

What drives Australian housing careers?

TODAY, THE TRADITIONAL AUSTRALIAN HOUSING CAREER IS DRIVEN BY SUCH FUNDAMENTAL CHANGES IN DEMOGRAPHY AND LABOUR MARKETS THAT IT IS NO LONGER POSSIBLE TO TALK OF A SINGLE, LINEAR AUSTRALIAN HOUSING CAREER.

KEY POINTS

- There has been a recent rise in the age at which young people first leave the parental home. This is due to higher school retention rates and improved higher education participation rates.
- House prices have now reached levels where up-front cash requirements to buy far exceed the savings a typical tenant can accumulate, regardless of income level.
- Divorced and separated people are found to have a lower probability of attaining and maintaining home ownership, compared to the continuously married. Those widowed, and/or divorced who remarry, appear to have the same chance of achieving and maintaining home ownership status as the continuously married.
- Owners with mortgages have relatively lower unemployment rates and shorter durations of unemployment than public renters for whom the reverse is true.

BACKGROUND

The sequence of housing stages that an individual moves through over a lifetime forms the 'housing career' of that individual. Key drivers of housing careers include:

- Housing tenure preferences and trends in housing market signals such as house prices and rents;
- Household formation and dissolution such as leaving the parental home, marriage, separation and divorce;
- Labour market effects such as wages, employment, unemployment, and retirement;
- Wealth accumulation outcomes and objectives;
- Housing assistance, income support, tax, and welfare programs.

*This research is by **Dr Paul Flatau, Professor Patric Hendershott and Mr Richard Watson**, of the AHURI Western Australia Research Centre and **Professor Gavin Wood** of the AHURI RMIT-NATSEM Research Centre. The research uses econometric modelling to examine changes in the nature of Australian housing careers.*

BACKGROUND

This study examines how these key drivers impact on the housing choices of individuals. As Figure 1 illustrates, the traditional housing career model envisages a smooth progression from leaving the parental home into rental housing, where the household saves the deposit necessary for a transition into home ownership. Once that transition is complete the typical couple household trades up as child-rearing responsibilities prompt a demand for more housing space. As children leave the family home, a couple may trade down to a smaller house.

More recently the key drivers of housing careers have undergone such change that moves forwards and backwards, in housing careers need to be conceptualised and documented empirically. Figure 2 illustrates the contemporary form of housing careers.

METHODOLOGY

This project models the main drivers of transition from one step of the housing career ladder to another by specifying and estimating the econometric models of these transitions. These models are designed to shed light on the relative importance of the various socio-economic and demographic drivers that determine the pace at which households are able to advance their housing career:

The model recognises that households can fall down as well as move up the housing career ladder as it takes into account factors such as separation and divorce. Socio-economic drivers and particular labour market variables are typically considered to be causes of housing career transitions.

The key databases used were the Household Income and Labour Dynamics in Australia (HILDA) survey 2001 and the Australian Bureau of Statistics', Survey of Income and Housing Costs (SIHC) 1996-97. HILDA represents the most comprehensive longitudinal survey of the Australian population relevant to social, housing, labour market and mobility modelling. The research is based on Wave 1 of HILDA.

FINDINGS

The focus is on three distinct phases of the Australian housing career:

- Early adulthood when the first independent housing career transitions are made;
- The move into home ownership, which largely affects those between 25 and 40;
- The mature phase of the housing career and the effect of family dissolution.

Leaving the parental home for the first time

An independent housing career begins when an individual decides to either stay or leave the parental home. Leaving the parental home for the first time reached its youngest point in the 1980s (men; median age of 19.6) and early 1990s (women; median age of 18.9). More recently there has been a rise, with the median age moving closer to 21 years of age.

Women first leave the parental home at a younger age than men. Indigenous Australians also tend to first leave the parental home at a younger age than non-Indigenous Australians. Those born in non English-speaking countries or who attended Catholic schools tend to move out somewhat later than others. Children who are raised with one or more parents absent or with fathers who were unemployed during the formative early teenage years are more likely to first exit the parental home at a younger age than children in reverse situations.

