home purchase is perhaps the most important relationship-specific investment that couples can make, and so rising rates of cohabitation are likely to depress home ownership shares.

There is now a healthy body of evidence confirming these links between demographic change and home ownership. In Australia, Baxter and MacDonald (2005) confirm that more recent birth cohorts have not entered home ownership as quickly as previous cohorts, though they appear to catch up to the levels of previous cohorts by the time they reach their mid-30s. Key factors are delayed marriage and family formation. Hendershott et al. (2009) find that the single, divorced or separated aged 35 and over have a probability of home ownership that is *ceteris paribus* 24 percentage points lower than the continuously married, though remarriage narrows that differential to 6.6 per cent points.

The increasingly popular cohabitation and single living alone household types reflect the diminishing influence of traditional collective institutions such as marriage and religious institutions in society. It is bound up with a search for identity that has challenged rather than reinforced traditional notions that reflect obligations to family and community and themes of self-sacrifice. The consequence is an individualism that strives for identity and self-fulfilment through the construction of more self-centred

lifestyles (Giddens 1991; Clapham 2002). Olsberg and Winters (2005), for instance, observe a weakening of bequest motives as desires for independence and lifestyle choices in retirement increasingly dominate decision-making surrounding the use of housing in old age.

Individualism has potentially important implications for home ownership, though what they might be is contested. For example, Saunders (1990) argues that in the post-modern era lives become more centred around the home in response to a sense of isolation and lack of purpose, and the home addresses these concerns more effectively if owner occupied. On the other hand Clapham (2002, p.60) argues that home ownership is an important source of identity, and argues that home ownership is increasingly viewed as a 'means to an end rather than an end itself'. If desired lifestyles are becoming more fluid and favour independence for longer spells on the life cycle, then home ownership might not provide the preferred pathway to its realisation.

2.4 High real house prices and access to home ownership

Population and income growth, deregulation of mortgage finance and an era of low nominal interest rates (since the early 1990s) are drivers pushing up real house prices to ever higher levels. But to these drivers we can now add two new powerful influences. First, the combustible combination of tax subsidies, asset test concessions and land use and building control regulation that help underpin rapid real house price growth (Wood et al. forthcoming). Second the irrational exuberance of buyers and sellers in a market where the 'buzz' of trading in an upswing overtake common sense thinking, purchasers begin to believe that prices will increase forever, and vendors hold out for ever higher price offers (Shiller 2005). Housing assets are thought to be more vulnerable to sentiment driven swings in prices because of greater difficulty in determining true values. Residential housing assets 'earnings history' is typically shrouded in uncertainty because of a lack of information on price dynamics, and the unobservable imputed rents of home owners (Baker & Wurgler 2007).

The first of these new drivers has only emerged in recent years. Australian cities had featured abundant buildable land in the form of green-field sites on the urban fringes. When house prices rose 'to the point that mortgage payments take up a large share of family income, there was a powerful incentive to move to a lower cost area' (Shiller 2005, p.24). In Australian cities this was typically found in new housing built on the fringe, and so radial expansion of our urban 'footprint' provided a safety valve that allowed the heavily subsidised growth in demand for owner occupied housing to be accommodated without large increases in real house prices (and rents). But there are natural limits to urban sprawl (e.g. topography). Equally importantly, concern about the environmental consequences of urban sprawl have motivated state governments to design metropolitan planning strategies that contain 'command and control' instruments that encourage more compact cities. The safety valve is being turned off, but housing tax preferences and asset test concessions offer increasing amounts of subsidy that continue to fuel demand and the accumulation of savings in property. In these circumstances, urban real estate markets are pressure cookers where subsidy is largely capitalised into house prices; periodic hikes in interest rates temporarily slow asset price inflation, but at considerable cost to housing affordability (and other sectors of the economy that are exposed to credit risks). As soon as interest rate increases are reversed the upward momentum resumes, and real house prices are ratcheted up once again.

The role of 'irrational exuberance' is uncertain but attracting growing interest. It is thought that house price increases invigorate market confidence¹¹, with markets taking on lives of their own due to the effects of feedback that amplify the effect of the precipitating factors through time. Feedback loop effects operate when initial price increases lead to more price increases as the effects of initial price increases feed back into yet higher prices via demand that is stimulated as buyers take 'long positions'. This second round of price increases feeds back into a third round, and then into a fourth and so on. The result is *bubbles* with house prices departing from market fundamentals. But there are restraints that will slow markets and bring this process to an end. If the housing market were to get too high, the discrepancy between the wealth that many people have tied up in the housing market and their current living standards will, when compared with the reasons for holding housing wealth, encourage them to sell (Shiller 2005).

These relatively new ideas about housing markets are clearly relevant to the future of home ownership in Australia. As real house prices outstrip real household incomes, young prospective first home buyers must save harder to meet deposit requirements (or get help from parents), borrow more, and devote an increasing share of the household budget to meet loan repayments. Similar accessibility problems are now being confronted by a new group of households—those *exiting home ownership* due to financial pressures but striving to regain home ownership status.

2.5 Deregulation of mortgage markets and growing indebtedness

It was common up until the 1970s for specialist housing finance institutions to operate within regulatory frameworks governing the range of their operations, and providing protection from competition. There were three especially important features of regulated housing finance systems. First, controls often took the form of regulation of interest rates—both on deposits as well as mortgage loans—though in Australia it took the form of ceilings on mortgage interest rates. Moreover monetary controls helped shape the supply of credit over the business and housing cycles—relaxing policy during downturns and house price declines, and tightening policy during upturns and house price booms (Doling 1997). Second, closed housing finance circuits were an important feature with legislation prohibiting competition from foreign banks, as in Australia, or protection of specialists through tax advantages that impeded competition from the banks, as in the UK (Clapham 2005). Third, the specialist housing finance institutions were vertically integrated such that they fulfilled origination (finding the customer), financing (attracting retail deposits to on lend to mortgagors) and servicing (collecting repayments) functions.

There were important consequences for housing markets and home owners. Regulation of interest rates resulted in rationing of mortgages using non-price rules—for example, the deposit that a borrower has accumulated. More invidious rules included the redlining of neighbourhoods thought to offer poor investment prospects, and discriminatory lending rules with respect to female headed households and ethnic minorities. These regulations impaired the access of these groups and areas to mortgage finance and held back the expansion of home ownership. They also

¹¹ As this confidence grows and speculative purchases become more prominent in the housing market we might expect an increasing proportion of housing finance commitments being made to investors. In fact, between 1985 and 2000, the proportion of housing finance commitments (in terms of value) made to purchasers of investment dwellings rose from 9 per cent to 31 per cent. As at January 2010, this proportion remained high at around 30 per cent (Australian Bureau of Statistics 2010). There is a view that real estate TV shows have contributed to a changing perspective on the home, with increasing numbers viewing housing as an investment rather than a source of shelter.

introduced instability into housing markets as sharp dips in housing finance commitments and building approvals were exacerbated during episodes of tight monetary policy. On the other hand Clapham (2005) argues that controls helped curb volatility, stabilise housing markets and limit exposure to indebtedness and associated credit and investment risks.

Government policy shifts favouring expansion of home ownership naturally focused attention on regulation that impeded access to mortgage finance. The competition case was strengthened by the discriminatory outcomes penalising ethnic minorities and women. With competition encouraged by removal of interest rate controls and other entry barriers (to foreign banks), the dismantling of credit controls, a reliance on open market operations (interest rates) for the conduct of monetary policy and the dominance of variable rate mortgages, the 1980s witnessed a sharp increase in housing market volatility, with boom in the late 80s stalling during the early 1990s.

