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Australia's Housing System and Intergenerational Sustainability

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Key points

- In the context of housing, intergenerational sustainability is related to the ability to meet the housing needs of the current generation without compromising the ability of future generations to meet their needs.
- There are clear changes emerging that signal threats to intergenerational sustainability in the Australian housing system, thereby also impacting inter- and intra-generational equity as well as the retirement income system more generally.
- Most elderly retirees are likely to continue to be securely positioned in outright ownership, but younger generations face a much more precarious housing future.
- Today's young people are postponing their first home purchase, but the downward trend in home ownership rates among the young also reflects structural factors that hinder access to home ownership.
- Larger numbers of future retirees will spend their retirement as renters or mortgagors, calling into question the adequacy of the age pension for future retirees.

- The strategy of diverting superannuation wealth into housing at retirement may grow in popularity in the coming years, though this may exacerbate housing wealth inequality between those who are superannuation asset-rich versus those who are superannuation asset-poor.
- Policymakers will be confronted with soaring demand for rental assistance by future cohorts of low-income retirees, requiring reform to Commonwealth Rent Assistance to increase its adequacy and targeting, and growth to the supply of social housing.
- To prevent further polarisation in the housing system between the old and the young, between current and future retirees, and between the asset-rich and asset-poor, there is a clear need to widen the policy focus beyond home ownership to promoting housing security and affordability across all tenures and for all generations.

Introduction

Successive intergenerational reports have omitted any meaningful consideration of the housing system for intergenerational sustainability, despite the critical role that housing plays for the wellbeing of the Australian population and economy. This chapter addresses three questions in turn. First, why is housing an important intergenerational issue? Second, how is the current Australian housing system changing for both the young and old? Third, what policy implications might arise as a result of growing unsustainability in the housing system? This chapter highlights critical signs of growing intergenerational unsustainability across all housing tenures—from declining home ownership rates among young people, to concerns for tenure security and affordability in the expanding rental sector, and to a visible rise in homelessness for current and future retirees. The policy implications are wide-ranging, affecting the retirement income system and signalling an urgent need to improve housing security and affordability in both the ownership and rental tenures.

Why is housing an important intergenerational issue?

Housing in asset portfolios

Figure 7.1 highlights the enormous and growing importance of housing in household asset portfolios. In the figure, total assets are broadly divided into two categories: financial and non-financial assets. Residential dwellings and land make up a major portion of the latter. The figure shows that the aggregate real value of residential land and dwellings has risen significantly over time (as represented by the dotted line), from \$1.6 trillion to \$9.5 trillion between December 1988 and December 2021. On a per capita basis, the real value of residential land and dwellings rose from \$97,000 to \$369,200 per person over this period.¹ There was a ‘take-off’ in housing prices at the start of the housing market boom of the early 2000s. This surge in housing prices has been undeterred by two global crises—the 2008–09 global financial crisis and the COVID-19 health and economic crisis that began in early 2020.

These trends parallel a historical long-run decline in interest rates over several decades, reaching a trough during the COVID-19 pandemic before arguably normalising once more. This long-run decline in interest rates has led to large upward spirals in real housing asset prices and the upfront cost of home purchase, while easing the cost of servicing large mortgage loans.

Indeed, it is clear that real increases in residential land and dwelling values have largely driven the increase in the value of non-financial assets and exceeded the rate of growth in the value of financial assets. This is notwithstanding the growth in real per capita values of financial assets from \$21,600 to \$143,600 between 1988 and 2021 as the superannuation guarantee system matured. Housing assets have therefore made up a growing share of households’ asset portfolios over time. Between 1988 and 2021, the contribution of residential land and dwellings to asset portfolios increased from 48 per cent to 55 per cent of total assets while the contribution of financial assets grew at a slower rate from 35 per cent to 39 per cent. In 1988, residential land and dwellings made up 74 per cent of the value of total non-financial assets held by the population; by 2021 this had risen to 90 per cent.

¹ Real values are expressed at December 2021 price levels. See note under Figure 7.1.

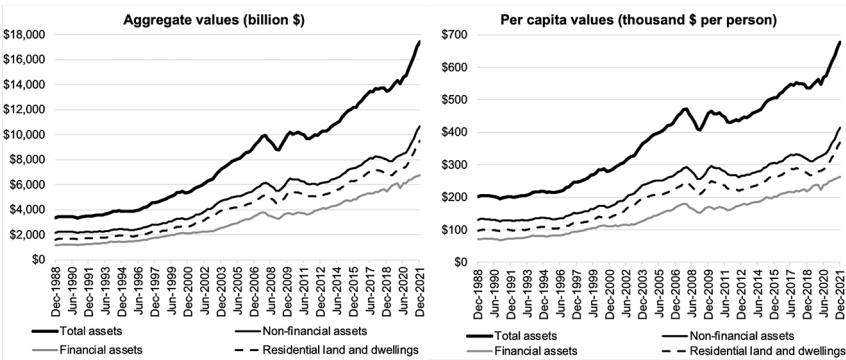


Figure 7.1: Real asset values, December 1988 to December 2021.

