

Home Ownership

An Impossible Dream?

Home ownership remains the preferred housing tenure for the majority of South Australians, providing households with security of tenure, reasonable autonomy, and a sense of home and privacy.¹ A house is also the most valuable asset that most people will acquire in their lifetime and accounts for around two thirds of all household wealth in Australia.²

Disadvantages to home ownership include:

- ◆ Increased financial uncertainty and risk - higher price of 'failure'.
- ◆ Greater risk of indebtedness associated with changed market conditions or unpredictable maintenance expenditures.
- ◆ High cost of maintenance.
- ◆ High entry costs.³

As of August 2001, there were 402,600 households in home ownership in South Australia, representing 69% of all households. Of these 232,619 (58%) owned their own home outright and 169,968 (42%) were purchasing.⁴ However, only 28% of Indigenous people in South Australia own or are purchasing their own home.⁵ Home ownership levels also decrease with lower gross weekly income, with just 55% of households in the lowest 20% income bracket owing or purchasing their own home.⁶

Median house prices for South Australia have almost doubled from \$110,500 in June 1998 to \$220,000 in December 2003.⁷ The Housing Industry Association-Commonwealth Bank Affordability Index stated that in December 2003 *the combination of a half a percent rise in interest rates and continued strength in house prices has seen affordability fall to new record lows across Australia...In the December quarter, affordability fell by 2.7% in Adelaide and by 2.9 % throughout the rest of the State.*⁸

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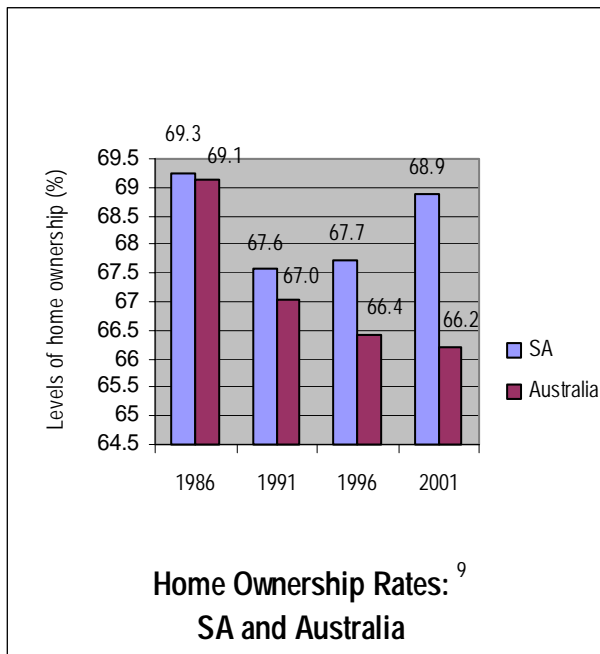
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Shelter SA
Housing: a basic human right

Home Ownership

Changes in Levels of Home Ownership



- ◆ Increasing house prices, coupled with the highest levels of casual and part-time employment in Australia, the highest mainland unemployment rate and the rapid sell-off of public housing stock, are raising concerns about the ability of low to middle income households to afford to purchase their own home.¹⁰
- ◆ High rates of lifetime home ownership have long been regarded as an essential underpinning of the Australian social security system.¹¹ Income support policies assume that most Australians will own their home before they retire and benefits are structured to reflect this assumption.¹²
- ◆ Levels of home ownership declined from 69.1% in 1986 to 66.2% in 2001 in Australia.¹³
- ◆ Levels of homeownership in SA declined from 1986-1991 from 69.3% to 67.6%, and then increased again to 68.9% by 2001. The increase may reflect the temporary effect of the First Home Owners Grant (FHOG) as the grant of \$7,000 was a more significant incentive for prospective buyers in SA, than in many other states where property values are higher.¹⁴