Boom and bust conditions in overseas housing markets have been blamed on mortgage lending behaviour, that was assisted by the separation through secondary mortgage markets of origination and financing functions, and a 'race to the bottom' as financial institutions relaxed lending criteria to protect market shares. Australian housing and mortgage markets proved more resilient, but a rise in indebtedness among Australian home owners is a development shared in common with other English speaking countries. It follows a period of innovation that has witnessed the development of new mortgage products that changed the supply of credit rather than the character of mortgages; in the view of Smith (2010) the new mortgage products did not reduce overall risks or share them more equitably between borrowers and lenders. The more abundant credit opened up the collateral channel between housing wealth and consumption, and *housing risk* mushroomed. One of the most important long term consequences is the emergence of widespread in situ equity borrowing that has turned housing wealth into a *de facto* asset base for welfare. As Smith (2010) aptly sums up 'Home owners are part of a significant substitution of high rates of home ownership for a well-developed system of welfare transfers. But the behaviour of unregulated mortgage and financial markets threatens any government hopes of bringing off such a substitution'. In the UK and USA the rising numbers of financially stressed exits at the edges of home ownership are a notable symptom of this threat. In the next section we present Australian panel data that sheds some light on the security of home ownership in recent years.

2.6 What does the evidence say?

While this is an Essay primarily concerned to put a case for the reform of Australian home ownership policy, a few facts documenting the changing policy environment is instructive. They show how the threats that we have described appear to be tipping growing numbers out of home ownership, while those remaining in the tenure are increasingly indebted.

Based on the sample of households participating in the HILDA Survey, it is estimated that 1.65 million episodes of home ownership were terminated by a move into rental housing over the period 2001–09. Importantly, exits were more prevalent among the under-50s than among older age groups, where last time sales to finance entry into age care are an age-specific cause of transitions out of home ownership. A helpful way of analysing these episodes is to form a sample comprising those in home ownership for at least one-year in the period 2001–09, and measure the proportion that move out of home ownership in each subsequent year, given home ownership status in the previous year. There is a noticeable drop in rates of exit from home ownership among the under-50s from 7.3 per cent to 4.5 per cent during the first year

that they are observed to be in home ownership, representing the ‘protective’ effect of surviving in home ownership beyond the first-year of owner occupation. After this, exit rates gradually decline from 4.5 per cent to 1.8 per cent over the remaining seven years. The trend over time is similar among those aged 50 or over. However, the exit rates are higher among the under-50s in every year of the study timeframe, indicating that younger home owners ‘survival’ is more precarious. By the end of the timeframe, the ‘survival’ rate in home ownership is 77 per cent among the under-50s; it is higher at 86 per cent among older age groups (see Table A1).

By analysing multiple spells in home ownership, we are able to estimate the number of individuals who churn at the edges of owner occupation, that is those who cycled back and forth between the home ownership and rental sectors. During 2001–09, 20 per cent of home owners¹² in Australia cycled out of home ownership at some point; of those who cycled out, just over half later regained home ownership, and 5 per cent did this more than once over a little less than a decade. The empirical evidence confirms the argument that secure linear housing careers are a less relevant vision of how housing careers unfold.

The UK has similarly complete mortgage markets and high rates of owner occupation as Australia. But comparisons using comparable data sets over the same time frame indicate that movements out of home ownership are less frequent in the UK; under 10 per cent of home owners cycled out of owner occupation in the UK over the period 2001–08. But the proportion returning to home ownership was somewhat lower at 46 per cent and only 1 per cent did this more than once.

On the face of it these figures seem to suggest that a higher fraction of Australian home owners are precariously perched on the margins of home ownership. Might the threats posed by globalisation, flexible labour markets and so on translate into greater risk and financial stress for Australian home owners? Institutional arrangements here in Australia could make churn back and forth between owning and renting an easier journey to undertake. Australia has a relatively large private rental sector (approximately one-fifth of the *population* rents), allowing for greater mobility, and providing temporary refuge for those on the edge of home ownership. The UK’s larger social housing sector may limit transitions out of home ownership to those suffering extreme financial adversity. Indeed a comparison of ‘stayers’ (continuous home owners), ‘leavers’ (those who permanently exit home ownership) and ‘churners’ (those who cycle back and forth between owner occupation and renting) in the two countries indicate that the edges of home ownership reach further up the income distribution in Australia than in the UK. The average income of Australian churners is AUD\$47 500, which is 14 per cent higher than the average income of those who were home owners at least once during the period (AUD\$41 500). In comparison, the average income of churners in the UK (GBP£19 500) is closer to the overall average of GBP£18 700 (see Table A2). Without more research it is difficult to be definitive about the role of Australian rental housing tenures in facilitating transitions between renting and home purchase. The non-linear housing career paths that are increasingly common may not pose a policy problem because they reflect the ample alternatives available for those temporarily dropping out of owner occupied housing. However we do have one piece of relevant evidence; Wood et al. (2010a) find that Australian households losing home ownership (between 2001 and 2006) but *still renting* (in 2006) have a higher likelihood of receiving housing assistance than longer term renters. We need to learn much

¹² The percentage estimates in this paragraph are derived using individual home owners as the unit of measurement. This differs from the previous paragraph where estimates are based on home ownership spells. Hence, if a home owner has, say, 3 spells of home ownership during the data timeframe, s/he would be counted three times in the analysis of exit and survival rates.

more about the edges of home ownership to more confidently design appropriate policy approaches.

Long-run estimates from the ABS Survey of Income and Housing Costs confirm expectations of a rise in indebtedness, particularly among the mature-aged. There is, for example, an increasing tendency for home owners to approach retirement with outstanding debts secured against their homes¹³. In 1982, 28 per cent of all home owners aged 50–64 years had a mortgage debt, but by 2007 the proportion of home owners in this age group with a mortgage debt had risen to 45 per cent (see Table A3). One interpretation is that equity borrowing is being used as an indirect way of bringing forward access to pension wealth. But at least some of the rise in debt levels among older borrowers can be attributed to the fact that when inflation is low, the real value of the outstanding principal is reduced at a slower rate; episodes of rapid inflation in prices and nominal incomes, a characteristic of Australia and other countries in the 1970s and 1980s, accelerated repayments of principal in real terms and so earlier generations of Australians found it easier to pay off their mortgages¹⁴.

Amongst owners with a mortgage (mortgagors), the degree of indebtedness has risen in all age groups as indicated by average loan-to-value ratios of mortgagors over the period 1990–2007. Overall, the amount of debt owed against the home rose from 29 per cent of home value to 38 per cent over the 17-year period. It is particularly noteworthy that average loan-to-value ratios more than doubled from 7.5 per cent to 18 per cent among mortgagors aged 65 and over¹⁵. This rise could be due to the increasing use of equity borrowing as a financial buffer in old age (Wood & Nygaard 2010). Amongst the youngest group (aged 25–34 years), that is those typically entering home ownership for the first time, the average loan-to-value ratio climbed from 41 per cent to 57 per cent over the same period (see Table A4).

These facts clearly document a changing policy environment. The housing career featuring a smooth passageway from the parental home in youth to outright ownership in retirement is over for many Australians. Obsolescence has now set in for a home ownership policy based on linear career paths. But do non-linear career paths call for a change in policy settings? If moves back and forth across tenures are voluntary choices made in response to changing circumstances they can be welfare enhancing. We address this question in the next chapter.

¹³ The September 2011 issue of Choice magazine claims that paying off the mortgage is the most common use of Home Reversion Schemes (partial sales of the home at a discount).

