CoreLogic®

Perceptions of Housing Affordability Report 2017

MAY 2017

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Welcome to the 2017 Perceptions of Housing Affordability report by CoreLogic.

Perceptions of Housing Affordability is a landmark report by CoreLogic that compares current property data to the cost concerns and housing aspirations across Australia's generations, families, states and income brackets.

The report identifies how Australians of all demographics feel about affordability and its impact on their dreams of property ownership or property upgrading and provides insights into what governments and authorities can do to affect change.

Residential real estate is the country's largest asset class at $7.0 trillion – far outstripping superannuation at $2.2 trillion and listed stocks at $1.8 trillion[1]. Australian households have more than half their wealth tied up in the residential housing sector and about 70% of their debt is housing related.

This new survey reveals the degrees to which the great Australian dream of home ownership is becoming an insurmountable challenge. It reveals that a growing proportion of younger generations, while overwhelmingly maintaining a sustained appetite to live the dream, are staying home with parents – increasingly into their 30s – to save for deposits.

It captures the degree to which parents are being expected to assist their adult children in either saving for - or paying for - a home, and reveals how families with low incomes and or young children are becoming more vulnerable to mortgage stress.

The survey identifies how buying a home is becoming the privilege of high income earners who are being expected to assign ever increasing proportions of income towards servicing a mortgage. And it reveals how older Australians are deeply fearful of the costs of moving or downgrading, which in turn is affecting supply and contributing to raising housing costs even further especially in inner cities.

By every measure, housing affordability has worsened over the past 15 years. The cost of buying a house currently takes 7.2 times[2] the annual income of a typical household – up from 4.2 times income 15 years ago. It now takes 1.5[3] years of household income to save for a 20% deposit on a home and servicing a typical loan of 80% of the value of a house now requires 39%[4] of household income, compared with 25% in 2001. Australia is even one of the least affordable countries for housing in the world with all five of our capitals labelled as severely unaffordable and amongst the top 20 unaffordable cities internationally.[5]

Addressing housing affordability cannot be fixed with a single silver bullet. It is an issue that affects every layer of government and requires unprecedented cooperation to properly address. Most importantly, it requires leadership at the highest level of government.

This is the first time CoreLogic - or any other property data and analytics provider - has attempted to capture the depth and extent of the attitudes of the different strata of society and applied them to the topic of housing affordability.

We have sought to quantify just how much the different strata of Australian society care about varying factors relating to affordability including their concerns, what they perceive to be the obstacles, the concessions they are prepared to make to buy property and the strategies they believe will make housing more affordable.

We take this action in the firm belief that what is measured can be managed and that these measurements may help policy makers identify better policies to improve housing affordability where it is most needed.

I trust you find the report valuable and I'd love to hear your feedback.

Lisa Claes

Chief Executive Officer,
CoreLogic International

[1] CoreLogic 2017
[2,3,4] ibid
[5] Demographica 2017

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02. Executive summary

By every measure, housing affordability has worsened over the past 15 years. The cost of buying a dwelling currently takes 7.2 times[6] the annual income of a typical household – up from 4.2 times income 15 years ago.

It now takes 1.5[2] years of household income to save for a 20% deposit on a dwelling compared with 0.8 years 15 years ago and servicing a typical loan of 80% of the value of a dwelling now requires 38.8%[3] of household income, compared with 25.2% in 2001.

How has this happened? As a result of low interest rates, we have seen a reduction in the costs associated with servicing a mortgage which has led to financial institutions lending ever higher amounts in markets where demand is outstripping supply. Meanwhile the 'deposit hurdle' has risen, creating a financial barrier for new entrants to the market and high migration has increased dwelling demand, particularly in Sydney and Melbourne.

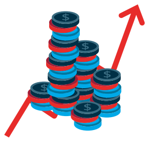
Transaction costs are also playing a significant role. Stamp duty costs on the median priced dwelling are now around $35,000 across both Sydney and Melbourne which is adding to the savings challenge of prospective buyers.

To keep the dream of home ownership alive, the Perceptions of Housing Affordability Report identifies that Australians are making more and more concessions in terms of income sacrifice, property suitability factors and staying at home with parents longer to save for their own place, but they are struggling.

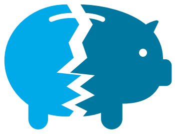
That struggle is being fought hardest across the generations, across different family types, across different wage brackets – and even across states - with older and richer sections of society becoming the property 'haves' while others risk being branded 'least likely' unless governments at all levels come together to radically rethink ways to address supply and demand.

[6] CoreLogic 2017
[2,3] ibid

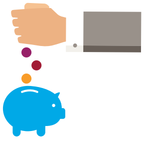
Views of affordability



62%
of respondents believe housing affordability is worse now than it was a year ago; 58% believe next year will be even worse



87%
of Australian non-property owners are concerned about being able to afford their first or next home



The greatest impediments to housing affordability are:

1. Having the deposit;
2. Stamp duty; and
3. Foreign buyers.

Most people believe now is a good time to sell; in WA they think it's a good time to buy

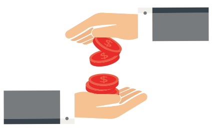
Australians are not highly knowledgeable about market mechanics

Price is the most important factor in selecting where to buy (79%), followed by proximity to work (45%)

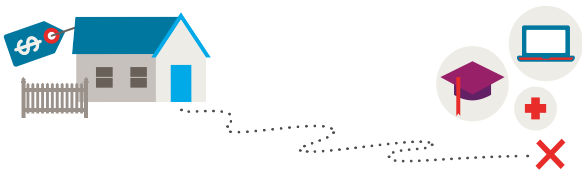
People are not prepared to move interstate to get affordable housing

30%
are looking to inheritance or parents to buy them a house

62%
of people living with parents say they can't afford to move out



89%
of non-homeowners say that it is important to be able to buy your own home



Those who earn the most are most likely to rank proximity to work as an important factor (54% of those with household incomes over $130K), while households with children will nominate proximity to schools (58% for those with children 0-4 and 50% for those with children 5-17). The older we get, the more concerned we become with being near infrastructure such as hospitals with 49% of Baby Boomers identifying this as an important factor.

03. The methodology

The study interviewed 2010 Australians aged between 18-64 years distributed across Australia as follows:

New South Wales	Victoria	Queensland	Tasmania	Australian Capital Territory	South Australia/ Northern Territory	Western Australia
490	400	300	200	200	220	200

The 2017 Perceptions of Housing Affordability Report is based on a study conducted by Galaxy Research using an online permission-based panel. The study was carried out between Tuesday March 7 and Thursday March 13, 2017.

Age, gender and area quotas were applied to the sample. Following the completion of interviewing, the data was weighted by age, gender and area to reflect the latest ABS population estimates.

The results were analysed by CoreLogic to discover the deltas that identified different attitudes and behaviours around housing affordability that were perceived to be significant or which could shed further light on the complex tapestry of affordability across states, demographics, family makeup, income and home ownership type.

The final report was written to highlight these stories within the data. To make the report easier to consume, the data has not been presented where there were no significant behavioural differences indicated. In these incidences, national results are indicative of how the smaller groups also behave or feel.

All percentages in this research have been rounded up to whole numbers.

04. National overview and key insights

Owning your own home is the great Australian dream, but just over half of Australians are able to achieve it. The survey shows 53% of Australians aged 18-64 own their own home with 35% of that number having a mortgage on a property and 19% fully owning their home mortgage free. A total of 37% of Australians have never owned property, but this number is significantly higher for Millennials (those aged 18-34) at 60%.

Of the 47% who do not currently own property, 33% rent or lease, while 12% live with their parents and 2% identified as having 'other' living arrangements.

Yet despite their dream of property ownership, the research shows Australians generally do not have a huge amount of knowledge about the machinery of the real estate market. No more than half are aware of any one of the factors such as stamp duty concessions, deposit levels, investor lending limits and foreign ownership restrictions and more than a quarter - 27% - were not aware of any of the four factors.

51% are aware that some states provide stamp duty concessions for first home buyers.

42% are aware that banks allow you to purchase property with less than 20% deposit.

29% are aware that banks have limits on the percentage of lending they can offer investors.

25% are aware that overseas buyers can only buy new properties (unless they have residency.

Property ownership is concentrated amongst couples, those who work full time and those who earn higher salaries. The survey shows 64% of those who are married or in a defacto relationship currently own property, while 33% of those who are single (whether never married, divorced, widowed or separated) currently own property.

It further shows 64% of those who work full time own property compared with just 44% of those who work part time and 37% of people who do not work own property.

Property ownership is also concentrated amongst Baby Boomers and families with small children. These demographics are covered in depth within their own chapters in the report

How important is home ownership?

The ideal of property ownership is extremely important for non-homeowners - 89% say it is important, which includes 55% who say it is very important.

Millennials – of whom 60% have never owned a property – are the most likely to aspire to the dream with 96% rating it as important.

The survey also shows the new phenomenon of 'rent-vesting' is also starting to take hold with 14% of non-homeowners stating they would definitely buy an investment property first, and a further 27% stating they would consider it. However, just 4% of non-homeowners already owned an investment property.

Concern about housing affordability

Concern about housing affordability is extremely high with 88% of Australian non-property owners concerned to some extent about being able to afford to buy a property. This is made up of 58% of those who rent/lease who are very concerned about being able to afford to buy their first home, while 53% of those who live in an apartment are very concerned about being able to afford to buy.

Even owning a property is not enough to assuage this anxiety with 77% of property owners concerned to some extent about being able to afford what they want and need for their next home move.

The majority of Australians (62%) believe that housing affordability is worse than a year ago with 35% of Australians saying that housing affordability is significantly worse or very much worse than a year ago. Only 10% of Australians feel that housing affordability is better to some degree than it was a year ago, while 4% don't know and 24% believe it is the same.

A total of 58% of Australians say that housing affordability this time next year will be worse with 18% saying it will be significantly worse, 15% very much worse and 26% believing it will be slightly worse. Only 12% of Australians believe housing affordability will be better in any way by the same time next year with 6% undecided, and 24% believing it will be about the same.

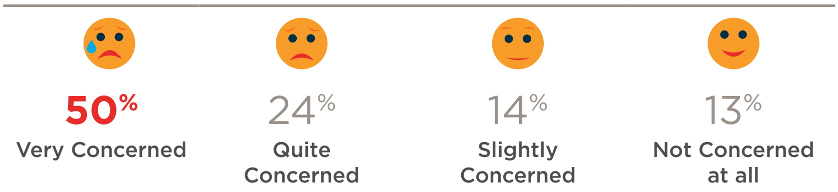
What are the obstacles to housing affordability?

The perception of which obstacles are the biggest when it comes to housing affordability changes according to generation, age of children and income levels, nationally across the board it is the 'lump sum' initial costs of having the deposit and payment of stamp duty that are seen as the biggest hurdles.