Notes: Asset values in current prices are converted into real values at December 2021 price levels using the ‘all groups’ Consumer Price Index from the ABS cat. no. 6401.0 (ABS 2022b). Asset per capita values are derived by dividing aggregate asset values in each quarter by the estimated resident population in the same quarter.

Source: Asset values from ABS cat. no. 5232.0 (2022a), population numbers from ABS cat. no. 3101.0 (2022c).

Housing and intergenerational policy planning

Because successive waves of house price appreciation since the 1970s have positioned the owner-occupied home as the centrepiece of households’ wealth portfolios (and household debt), the family home’s importance as a nest egg for retirees has grown, especially in the face of rising fiscal costs attributable to population ageing (Productivity Commission 2015). For young renters, these same cycles of house price increases have pushed home ownership further from their reach as growing numbers face a future with diminishing prospects of owning a home. This has naturally fuelled tensions and debates around growing intergenerational inequality (Rayner 2016). The dominance of housing among wealth portfolios therefore makes it an important consideration in any policy planning around intergenerational sustainability, especially where it pertains to wealth inequality.²

The concept of intergenerational sustainability in economic development originated in the United Nation’s 1987 World Commission on Environmental Development (WCED) report, which relates it to development that seeks

2 Discussions around housing inequality have mostly focused on the contribution of housing to wealth inequality due to housing’s dominant position within asset portfolios. However, there has been less attention on the links between housing and income inequality, where the influence of housing may be weaker. It should also be acknowledged that wealth inequality has always been more extreme than income inequality (Smith et al. 2022).

to 'meet the needs of the present generation without compromising the ability of future generations to meet their own needs' (WCED 1987:49). Padilla (2002) advocates for the sustainability requirement to be adopted in economic analysis of intergenerational problems, which represents 'an equity commitment to the future and implies the recognition that future generations have the right to non-deteriorated ecological and economic capacity' (2002:69). The concept is also tightly linked to fiscal sustainability, which reflects the government's ability to manage its finances to meet spending commitments to the present generation without creating an unmanageable financial burden for future generations of taxpayers (Commonwealth of Australia 2021a). In the context of housing then, intergenerational sustainability is related to the ability to meet the housing needs of the current generation without compromising the ability of future generations to meet their needs.

From a fiscal perspective, the 2021–22 federal budget papers reveal that housing and community amenities make up just 1 per cent of total expenditure (Commonwealth of Australia 2021b). This amounts to just \$7 billion compared to \$43 billion for education and \$98 billion for health. Approximately another \$5 billion is spent on Commonwealth Rent Assistance (CRA) under the social security heading. In comparison, the Productivity Commission (2022) reports that state and territory governments spent a total of \$4 billion on recurrent expenditure for social housing and specialist homelessness services in 2020–21, excluding the federal government's contribution.³ Additionally, state and territory governments spent \$2.1 billion on capital (non-recurrent) expenditure on social housing in 2020–21.

What is missing from the federal budget papers are significant tax expenditures in the form of tax concessions and exemptions that are tied to housing assets. For instance, Grudnoff (2016) estimated capital gains tax exemption on the family home to cost \$46 billion in 2015–16, and negative gearing has been estimated to cost \$3 billion in 2013–14 prices (Duncan et al. 2018) and \$3.7 billion in 2014–15 prices (Grudnoff 2015). Wood et al. (2017) costed the exemption of the family home from assets

3 According to the Productivity Commission (2022), total federal, state and territory government recurrent expenditure on social housing and specialist homelessness services was \$5.7 billion in 2020–21, of which the federal government's contribution was \$1.7 billion.

test for welfare payments at around \$5.8 billion in 2011.⁴ Other exemptions include the non-taxation of imputed rents derived from the family home, exemption of the family home from land tax and the capital gains tax discount on the sale of investment properties.

Studies also generally agree that the distribution of these housing tax expenditures is very unequal (see Duncan et al. 2018; Wood et al. 2017). They tend to favour those on higher incomes and/or who own property. These are typically older while those who rent are typically from younger generations. Assuming that current trends in housing tenure, fertility, life expectancy at birth and net overseas migration remain constant, Wood et al. (2017) projected that the aggregate value of homeowner tax subsidies would rise from \$15 billion in 2011 to \$22 billion in 2031, a 45 per cent real increase over the two decades. This far exceeds the 29 per cent real increase in CRA payments for renters projected over the same period. Thus, the balance of government support for housing weighs increasingly heavily in favour of older generations at the expense of younger generations.