¹⁴ We are grateful to an anonymous reviewer for suggesting this explanation.

¹⁵ Similar trends are evident in the USA. Stafford and Gouskova (2010) report that in 2005 over one-third of 65–79 year old owners secured mortgages against their home—as compared to 20.4 per cent in 1986.

3 ARE CURRENT POLICY SETTINGS OPTIMAL?

Current policy settings with respect to home owners are a mixture of direct and indirect programmes. Direct home ownership assistance schemes (e.g. the First Home Owners Grant, Keystart in Western Australia and HomeStart in South Australia) promote first transitions into home ownership as young first home buyers have found it increasingly difficult to bridge deposit gaps and meet repayment requirements without family assistance (see e.g. Wood et al. 2006). Indirect assistance delivered through the tax system or asset test concessions provides subsidies that are targeted on older Australians. A noteworthy feature is their exclusive focus on the demand side of the market; the supply side has (until very recently) been neglected. But there is now good reason to believe that despite higher real house prices, supply is failing to respond to demand pressures (National Housing Supply Council 2010). There is a growing sense that land use planning and its conflict with the fiscal treatment of land and housing lie at the heart of affordability problems, and might ultimately push real house prices to unsustainable levels.

3.1 The edges of home ownership

The fluid housing careers of the new millennium are swelling the numbers precariously perched on the edges of home ownership. Government policy settings are contributing by a focus on direct assistance programmes that push first home purchase further down the income distribution to embrace *relatively* high risk mortgagors¹⁶. Widening access to home ownership is a popular policy goal, but it jars against a system of indirect subsidies (tax preferences and asset test concessions) that concentrate assistance at the other end of the home ownership spectrum—older outright owners on high incomes. There is also speculation that inflexible supply side conditions result in capitalisation into house prices (see Section 2.4) that heightens concern over current policy settings.

Wood et al.'s (2010c) background paper for the Henry Tax Review reported that home owners aged 65 years or over benefit from a \$3439 per annum average tax subsidy, which is more than 10 per cent of gross income. On the other hand, young home owners under age 35, who are in the early stages of housing careers, incur a tax *penalty* which is on average equal to \$2328 per annum, or 2.8 per cent of gross income. The exemption of housing equity from income support asset tests also benefit older home owners relative to younger ones. Home owners aged 65 years and over receive average benefits of \$2493 due to asset test concessions, equivalent to 7.6 per cent of their gross income, while home owners aged under 35 on average receive only \$82 due to asset test concessions, amounting to only 0.1 per cent of their income. Yates (2009) reports that because of capital gains tax exemptions to the family home, households in the top income quintile benefit by over \$8000 per year, about seven times the average annual benefit of \$1200 received by households in the lowest income quintile. The exemption of the primary home from land tax adds a further \$1500 per annum for households in the top quintile, as compared to \$160 for households in the bottom quintile. This is hardly helpful to either the promotion of first transitions into home ownership, or helping those in financial trouble who want to cling on to their home ownership status.

¹⁶ In its report on home ownership the Productivity Commission (2003) observe that deposit requirements are increasingly met from gifts and bequests, thereby reducing its role as a screening device that aids identification of credit worthiness. First Home Owner Grants and stamp duty concessions also play a similar role and so riskier lending practices become more common.

Maintaining home ownership for those insecurely hanging on, or losing the battle and falling into rental housing, has not been a policy priority. Yet as we have shown (see Chapter 2) it seems their numbers are expanding. The fringes of the home ownership tenure deserve attention from our policy-makers. There was a flurry of interest in the Australian policy community during the GFC in measures that could be introduced to address mortgage default risk. For example, the Lawson et al. (2009) report recommended that strategies be put in place to reduce mortgage default risk, such as the use of public campaigns to promote responsible borrowing amongst first home buyers and other vulnerable groups, prevention of low-documentation loans by sub-prime lenders, expanding the Mortgage Relief program to include temporary emergency measures during periods of economic downturn, and promotion of sustainable home ownership alternatives via rent to buy and shared equity schemes. But there is little evidence of actual reforms that address home buyer credit risks and thereby improves the long term sustainability of home ownership. It is of course possible to argue that those on the fringes of home ownership do not deserve support, as their circumstances have changed in the 2000s such that long term residence in rental housing is more appropriate¹⁷. But there is a lack of the long term rental contracts that are more common in Western European countries. We may need to have this 'conversation' as the edges of home ownership expand and given our finding (Wood et al. 2010a) that Australian households losing home ownership (between 2001 and 2006) but still renting (in 2006) have a higher likelihood of receiving housing assistance than longer term renters. We know little about the journeys travelled by these households, but this spiral downwards into housing assistance might reflect a significant policy gap.

3.2 Land planning and fiscal treatment of land and housing

Home owner tax subsidies and asset test concessions lower the effective price of the owner occupied land-housing package, encouraging the consumption of housing and land and the accumulation of savings in these assets¹⁸. Our own simulations suggest that in 2006 the average annual after-tax economic cost of home owners is lowered by an amount that is equivalent to nearly 2 per cent of income. The exemption under current land tax arrangements accounts for about one third, or \$440, and the remaining two thirds, or \$878, is due to exemption of net imputed rent. When the capital gains tax exemption is taken into account, we find that the after-tax economic costs of home owners are lowered by an even larger 5.5 per cent of income (Wood et al. 2010c).¹⁹

By promoting the demand for land and housing our policy settings are unwittingly accelerating the geographical expansion of our cities. Urban sprawl is the more pejorative term often used to describe growth on the urban fringe, and critics justify its use by reference to negative consequences for the environment, such as threats to biodiversity and carbon emissions.

Metropolitan planning strategies promoting more compact cities are now in place in all our state capitals. But planning instruments introduced to achieve this goal can raise

¹⁷ The trend to more volatile earnings, precarious jobs and so on are not conducive to home purchase and rental housing could be a more suitable housing solution.

¹⁸ The effective price, or user cost of capital as it is commonly referred to in the economics literature (Chinloy 1991), is the after-tax cost of purchasing a dollar of housing capital including the opportunity cost of the owner's equity. Tax subsidies lower this cost, but can be capitalised into the capital values of housing and land. These subsidies encourage taxpayers to consume and invest in housing; but these impacts cause relative capital values to appreciate as a result of these subsidies.

¹⁹ Home owners' average after-tax economic cost in 2006 is 5.9 per cent of housing capital value. If tax subsidies were removed we estimate average after-tax economic cost would be 6.6 per cent.

land and house prices. In the appendix, Figure A1 illustrates what happened to vacant land prices on Melbourne's urban fringe following introduction of its urban growth boundary (UGB) (see Wood et al. 2011). It plots median land prices per hectare (at 2008 prices) for parcels located inside and outside the UGB. Real land prices within the UGB were consistently higher before its introduction, but in the years leading up to the new millennium (1996–99) land values were relatively stable across the entire urban fringe. An interim UGB was announced in October 2002 allowing a consultation period prior to legislation in November 2003. Average land prices within the UGB remained flat during this interim, despite a flurry of market activity which saw the average number (volume) of land transactions increase by 58 per cent (90%) compared with the preceding 12 months.

But the enactment of UGB legislation in 2003 heralds a sharp divergence; inside the UGB median prices per hectare triple, soaring from \$308 843 in 2003 to over \$1 million in 2005, and then increasing further to around \$1.2 million in 2006 before stabilising at this level in the remaining two years of the study period. Land prices outside the UGB increase at a much more sedate pace. In 2003 prices reached \$98 378 per hectare, decreasing marginally to \$96 262 per hectare in 2005, before a spurt to just short of \$200 000 in 2008. However, by 2008 median prices outside the UGB are only one sixth of those within the UGB.