Policy Implications

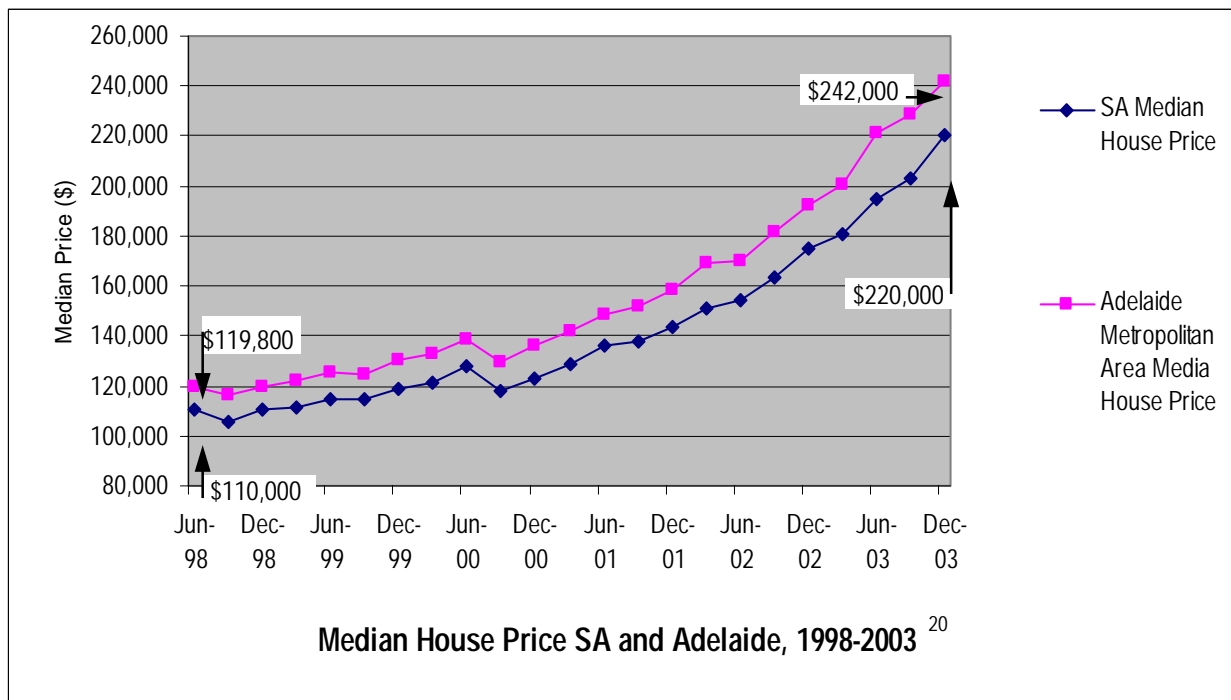
Policy implications of a decline in home-ownership are:

- ◆ Increased demand elsewhere in the housing system: e.g. private and social rental housing.
- ◆ A possible decline in the well-being of the retired population.
- ◆ An increase in the demand for income support by renters paying housing costs in their retirement.
- ◆ Reduced capacity to deliver 'an ageing in place' strategy.
- ◆ Fewer households with the equity required to support entry to a retirement village or nursing home.
- ◆ Inability of key workers, such as teachers and nurses to purchase housing in metropolitan areas.
- ◆ Potential slowing in the household formation rate (typically younger people living with their parents for longer).
- ◆ Poorly targeted policies that provide support to established home owners may need to be reconsidered.
- ◆ Well targeted policies that improve access to home ownership need to be introduced.¹⁵
- ◆ The possibility that home ownership may be moving out of reach for many Australians prompted the Federal Government to request the Productivity Commission to conduct a Public Inquiry into First Home Ownership, analysing issues related to affordability and availability of housing for first home buyers. The report was released in June 2004.
- ◆ For more information, visit: www.pc.gov.au/inquiry/housing/index.html.¹⁶

Home Ownership

Barriers to Home Ownership

Median price of houses increased by 99% for SA as a whole, and by 102% in the Adelaide Metropolitan Area from June 1998 to December 2003.¹⁷ Affordability levels are at their lowest levels for many years, and low to middle income households are facing increasing difficulty in accessing home ownership.¹⁸ Due to rising prices, low-income families who are able to purchase a home are generally restricted to the outer/fringe suburbs of Adelaide or country SA, or end up in housing stress, paying more than 30% of their income towards house repayments.¹⁹