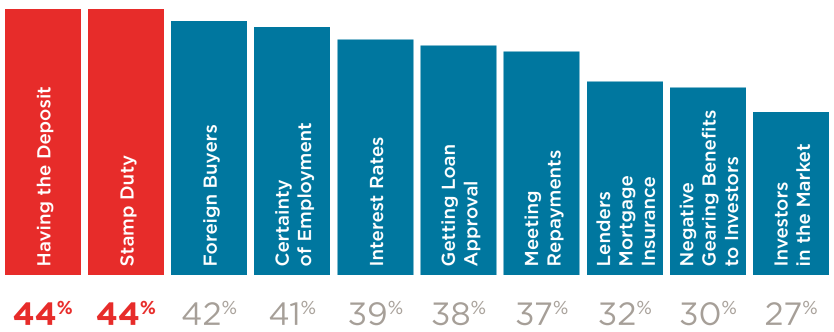
Selection factors and concessions to enable home ownership

Price is the most important factor for Australians when considering where to buy with 79% putting the dollars first. This is followed by a cohort of 73% of people who say that proximity - whether to work, family, school or distance to the city – is important, followed by a cohort of 52% who rate public transport as important.

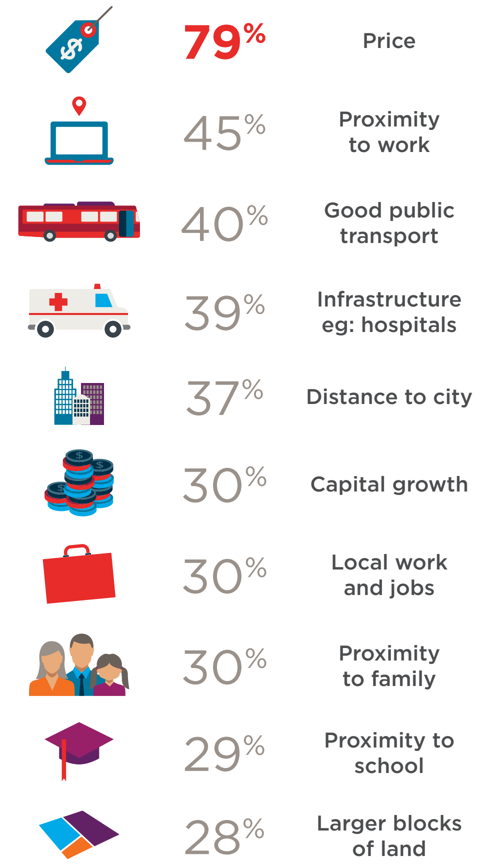
Concern levels about being able to afford a home:



The Biggest Impediments to Housing Affordability



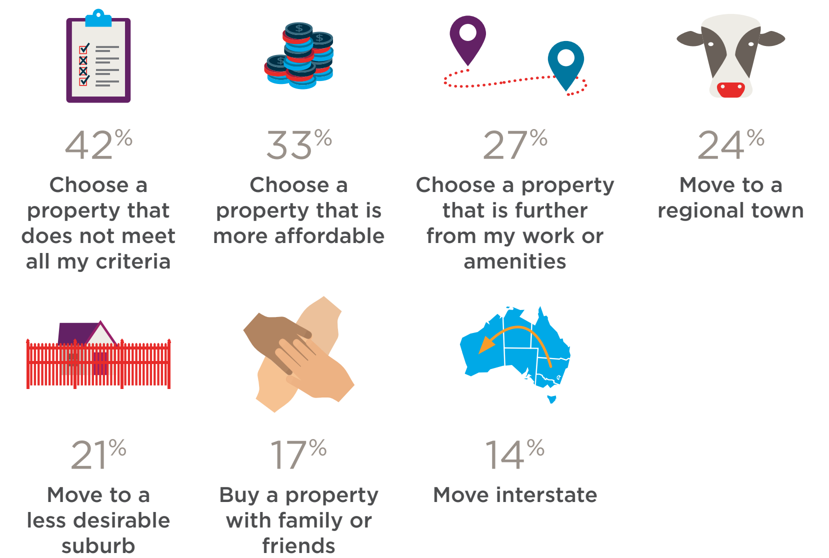
Which factors are important when selecting where to buy?



Australians are more likely to settle for a property that does not meet all their criteria than choose a less desirable suburb, move interstate or travel further.

When non-homeowners were asked what the greatest help would be to buy their first home, 62% said it was a secure and well paid job, while 39% said government assistance and 26% said they were looking to an inheritance to help them buy a home.

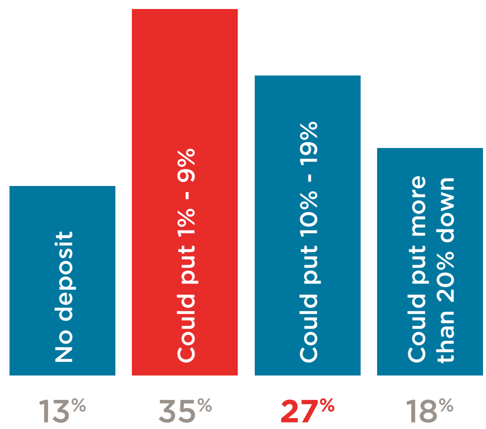
Afforability concessions



More than half of Australia's property owning population would struggle should interest rate increases rise as high as 2% with 52% of property owners with mortgages saying this would cause difficulty. Just 10% say they would have no difficulties with any interest rate increase while 14% said they did not know at what point they would have an issue.

Raising the typical deposit of 20% is also a huge hurdle for Australians who are renting or living with family, with 35% stating they could manage less than 10% deposit towards their property and just 18% stating they could put down 20% or more.

How much deposit can non homeowners can afford?



Family assistance was also important with 10% stating they wanted help from their parents to buy them a house, 11% saying that help from parents to pay the mortgage would be a great help and 17% wanting family assistance to save for the deposit.

Affordability and payment stress

The research shows 8% of home owners are currently already having difficulty meeting mortgage payments now, while a further 6% would have difficulty meeting repayments that were 0.5% higher and a further 14% would have difficulty with a 1% increase.

But while they struggle with a deposit, non-homeowners are willing to forgo more than the typical 30% of their income to service a mortgage with 23% willing to dedicate 40% or more while 30% were willing to dedicate 30-39%. A further 23% were prepared to dedicate less than 30% and 3% were willing to dedicate 60% or more.

Best strategies for improving affordability

73%
Reduce or remove stamp duty (40% believe it would be very helpful)

71%
Create government grants or concessions for first home buyers

65%
Create more jobs in areas with lower priced housing

63%
Appoint a federal housing minister to improve affordability

61%
Improve transport options and commuting

60%
Release more vacant land

57%
Limits on investment buying via regulation

57%
Reduce costs paid by developers to build new homes

53%
Build apartments close to major work centres

51%
Reduce overseas migrants arriving in Australia

a. How is housing affordability measured?

CoreLogic measures housing affordability according to four key measures:

1. PRICE TO INCOME RATIO

The median price of a house or unit (or dwelling = combined houses and units) is compared with median household incomes to provide a ratio. A housing price to income ratio of 5 implies that the typical household will spend five times their annual gross income to purchase a house within the area.

2. DEPOSIT RATIO

This is the proportion of household income required for a 20% deposit. This measure is most relevant for new buyers who need to save a deposit before buying.

3. LOAN TO VALUATION RATIO

The proportion of household income required to service an 80% loan based on the discounted variable mortgage rate and the median selling price of a home.

4. INCOME TO RENT RATIO

This measures the percentage of household income required to pay rent, based on median rental rates.

- Median household incomes used by CoreLogic are modelled by the Australian National University (ANU).

b. Housing affordability across the states

Region	Price to income ratio	Years of household income required for a 20% deposit on a dwelling	% of household income required to service an 80% LVR mortgage	% of household income required to rent a home	Household income (per week)
SYDNEY	8.4	1.7	44.4%	28.5%	$1,826
REGIONAL NSW	6.6	1.3	35.2%	29.5%	$1,188
MELBOURNE	7.1	1.4	37.9%	25.7%	$1,535
REGIONAL VIC	5.6	1.1	29.8%	26.9%	$1,043
BRISBANE	5.9	1.2	31.3%	26.1%	$1,531
REGIONAL QLD	7.0	1.4	37.2%	31.5%	$1,111
ADELAIDE	6.4	1.3	34.0%	26.5%	$1,247
REGIONAL SA	5.0	1.0	26.6%	25.1%	$976
PERTH	6.1	1.2	32.2%	23.6%	$1,570
REGIONAL WA	5.5	1.1	29.4%	27.5%	$1,199
HOBART	5.8	1.2	30.6%	28.3%	$1,167
REGIONAL TAS	5.1	1.0	26.9%	27.2%	$957
DARWIN	4.5	0.9	23.9%	22.5%	$2,091
REGIONAL NT	5.0	1.0	26.3%	29.1%	$1,476
AUSTRALIAN CAPITAL TERRITORY	5.3	1.1	28.4%	22.4%	$1,960
COMBINED CAPITAL CITIES	6.9	1.4	36.4%	26.1%	$1,610
COMBINED REGIONAL AREAS	6.4	1.3	33.8%	29.5%	$1,118
NATIONAL	**7.2**	**1.5**	**38.8%**	**29.7%**	**$1,313**

05. State-based attitudes to housing affordability

How the states compare

Victorians and Tasmanians are most likely to own a home outright with 22% of residents being mortgage free in those states compared with 19% for NSW and just 15% in Queensland. Residents of the ACT (47%) and WA (41%) are most likely to own their home with a mortgage, compared with 33% of residents in NSW. Queensland is where the greatest number of residents rely on rental accommodation with 43% renting or leasing, compared with 31% who own a property with a mortgage.

While living in a stand-alone house dominates across the states, apartment living is highest in NSW at 22%, followed by Queensland at 17% and Victoria at 15%.

There was a slight bias towards the view that now is a good time to sell – particularly in NSW and VIC – rather than buy which was the stronger view in WA.