But is this yawning rift really the result of the boundary's introduction? The rift would be smaller, possibly much smaller, but for current fiscal parameters that help fuel the demand for land and housing; but there is worse to come when we consider the supply side of land and housing markets. Our state governments have fiscal levers at their disposal that could ease this tension between planning controls and strong demand, but current settings make matters worse. For example, stamp duties on conveyance deter moves in the housing market. We have 'empty nesters' who may welcome the opportunity to trade-on into something smaller, and cash in some housing equity, but cancel any plans on discovering how much is lost due to stamp duties. As a result the housing stock is underutilised and the supply of housing services from the existing stock is less responsive to price movements. Furthermore, stamp duty is partly capitalised into house and land prices so pushing the price of housing and land up even further. This is particularly frustrating when we observe that a state government land tax, which could be used to reduce land values (see Chapter 4), is applied in a distortionary way that prevents this happening. At present landlords must pay land tax but owner occupiers are exempt. Housing and residential land that is left vacant escapes an annual levy that would help accelerate plans to develop vacant land, or persuade owners of vacant housing (say second homes that have been inherited) to sell or rent. These state government tax arrangements introduce inefficiency into land and housing markets that aggravate the inflationary bias in Australian housing and land markets.

There seems to be growing government recognition that we have supply side problems in Australian land and housing markets. This is indicated through a range of housing supply initiatives including the Council of Australian Governments' (COAG) Housing Supply and Affordability Reform Agenda, as well as the National Housing Affordability Fund that offer grants to state, territory and local governments who reduce holding costs incurred by developers as a result of infrastructure delivery and the planning and approval times associated with residential development (Department of Environment, Sustainability, Water, Population & Communities 2011). It is also evidenced by expansions to Melbourne's urban growth boundary in response to fears of inadequate land supplies (Department of Planning & Community Development 2008; State Government of Victoria 2010), and in initiatives to streamline planning processes, which were the subject of a recent referral to the Productivity Commission

that resulted in its inquiry into planning and zoning (Productivity Commission 2011b). But thus far there is a conspicuous unwillingness to address those fundamental causes associated with conflict between planning strategies and fiscal policy settings that are pulling in different directions.

3.3 Housing asset based welfare and risk

A growing number of social policy specialists believe that as welfare states retreat, particularly in those nations that Esping-Anderson (1999) classifies as liberal welfare regimes, there is a growing emphasis on the welfare role of housing wealth (Doling & Ronald 2010). In Australia asset-based welfare has played a long standing and prominent role as a pillar supporting retirement incomes policy (Castles 1998), but in more recent times it has also become more important in earlier stages of the life course through equity borrowing and even selling up²⁰. The substitution of housing wealth for age pensions was relatively easy to achieve, as in the early post World War 2 decades home purchase could be heavily subsidised without pushing up real house prices. Furthermore, the substitution was implicit; home owners were not being asked to dip into their housing wealth to fund retirement. Retired low to middle income persons meet low housing costs if they own their homes outright, and can therefore get by on smaller pensions. But population ageing and more intense pressure on budget positions have prompted governments to engineer more explicit substitution mechanisms. This is evident in the recent Productivity Commission report (2011a, p.xxvi), which observed that ‘many older Australians with low income have substantial wealth, which gives them the capacity to meet their lifetime accommodation costs and to make a modest contribution to the costs of their care’. It recommends a home reversion scheme as a means of making this modest contribution.²¹

As an income—generating asset housing wealth is unique because we are unable to hedge the risk associated with price volatility. This is despite widespread trading such that prices are continuously struck, and its importance as the largest component of most Australians’ wealth portfolios. In spite of academic studies and proposals for instruments that could insure housing equity (Shiller 2003; Caplin et al. 2009; Smith & Searle 2010; Sommervoll & Wood 2011) financial institutions have not introduced them in Australia, and there are only rare instances overseas.

These are puzzling anomalies given the ingenuity shown by global financial markets in relation to other assets, whether they be commodities or financial assets. Perhaps it reflects a belief among home owners that hedging is unnecessary. Although housing is continuously traded, prices are not being reported with the regularity evident in financial and commodity markets. A daily index of house prices is not reported and so day to day movements are not evident, while monthly and quarterly indexes that are reported mask much of the short term volatility. Indeed on the evidence of a comparison of Melbourne house prices and Australian shares prices, the quarterly volatility in house prices is significantly less than that of Australian share prices (De Silva & Wood 2011). While sharp and sustained drops in house prices do occur, it is an unusual occurrence and most might feel they can hold on to their homes until prices recover (since they can be lived in, an option not available to those trading in shares). It is then curious to find how common losses are even in a market that has not experienced the sharp falls experienced overseas. Among all 456 962 *pairs* of

²⁰ The amounts of housing equity released on trading out of ownership are substantial; preliminary investigations using HILDA suggest that an average \$100 000 of housing equity was typically released by those selling up between 2001 and 2009. In aggregate this amounts to an estimated \$125 billion, or 10 per cent of the nation’s GDP in 2009–10.

²¹ A similar proposal has been advanced in the UK’s Dilnot Report (2011).

transactions (repeat sales) in the Melbourne market (between 1990 and 2010) we find that over 49 700 or 11 per cent (1 in 9) were sold at a price less than that paid (a loss)²². The incidence of loss making repeat sales was even higher among apartments at 19 per cent. It also varies considerably across the housing cycle. During the housing slump 1991–95, over 30 per cent of *repeat* house sales and over 50 per cent of repeat unit/apartment sales were loss making. By contrast, since 2000, less than 3 per cent (15%) of repeat house (units/apartments) sales were loss making. The losses made on these transactions are typically in the tens of thousands, and are larger in the new millennium²³.

It is arguably irresponsible for governments to implicitly, and now explicitly, encourage the accumulation of housing wealth to meet duties that were previously the responsibility of the welfare state, without offering or even encouraging the availability of instruments that allow home owners to hedge the investment risk associated with their most valuable asset. Furthermore housing asset-based welfare has an even more glaring weakness. Life-time renters and those owners unfortunate enough to live in areas where the capital values of their homes are weak mean that housing equity is an incomplete welfare alternative²⁴.

²² This analysis is based on the population of pairs of housing market transactions or repeat sales. The property transaction records are from the Victorian Valuer General. Though impossible to identify it seems likely that some of these loss making sales are not arms-length market transactions. However the observation below that the incidence of loss making repeat sales increases (falls) when markets are soft (tight) suggest that much of the capital losses are forced and market driven.

²³ In the 1990s median losses were \$12 000 (\$13 000) on houses (apartments). But since 1999 median losses rose to \$44 000 (\$33 000) on houses (apartments) though there was fewer loss making repeat sales in the second later period (38 644 versus 11 125).

²⁴ A less obvious but nevertheless important ramification is the potentially adverse implication for rates of depreciation and life of the housing stock if equity borrowing finances consumption needs rather than home maintenance. However, there is some evidence to suggest that a substantial fraction of equity borrowing funds housing improvement investments (see Schwartz et. al. 2010).

4 CONCLUDING COMMENTS AND FUTURE REFORM DIRECTIONS

The inequitable distribution of owner occupier tax subsidies has been understood for many years (Yates & Flood 1987), and repeatedly documented (most recently by Yates 2009; Wood et al. 2010c). These subsidy arrangements have always been considered unfair by many in the policy community and prompt regular calls for reform. We are now witnessing the emergence of a new critique that has at least two additional themes.