The current housing system and intergenerational sustainability

Achievement of home ownership has long been held as a social ideal in Australia and other countries (Colic-Peisker et al. 2010). Colic-Peisker et al. (2015:168) note that ‘home ownership remains a universal aspiration of Australians’ that ‘conveys a full socio-economic “adult status”’. On the other hand, renting has traditionally been viewed as an inferior tenure associated with poorer quality housing (Ronald 2008). Public renting in particular is a stigmatised tenure, typically reserved for marginalised people with complex needs (Jacobs et al. 2010). Thus, the Australian housing system has historically been dominated by owner-occupation with the private rental sector being a minority tenure and public rental a form of residual housing for the highly disadvantaged.

4 It should be pointed out that estimates of tax expenditures cannot be directly compared to actual outlays. As explained by Yates (2010), tax expenditures are usually estimated by deriving the tax that would be due from the concession beneficiaries if they were treated in the same way as those not receiving the concession. Thus, while these measures quantify the benefit to the taxpayer in receipt of the concession, they do not provide an estimate of the actual outlay to government of providing the concession, nor do they reveal how much revenue could be gained by its removal. Importantly, behavioural responses to the existence and removal of the concession are ignored in these estimations.

While this housing system structure has persisted over many decades, signs of a systemic change have emerged in recent years. This section describes how the Australian housing system has evolved over recent decades across the owner-occupation, private and public renting, and homelessness sectors. The implications of these trends for intergenerational sustainability in the Australian housing system are discussed.

Home ownership

Home ownership rates in Australia are usually calculated on a household basis (ABS 2016). This can be misleading as people who are living rent-free or boarding in their parents' homes are captured within the homeowner category when they are in fact non-owners living in dwellings owned by others. This issue has become especially pertinent in light of growing concerns regarding young people's home ownership prospects and clear evidence of delayed departures from the parental home. Among young people aged under 40 years old and living independently from their parents in 2001, the median age of departure from the parental home was 18 years old and the share who departed after they turned 21 years old was 23 per cent. By 2020, the median age of departure had risen to 20 years old and the share departing after turning 21 had risen to 38 per cent.⁵

Table 7.1 presents home ownership rates calculated from the Australian Bureau of Statistics (ABS) on a person basis from selected years between 1982 and 2017. Persons who are renting from, or living rent-free in, an owner-occupied household are classified as non-owners. This cross-sectional data is from the ABS Surveys of Income and Housing, which are repeated every few years, allowing us to track how home ownership shares have changed over the past 25 years.

The table shows that home ownership rates have been on a downward trend, falling from 71 per cent in 1982 to 63 per cent in 2017 among those aged 25 years and over. Importantly, there is a growing intergenerational housing wealth gap. It is clear that the decline in home ownership rates is steeper among younger age groups. Back in 1982, 56 per cent of those aged 25–34 years old were home owners, but by 2017 this share had dropped by an alarming 24 percentage points to just 31 per cent. Thus, less than one-third of young people aged 25–34 years are homeowners. It is also notable

5 These estimates have been calculated from the 2001 and 2020 Household, Income and Labour Dynamics in Australia (HILDA) survey using cross-sectional population weights.

that home ownership is on a decline among middle-aged cohorts; among Australians aged 35–44 years old, home ownership shares have dropped by 17 percentage points since 1982.

It is likely that the decline in home ownership rates among the young is driven by a combination of demographic and structural factors. Chomik and Yan (2019) argued that the rise in the median age of first homebuyers—from age 24 to 33 between 1981 and 2011—should be interpreted within a wider demographic context that has featured delays in all other major life events, including a delay in the median age of securing a first job, finishing education, having a child, getting married and death. Studies have shown that young people have been able to expand their rates of ownership as they age, but they never fully catch up to older birth cohorts. Longitudinal data analysis by Smith et al. (2022) showed that the home ownership rates of Australians aged 35–44 years in 2001 was around 75 per cent that year. In comparison, the home ownership rates among the birth cohort aged 35–44 years a decade later in 2011 were consistently lower at 69 per cent that year, rising to 72 per cent over the next three years, but never catching up to the earlier cohort. The study showed a similar depression of a few percentage points in home ownership rates as one birth cohort followed the next in the United States. Analysing census data from the ABS, the Australian Institute of Health and Welfare (2021) also showed that each birth cohort were able to expand their home ownership rates as they aged, but cohorts born in more recent years have not been able to catch up to the home ownership rates attained by cohorts born before them. Thus, structural factors have played a role in declining home ownership rates. In particular, rising real house prices and growing labour market precariousness, which are incompatible with long-term mortgage commitments, are pushing home ownership out of the reach of aspiring first homebuyers (Wood and Ong 2012).