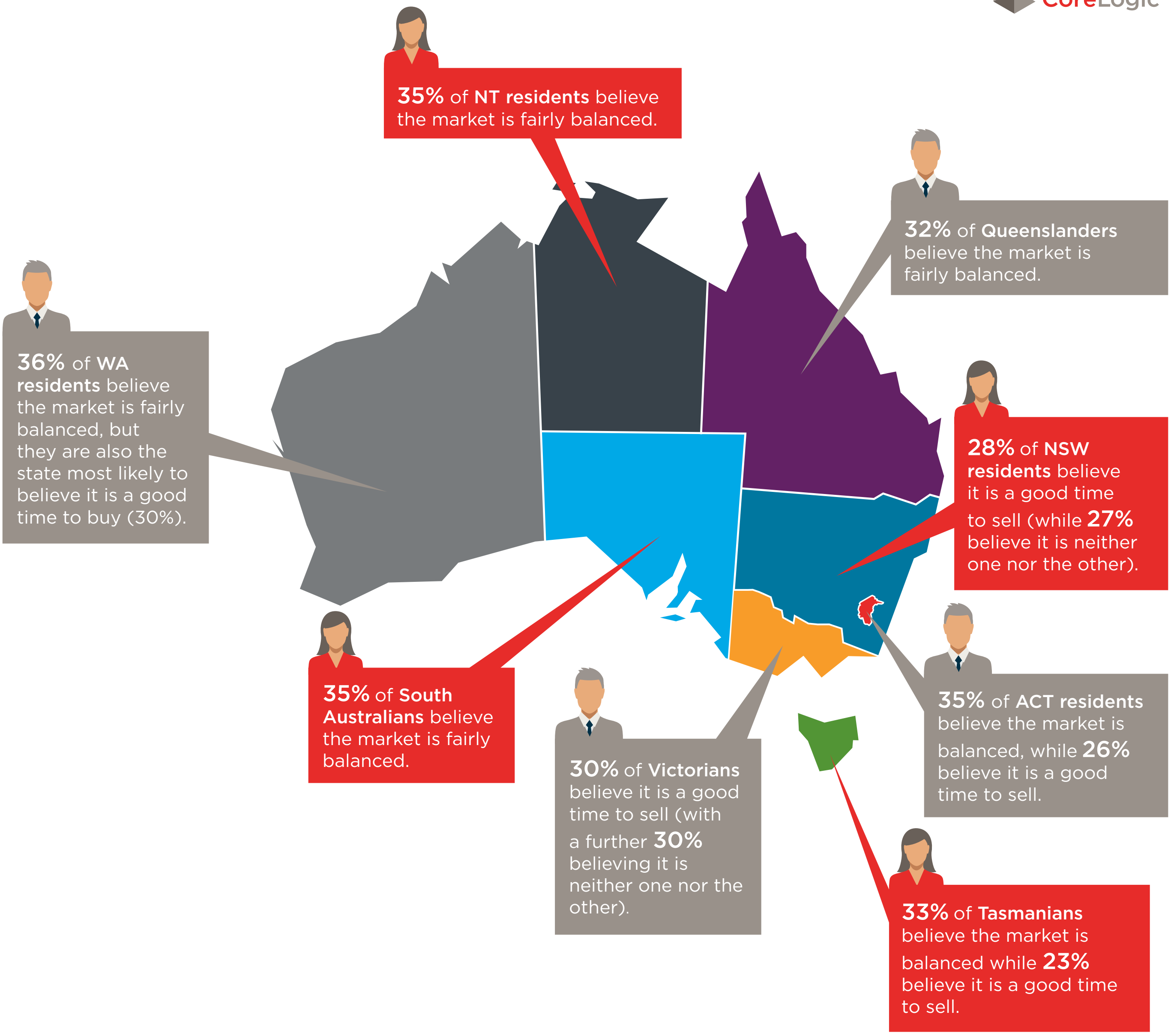
Tasmania was the state with the highest proportion of incomes under $40K (28%) while the ACT (31%) and WA (23%) had the highest proportion of wages over $130K. Queenslanders and ACT residents who live at home with their parents are the most motivated to move out and buy with 48% of QLD stating they were saving money towards a home deposit and 49% of ACT residents. This compares with just 24% of NSW residents living with their parents and 28% of Victorians.

Victorians (78%) and ACT residents (75%) living at home were also the most likely to claim they could not afford to move out compared with 52% of NSW and 60% for Queensland.

Who owns property:

STATE	OWNERSHIP LEVEL	MEDIAN HOUSE SALES PRICE
AUSTRALIAN CAPITAL TERRITORY	61%	$636k
VICTORIA	56%	$530k
WESTERN AUSTRALIA	55%	$475k
TASMANIA	53%	$300k
SOUTH AUSTRALIA	50%*	$400k
NORTHERN TERRITORY	50%*	$490k
NEW SOUTH WALES	49%	$630k
QUEENSLAND	44%	$470k

*CoreLogic house median sales price past 12 months, April 2017.



Type of property you reside in:

STATE		HOUSE	APARTMENT	TOWNHOUSE /OTHER
	AUSTRALIAN CAPITAL TERRITORY	70%	13%	**17%**
	VICTORIA	73%	15%	12%
	WESTERN AUSTRALIA	77%	8%	15%
	TASMANIA	80%	7%	13%
	SOUTH AUSTRALIA /NORTHERN TERRITORY	**82%**	9%	9%
	NEW SOUTH WALES	65%	**22%**	13%
	QUEENSLAND	72%	17%	11%

*Combined SA/NT figures in the Housing Affordability survey

How important is home ownership?

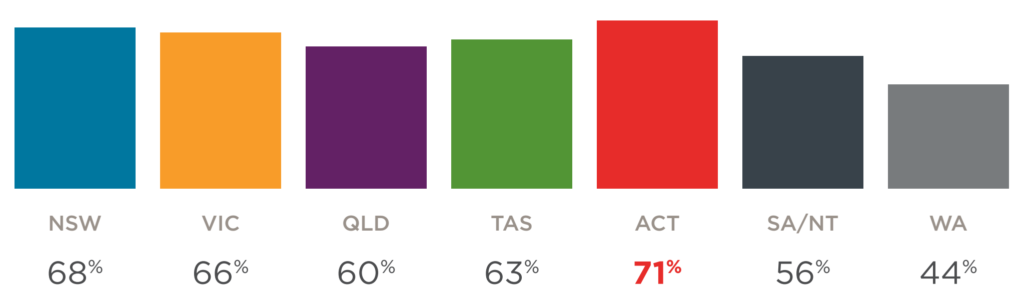
Across the states, the importance of buying a home to those who are currently renting or living with parents is overwhelming. Queenslanders were the most adamant with 91% stating it was important with 61% stating it was very important. The numbers were similar in NSW where 91% of respondents said being able to buy their own home was important with 57% stating it was very important. In WA, 87% stated it was important with 46% stating it was very important compared with Victoria where 86% said it was important but 51% nominated it as very important. Residents of Tasmania and the ACT were the most likely to rate home ownership as not important with 17% and 16% stating it was not a priority.

Concern about housing affordability

Concern about not being able to afford what you want or need for your next home is highest among those who currently own property in NSW (82%) followed by WA (81%). In Victoria 73% of home owners expressed concern about not being able to afford what they wanted or needed to buy, compared with 71% in Queensland and 70% in South Australia and NT. In the ACT, 74% of respondents felt this fear, but only 58% of home owners were concerned in Tasmania.

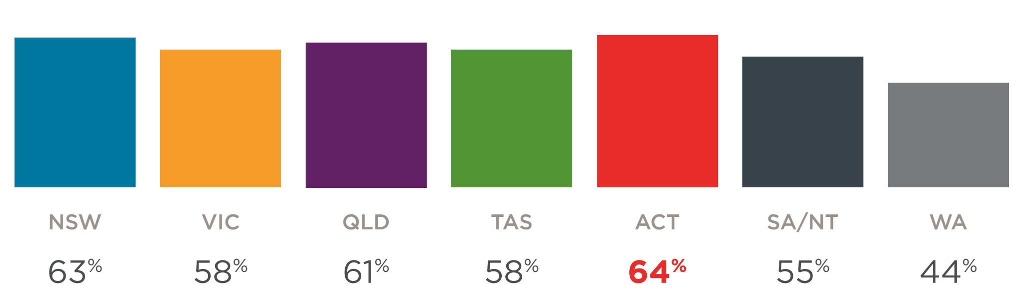
State borders are a strong indicator of pessimism about housing affordability with 45% of NSW residents believing affordability is now very much or significantly worse than it was a year ago compared with 36% of Victorians.

Housing affordability is worse than last year:



Based on very much worse, significantly worse and slightly worse responses

Housing affordability next year will be worse in some way:



Based on very much worse, significantly worse and slightly worse responses

What are the obstacles to housing affordability?

For NSW residents, the biggest impediments to affordability are stamp duty (48%), foreign buyers in the market (46%) and investors in the market and having the deposit (42% each). For Victorians, having the deposit and foreign buyers in the market (44% each) are large or huge impediments followed by certainty of employment (40%).

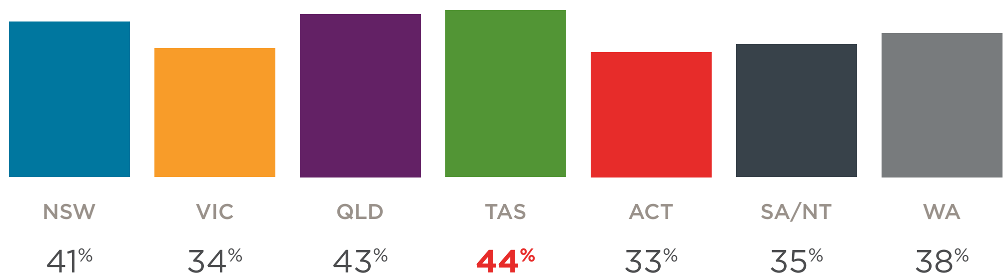
Queenslanders find getting the deposit together as the biggest impediment (48%) followed by getting loan approval and interest rates (43% each) and then stamp duty (42%). WA residents are also highly concerned about the deposit (47%) followed by stamp duty (46%) and certainty of employment (45%).

Residents in SA and NT find stamp duty an impediment (48%) followed by certainty of employment and raising the deposit equal at 42%.

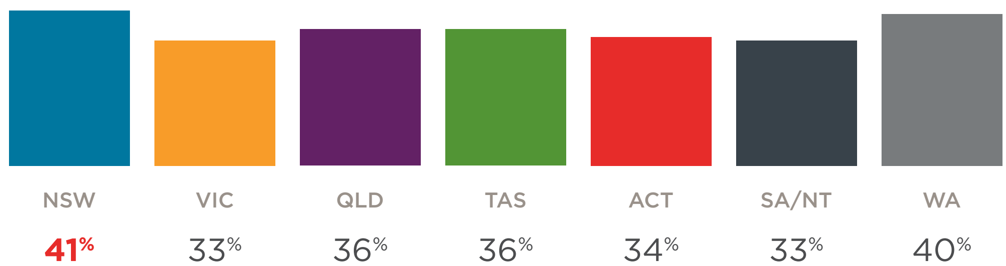
Tasmanians are most concerned about deposits (46%), interest rates (44%) and certainty of employment and stamp duty equal at 43%.