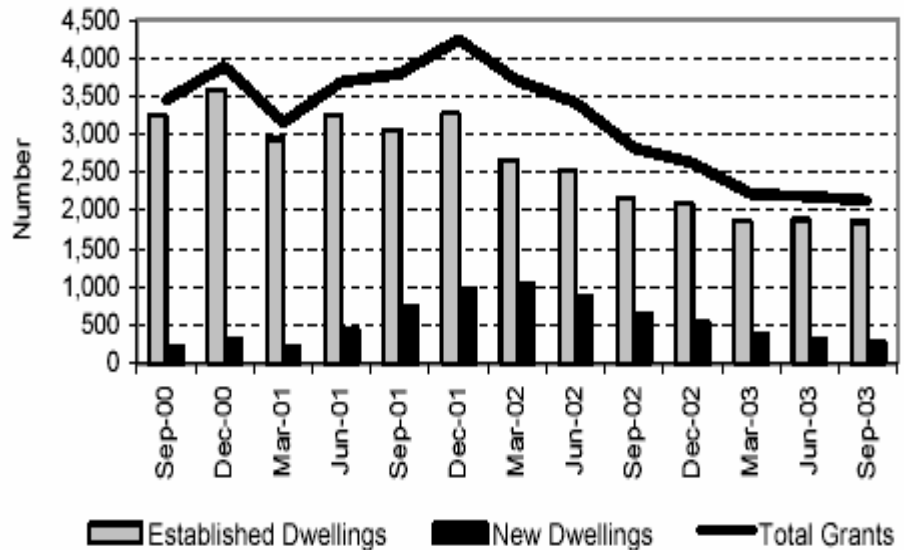
- ◆ The upfront costs of the deposit, stamp duty, legal fees and bank fees are considerable financial barriers to low-income households who wish to become home owners. For example, to purchase a house worth \$180,000, (well below the median house price), a household must have savings of \$20,850: \$9,000 for the deposit (assuming a minimum 5% deposit is required); \$6,600 for stamp duty; \$1,450 for legal costs; \$600 for bank fees; and \$3,200 for lender's mortgage insurance. If the purchaser is buying an established house and is eligible for the First Home Owners Grant (\$7,000) they would require \$13,850 in savings.
- ◆ Based on a 30-year mortgage, and the standard variable rate of 7.07% interest p.a. (as of June 2004), repayments would be \$527 per fortnight. The household would need an income of \$45,700 in order to be paying no more than 30% of their gross income in house repayments, and therefore not be classed as experiencing housing stress.²¹
- ◆ Lender's Mortgage Insurance is compulsory for households that borrow more than 80% of the value of the property that they are purchasing. This protects the bank in the case that a borrower defaults and a loss is evident after the property is sold.²²
- ◆ South Australian home purchasers pay more in stamp duty and other government charges than every other state, with the exception of Victoria.²³ Despite dramatic increase in house prices, stamp duty rebate levels for first homebuyers were only slightly adjusted in May 2004; a partial rebate for purchases has been extended from \$130,000 up to \$250,000.²⁴

Home Ownership

Impact of The First Home Owners Grant

- ◆ The First Home Owners' Grant (FHOG) was introduced in July 2000 by the Commonwealth Government to offset the impact of the Goods and Services Tax (GST) on people buying their first home. It is used by first homebuyers to assist in either the purchase of a new or existing dwelling. All first homebuyers are eligible for the grant, regardless of their income or the purchase price of the dwelling.²⁵
- ◆ The First Home Owners Grant primarily assists middle to higher income households and has been shown to raise house prices in some areas.²⁶
- ◆ The number of households assisted in SA has been declining since 2001-02 with 14,311 households assisted in 2000-01 (\$102.2 million), 14,859 households in 2001-02 (\$126.4 million), 9,639 households in 2002-03 (\$73.8 million), and 6,334 households from July 1st 2003 to March 31st 2004 (\$44.7 million).²⁷

- ◆ *The number of first-home buyers entering the market has been in steady decline since around late 2001 following depletion in numbers due to the bringing forward of their demand. It appears that the rate of decline is moderating and a 'bottoming' is appearing.*²⁸
- ◆ *The impact of the FHOG for new dwellings has run its course and is no longer a major stimulus for building activity.*²⁹