Table 7.1: Home ownership rates, 1982 to 2017, by age band, per cent.

| Age band (years) | 1982 | 1990 | 2000 | 2009 | 2017 | Percentage point change 1982 to 2017 |
|------------------|-------|-------|-------|-------|-------|--------------------------------------|
| 25–34 | 55.5% | 52.6% | 45.1% | 37.7% | 31.1% | –24.4% |
| 35–44 | 75.4% | 76.4% | 69.7% | 62.1% | 58.8% | –16.6% |
| 45–54 | 78.3% | 80.2% | 79.2% | 74.5% | 69.5% | –8.8% |
| 55–64 | 81.9% | 82.0% | 83.2% | 80.9% | 75.4% | –6.5% |
| 65+ | 74.4% | 79.1% | 82.3% | 81.8% | 81.5% | 7.1% |
| 25+ | 71.3% | 72.0% | 70.1% | 66.4% | 62.7% | –8.6% |

Note: The unit of analysis and measurement is the person.

Source: Author’s own calculations from the ABS Surveys of Income and Housing.

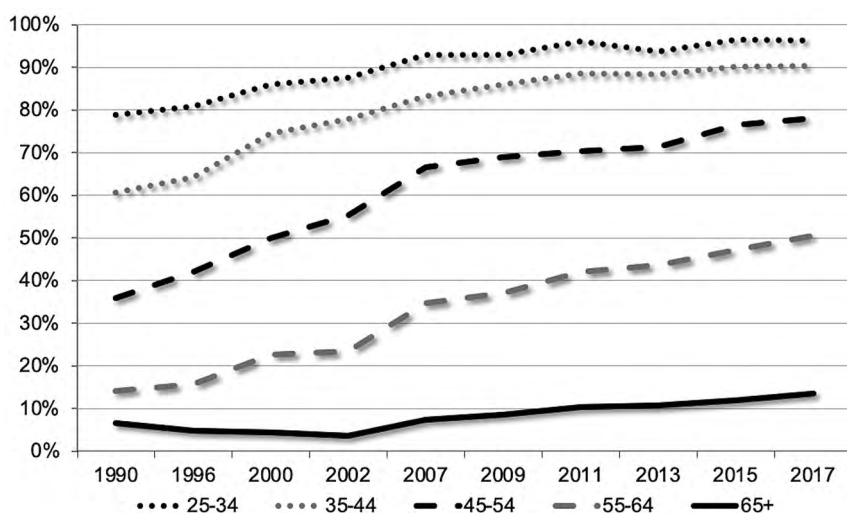


Figure 7.2: Share of homeowners who have a mortgage, by age band, 1990–2017, per cent.

Source: Author's own calculations from the ABS Surveys of Income and Housing.

While growing numbers in the population are experiencing ‘lock out’ from home ownership, those who make it into home ownership are taking on ever higher levels of debt. As shown in Figure 7.2, the share of homeowners who hold a mortgage has risen across all age groups. However, the rise in mortgage indebtedness is not restricted to younger age groups. Among owners aged 25–34 years, the share with a mortgage rose from 79 per cent to 96 per cent between 1990 and 2017. This increase has been even more dramatic among midlife owners, rising from 61 per cent to 90 per cent among the 35–44-year-olds, 36 per cent to 78 per cent among the 45–54-year-olds and 15 per cent to 51 per cent among the 55–64-year-olds.

Among mortgagors, loan-to-value ratios (LVRs) or the ratio of mortgage debt to house value has risen significantly across all stages of the life course (see Table 7.2). Among mortgagors aged 25–34 years, the LVR has climbed from 37 per cent to 61 per cent and among those aged 35–44 years, the LVR has nearly doubled from 28 per cent to 52 per cent. Thus, not only are growing proportions of homeowners taking on mortgage debt, but mortgagors are taking on growing levels of debt relative to house values. Furthermore, this rise in LVR is most obvious among younger age groups.

These trends reflect at least four underlying factors. First, as discussed above, a combination of demographic ‘delays’ and structural factors have contributed to delayed access to first home ownership (Chomik and Yan 2019; Smith et al. 2022). Second, real house prices have risen at a faster pace than household incomes, driving the need to borrow more to purchase housing. The ratio of housing prices to household disposable incomes climbed from around 2.5 in 1990 to nearly 6 by 2020 (RBA 2022). Third, until recently, borrowers enjoyed an extended period of historically low and declining interest rates (RBA 2022). This significantly reduced the cost of servicing home loans. Fourth, financial deregulation and innovations have increased in the mortgage market, so more homeowners have access to mortgage products that allow them to release housing equity for consumption without moving. Haffner et al. (2015) make a distinction between age-specific and non-age-specific *in situ* mortgage equity withdrawal products based on a review of six countries, including Australia. The authors found that, while the take-up of age-specific products such as reverse mortgages has been low, non-age-specific flexible mortgage products such as the current account mortgage have been more popular, with a take-up rate of around 20 per cent among owner-occupiers.