ACT residents are the most relaxed of all the states and territories with perceptions about impediments rarely rising above 40% of respondents and only then on the topic of stamp duty (46%). Investors in the market rank second at 39% followed closely by the perception that foreign investors are an impediment and raising the deposit (38% each).

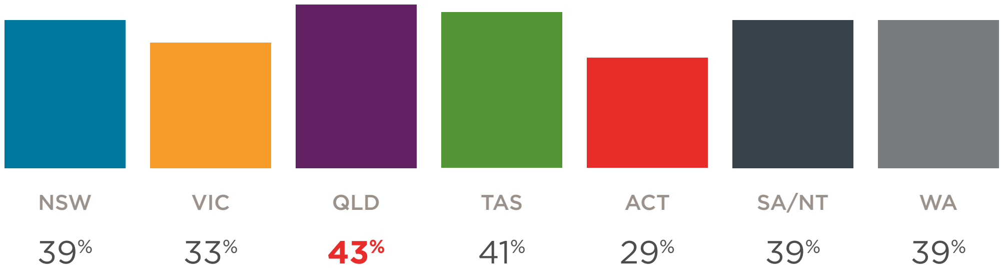
Interest rates are a large or huge impediment to affording a home:



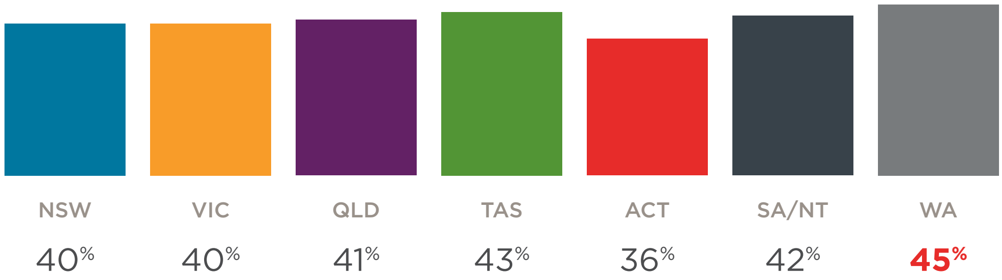
Meeting repayments are a large or huge impediment to affording a home:



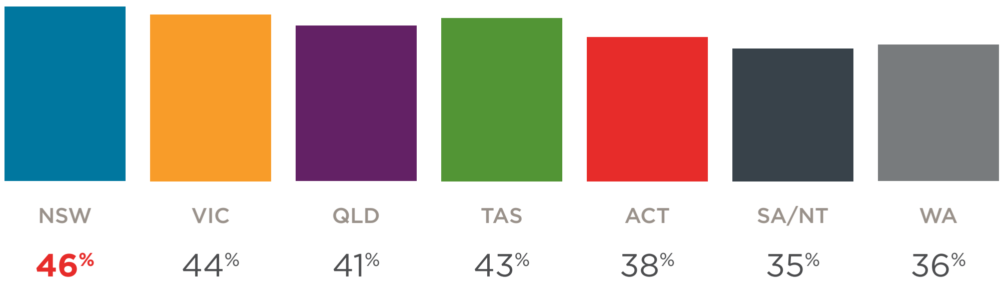
Getting loan approval is a large or huge impediment to affording a home:



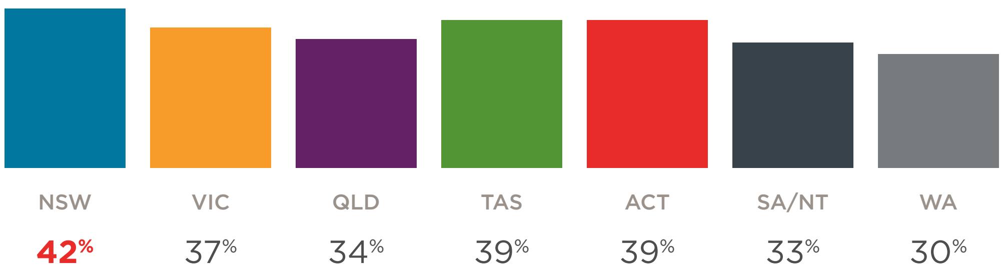
Certainty of Employment is a large or huge impediment to affording a home:



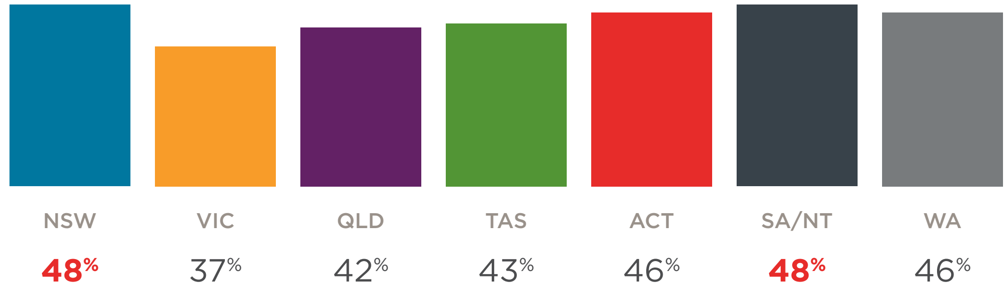
Foreign buyers in the market is a large or huge impediment to affording a home:



Investors in the market is a large or huge impediment to affording a home:

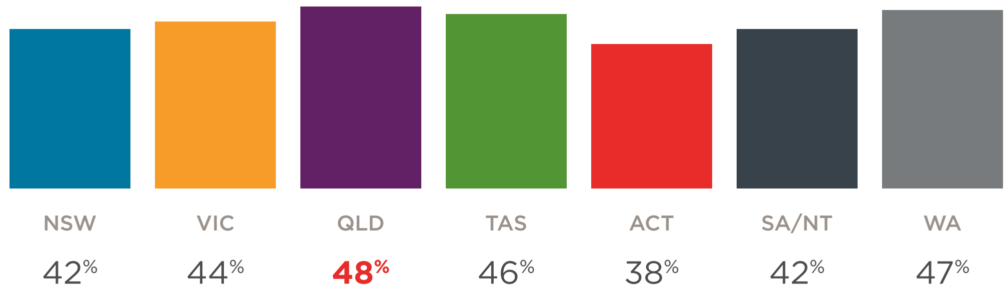


Stamp duty is a large or huge impediment to affording a home:



Negative gearing is a large or huge impediment to affording a home:

Having the deposit is a large or huge impediment to affording a home:



Selection factors and concessions to enable home ownership?

Buying a more affordable property that does not meet all the criteria is the concession acceptable by the most people in each state.

NSW renters are most likely of all the states to buy an investment property as their first purchase. The research shows 51% of NSW (18% definitely and 33% possibly) would buy an investment property first – well ahead of Victoria where 39% would consider this option (12% definitely and 27% possibly).

Of all the states, Tasmanians are the most likely to consider moving to a regional town (30%) as a concession to buying a property, followed by NSW at 27%. NSW residents are also more likely than inhabitants of other states to consider buying property with family or friends with 20% willing to consider it, compared with 17% in Queensland and the ACT and just 15% in Victoria.

Most important factors when selecting where to buy

NSW

42% Good public transport to and from work

40% Good public transport to the city or shopping

39% Access to infrastructure (hospitals)

VIC

45% Good public transport to the city or shopping

42% Good public transport to and from work

38% Access to infrastructure (hospitals)

QLD

42% Access to infrastructure (hospitals)

40% Good public transport to the city or shopping

38% Good public transport to and from work

TAS

34% Good public transport to the city or shopping

33% Access to infrastructure (hospitals)

29% Prospects for locally based work

ACT

46% Access to infrastructure (hospitals)

44% Good public transport to and from work

42% Good public transport to the city or shopping

SA/NT

37% Good public transport to and from work

36% Good public transport to the city or shopping

33% Access to infrastructure (hospitals)

WA

39% Access to infrastructure (hospitals)

35% Good public transport to and from work

33% Good public transport to the city or shopping

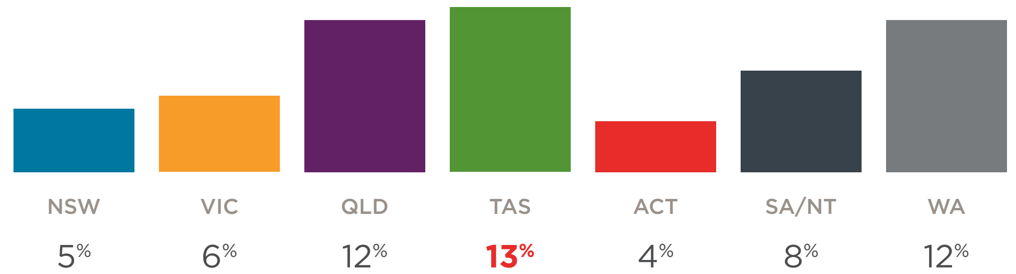
Affordability and payment stress

A third or more of renters in each state believe they will need to forego more than the traditional 30% of income into their mortgage when they get one and this is roughly aligned with the perception of affordability in each state.

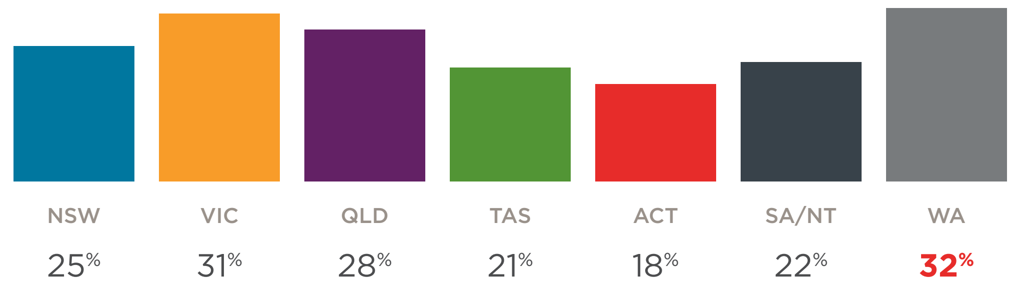
Renters in NSW (48%) are more likely to be willing to dedicate between 30 to 49% of their income to servicing a mortgage, compared with 45% in Queensland, 41% in WA and 37% in Victoria.

The research shows that Tasmanian homeowners are currently having the most difficulty paying existing mortgages, but an increase of up to 1% in interest rates would mean that 32% of WA homeowners would experience difficulty followed by Victoria and Queensland.

Who is struggling the most with current mortgages? (Having difficulty paying mortgages now)



Which states have the most difficulty paying interest rate increases of between 0-1%



Best strategies for improving affordability

Stamp duty is universally unpopular across the states with roughly three quarters of residents claiming removing it would improve affordability. ACT is the most adamant at 78% followed by SA/NT at 76% and NSW and Queenslanders at 74%. Most of this number in NSW (42%) is made up of residents who believe removing stamp duty would be very helpful, indicative of the high cost of stamp duty in that state due to high property prices.