Parental home leaving has very strong links with the time spent in education. The recent rise in higher school retention and improved higher education participation rates, have contributed to the recent trend that sees people remaining longer with their parents.

Exaggerated delays in both Sydney and Melbourne suggest that the housing market context of higher house prices and associated housing affordability problems, together with high unemployment rates in the early 1990s, are important drivers of delayed home leaving patterns in the 1990s.

A relatively sizeable minority of teenagers experiencing unemployment and other labour market difficulties return to the parental home - about 10 per cent of each category.

Entry into home ownership

House prices have reached levels where up-front cash requirements far exceed the savings a typical tenant can manage to accumulate, meaning they are unable to enter home ownership. Of a sample of 2,769 rental tenant income units in the HILDA Survey, 87 per cent (2,417) lack sufficient savings to purchase a home. Over 98 per cent of these (2,370 of the 2,417) are unable to meet the 10 per cent deposit requirement. On average they have savings of only \$(2001) 1,947 which is well short of the \$17,248 average deposit required to enter home ownership, or even the \$4,396 average stamp duty cost.

FIGURE 1 TRADITIONAL HOUSING CAREER

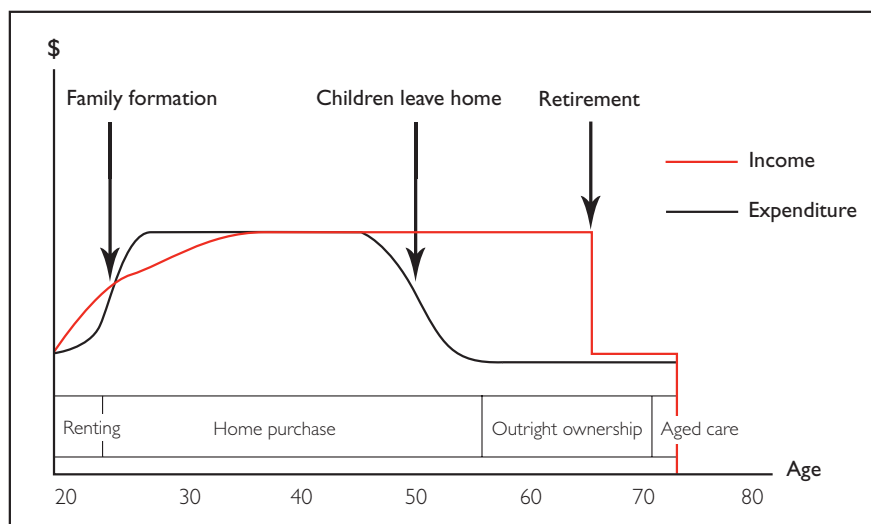
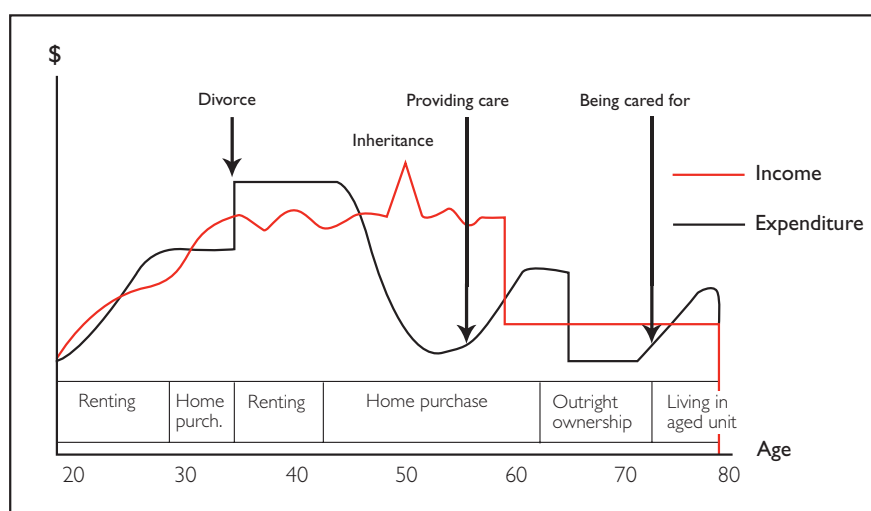