Overall, the growing incidence of mortgaged ownership and rising LVRs reflect an increase in the financial risk attached to owning a home. However, these measures are limited proxies for risk. As shown in Table 7.2, while mortgagors’ mean LVRs rose across all age groups between 1990 and 2017, average net housing equity also increased significantly. Back in 1990, a typical mortgagor aged 25–34 years held net housing equity of \$164,900. By 2017, this had increased to \$239,387—a real increase of 45 per cent. Reflecting a widening intergenerational housing wealth gap, this increase is much larger in real terms among older age groups with those aged 65 years and over enjoying a 200 per cent increase in net housing equity in real terms. This rise in real housing equity makes an important contribution towards wellbeing in old age, from the perspective of financial security as well as housing security.

It may also be the case that because the superannuation guarantee system is maturing and working lives are extending later into the life course, current generations of homeowners may be more willing to carry debt into later life than before. Ong et al. (2021) find that mortgagors in metropolitan areas reduce their odds of exiting the labour force by around 17 per cent for every \$10,000 increase in mortgage debt secured against the home. The study

presents some evidence supporting the idea that those planning to retire later are more willing to borrow against their homes. However, the study also emphasises that those delaying their retirement will still be working when the risks of adverse life shocks are higher, for instance serious ill health, marital breakdown and redundancy. These risk exposures can negatively impact on a mortgagor's ability to reduce their mortgage debt in later life.

Table 7.2: Mean loan-to-value ratios and real net housing equity of mortgagors, by age band, 1990 and 2017.

| Age band (years) | Loan-to-value ratio | | | Real net housing equity | | |
|------------------|---------------------|-------|-------------------|-------------------------|-----------|-------------------|
| | 1990 | 2017 | Percentage change | 1990 | 2017 | Percentage change |
| 25–34 | 37.1% | 61.1% | 24.0% | \$164,912 | \$239,387 | 45.2% |
| 35–44 | 27.7% | 52.0% | 24.3% | \$237,084 | \$355,767 | 50.1% |
| 45–54 | 23.9% | 37.1% | 13.2% | \$277,077 | \$534,376 | 92.9% |
| 55–64 | 17.0% | 25.9% | 8.9% | \$267,565 | \$612,608 | 129.0% |
| 65+ | 11.8% | 23.0% | 11.2% | \$228,026 | \$695,776 | 205.1% |

Note: The unit of analysis and measurement is the person. Net housing equity is derived by deducting the outstanding mortgage loan amount from the mortgagor's reported house value. The 1990 net housing equity estimates are converted into real values at 2017 price levels using the 'all groups' Consumer Price Index from the ABS cat. no. 6401.0 (ABS 2022b).

Source: Author's own calculations from the ABS Surveys of Income and Housing.

The private rental sector has typically been viewed as a transitional minority tenure in which young people reside temporarily while saving up for a deposit to purchase their first home. Thus, the assumption has been of a linear housing career in which a young person departing from the parental home passes through the rental tenure on the way to purchasing a first home. Once the home is bought, the mortgage debt is paid down gradually over time with outright ownership achieved by retirement (Wood and Ong 2012). However, this view of the private rental tenure is breaking down. Growing numbers of young Australians are renting long-term as they find themselves unable to overcome the deposit constraint to home purchase (Ong 2017). Recent work has also raised concerns around loss of home ownership due to adverse personal or family events among older Australians. Ong et al. (2015) showed that loss of home ownership due to divorce, separation, death of a partner or long-term ill health increases the risk of a return to private renting that is marked by long-term reliance on rental housing assistance (Ong et al. 2015).

Table 7.3: Percentage of low-income renter households in rental stress, by location, 2007–08 to 2017–18.

| Year | Capital cities | Rest of state | All households |
|---------|----------------|---------------|----------------|
| 2007–08 | 38.5% | 29.5% | 35.0% |
| 2009–10 | 47.0% | 32.7% | 40.9% |
| 2011–12 | 44.9% | 32.0% | 39.7% |
| 2013–14 | 49.8% | 34.7% | 43.7% |
| 2015–16 | 48.7% | 36.8% | 44.3% |
| 2017–18 | 47.8% | 35.6% | 43.1% |

Notes: Low-income households in rental stress are defined as households in the bottom 40 per cent of the equivalised disposable household income (excluding CRA) distribution, calculated for greater capital city areas and rest of state, on a state-by-state basis, who are spending more than 30 per cent of gross household income on housing costs.

Source: Data from ABS (2019) as reported in AIHW (2021).