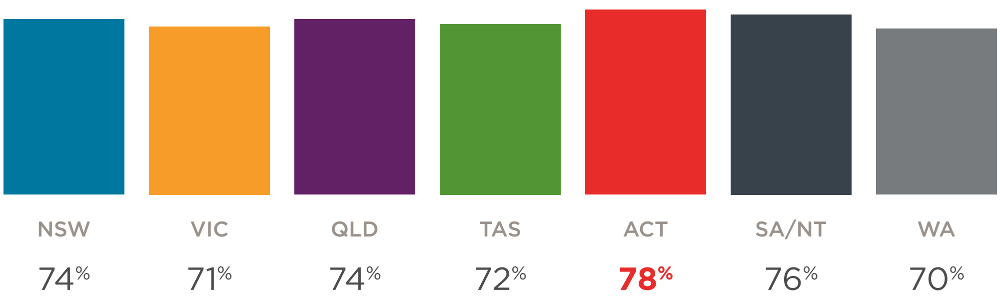
More than half of those surveyed in the big states believe that reducing the number of overseas migrants would be an effective strategy to improve housing affordability with 53% of NSW and Queenslanders feeling this could work and 51% of Victorians. These numbers compare with 49% of WA residents, 46% each for SA/NT and Tasmanians and just 43% of ACT residents.

Western Australia is the state that would most like to see a shared equity program to help first home buyers with 14% of respondents claiming it would be a help, compared with 7% in most other states.

Queenslanders (70%) and Tasmanians (73%) believe creating more jobs in areas that have lower priced housing would also improve housing affordability. This compares with 68% for WA, 64% for VIC and 63% for NSW.

Building more apartments closer to major working areas and along transport corridors is seen as an effective strategy to improve housing affordability by 61% of ACT residents, 58% in WA, 55% in NSW and 58% of Tasmanians. Just over half (51%) of Queenslanders feel it would be effective, and 50% of Victorians believe it would be useful.

Removing or reducing stamp duty as an effective strategy to improve housing affordability



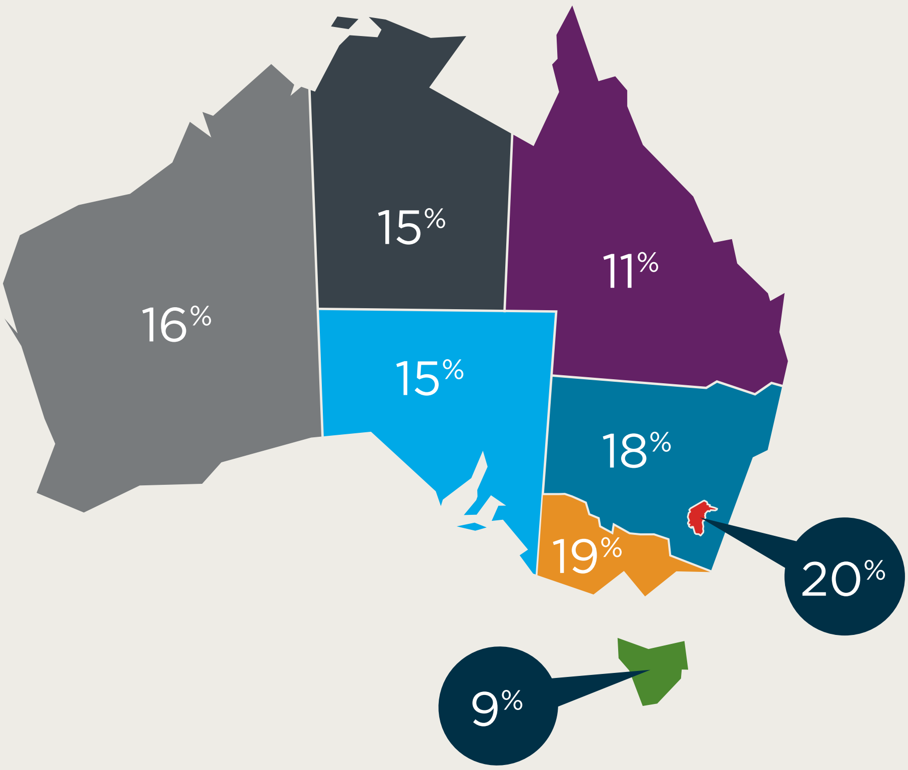
a. The investor landscape

The research shows that 43% of investors own their home mortgage free, while 41% of investors own a home but are paying it off with a mortgage. Only 11% of those who own an investment property are renting, while 5% live with parents.

Not surprisingly, only 25% of people who own an investment property believe that negative gearing is an impediment to housing affordability while 31% of those surveyed believe it is not an impediment at all.

Investment properties are also more likely to be owned by families with children living at home. The survey showed 22% of those with children aged 5 to 17 owned an investment property followed by 18% of those with very young children aged 0 to 4 and 17% of those with children 18+, indicating that property is an important family investment strategy.

Who owns the investment properties?



06. Generational attitudes towards housing affordability

How the generations compare:

Within the survey, respondents were broken down into three generational categories. The youngest were Millennials aged 18-34, Gen X aged 34-49 and Baby Boomers aged 50-64.

Their responses identified some significant differences in both the level of home ownership and the degree to which it was likely to be obtained. There were also differences in opinion between the issues that each generation believed were making housing affordability difficult and the measures best to address it.

The difference in levels of property ownership across the generations was marked with 34% of Millennials currently owning property, jumping to 62% of Gen X and 68% of Baby Boomers. The more mature generations of Gen X and Baby Boomers have had the benefits of substantial equity creation, particularly benefiting from the strong housing market growth cycles that occurred between 2000 to 2003 (when capital city dwelling values rose +74%), 2006 to 2007 (when capital city dwelling values rose +22%) and 2009 to 2010 (growth of +20%) as well as the current cycle of growth where capital city dwellings are now 49.3% higher.[7]

Perhaps unsurprisingly given the amount of time they have had to pay off a mortgage, Baby Boomers were most likely to own a property outright (37%) compared with 13% for Gen X and 9% for Millennials.

Within the survey, 44% of the Millennials worked full time, while 55% of Gen X and 37% of Baby Boomers worked full time. Baby Boomers were the most likely not to work with 41% currently not working at all, which is most likely indicative of retirement at the higher end of the age bracket.

Millennials were least likely to own a home with 60% stating they had never owned a property. Millennials were most likely to rent (38%) or live with parents (27%). A small proportion – 12% - owned an investment property.

About a third (31%) of Gen X rent or lease while 15% are likely to live at home. Meanwhile 28% of Baby Boomers rent or lease and 1% live at home.

The proportion of Gen X and Baby Boomers who own an investment property are 19% and 18% respectively.

How important is home ownership?

The survey shows that while home ownership is overwhelmingly important across the generations, the degree of that importance drops off somewhat with age.

Of the Millennials who are either renting or living at home, 96% stated it was important with 61% stating it was very important while 87% of Gen X stated it was important (53% stating it was very important). Although also in a significant majority, just 73% of Baby Boomers stated that home ownership was important and less than half (40%) said it was very important.

Concern about housing affordability

The research shows that concern levels about housing affordability are extraordinarily high across the generations, although again, this decreases slightly with age.

Amongst those who do not currently own a property, 95% of Millennials are concerned to some degree about being able to afford to buy either their first home or their next home, of whom 50% are very concerned.

This compares with 86% of Gen Xers, 54% of whom are very concerned, and 72% of Baby Boomers with 45% very concerned.

Anxiety levels remain significant even once a property has been purchased with 91% of Millennials concerned they will not be able to afford their next move, compared with 77% of Gen X and just 64% of Baby Boomers.

Millennials however are likely to be slightly less gloomy about how housing affordability is tracking than other generations. When

[7] CoreLogic 2017

compared with last year, 29% of Millennials believe housing affordability is worse now. Older generations feel this is more the case with 38% of Gen X feeling affordability is worse now than it was a year ago and 40% of Baby Boomers believing it to be the case.

Gloominess about affordability into the future likewise increases with age with 54% of Millennials believing housing affordability will be even worse to some degree next year compared with 59% of Generation X and 64% of Baby Boomers.

What are the obstacles to housing affordability?

The obstacles to housing affordability are perceived very differently across the generations especially across the headline issues of stamp duty and foreign investment.

Millennials are least likely to see foreign investors as an impediment to housing affordability with just 17% stating they were a huge impediment in comparison to 26% of Gen X and 31% Baby Boomers. Similarly, only 13% of Millennials found stamp duty a huge impediment compared with 23% of Gen X and 29% of Baby Boomers.

In order of importance, Millennials are most likely to find having the deposit (49%), interest rates (44%) and a combination of certainty of employment and getting loan approval (41% each) to be the biggest impediments.

This compares with Gen X, 48% of whom believe stamp duty is a major impediment, followed by the number of foreign buyers in the market and the difficulty raising a deposit (45% each) and lastly, certainty of employment (40%).

Baby Boomers are even more opposed to stamp duty (49%) and the most likely to blame the number of foreign buyers in the market (48%) for affordability issues, followed by certainty of employment (42%). A further 40% believe investors in the market are an issue that impedes affordability.

IMPEDIMENTS TO HOUSING AFFORDABILITY

INTEREST RATES

Millennials	Gen X	Baby Boomers
44%	37%	34%

MEETING REPAYMENTS

Millennials	Gen X	Baby Boomers
39%	36%	35%

GETTING LOAN APPROVAL

Millennials	Gen X	Baby Boomers
41%	36%	37%

CERTAINTY OF EMPLOYMENT

Millennials	Gen X	Baby Boomers
41%	40%	**42%**

* Based on large or huge impediment responses

IMPEDIMENTS TO HOUSING AFFORDABILITY (continued)

FOREIGN BUYERS IN THE MARKET

Millennials	Gen X	Baby Boomers
35%	45%	**48%**
only 17% believe they are a huge impediment	26% believe they are a huge impediment	31% believe they are a huge impediment

STAMP DUTY

Millennials	Gen X	Baby Boomers
36%	48%	**49%**
only 13% believe it is huge impediment	23% believe it is a huge impediment	29% believe it is a huge impediment

INVESTORS IN THE MARKET

Millennials	Gen X	Baby Boomers
34%	37%	**40%**

HAVING THE DEPOSIT

Millennials	Gen X	Baby Boomers
49%	45%	37%

PAYING LENDERS MORTGAGE INSURANCE

Millennials	Gen X	Baby Boomers
31%	31%	**34%**
but an additional 35% found it a moderate impediment		while 36% found it no impediment at all

NEGATIVE GEARING

Millennials	Gen X	Baby Boomers
28%	**32%**	30%

*Based on large or huge impediment responses

Selection factors and concessions to enable home ownership

Price was the most important factor across the generations when selecting where to buy although it was most important to Baby Boomers (83%) compared with Millennials (75%).