FIGURE 2 CONTEMPORARY HOUSING CAREER



Source: National Research Venture 2, *21st Century Housing Careers and Australia's Housing Future: Literature Review*

Housing career impacts of household dissolution

Separation and divorce rates have increased significantly in recent decades leading to the possibility of higher rates of housing equity reversals and unanticipated downward transitions from home ownership into the rental market.

Separation has a negative impact on home ownership prospects. Separated individuals are 21 per cent less likely to attain or retain home ownership as compared to the continuously married. People who are divorced are 9 per cent less likely to attain or retain home ownership in comparison to the continuously married. However, household dissolution due to the death of a partner does not impact on the home ownership prospects of a widow.

Remarriage seems to offset these negative impacts. Remarried couples have the same likelihood of home

ownership as continuously married couples. The length of time intervening between divorce and remarriage is irrelevant.

Housing careers and unemployment in Australia

Home ownership for men and women with mortgages is associated with lower unemployment outcomes. Male home owners with mortgages generally, have significantly quicker exits from unemployment than private renters. Women owners with mortgages and private renters are indistinguishable in terms of their durations of unemployment.

Public renters are more likely to be unemployed than private renters and for longer periods. However, since State housing authorities prioritise the most disadvantaged in order to target assistance, this finding is expected though the causal links and implications are not straightforward.

POLICY IMPLICATIONS

Leaving the parental home for the first time

Delays leaving the parental home and the assistance provided by parents to those returning to the parental home imply increased household costs for parents, for longer. Not only does the informal support of family often provide assistance to young people as required, but these increased household costs potentially impact on their workforce participation. So, under what circumstances are young people unable to rely upon parents for this support and are there appropriate formal support services?

More broadly, changes in society, which have been influenced by policy action, have a flow-on effect on Australian housing careers and the workings of the housing market. So, for example, policies to improve school retention and higher education participation also feed through to a delayed parental home leaving, which in turn means fewer people enter the housing market. This affects the demand for housing in the wider housing market. Housing outcomes can be affected by education and labour market policy as much as by housing policy.

Entry into home ownership

It is clear that house prices have reached levels that prevent many rental tenants from becoming home owners, unless they benefit from gifts, inheritances, or are single and marry existing home owners. This means that these households will spend longer in the private rental market and may make demands upon Commonwealth Rent Assistance (CRA) for a longer period of time. Even if they do not make direct demands upon CRA it is known that they are likely to occupy a significant proportion of the low-rent stock available, thus generally bidding up rents and forcing low-income tenants into more costly rental accommodation. Therefore, they indirectly increase the costs of CRA for the federal government.

Whilst the stamp duty exemptions offered by many State and Territory governments may assist households to enter home ownership, there is also a likelihood that such discounts feed price increases. Targeted, matched deposit savings schemes may be a more effective way to assist lower-income households.

Housing career impacts of household dissolution

Divorce rates are rising but remarriage rates are not. An increasing number of divorced people remain unmarried and if this continues it will impact negatively on Australia's high levels of home ownership and place a higher demand on CRA. A housing lifeline, which makes a line of credit available to those who separate to help meet mortgage repayments and/or deposit requirements, could help people stay in home ownership. Repayments would be contingent on subsequent improvements in the financial position of the recipient.

FURTHER INFORMATION

This bulletin is based on AHURI project 80151, *What drives Australian housing careers? An examination of the role of labour market, social and economic determinants*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

The following documents are available:

- Positioning Paper
- Final Report

Or contact the AHURI National Office on +61 3 9660 2300.



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