However, the expanding private rental sector is plagued by long-run housing affordability concerns. As shown in Table 7.3, the share of low-income rental households in rental stress has grown in both city and regional areas. Across Australia, the incidence of low-income rental stress has risen from 35 per cent to 43 per cent over 10 years. In capital cities, the increase largely occurred between 2007–08 and 2009–10. However, in regional areas, the rise in the incidence of low-income rental stress has been more even across the years. At the same time, the CRA system suffers from inadequacy and poor targeting. Ong et al. (2020) estimated that nearly two-thirds of low-income CRA recipients would be in rental stress without CRA. However, over one-third of low-income CRA recipients remain in rental stress after CRA is deducted from rents.

Furthermore, the public housing system is not well-positioned to support low-income renters in rental stress. While the public housing rental rebate formula sets rents at affordable levels by pegging them to 25 per cent of assessable income, Australia’s public housing system has always been a small residual sector, unlike those in many developed Western European nations. As shown in Table 7.4, the number of tenantable public housing dwellings has been on a slow but steady decline over the last decade. At the same time, the number of waitlist applicants has hovered at around 150,000 with a reduction in the waitlist size from 166,500 to 140,600 between 2011 and 2018, showing unfortunate signs of reversal again in more recent years. The estimates in the table also indicate the severe rationing of the public housing stock. Indeed, the available stock would have to expand by around 50 per cent in order to accommodate everyone presently on the waitlist.

Table 7.4: Size of public housing stock and waitlist, 2011–20.

| Year | Number of tenable public housing dwellings ('000s) | Number of waitlist applicants ('000s) |
|------|--|---------------------------------------|
| 2011 | 327.9 | 166.5 |
| 2012 | 327.6 | 164.3 |
| 2013 | 325.2 | 159.0 |
| 2014 | 321.2 | 154.6 |
| 2015 | 318.9 | 154.0 |
| 2016 | 316.9 | 147.9 |
| 2017 | 314.9 | 142.5 |
| 2018 | 310.0 | 140.6 |
| 2019 | 298.4 | 148.5 |
| 2020 | 296.4 | 155.1 |

Source: Productivity Commission (2016, 2021).

The ramifications of the system's inability to house a growing group of marginalised Australians is evident in the homelessness statistics. The homelessness rate has increased from 45 to 50 persons per 10,000 of the population. It has grown more rapidly among the young than the old. The homelessness rate is consistently highest among those aged 19–24 years old, and this has increased from 75 to 95 persons per 10,000 of the population between 2006 and 2016. On the other hand, the homelessness rate has consistently been the lowest among the oldest age groups and has remained more or less constant over time. Among those aged 65–74 years, the homelessness rate has hovered at around 25–27 persons per 10,000 of the population over time. Among those aged 75 years or over, the homelessness rate has remained at around 14–15 persons per 10,000 population.

However, homelessness rates do not provide a complete picture of how the homelessness sector has changed over time. The number of homeless persons in Australia has climbed from just under 90,000 in 2006 to over 116,000 in 2016. The largest increase has been detected among the older age groups, where the number of homeless rose by 54 per cent and 59 per cent among those aged 55–64 and 65–74 years, respectively. There was also a 53 per cent increase in the number of persons aged 25–34 who were homeless.

Table 7.5: Number of homeless persons and homelessness rate per 10,000 of the population, by age band, 2006–16.

| Age band (years) | 2006 | | 2011 | | 2016 | |
|------------------|--------|-------------------|---------|-------------------|---------|-------------------|
| | N | Rate (per 10,000) | N | Rate (per 10,000) | N | Rate (per 10,000) |
| All | 89,728 | 45.2 | 102,439 | 47.6 | 116,427 | 49.8 |
| <12 | 15,715 | 50.5 | 17,767 | 53.6 | 15,872 | 44.8 |
| 12–18 | 9,788 | 51.1 | 10,718 | 54.9 | 9,955 | 51.0 |
| 19–24 | 12,155 | 75.4 | 14,479 | 83.1 | 17,725 | 95.3 |
| 25–34 | 15,848 | 59.2 | 18,411 | 62.1 | 24,224 | 71.9 |
| 35–44 | 13,180 | 44.9 | 14,225 | 46.4 | 15,745 | 50.1 |
| 45–54 | 10,581 | 38.3 | 12,247 | 41.5 | 14,278 | 46.0 |
| 55–64 | 6,950 | 31.7 | 8,478 | 33.9 | 10,682 | 38.8 |
| 65–74 | 3,560 | 25.9 | 4,097 | 25.2 | 5,651 | 27.2 |
| 75+ | 1,951 | 15.4 | 2,008 | 14.5 | 2,289 | 14.3 |

Source: 2006, 2011 and 2016 Census of Population and Housing.