Proximity to work was the second most important category with 52% of Millennials prioritising this, compared with 44% of Gen X and 37% of Baby Boomers. The third most important factor when selecting where to buy was distance to the city, which was important to 40% of Gen X, 38% of Millennials and 33% of Baby Boomers.

Public transport to and from work was important to 43% of Gen X and 42% of Millennials, but just 32% of Baby Boomers. In comparison, Baby Boomers felt that being near infrastructure such as hospitals was more important (49%) and having good public transport to the city (44%) was important.

To achieve the dream of ownership, 46% of Millennials who currently rent are prepared to dedicate between 30-50% of their gross household income to servicing a mortgage. This compares with 42% of Gen X and 36% of Baby Boomers.

Millennials are also more likely to consider buying a property with family or friends with 24% saying they would consider this compared with just 13% of Gen X and 12% of Baby Boomers.

Baby Boomers meantime are more likely to consider moving to a regional town to purchase a property (30%) in comparison to 21% of Millennials and 22% of Gen X. Millennials however will consider moving to a less desirable suburb with 25% prepared to make this concession compared with just 17% of Baby Boomers.

Millennials who rent or lease are significantly more likely to consider an investment property than other generations with 51% stating they would definitely (20%) or possibly (31%) buy something they would not personally live in first compared with just 33% of Gen X (8% definitely) and 24% of Baby Boomers (5% definitely).

Affordability and payment stress

With raising the deposit identified as one of the biggest hurdles for Millennials, it is probably not surprising that this generation is most likely to seek help from a family member, with 21% saying they would approach parents. This compares with 17% for Gen X and just 9% for Baby Boomers. Gen X (32%) were most likely to find an inheritance a help to buying, compared with 22% of Millennials and 27% of Baby Boomers.

Across the generations, the maximum deposit that could be paid by those who are currently renting is between 0-9% with 29% of Millennials saying this is affordable, 43% of Gen X and 43% of Baby Boomers.

This compares with 27% of Millennials who state they could raise between 10-19% as a deposit as do 28% of Gen X and 14% of Baby Boomers. Only 12% of Millennials, 11% of Gen X and 10% of Baby Boomers who are renting say they could afford between 20-29% as a deposit.

The findings of the report support recent Reserve Bank of Australia figures[8] that identified mortgage stress amongst those who already own property and confirms that the younger generation is the most vulnerable.

Baby Boomers (10%) are most likely to already be struggling to pay their existing mortgage, followed by 8% for Millennials and 6% for Gen X. However Millennials overtake considerably once future interest rate rises of up to 1% are taken into account with 35% of Millennials claiming this would make them struggle, compared with 23% of Gen X and 27% of Baby Boomers.

Should interest rates increase between 1.5% and 2.0%, the research shows a total of 66% of Millennials struggling to pay, compared with a total of 47% of Gen X and 48% of Baby Boomers.

Best strategies for improving housing affordability

Millennials are the most likely (68%) to believe that a well-paying and secure job is the greatest help when buying a first home compared with 58% of Gen X and 49% of Baby Boomers.

Baby Boomers it seems dislike stamp duty more than any generation and believe it is an impediment. The research shows 80% of Baby Boomers said the reduction or removal of stamp duty for first home buyers would be helpful compared with 69% of Millennials - arguably those who would be most affected by any change - and 71% of Gen X.

Baby Boomers are also more likely than other generations to feel that a reduction in the number of migrants to Australia would be an effective strategy (56%) to improve housing affordability compared with 51% of Gen X and 47% of Millennials.

Millenninals are most likely to believe that the appointment of a federal housing minister responsible for addressing housing affordability issues nationally could be effective with 61% of respondents claiming it would be valuable compared with 56% of Gen X and 53% of Baby Boomers.

REDUCING OR REMOVING STAMP DUTY WOULD BE AN EFFECTIVE STRATEGY:

Millennials	Gen X	Baby Boomers
69%	71%	**80%**

[8] RBA 13 April 2017

a. How listing anxiety is affecting housing affordability

When property owners feel constrained in their decision to sell their property, supply starts to dwindle and the entire property market is affected.

Research conducted by one of Australia's largest real estate franchises, LJ Hooker, identified that insecurity about finding a new home and costs such as stamp duty are actively discouraging property owners from selling in the belief that the move to a new residence will not be worth the cost.

The LJ Hooker research[9] surveyed more than 2700 Australian property owners, 70% of whom had had their property appraised by an agent within 12 months of the survey – a sign that they were considering selling.

However, of those who had a property appraised, 60% did not proceed and list their property for sale.

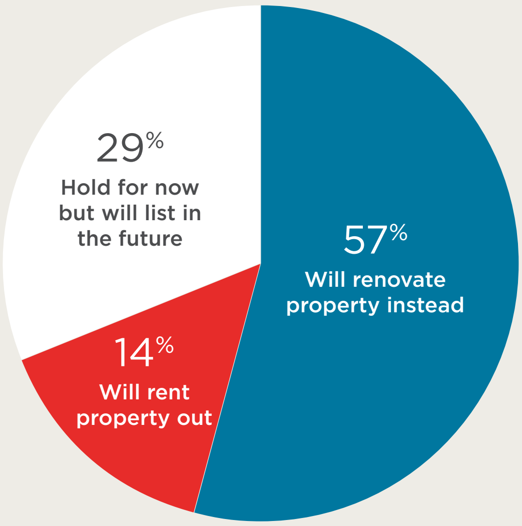
The survey identified that a lack of choice and stock on the market which made it difficult to feel confident about finding a new home was the number one reason for not listing with 35% of respondents identifying this as a roadblock.

Transactional costs involved in buying and selling were also blockers with 26% of respondents deciding not to list their property for sale because the cost of buying their next home was too high due to stamp duty. A further 18% stated that the cost of selling was too high, taking into consideration solicitor fees, conveyancer costs and real estate agents commissions.

The LJ Hooker survey showed that changing government stamp duty laws could be a major stimulus to increasing listings. The survey found 51% of those who didn't list after receiving an appraisal would do so if stamp duty was lower, while 61% said they would list if stamp duty was abolished altogether.

For those who decided not to list, 57% said they would renovate their property instead of selling while 29% said they would hold on to the property for now and list at a later date and 14% said they would rent their property out.

What do you plan to do with your property?



[9] LJ Hooker 2017

07. Families, children and housing affordability

How different family groups compare:

Within the survey, respondents were broken down into four styles of family. These included those families with children aged 0 to 4 living at home, those with children aged 5 to 17, those with families aged 18+ and those with no children living at home.

The survey found that the age of the children living at home was likely to affect the behaviours and views of affordability, with those who had very small children more likely to both value the importance of affordable housing more highly, while at the same time finding it less affordable or struggling to pay mortgages.

Within the survey, 57% of those with children aged 0 to 4 were current home owners, 60% had children 5 to 17, 56% had children aged 18+ and 44% had no children at home.

The survey confirmed that families with young children are most likely to have mortgages with 50% of families with children aged between 0 to 4 owning their home with a mortgage and just 10% of families with children this age own their homes outright. A further 50% of families with children aged between 5 to 17 years have mortgages while 16% own their homes outright.

The proportion of families with mortgages drops to just 38% by the time children reach 18, and outright ownership rises to 25%, while 24% of those who have no children at home have a mortgage and 20% own their home outright. From here on, this section of the report will focus on families with children at home with observations about those without children captured in the marital status section.

Of those families who had very small children aged 0 to 4, 47% worked full time, compared with 52% of those with children aged 5 to 17 and 36% of those with children aged 18+.

How important is home ownership?

Families with children at home who do not own property are very likely to be concerned about being able to afford a home.

Families who are currently renting and have children at home are insistent that being able to buy their own home is important. The younger the children, the more important this is regarded with 98% of families with children 0 to 4 stated it was important (71% very important), compared with 94% of families with children 5 to 17 (65% very important) and 90% importance for those with children 18+ (57% very important).

Concern about housing affordability

The younger the children, the greater the concern from families that they may not be able to afford to upgrade their property. The survey found 84% of families with children aged 0 to 4 who own property currently are concerned to some degree that they will not be able to afford to upgrade with 31% very concerned. This compares with 79% of families with children aged 5 to 17 who own property who expressed concern about upgrading (with 23% of this bracket stating they were very concerned).

By the time children are 18+, the fear eases with 67% of families who own their own home and have older children stating they had some concerns, but only 16% said they were very concerned.

Nevertheless, the older the children at home, the gloomier the different family groups are likely to be about the direction of housing affordability. The survey found that while 28% of families with children aged 0 to 4 felt that housing affordability was very much or significantly worse now compared with last year (with an additional 27% believing it was slightly worse), 36% of those with children aged 5 to 17 felt this was the case (with an additional 26% stating it was slightly worse) and 35% of families with children aged over 18 believing it was significantly or very much worse (with 33% stating slightly worse). The sentiment is very similar for the direction of housing affordability next year with 26% of families with children aged 0 to 4 feeling it would be significantly or very much worse, while 35% of both families with children 5 to 17 and 18+ both felt this way.

What are the obstacles to housing affordability?

The obstacles to housing affordability are perceived somewhat differently across families with children of different ages, especially across the headline issues of stamp duty and saving for a deposit.

For those with children aged 0 to 4 years, the biggest impediments to home ownership are saving for a deposit, followed by the cost of stamp duty and interest rates. Families with slightly older children were most likely to find stamp duty the biggest impediment, followed by saving for the deposit and then certainty of employment.

Finally, those with children over 18 were most likely to find stamp duty and foreign buyers the biggest impediments, followed by certainty of employment and then a mix of factors, including saving for a deposit, interest rates and meeting repayments.

IMPEDIMENTS TO HOUSING AFFORDABILITY – FAMILIES*

STAMP DUTY

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
48%	46%	44%

GETTING LOAN APPROVAL

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
40%	35%	32%

INTEREST RATES

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
41%	38%	35%

CERTAINTY OF EMPLOYMENT

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
38%	39%	**41%**

MEETING REPAYMENTS

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
37%	35%	35%

HAVING THE DEPOSIT

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
51%	43%	35%

FOREIGN BUYERS

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
35%	43%	**44%**

INVESTORS IN THE MARKET

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
34%	**35%**	34%

LENDERS MORTGAGE INSURANCE

Families with children aged 0 - 4	Families with children aged 5 - 17	Families with children aged over 18
36%	33%	31%
although an additional 30% identified it as a moderate impediment	an additional 27% identified it as a moderate impediment	only 24% identified it as a moderate impediment

*Based on large or huge impediment responses

Selection factors and concessions to enable home ownership

While **price** is the number one factor that dictates how families with children will select a property, there was no significant statistical differences between the age groups of children that provided any specific insights.