First is a concern that policy settings are outdated, because they are based on a linear vision of housing careers. In the linear housing career Australians move smoothly from the parental home, through a period in rental housing spent saving a deposit to help leverage purchase of housing, which is paid off before retirement as an outright owner. But housing careers are now more fluid with growing numbers perched precariously on the edges of home ownership, either struggling to hold on as owners, or losing that battle, while perhaps entertaining thoughts of a return at some later date. The housing wealth held by these marginal owners in their home has become more insecure. Ironically, this insecurity is escalating at a time when governments are eying housing assets as a welfare-base that can help reduce budget pressures fuelled by the need to finance welfare programmes.

Policy towards home ownership also faces a new challenge. Population increases and tax subsidy driven growth in demand was (until the 1980s) accommodated without soaring house prices (and rents) through house building on the urban fringe. This safety valve is being turned off by a combination of natural limits to urban expansion and metropolitan planning strategies designed to curb urban sprawl. We are left with an inflationary bias in land and housing markets that is further aggravated by inefficient Commonwealth and State government taxation of land and housing transactions.

There is a need to address these issues, as they are central to housing affordability concerns as well as growth in the number of Australians insecurely positioned on the edges of home ownership. The affordability issue has been prominent in housing debates for some time now. Sustaining high rates of home ownership is of a more recent vintage. In this concluding section we outline some policy approaches worthy of consideration.

4.1 Planning, fiscal incentives and inflationary bias

Scrapping stamp duties and replacing them by broad-based land taxes is an important *first* step to ease the tension between urban planning strategies and the fiscally lenient treatment of land and housing. Supply side efficiency gains are maximised if land tax rates are struck as a percentage of the per square meter value of land, and positively related to the per square meter value of land. The most expensive land will then attract a relatively more onerous tax burden, as recommended in the Henry review.

The proposed reform has a number of attractive features that will help sustain high rates of home ownership by restraining land and house prices, and stabilising housing markets. First, stamp duties result in inefficient utilisation of the housing stock and a supply of housing services that is less responsive to price changes (see Section 3.2 above). Their removal will then improve the supply of housing from the existing housing stock as well as simplify the tax system by reducing the number of taxes by

one, a small but important step in view of the widespread agreement that we have too many different taxes.

A broad-based land tax will be capitalised into land values as land is immobile; unlike capital and people that are 'footloose', land cannot be wrapped up and transported to low tax jurisdictions; and since it is broad-based land owners cannot avoid tax by changing its use²⁵. The lower land values and hence house prices will ease price pressures and improve access to house purchase (because borrowing constraints are less likely to bind), while putting private rental housing on an equal footing with owner occupation²⁶.

As it will apply regardless of whether land is unimproved (there are no buildings) or improved, a broad-based land tax will accelerate development on vacant sites with resulting improvements in housing supply. The stabilising qualities of a land tax are also a potentially important attribute as far as sustaining home ownership is concerned (Muellbauer 2005); it helps even out market fluctuations because a land tax will inject 'cash' back into a falling housing market (since the tax take will fall), and takes it out when markets overheat²⁷. These stabilising qualities can be expected to spill over into the national economy (via the collateral effects of housing wealth, for example), easing the task of monetary authorities who need not raise or cut interest rates to the extent necessary when markets and house prices are more volatile. This will have economy wide benefits.

Wood et al. (forthcoming) model the effects of a land tax reform that designs a schedule according to the Henry Review recommendations, and sets rates to exactly replace the revenue lost because stamp duties on conveyance are scrapped. Their findings suggest that the incidence of a broad based land tax would be more equitable than stamp duties. Communities with higher average incomes will have higher land tax burdens, and these will tend to be inner and middle ring suburbs.

The case for such a reform package would appear compelling, but doubts persist. There are fears that the changes would be disruptive, and unfair for those who paid stamp duty when buying their home only to find that they are now paying a land tax that is supposed to replace stamp duty. This 'double whammy' is indeed an unattractive aspect of the package; it suggests careful attention to transitional arrangements. One way of addressing the problem is phased introduction such that households only begin paying land tax following their next purchase²⁸. Existing home owners will not pay the land tax if they do not move. Worries about 'lock-in' effects are assuaged on noting that those who plan to move will not pay an up-front stamp duty when they buy, but instead begin paying a lower recurrent annual tax. These transitional arrangements will then result in a revenue shortfall for state governments that require bridging finance from Commonwealth Government. But this revenue shortfall will quickly recede as more and more owner occupied housing joins the land tax base.

There is in fact a range of fiscal concessions granted to owner occupied housing that have the counterproductive effects highlighted in this Essay. We have chosen to

²⁵ On the other hand, stamp duties will push up land and house prices. They reduce the amount that prospective buyers are willing to pay, but if sellers do not like the post-duty price they are being offered they can always withdraw their 'for sale' properties from the market. This supply side response results in part of the stamp duty being passed on into higher land and house prices.

²⁶ Affordability in private rental housing will improve because the supply of private rental housing should increase as a result of the more 'level playing field' created by the reform.

²⁷ It does so more effectively than stamp duty because the latter is only paid on transactions.

²⁸ The authors are grateful to Michael W. of NSW Treasury who alerted us to this option and its merits.

concentrate on the above land tax and stamp duty reform proposals because the justification according to efficiency, equity and simplicity principles is so convincing. Furthermore, there would seem to be transitional arrangements that address the thorny issue of fairness with respect to existing home owners who make purchase decisions in light of existing arrangements which disadvantage them if subsequently changed. But there are other changes that could prove less controversial than the 'big ticket' items such as exemption of owner occupied housing from capital gains tax. One example is the asset test concession that exempts the principal place of residence from asset tests for pensions and allowances, but grants a higher asset threshold to tenants. The arrangements provide potentially powerful incentives to accumulate savings in housing wealth in order to preserve eligibility for (say) the age pension²⁹; increasing the home owner asset threshold to put them on an equal footing with tenants, while including the owner occupied home in the assets test blunts this incentive.

An important barrier to such a reform is the unfair treatment of existing (and soon to be) retirees that have worked hard to accumulate savings in housing with the aim of securing a comfortable retirement, but now find their plans dashed by a change that denies eligibility for the age pension they had been counting on. Transitional arrangements that make these changes prospective for new entrants to the labour force are an option. But if immediate benefits in terms of better utilisation of the housing stock are sought, perhaps we should reflect on the Productivity Commission's (2011a) suggestion that Commonwealth Government allow the retired to retain age pensions on selling their homes and depositing proceeds in Australian Age Pensioners Savings Accounts.³⁰

Discussion to this point has focused on changes to fiscal arrangements; but there is the planning system itself that has a profound influence on the way urban land is used, and where change might yield supply side gains to ease pressure on housing prices (and rents). A key theme in debates around planning and housing supply is densification—how can land in established suburbs be used more intensively to improve the affordability of housing (and, of course, curb urban sprawl)? The case in favour seems straightforward in principle; on building more housing on a given tract of urban land, housing supply is increased without new Greenfield development, thereby easing land and house price pressures, and curbing urban sprawl that is the cause of wider concerns about financing new infrastructure and adverse environmental consequences.

In practice, however, there are impediments to change that can appear insurmountable. Developers seem to prefer Greenfield development because finance of the construction can be multi-staged, while the whole of medium and high density development must be financed upfront. There are regulatory arrangements that developers argue push up the construction costs of building over three storey developments, and construction cost economics suggest that the average cost per square metre of floor space rises with the number of storeys, because foundations, floor supports and so on must be stronger.