A closer investigation by age and sex in Figure 7.3 reveals further differences. Between 2006 and 2011, the largest rise in the number of homeless persons was among female youths aged 19–24 years (34 per cent) and older men aged 65–74 years (26 per cent) and aged 55–64 years (28 per cent). However, between 2011 and 2016, the largest increase in the size of the homeless population was found among older women aged 65–74 years (51 per cent) and aged 55–64 years (27 per cent) and young men aged 25–34 years (30 per cent).

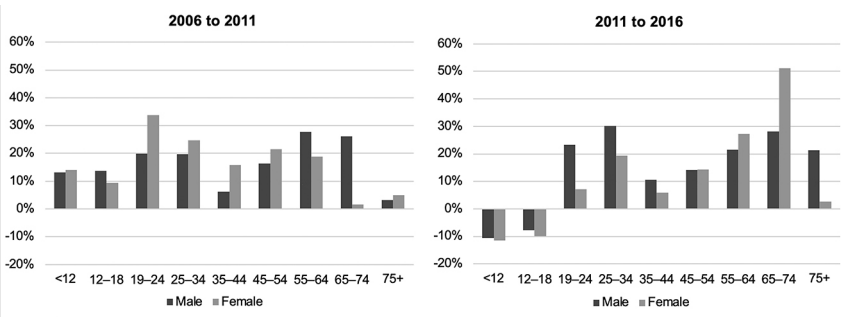


Figure 7.3: Percentage change in the number of homeless persons, by age band and sex, 2006–11 and 2011–16.

Source: 2006, 2011 and 2016 Census of Population and Housing.

Policy implications

There are clear changes emerging in the housing system that signal threats to intergenerational sustainability in the Australian housing system.

Most elderly retirees are likely to continue to be securely positioned in outright ownership, but younger generations face a much more precarious housing future, with growing numbers unable to access home ownership. It is of course possible that today's young people are postponing their first home purchase, but the scale of the downward shifts in home ownership rates across successive generations also reflect structural factors. The rise in mortgage indebtedness among young and middle-aged owners suggests an increase in financial risks attached to owning one's home. However, these risks may be mitigated by a growth in the amount of real housing equity held by mortgagors across all age groups, particularly among older mortgagors. Extensions to working lives as the population ages will also reduce the risk of holding debt over a longer period, as long as adverse life shocks such as serious ill health do not occur later in the life course.

The trends suggest that larger numbers from future generations will spend their retirement as renters. Low-income rental stress also shows no sign of abating and public housing remains highly rationed. Worryingly, homelessness rates have climbed across the wider population as the housing system fails more and more vulnerable Australians, both young and old. Indeed, the evidence suggests that some of the largest increases in the number of homeless persons have been among older Australians. In particular, the homeless population has grown by 51 per cent among older women aged 65–74 years between 2011 and 2016, albeit from a low base.

The policy ramifications for future retirees are potentially wide-ranging. As growing numbers enter retirement as renters or mortgagors rather than outright owners, the adequacy of the age pension may be called into question. Whether mortgage indebtedness in later life is a significant concern can depend on a number of factors. This includes the capacity to delay retirement, the ability to sustain good health for continuing employment, and the future trajectory of interest rates. Historically declining interest rates have made it more affordable to service mortgage loans despite higher upfront costs of home purchase, but interest rates have been on the rise as pandemic concerns have waned.

Of course, asset substitution strategies that shift wealth away from superannuation funds into property may be deployed by retired renters or low-equity owners to achieve outright ownership in retirement. While the evidence of this strategy is currently mixed, this may be because current retirees have not benefited fully from the superannuation guarantee system, which was only introduced in 1992. Future retirees are expected to have higher superannuation balances than previous generations of retirees due to the maturing superannuation system, increasing their capacity to pay off outstanding mortgage debt in retirement. Hence, this strategy of diverting superannuation wealth into housing may grow in popularity in the coming years. This asset substitution strategy is a rational move, given the obvious financial advantage under the age pension means test that is attached to storing wealth in the family home versus storing wealth in superannuation funds. Nonetheless, it will be important to monitor such asset substitution behaviour in future cohorts of retirees to assess its impacts on financial independence and age pension claims. Furthermore, to the extent that superannuation wealth expands households' capacity and willingness to borrow for home purchase, it potentially contributes to house price inflation and may fuel housing wealth inequality between those who are superannuation asset-rich versus those who are superannuation asset-poor.