When selecting where to buy, **proximity to schools** was the number one priority for 58% of families with children 0 to 4 and 50% of those with children aged 5 to 17. The second priority was proximity to work with 48% of families with very young children ranking this second, compared with 42% each for both families with children aged 5 to 17 and 18+.

When selecting where to buy, families with children 18+ were more likely to rank **good public transport** to and from the city centre or shopping as a priority (44%) than the other family styles, while good public transport to and from work was identified as important for 39% of families with babies and 40% families with children aged 5 to 17.

Families with small children 0 to 4 are much more likely to make the concession of buying an affordable property that **does not meet all their criteria** (54%) compared with those with children 18+ (21%).

Families with children are also more likely to buy a property **further from their workplace or other amenities** (33% for 0 to 4 and 32% for 5 to 17) than those with children 18+ where only 21% would consider this concession.

Affordability and payment stress

The survey indicates that the cost of raising children makes families the most open to receiving support for the upfront costs of buying a home.

Families with very young children 0 to 4 who are currently renting are most likely to require help of some kind to buy their first home with 52% stating government assistance would be helpful and 23% stating financial assistance from a family member for the deposit was required. An additional 20% also said help from family to make mortgage payments was required.

This compares with 45% of families with children aged 5 to 17 who were renting who felt **government assistance** was necessary and 17% who wanted family deposit assistance. Only 10% of families with children in this bracket thought ongoing help with mortgage payments was needed.

Finding the deposit is also difficult for those with younger families with 41% of those renting with children aged 0 to 4 stating they could only raise between 0-9% for a deposit and 40% of those with children aged 5 to 17. This compares with 34% of renting families with children 18+ who could raise a deposit between 0-9%.

Nevertheless, once a home has been purchased, families with small children 0 to 4 who are renting are willing to make strong commitments to mortgages. While this group displayed the strongest preference of all family types to want to dedicate 30% or less to their mortgage (32%) this bracket is also most likely to be willing to dedicate between 30 to 49% with half the respondents believing this could be necessary. That compares with 39% of families with children 5 to 17 who believe paying 30 to 49% of income is possible.

Families with children are the least likely to be suffering from mortgage stress with 8% of those with children 0 to 4 stating they were having difficulty paying their mortgage now, compared with 5% for children 5 to 17 and just 3% for those with children 18+.

However those with very young children are most susceptible to interest rate increases with 28% of those with children 0 to 4 stating they would struggle with interest rate increases of between 0-1% and a further 35% stating they would struggle with interest rate increases between 1.5 and 2%.

This compares with 22% of those with children 5 to 17 who would struggle with 0-1% and 29% who would struggle with increases of 1.5-2% and 17% of those with children over 18 who would struggle with 0-1% and 26% who would struggle with increases of 1.5% to 2%.

This means that an increase of between 1.5% and 2% in interest rates would cause 63% of families with children 0 to 4 to struggle to make mortgage payments and 51% of families with children 5 to 17. For those with children 18+, an increase of between 1.5% and 2% in interest rates would cause 43% to suffer hardship.

Best strategies for improving affordability

Stamp duty was the number one priority that families with children felt should be removed to improve housing affordability. The survey shows 74% of families with children 0 to 4 felt reducing or removing stamp duty would be helpful, while 72% of those with children aged 5 to 17 felt it would assist. However 82% of those with children at home aged 18+ felt it would improve housing affordability with 52% of these believing it would be very helpful.

The numbers were similarly weighted when asked whether reducing or removing stamp duty for first home buyers would help. Again, those with older children were most likely to believe this to be valuable with 79% of those with children aged 18+ stating it would be helpful (51% said very helpful), 72% of those with children aged 0 to 4 and 69% of those with children aged 5 to 17 believing the measure would assist.

The older the children, the more families were likely to think government concessions were an appropriate response with 70% of those with children aged 0 to 4, 71% of those with children 5 to 17 and 80% of those with children 18+ living at home believing first home buyer grants would assist affordability.

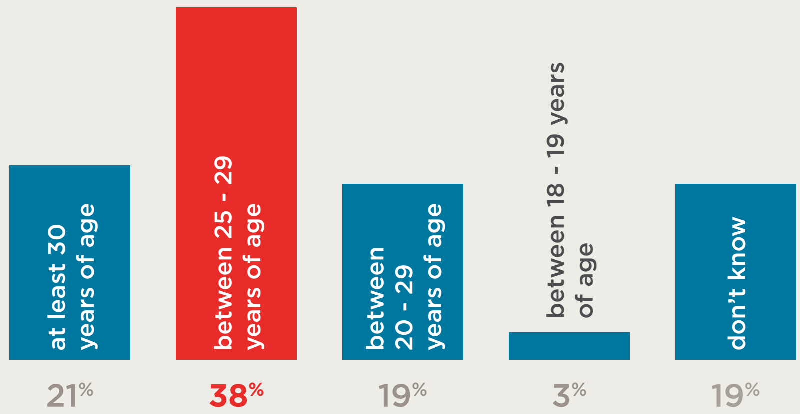
a. When will the kids leave home?

“When are you going to move out, kid?” is a cry heard across the living rooms of Australia as parents ask their older teens - and increasingly children in their 20s and 30s according to the data – when they can expect an end to the cleaning, cooking, laundry and fighting for the remote with adult children.

The majority of Australians (62%) living with their parents say that they cannot afford to move out of the family home with 32% saying living with parents keeps their expenses low, and 20% admitting that it is “too comfortable at home”.

While 27% are saving towards a home deposit and 29% are still on education courses and have yet to think about leaving home, over 20% of Australians still living with their parents (21%) expect to move out after they turn 30. Of those who live at home, only 4% owned an investment property.

When will they move out?
(Australians 18 years or older still living at home)



Of those who live with parents, 28% of Millennials say they are saving money towards a deposit, compared with 19% of Gen X and 25% of Baby Boomers. In addition, 35% of Millennials said educational courses and study costs were the reason they lived at home with their parents.

Across the generations, most live at home because they claim they cannot afford to move out. This is the case for 62% of Millennials, 60% of Gen X and 75% of Baby Boomers who live with parents. Baby Boomers were also overwhelmingly the most likely to be living at home because they were “too comfortable to move out” with 75% of those living at home stating this reason.

Millennials (45%) state they will move out of the family home between the ages of 25-29. This compares with 48% of Baby Boomers still living at home who say they do not intend to move out at all, indicating their decision to live with parents may not be due to affordability issues.

Families with children at home who live with their parents are likely to be saving for a deposit with 40% of those with children 0 to 4 stating this, in comparison to 32% of those with children 5 to 17 and just 22% of those with children 18+. However, families with children 5 to 17 and 18+ are likely to be living with parents due to cost restraints created by further study with 45% of those with children 5 to 17 and 44% of those with children 18+ still undertaking educational courses.

Surprisingly, a higher wage makes little difference in the perception of being able to afford to move out of the parental home with similar percentages across all wage levels. The survey shows 65% of those earning less than $40K said they could not afford to move out compared with 67% for $40-$90K, 61% for $90-$130K and 63% for those earning $130K plus.

Those earning less than $40K were however more likely to be honest about why they lived at home, with 33% claiming they were “too comfortable” to move out, compared with 17-20% of those on higher wages.

Queenslanders (38%) and ACT residents (32%) are more likely to move out of the family home before the age of 25, while across the states moving out of home before the age of 35 seems to have become the new norm. The research shows that 77% of those living at home in SA/NT will move out before 35, with 75% in Queensland, 71% in NSW and 69% in Victoria. Tasmanians are the least decided about when they will move out with 46% declaring they ‘did not know’ in comparison to numbers around 15% in most other states.

Queenslanders are also more likely to rent before they buy (61%) compared with 40% for ACT, 41% for Victorians and 38% for NSW residents living with parents. Equally, SA/NT residents living at home (53%) and NSW (31%) believe they will live at home until they find somewhere to buy. SA and NT residents living at home are the least adventurous of the states with none identifying that they would stay at home to save for overseas travel, compared with 10% for NSW and 11% for WA residents.

Singles (41%) are more likely to want to move out of the family home and are willing to rent first, compared with married or defacto couples (34%), while couples are more comfortable living at home until they buy (42%) compared with 28% of singles.

08. Housing affordability, wages and employment

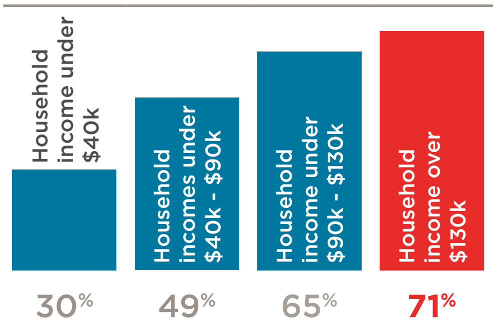
How incomes and employment status compare:

Within the survey, respondents were broken down into four income groups; those in households where income was under $40K, those where household incomes were $40-$90K, those whose incomes were between $90-$130K and those who had household incomes over $130K.

Those with incomes under $40K (55%) are most likely to rent while those on incomes over $90K are most likely to own their own home and have mortgages.

In the survey, those with incomes less than $40K were least likely to work full time (10%) and most likely to not work at all (62%), while 50% of those earning between $40K-$90K worked full time, and 64% of those earning $90-$130K worked full time. Of those earning $130K+, 67% worked full time.

Who owns property?



How important is home ownership?

Work status is a significant indicator of importance when it comes to attitudes towards home ownership. Of those who work full time and who rent or live with parents, 92% stated being able to buy their own home was important, with 59% stating it was very important.

Home ownership increases with household income. In household incomes under $40K, 30% own their own homes, increasing to 65% among household income $90K-$130K up to 71% among households with $130K household income.

Just 30% of Australians with household income of less than $40K a year own their own home with 19% owning it outright and 11% paying off a mortgage. This compares with 52% of people with income between $40K-$90K and 65% of those earning between $90K-$130K. Home ownership for those with income over $130K is 71%.

A higher household income however, is an indicator of a mortgage with 52% of those earning over $130K paying off a home, while 49% of those earning between $90K-$130K are paying it off.

The higher the income, the greater the importance of owning a home to those who are renting or living with family with 94% of those earning $130K+ believing home ownership is important compared with 90% for $90-130K, 89% for $40-$90K and 86% for under $40K.

Concern about housing affordability

The survey shows that concern about housing affordability is fairly similar across the different income brackets with nearly two-thirds across each category believing housing affordability is worse in some way now compared with last year.