²⁹ Table 4.4 of Wood et al. 2010c reports that the average asset test concession for home owners aged 65 years or over is \$2493 or 7.6 per cent of income.

³⁰ The Productivity Commission (2011a) has recommended the introduction of an Australian Age Pensioners Savings Account scheme, which would allow age and service-related pensioners to establish an account with the Australian government or its agent to hold proceeds from the sale of their primary home for contribution to their aged care costs. The account would be exempt from means-testing and indexed according to Consumer Price Index movements.

But the most intractable problem can be summed up in the statement ‘paddocks cannot answer back’, so developers can ‘let it rip’ on the urban fringe. The incidental and unpleasant side effects of residential developments in established suburbs (obscuring natural light, noise, congestion, loss of heritage value etc.) are concentrated on the surrounding community of residents, but the incidental benefits (lower carbon emissions, lower city wide house prices, improved energy efficiency, more cost effective public transport, reduced urban infrastructure requirements etc.) are dispersed beyond the boundaries of the immediate community affected by the development. It is then no surprise to find that communities in established suburbs ‘answer back’. Indeed Taylor (2011) finds that ‘third party’ appeals in Melbourne are more likely the higher the house prices (and average incomes) of properties (residents) in a suburb. Since the unfavourable incidental effects tend to be capitalised into house prices, these empirical results offer important support for the *endogenous planning* view that wealthy owners of high value properties clustered in a locality will ‘answer back’ most energetically. But these localities also tend to be the areas where shortages of affordable housing are most evident. Developers will then be discouraged because medium and high density residential developments tend to be time consuming, ‘hassle prone’ projects, and are deterred most effectively in precisely those areas where affordable housing is critically needed.

From this perspective there would seem to be a critical need for mechanisms that give existing property owners and residents a stake in proposed developments such that they capture a share in the incidental benefits if they go ahead. There is anecdotal evidence that communities might modify their stance if it can be shown that a share of the incidental benefits will be channelled back into the community to offset the incidental costs. For example, might developers be required to first offer apartments, town houses in a medium or high density development to existing families in the suburb, and at a discounted price? Could planning permissions be auctioned with a requirement that bids contain offers to meet a part of the rates (property taxes) payments of affected residents? The latter might be designed along the lines of a ‘cap and trade’ type programme similar to those proposed with respect to carbon emissions.

4.2 Risk, housing assets and welfare³¹

In Australia as well as the rest of the English-speaking world a highly leveraged owner-occupation has emerged. Schwartz and Seabrooke (2008) describe the behaviours of owner occupiers in this world as a style of residential capitalism. While it has become custom to view low risk investments as being ‘as safe as houses’, the fact is that house prices can fall, and interest rates can rise. Moreover these changes can occur at awkward times when spending needs are acute. Housing is therefore a lumpy investment vehicle that exposes its owners to a mix of investment and credit risks. These risks are more threatening in a new millennium characterised by globalism, flexible labour markets and a host of other structural changes, including those in the housing market, that marks a change in values away from the notion of shared responsibility toward a feeling that each person is responsible for his or her own welfare (see Chapter 2 above and Shiller 2005). The emergence of a so called risk society is part of the reason why the home and wealth locked up in the home is becoming increasingly important as the de facto asset base for welfare³².

³¹ This section draws on the ideas developed in Smith (2005), Smith (2010) and Smith and Searle (2011).

³² Shiller (2005), for instance, argues that the shift away from defined benefit plans where employers guarantee specified benefits to employees on retirement, to defined contribution pension plans where an employer makes contributions to an investment plan managed by the employee also adds to the importance of wealth held in the home.

But the GFC has shown us that a debt-financed ownership system can be seriously flawed when, as has been most conspicuously the case in the USA, regulation of mortgage originators and securitisation has allowed risks to be shifted in ways that are not transparent (Stiglitz 2010, pp.77–108). Households caught holding leveraged housing assets can insure against particular credit risks (income protection insurance and fixed rate mortgages, for example), but cannot protect themselves against investment risks as there are no instruments that allow owners to hedge price risk. Smith and Searle's (2011) collection of essays address a key challenge for policy-makers in finding ways to better manage the risks of residential capitalism. This challenge is critical for the destinies of both households and national economies. According to Smith (2010) governments can rise to the challenge according to one of four visions.

1. *A back to the future strategy* of reintroducing a closed system of housing finance that would in turn usher in a new era of mortgage rationing. It would stabilise house prices and help the conduct of monetary policy because central banks do not have to raise interest rates as high during upturns, since the collateral effects of increasing housing wealth are muted. But how could this idea be acted out when our starting point is an open market-oriented economy with overseas financial institutions operating inside Australian financial markets? Furthermore households have become accustomed to a mortgage market where housing loans are available at prevailing interest rates, and discriminatory practices have receded. Their re-emergence would be un-welcome.
2. *A business as usual approach* with interventions designed to help owners stay in their homes via government schemes that assist with mortgage repayments. Before the GFC government interventions of this kind were gradually being withdrawn. For example, in the UK owner occupiers receiving income support under the Social Security System were eligible for help with mortgage interest. Since the 1943 National Assistance Act mortgage interest payments were covered in full, but from April 1987 this help was progressively restricted. By October 1995 a 39-week waiting period had been introduced during which claimants would receive no help with their mortgage interest payments. It was hoped that borrowers would make their own provision by taking out mortgage protection insurance, or other suitable products. Though the take up of private mortgage insurance products improved, in the years before the GFC hit the world's economies a minority of new borrowers take insurance out, and it is particularly low among high risk borrowers (Kemp & Pryce 2002).

Recent economic events have spawned significant policy interest in the development of mortgage relief programs in various OECD countries designed to keep highly leveraged individuals in the homes that they are buying (Wood et al. 2010b). To assist borrowers in danger of housing stress, mortgage relief policies in the UK included Home owners Mortgage Support, Mortgage Rescue Scheme, Home owners Support Package and Income Support for Mortgage Interest (Lawson et al. 2009), most of which were responses to the GFC and the subsequent recession. In the US, the GFC prompted the introduction of a suite of measures to address mortgage default through the *Housing and Economy Recovery Act 2008*. In France borrowers running into difficulties meeting mortgage repayments as a result of unforeseen events such as death of a partner or unemployment, can turn to lenders who are obliged by law to negotiate a new repayment plan (Wood et al. 2010b). The Netherlands' National Mortgage Guarantee (*Nationale Hypotheek Garantie*, NHG), allows a home owner in acute housing stress to add their payment arrears to the outstanding principal and thereby bridge a difficult financial period. In cases of negative equity and foreclosure the NHG pays off any residual debt to the mortgage lender (NHG

2009). Outstanding mortgage debt increased by 3 per cent in 2009 despite the credit crunch, suggesting that Dutch borrowers and lenders retained confidence in the sector despite the buffeting from crises in world financial markets.

These types of measures arguably insulated Continental European housing markets from the devastating consequences experienced in some English-speaking countries. One option tailored to Australian institutional arrangements would be to allow eligible households to continue to receive Commonwealth Rent Assistance (CRA) on transitions into home ownership, whether it is for the first time or a return following a period in rental housing. A proposal such as this is targeted on the edges of home ownership and is therefore sympathetic with a style of intervention complementary to the non-linear housing careers now evident in Australia. It anticipates where financial stress is most likely to occur and would offer potentially effective assistance to those clinging on to home ownership, or seeking a return following a loss of ownership status.