For current and future retirees who retire as outright owners, their housing wealth will make important contributions to their financial security by limiting housing costs in old age and providing a resource that can be drawn upon to supplement income and meet old age costs such as health and aged-care expenditures. Enhancing elderly owners' capacity to draw down on their housing equity is a logical policy response to meeting the needs of an ageing population, given the significant amount of housing wealth held by older outright owners. In practice, however, some concerns have to be ameliorated to encourage housing equity withdrawal among those with sufficient levels of housing equity. There is, first, house price risk. Concerns regarding housing price fluctuations may discourage reliance on the use of housing equity withdrawals (Ong et al. 2013). Second, equity release may exacerbate repayment risk in later life if achieved through debt-based financial instruments such as flexible home loans. Schemes that include no negative equity guarantee, such as the Australian government's Home Equity Access Scheme, will go some way towards addressing these concerns.

In the rental sector, policymakers will be confronted with soaring demand for rental assistance by future cohorts of low-income retirees. The decline in home ownership rates among the young will likely lead to a significant

expansion in the cohort of future retirees needing such assistance. According to Ong et al. (2019), the combination of tenure and demographic change is likely to increase demand for CRA among those aged 55 years or over by 60 per cent, from 414,000 in 2016 to 664,000 in 2031. The CRA budget cost for this age group is projected to rise steeply, from \$972 million in 2016, to \$1.55 billion in 2031 (at 2016 prices). At the same time, the unmet demand for public housing from private renters aged 55 and over is expected to grow by 78 per cent, from 200,000 households in 2016 to 440,000 households in 2031.

Unfortunately, the current CRA framework is riddled with problems of inadequacy and poor targeting. As reported earlier, over one-third of low-income CRA recipients remain in rental stress after CRA is deducted from rents. The real value of CRA has fallen well behind rent inflation over time, so there is a strong case for increasing CRA rates to improve affordability (Henry et al. 2010; Productivity Commission 2017; Callaghan 2019). For those without children, CRA is paid only as a supplement to pensions and allowances. Thus, some low-income earners without children may not qualify for CRA despite facing rental stress, due to the absence of a direct income test for CRA eligibility (Wood et al. 2005). On the other hand, the Henry Review report (Henry et al. 2010) notes that the design of CRA ‘blurs the roles of income support and family payments’ (p. 604). Private renters with children receive CRA as a supplement to Family Tax Benefit Part A (FTB(A)). The additional costs of raising children, including housing costs, are already recognised in the FTB(A) payment, which is paid at the same rate to all parents regardless of their housing tenure. Yet, the number of children is also taken into account when determining the maximum CRA rate, even though FTB(A) already makes allowance for the additional housing costs associated with children. Hence, there is a duplication of assistance with housing costs in CRA and family payments for private renters with children. This suggests a need to design reforms that reset CRA parameters to improve horizontal equity across all categories of low-income earners regardless of the number of children. A more significant reform would be to decouple CRA from the social security system and align CRA eligibility directly to housing stress indicators, though constitutional barriers may prevent this (Ong et al. 2020).

While reforms to CRA could improve low-income rental affordability and targeting, they will not address tenure insecurity concerns among low-income private renters. Public housing provides tenure security to vulnerable groups, but the public housing waitlist data clearly show that there is

insufficient public housing stock to cater for the needs of those eligible for public housing. This is particularly concerning given the continued rise in homelessness among both young and old Australians. An obvious solution is to build more social housing, and indeed the current government intends to implement a Housing Australia Future Fund to build 30,000 new social and affordable housing properties in its first five years of government (Australian Labor Party 2022). However, this will only meet one-fifth of current unmet demand from public housing waitlist applicants. Other policy solutions will need to be added to the mix, including promoting business sector involvement in expanding social and affordable housing (SGS Economics and Planning 2022), incentivising landlords to offer longer-term secure leases to vulnerable households renting in the private rental sector (Wood et al. 2017), and reforming tenancy laws that exacerbate precariousness in housing conditions for renters such as provisions for ‘no grounds’ evictions (Ong ViforJ et al. 2022). More generally, system-wide increases to housing supply and relaxation of planning policies where they are restrictive can improve affordability and tenure security outcomes of vulnerable population groups.

Conclusion

The trends highlighted in this chapter signal an urgent need to realign housing policies to directly address long-run changes in the housing system. Successive Australian governments have implemented and maintained policies that promote home ownership, including first home purchase assistance schemes and tax expenditures that preference owners over renters. The majority of current elderly retirees own their home outright and therefore have access to a store of wealth in the family home to cushion their financial wellbeing in older age. On the other hand, home ownership prospects have diminished for significant numbers of young people and the proportion of Australians renting into old age is set to grow. Homelessness is rising among both the young and old—a clear sign that the housing system is failing the most vulnerable in our society. To prevent further polarisation in the housing system, there is a clear need to widen the policy focus beyond home ownership to promoting housing security and affordability across all tenures and for all generations. Finally, there is no single short-term solution that can address the scale and complexity of the nation’s intergenerational housing affordability challenges. Instead, a long-term commitment to multi-pronged reform strategies will be required.

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