First Home Buyers in SA Sept. 2000–Sept. 2003 ³⁰

Other Government Subsidies to Home owners

There are numerous tax exemptions aimed at encouraging people to invest in housing. Most notable amongst these are capital gains tax exemptions, the non-taxation of imputed rents (i.e. the deemed rental value of owned properties), land tax exemptions for owner-occupiers, and the benefits of negative gearing for investors. The value of the two first mentioned tax exemptions have been conservatively estimated at \$17 billion per year. Research shows direct and indirect subsidies to homeowners cost far more than the Government spends on 'those most in need'.³¹

Home Ownership

Housing Stress

- ◆ 42.2% of low-income home purchasers in South Australia (i.e. those households within the lowest 40% of income units, equivalent to a gross weekly income of less than \$629 in 2001) were paying more than 30% of their gross income in mortgage repayments in 2001, and were experiencing 'housing stress'.
- ◆ 15.9% of low income home purchasing households were paying more than 50% of their gross income in mortgage repayments in 2001 and were experiencing 'severe housing stress'. This was at a time of historically low interest rates (Home mortgage interest rates were 6.55% in September 2002 compared to a 30 year low of 5.88% in March 1970).³²
- ◆ The SA State Strategic Plan reports that *10,000 home purchasers are currently experiencing housing stress* and sets a target *to halve the number of South Australians experiencing housing stress within 10 years*.³³
- ◆ Households experiencing housing stress have less money for food and other essentials, and are more vulnerable to face health, education and employment difficulties. This means that they may struggle to meet everyday living expenses, be unable to adequately heat their home or eat poorly in order to pay their mortgage repayments.
- ◆ Refer to a survey conducted by Shelter SA, *Barely Existing, Barely Surviving: Housing Stress in Adelaide*, to put a human face on the statistics about housing stress.³⁴

Footnotes

1. State Housing Plan, Issues and Options Paper, March, 2003 p.109 - 110
2. First Home Ownership: Productivity Commission Discussion Draft, Dec. 2003, p.xi
3. State Housing Plan, Issues and Options Paper, March, 2003 p.110 (based on AHURI research by Baum, S., Housing Aspirations of Australian Households)
4. Census of Population and Housing, Selected Social and Housing Characteristics, Australia, 2001, ABS, p.49
5. State Housing Plan, Issues and Options Paper, p.109
6. Ibid, p.111
7. Real Estate Institute of SA, www.reisa.com.au
8. HIA-Commonwealth Bank Affordability Report, Dec. 2003, p.1
9. Census Data 1986, 1991, 1996 and 2001
10. Kupke, V; Marano, W. AHURI June 2002, p.iv
11. McDonald, P; AHURI, Jan. 2003, p.ii.
12. Kupke, V; Marano, W. AHURI June 2002, p.iv
13. Census Data 1986, 1991, 1996 and 2001
14. Ibid
15. Yates, J; AHURI, May 2003
16. First Home Ownership: Productivity Commission Discussion Draft, Dec. 2003, p. xi
17. Real Estate Institute of SA, www.reisa.com.au
18. HIA-Commonwealth Bank Affordability Report, Dec. 2003, p.1
19. State Housing Plan, Issues and Options Paper, March, 2003 p.109
20. Graph of SA & Adelaide Metro Median Price Growth, 1998 - 2003, Real Estate Institute of SA, www.reisa.com.au
21. Figures are based on data entered onto a loan/fee calculator at anz.com.au
22. www.anz.com.au
23. Shelter SA's submission for the State Housing Plan, June 2003, p.105
24. State Budget Speech, 2004, p.9
25. Rebuilding the Australian Dream: National Shelter Policy Platform, 2003, p.1
26. Ibid, p.1 - 2
27. Information provided by Revenue SA
28. Housing Industry Prospects Report, Sept. 2003, p.18
29. Ibid, p.9
30. Ibid, p.19
31. Rebuilding the Australian Dream: National Shelter Policy Platform, 2003, p.2
32. State Housing Plan, Issues and Options Paper, p.109,110,117
33. SA Strategic Plan 2004, Vol.1, p. 55
34. Sheltashortz, Sept. 2003
35. www.atsic.gov.au/programs/Social_and_Cultural/Home_Ownership/Default.asp & information provided by SA office of ATSIIC & ATSIIC Annual Report 2002-03, p.173-175.
36. HomeStart Information Sheet & data provided by HomeStart
37. www.homestart.com.au/Home%20Loans/nunga.asp