3. *A varieties of capitalism approach* that encompass the spectrum of equity and debt-based solutions that involve co-ownership or shared equity. An example of an equity-based solution is the UK's Mortgage Rescue Scheme, introduced in 2009 to assist home owners at risk of foreclosure to remain in their homes. Assistance under the Mortgage Rescue Scheme can be provided either through a *Rent to Buy* scheme or *Shared Equity* scheme. Under the former, the local Registered Social Landlord (RSL) purchases the property at risk of repossession for 97 per cent of its value and keeps the remaining 3 per cent for costs incurred in organising the sale. The RSL then leases the property back to the former owner, who pays a government determined 'affordable rent' and becomes eligible for Housing Benefit, the UK equivalent of CRA. While the former owner loses title over the property, s/he retains tenure (Wood et al. 2010c).

Wood et al. (2003) simulated the impacts of an equity based solution along the lines of housing equity partnerships proposed by Caplin et al. (1997). While equity partnerships have traditionally been viewed as a scheme promoting access to home ownership among first home buyers, they can also be exploited as a preventative measure designed to sustain home ownership among those on its margins. Under equity partnerships, a financial institution or the Federal government offer to take an equity stake (at a discount) in the home of an individual at risk of losing ownership, thus reducing the mortgage debt burden carried by the struggling home owner. Such an equity sharing arrangement allows an individual on the edges of home ownership to retain an equity stake in his/her primary residence, though s/he would forego a percentage share of the capital gains accrued in the home when it is sold.

4. *Finally an individualised risk management approach* that separates the cost of housing services from the investment vehicle, and makes the investment element optional and incremental. The idea is to help home owners choose both the amount of housing they wish to consume as well as the investment risk exposure this entails. Consider people approaching retirement who want to 'age in place', but secure the wealth they have accumulated in their home in case unexpectedly large health or age care costs force them to cash in part of their housing wealth. Neither markets nor governments offer options that allow these people to divorce their housing consumption decision from exposure to investment risk.

Yet there are 'blue sky' ideas waiting to be taken up. Shiller and Weiss (1994), alongside Quigley (2006) and Caplin et al. (2009) are eminent American economists that have advocated home equity insurance products that help owners' hedge investment risks. They work by allowing home owners (on payments of a premium) to insure their equity with respect to local house price

indexes. Slumps in house prices that are reflected in local house price indexes will result in pay outs for those buying and selling over a period when the index falls³³. The technical capacity to design and construct these house price indexes is now well developed. But if these ideas are to come to fruition those firms introducing these products need access to financial instruments that hedge house price risk. Ironically, these are the financial derivatives that have been a target of the debates surrounding the credit crunch and its aftermath.

4.3 Summing up

There are two key themes that have emerged from this discussion of the future of home ownership in Australia.

First, real house prices are being pushed up to levels which require buyers to take on large amounts of debt that are repaid later in the life course. As a result Australian home buyers are exposed to higher levels of credit risk for longer periods of their lives, as evidenced by growing numbers of Australians on the edges of home ownership. These credit risks are added to by trends in labour markets, demographics and life style that exacerbate the precarious nature of many housing careers. Escalating real house prices are in part the product of a fundamental change in the operation of urban land and housing markets. Until recently, expansion at the urban fringe was the safety valve that allowed population and subsidy driven growth in owner occupied housing demand to be met without soaring real house prices. A combination of natural limits to urban expansion and metropolitan planning strategies are closing this safety valve. We urgently need new safety valves to ease market pressures and this Essay has proposed a number of possible solutions involving change to fiscal arrangements and planning mechanisms.

Second, the same forces driving up real house prices are also helping to create the conditions for a shift from government responsibility for welfare to an individualised asset based welfare approach. While housing wealth remains the most important asset in most home owners' wealth portfolios, and tax as well as asset test concessions encourage this outcome, housing investment risks cannot be hedged. The recent credit crunch and house price slump in many overseas markets has exposed serious flaws in a debt-financed ownership system that does not allow owners to shield themselves from investment risks. Australian home owners have been fortunate to avoid the worst of the shocks precipitated by the GFC. But even in relatively stable Australian housing markets where real average house prices have trended upwards, capital losses eventuate. Owners have also become more accustomed to using new flexible mortgage products to dip into their housing wealth. These owners appear to be using housing wealth as a financial buffer to meet welfare needs. As this welfare role for housing wealth grows in importance, owners will need more protection against investment risks. There are as yet few signs of either governments or markets delivering this protection.

³³ For an empirical investigation into how home equity insurance performs in an Australian context, see Sommervoll and Wood (2011).

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APPENDIX

Table A1: Rates of exits from home ownership, 2001-2009, population weighted estimates

(a) All home owners

Year ^a (t)	Number			Hazard rate $H_t = N_t / T_t$	Survival rate $S_t = S_{t-1}(1-H_t)$
	Home owner at start of year (T)	Fell out of home ownership during the year (N)	Censored ^b at end of year		
0	9,142,516	0	199,550		1.000
1	8,942,966	572,482	208,268	0.064	0.936
2	8,162,216	290,134	206,562	0.036	0.903
3	7,665,520	204,729	217,556	0.027	0.879
4	7,243,235	179,992	209,700	0.025	0.857
5	6,853,543	145,773	203,015	0.021	0.839
6	6,504,755	94,248	246,167	0.014	0.826
7	6,164,340	77,203	295,192	0.013	0.816
8	5,791,945	85,446	5,706,499	0.015	0.804
<i>Total</i>		1,650,007	7,492,509		

(b) Home owners aged under 50 at t=0

Year ^a (t)	Number			Hazard rate $H_t = N_t / T_t$	Survival rate $S_t = S_{t-1}(1-H_t)$
	Home owner at start of year (T)	Fell out of home ownership during the year (N)	Censored ^b at end of year		
0	5,462,715	0	127,330		1.000
1	5,335,385	389,109	156,716	0.073	0.927
2	4,789,559	215,889	155,793	0.045	0.885
3	4,417,878	154,867	167,597	0.035	0.854
4	4,095,414	131,644	171,380	0.032	0.827
5	3,792,390	105,667	154,286	0.028	0.804
6	3,532,437	58,961	208,834	0.017	0.790
7	3,264,642	48,247	260,456	0.015	0.779
8	2,955,939	53,171	2,902,768	0.018	0.765
<i>Total</i>		1,157,555	4,305,160		

(c) Home owners aged 50 or over at t=0

Year ^a (t)	Number			Hazard rate $H_t = N_t / T_t$	Survival rate $S_t = S_{t-1}(1-H_t)$
	Home owner at start of year (T)	Fell out of home ownership during the year (N)	Censored ^b at end of year		
0	3,679,802	0	72,221		1.000
1	3,607,581	183,373	51,552	0.051	0.949
2	3,372,656	74,244	50,769	0.022	0.928
3	3,247,643	49,863	49,959	0.015	0.914
4	3,147,821	48,348	38,320	0.015	0.900
5	3,061,153	40,106	48,729	0.013	0.888
6	2,972,318	35,287	37,333	0.012	0.878
7	2,899,698	28,956	34,736	0.010	0.869
8	2,836,006	32,275	2,803,731	0.011	0.859
<i>Total</i>		492,452	3,187,350		

Source: Authors' calculations using confidentialised unit record files of the HILDA Survey Waves 1–9

Notes:

a. Home ownership status is measured only once per year. The wave when a person is first recorded in home ownership is then labelled Year 0 because the person cannot leave home ownership until the following wave, which is then labelled Year 1.

b. Censored means that Year t+1 occurred after the end of the data collection period. For example, a spell of home ownership that begins in Wave 6 will inevitably be censored at the end of Year 0 because Wave 6 is the last wave of data collection.

Table A2: Characteristics of stayers, leavers and churners in 2009 (2008) for Australia (UK)

Percentage by column unless stated otherwise

Characteristics		Australia				UK			
		Stayers	Leavers	Churners	All	Stayers	Leavers	Churners	All
Mean age (years)		55.3	49.8	49.7	54.4	55.2	54.0	50.5	55.0
Age band	Under 35 years	7.4	17.2	13.4	8.7	6.1	12.2	11.1	6.4
	35-49 years	29.2	37.7	42.3	31.2	35.1	36.6	50.9	35.7
	50+ years	63.4	45.1	44.3	60.1	58.8	51.1	38.0	57.9
Gender	Male	47.9	48.2	48.1	47.9	44.9	37.5	43.1	44.6
	Female	52.1	51.8	51.9	52.1	55.1	62.5	56.9	55.4
Marital status	Married	74.2	37.1	59.4	70	74.5	47.2	49.3	72.8
	De facto	6.8	12.1	11.8	7.7	6.6	10.5	15.7	7.0
	Separated	1.9	11.4	3.4	2.8	1.0	7.1	3.1	1.3
	Divorced	4.4	12.9	10.8	5.7	5.0	12.4	14.3	5.6
	Widowed	7.4	9.0	6.0	7.4	8.5	15.4	8.5	8.8
	Single never married	5.3	17.5	8.4	6.5	4.4	7.5	9.0	4.6
Presence of children	Yes	45.6	37.5	50.3	45.5	30.0	36.7	38.1	30.5
	No	54.4	62.5	49.7	54.5	70.0	63.3	61.9	69.5
Labour force status	Employed full-time	41.9	44.9	53.6	43.3	36.0	31.5	44.7	36.1
	Employed part-time	18.5	16.5	18.2	18.3	18.9	14.5	15.7	18.7
	Unemployed	1.3	3.6	1.2	1.4	1.2	2.8	2.5	1.3
	Not in the labour force	38.1	34.6	27.0	36.7	43.9	51.2	37.1	44.0
Personal income (disposable income in \$'000 for Aus) (financial year income in £'000 for UK)		40.5	44.1	47.5	41.5	18.8	15.5	19.5	18.7
Sample		4892	518	695	6105	6797	267	223	7287

Source: Authors' calculations using confidentialised unit record files of the HILDA Survey Waves 1–9

Table A3: Number and percentage of home-owning households with a mortgage, by age band, 1982–2007

		<i>25–34 years</i>	<i>35–49 years</i>	<i>50–64 years</i>	<i>65+ years</i>	<i>All (25+ years)</i>
1982	<i>N ('000s)</i>	1117	1176	385	35	2713
	<i>% within age band</i>	81.9%	61.2%	28.0%	6.5%	52.1%
1990	<i>N ('000s)</i>	339	828	225	44	1437
	<i>% within age band</i>	83.9%	62.5%	25.9%	7.3%	44.8%
1996	<i>N ('000s)</i>	916	1769	538	76	3300
	<i>% within age band</i>	82.9%	59.7%	25.2%	4.5%	41.7%
2000	<i>N ('000s)</i>	1005	2114	791	86	3995
	<i>% within age band</i>	86.1%	68.9%	32.6%	4.6%	46.9%
2002	<i>N ('000s)</i>	248	540	210	7	1005
	<i>% within age band</i>	79.9%	69.7%	34.1%	2.3%	50.2%
2007	<i>N ('000s)</i>	537	1394	775	93	2798
	<i>% within age band</i>	92.2%	80.0%	45.0%	6.5%	51.2%

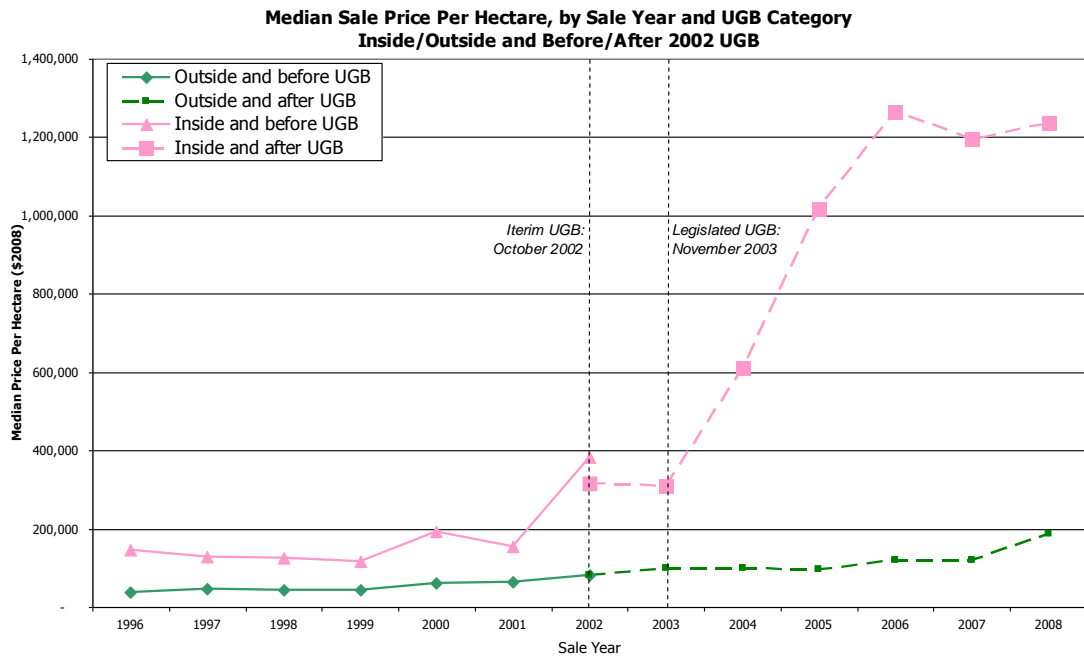
Source: Authors' calculations using confidentialised unit record files of the 1982, 1990, 1996, 2000, 2002 and 2007 Surveys of Income and Housing.

Table A4: Mean loan-to-value ratio among those with loans secured against their homes, by age band, 1990–2007

<i>Age band</i>	<i>1990</i>	<i>1996</i>	<i>2000</i>	<i>2002</i>	<i>2007</i>
<i>25-34 years</i>	40.9%	55.1%	55.2%	52.1%	57.1%
<i>35-49 years</i>	28.7%	40.0%	38.6%	38.0%	38.9%
<i>50-64 years</i>	21.2%	33.3%	28.9%	28.1%	27.1%
<i>65+ years</i>	7.5%	22.5%	16.1%	10.5%	17.8%
<i>Total</i>	28.9%	41.9%	39.8%	38.2%	37.8%

Source: Authors' calculations using confidentialised unit record files of the 1982, 1990, 1996, 2000, 2002 and 2007 Surveys of Income and Housing.

Figure A1: Median land prices per hectare (\$2008), by sale year and UGB status



Note: The Urban Growth Boundary (UGB) was announced in October 2002 and then legislated in November 2003. The diagram treats all transactions in land prior to October 2002 as 'before UGB' and all transactions from October 2002 as 'after UGB'; hence there is a discontinuity in the year 2002 as those transactions in first 9 months of the year are used to calculate the median land price in the 'before UGB' part of the year, and transactions in the remaining three months of the year are used to compute the median land price in the 'after UGB' part of the year.

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