Home Ownership

ATSIC Home Ownership Program

The Aboriginal Torres Strait Islander Commission (ATSIC) Home Ownership Scheme was established in 1974. 8,000 home loans have been approved nationally (to June 2003), which is approximately 276 per year. Of these, an average of 20 to 30 loans per year have been approved for applicants in South Australia. In SA, as of March 2004, there were 189 outstanding loans with a value of \$13.0 million.

To be eligible for inclusion on the Housing Loans Applications List, applicants must:

- ◆ Have combined gross incomes (i.e. the main income earner's income together with 50% of the spouse/partner's income: this is known as the ATSIC Income Amount) of at least \$2,161 per month, (current as of June 2004), or demonstrate that mortgage repayments are less than 30% of the ATSIC Income Amount.
- ◆ Be able, in the case of the main income earner, to show a stable work record for the twelve months preceding the application (but not necessarily with the same employer).
- ◆ Have a satisfactory tenancy record if renting a house.
- ◆ Be able to pay the required minimum deposit toward the purchase of the house. The minimum deposit is 5% of the purchase price of the home or \$3,000, (or \$1,500 if the family income is less than \$30,000), whichever is the lesser.
- ◆ Be able to pay all legal and stamp duty costs. In some instances these amounts may be able to be borrowed from another lending institution.
- ◆ Demonstrate proof of Aboriginality.

The commencing interest rate on most ATSIC housing loans is 4.5% a year calculated on the outstanding daily balance, (June 2004). The interest rate rises by 0.5% a year, until it reaches the ATSIC Home Loan Interest Rate (capped so it will not exceed a rate 1.0% below the Commonwealth Bank Standard Variable Home Loan interest rate). There were 15 applications approved for 2003-04. This decline is attributed to the dramatic increase in costs of housing in the past two years, and to the corresponding increase in stamp duty and other charges, which have made accessing home ownership more difficult for low-income earners. At June 30th there remained 618 eligible applicants on the wait list nationally.³⁵

HomeStart Loans For Aboriginal People

- ◆ In 1999, the *HomeStart Aboriginal Home Ownership Program* (AHOP) was introduced. It is available to tenants of the Aboriginal Housing Authority (AHA) who wish to purchase their existing rental property, and targets those tenants who have a good rental payment history. AHOP is based on the standard *HomeStart* loan. A loan of up to 95% of property value is available to eligible applicants. 48 people purchased their AHA dwelling through the AHOP in from 1999 to May 2004.³⁶
- ◆ In May 2004, *HomeStart* also introduced the *Nunga Loan*. All Aboriginal people (not just AHA tenants) are eligible to apply. Applicants can borrow up to 3.9 times their gross income, depending on other debts, and no deposit is required. The fees and charges that are part of the home purchase, and other outstanding debts can be consolidated into the *Nunga Loan*. The loan is available up to 110% loan to value ratio. People with previous loan defaults will be considered for a loan, although this is assessed on an individual basis.³⁷
- ◆ For further information please refer to Shelter SA *Snapshot*, *HomeStart Finance*.

Home Ownership

Shelter SA Position Statement 5 Home Ownership

- 5.1 Shelter SA believes that, as most people aspire to owning their home, it should be a realistic, achievable option.
- 5.2 Shelter SA believes additional government support should be provided for low-income homebuyers:
- The First Home Owners Grant should be increased and better targeted to low-income earners.
 - The First Home Owners Grant should be extended to cover special needs: e.g. women escaping domestic violence who may have already purchased a home, but no longer have access to it, and to Indigenous families.
 - SA Stamp Duty rebate levels should be adjusted annually in relation to median house prices for first home buyers.
 - Commonwealth taxation and planning incentives should be introduced to increase the supply of a range of affordable housing options.

(Please refer to Position Statement 7, HomeStart Finance, for other statements regarding home ownership).



Home Ownership

References and Further Information

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(* denotes that this reference is available in the Shelter SA library).