Of those earning less than $40K, 58% feel affordability is worse in some way (including 39% significantly or very much worse) than last year while 60% of those earning between $40-$90K (34% significantly or very much worse) and 67% of those earning between $90-$130K agree (with 33% believing it is significantly or very much worse). Of those with incomes $130K or higher, 65% believe it is now worse in some way with 35% believing affordability is now significantly or very much worse.

Fairly similar numbers believe that affordability will be worse next year. A total of

54% of those earning less than $40K believe housing affordability will be worse in some way next year, compared with 61% of those earning $40-$90K, 62% of those earning $90-$130K and 59% of those earning $130K+.

What are the obstacles to housing affordability?

Perhaps unsurprisingly, employment status is a strong dictator of the level of concern Australians have about obstacles to housing affordability. While only a third of those working full time felt that employment certainty and meeting repayments were impediments, those who worked part time or not at all found them to be larger issues.

The survey found that 47% of those working part time, and 46% of those not working believed employment certainty was a large or huge impediment to affordability, while meeting repayments was an issue for 41% of those who work part time and 43% of those not working.

For those on incomes less than $40K, the biggest impediments to housing affordability were having the deposit and getting loan approval with 56% of respondents nominating each of these issues, followed by certainty of employment (51%) and meeting repayments (49%). For those on incomes between $40K-$90K, the biggest impediments were having the deposit (48%) and paying stamp duty (43%), followed by certainty of employment (42%).

At the higher end, the impediments identified by those earning between $90K-$130K were foreign buyers in the market (42%) followed equally by the cost of stamp duty and having the deposit (39%) and finally certainty of employment (34%).

For top income earners over $130K, the impediments were perceived equally as foreign buyers and stamp duty (46%) followed by having the deposit (36%) and certainty of employment (34%).

Obstacles by level of income

Having the deposit as a housing affordability impediment*

Interest rates as a housing affordability impediment*

Certainty of Employment as a housing affordability impediment*

Meeting repayments as a housing affordability impediment*

Foreign buyers as a housing affordability impediment*

Getting loan approval as a housing affordability impediment*

Stamp duty as a housing affordability impediment*

*Large or huge impediment

Selection factors and concessions to enable home ownership

Moving further away from work is one of the least desirable options for those earning under $40K as an option to make housing more affordable with just 19% saying they would consider it, compared with 30% for those earning $40K-$90K and $130K+ and 33% for $90K to $130K.

The higher the household income, the greater the importance of being close to the city and employment. The survey found 54% of those earning $130K+ felt that proximity to work was important, compared with just 30% of those earning less than $40K. In addition, 50% of those earning above $130K said proximity to the city was an important factor, compared with 35% of those earning less than $40K.

The higher the wage, the less likely the belief government assistance was necessary to help renters buy their first home with just 33% of renters with salaries over $130K believing government assistance was required, compared with 42% of those with salaries under $40K.

However, those renting on higher salaries of $130K plus were more likely to expect parental assistance, either through an inheritance or their parents buying them a house (34%) compared with 26% of those earning under $40K.

The higher the income, the more likely that those who currently rent will consider purchasing an investment property as a first step with 50% of those earning $130K+ considering this as an option (15% definitely) which scaled down to 32% of those earning less than $40K (11% definitely).

Affordability and payment stress

The lower the income, the more likely homeowners are to suffer from mortgage stress. The survey shows 35% of those earning less than $40K are currently struggling with their interest payments, in comparison to just 6% for those earning between $40K up to $130K and just 5% for those earning over $130K.

Low earners are also therefore most at risk of interest rate rises with more than half (51%) stating they would struggle with interest rate rises between 0-1% compared with 19% for those earning $130K+.

Should interest rates rise up to 2%, the survey indicates that 77% of low income earners would have gone into mortgage shock, with 61% of those earning $40K-$90K struggling to make repayments. Higher income brackets fare less badly with 49% of those earning $90K-$130K having difficulty and 44% of those earning $130K+ struggling.

Of those who work full time and rent, the largest proportion (34%) are able to raise a deposit of between 0-9% with 27% able to raise a deposit of between 10-19%.

Best strategies for improving affordability

Removing or reducing stamp duty is the best strategy for addressing housing affordability according to the nearly two thirds of residents at all salary levels with 71% of those earning less than $40K believing this would assist, compared with 75% of those earning $40K-$90K, 71% of those earning $90K-$130K and 74% of those earning $130+.

Government grants for first home buyers are also favoured by this category – although support wanes slightly with higher salaries - with 73% of those earning less than $40K favouring this strategy, compared with 76% for those earning $40-$90K, 69% of those earning $90K-$130K and 67% of those earning $130K+.

Creating more jobs in areas that have lower priced housing is also seen as worth pursuing for 68% of those earning less than $40K, 67% of those earning $40K-$90K but only 61% of those earning $90K-$130K. The initiative is supported by 64% of those earning $130K+.

a. Is apartment ownership more realistic?

The research confirms the overwhelming majority of Australians live in houses (72%) and while they are an increasing proportion in some states, apartment dwellers make up just 15% of the population. Add to that duplexes and townhouses and the number of people living in shared title accommodation is still small at 28%.

Despite their lower prices compared with houses, the data shows that apartments are still significantly more expensive and harder to afford than 15 years ago. The price to income ratio of apartment ownership is currently 6.6x income for units now compared with 4.8x 15 years ago.

The new survey shows however that despite the generally cheaper price point of apartments when compared with houses, apartment dwellers are even more sensitive to the impediments of ownership than those who live in houses, are more likely to perceive impediments to ownership, are gloomier about affordability changing for the better and are more concerned about their next move.

This is possibly why fewer renters who live in apartments see home ownership as important as those who live in houses - 91% of those who rented a house stated home ownership is important (57% very important) in comparison to 86% of those renting apartments (50% very important).

The research identifies that raising the deposit is one of the biggest impediments to apartment dwellers with 52% stating it a large impediment to ownership, compared with 42% of those who live in houses.

Apartment dwellers are also most likely to feel that foreign buyers are an impediment to affordability with 50% feeling this is a factor, compared with 41% of people who live in houses.

Other concerns held by apartment dwellers ahead of those who live in houses are worries about investors in the market being an impediment to affordability with 45% of apartment dwellers concerned compared with 34% of those who live in houses, and the belief that negative gearing benefits are an issue with 37% of those who live in apartments rating it as a concern compared with 28% of those who live in houses. Meeting repayments are also concerns for a greater proportion of apartment dwellers with 42% stating interest rates are a large or huge impediment to housing affordability. This compares with 37% for those who live in a house.

And while 34% of residents who live in houses believe that meeting repayments is an impediment to housing affordability, this number jumps to 47% of those who dwell in apartments. Equally, getting loan approval is also more of an impediment to those who live in apartments with 46% of apartment dwellings saying finance is an impediment, compared with 36% of those who live in houses.

Apartment owners are also more anxious about their next move. While 76% of property owners are concerned to some extent about being able to afford what they want and need for their next home move, this number jumps to 88% of apartment owners. The research shows 41% of those who live in an apartment are very concerned that they might not be able to afford their next family home, compared with just 20% of house owners.

This is possibly because those who live in apartments are more concerned about affordability with 43% claiming properties are less affordable now than they were a year ago, compared with 33% of those who live in houses.

The research also shows that people who live in apartments have slightly different priorities to those who live in houses when it comes to property selection. While price was identified by 80% of those who lived in houses as the most important factor when deciding to buy, only 73% of apartment dwellers nominated price. Apartment residents were more likely to nominate distance to the city as an important factor (45%) compared with those who lived in houses (34%).

People who rent an apartment are also less likely to believe government assistance could help them with just 34% believing the government should play a role, compared with 42% of those who rent houses.

b. Home ownership: a team sport

Owning a property – or more to the point, owning a mortgage - is a stress best shared, insights from the research reveal, with anxiety levels of singles significantly higher than those of couples across key decision points.

Couples who own property are slightly less concerned about being able to afford their next home than singles with 74% of married or defacto couples concerned while 80% of singles are concerned.

Meeting repayments is regarded as a large or huge impediment for 42% of singles, but just 33% of couples, while getting a loan is also more stressful done solo with 43% of singles stating it was a large or huge impediment compared with 34% of couples.

Having a plus one to fall back on is also a reassurance with 39% of couples stating employment certainty was an impediment while 44% of singles sweat it out.

Offence at government duties however are amplified for couples with 47% of married/defacto believing stamp duty is an impediment to housing affordability compared with 39% of singles.

Singles are more likely to consider purchasing with family or friends (22%) compared with 13% of married or defacto couples and 36% of singles would consider moving into an apartment rather than a house, compared with 33% of couples.

09. Options to fix housing affordability

Housing affordability cannot be fixed with a single action. Australian households have more than half their wealth tied up in the residential housing sector and about 70% of their debt is housing related.[10] The desire to improve housing affordability needs to be balanced with the knowledge that a downturn in housing values would likely result in less household consumption and impact negatively on economic growth and Australian retirement assets and no solution can be implemented without careful economic and statistical modelling.

Below is a summary of policy initiatives that are part of the debate:

A COORDINATED APPROACH

Residential real estate is Australia's largest asset class worth an estimated $7.0 trillion – far outstripping superannuation at $2.2 trillion and listed stocks at $1.8 trillion[11]. A coordinated and cooperative approach across different government levels and sectors is one of the greatest challenges to housing affordability. Options in this space include making housing policy a prominent and permanent part of the COAG (Council of Australian Governments) agenda and the appointment of a Federal Housing Minister who is tasked with formulating and executing a cross-jurisdictional housing strategy. These initiatives should be matched with a strategy that blends land release, zoning changes, infrastructure development and decentralising employment opportunities into areas where housing costs are substantially lower, and counterpart roles within state governments, as well as broader coordinated town planning strategies for major metropolitan areas.

INCREASE SUPPLY

Reduce or remove stamp duty

Buyers pay stamp duty to state governments to cover the costs of property transfers. In Sydney and Melbourne, based on median sales prices these taxes regularly add close to $35K and more to the cost of buying a house. When property prices are over $1.5m - not an uncommon price for a house in inner city Sydney - stamp duty costs jump to $68K.

This makes stamp duty a major up front barrier to buyers, especially when combined with the lump sum of saving for a deposit. It is also a deterrent to the decision to sell properties within inner city areas in particular, which affects housing supply, pushes up prices and detracts from the efficient transfer of housing stock across generations.

Removing or reducing stamp duty addresses this barrier, however, it is a lucrative tax to state governments who benefit when either market volume is high, or property prices rise, and significant state budget shortfalls would be experienced without it.

Release more land for housing

State governments have the power to release additional land for housing which can increase supply of new dwellings. However, these are usually on urban fringes and require significant investment in infrastructure for roads, schools, shops and public transport. This must also be managed and requires coordination and funding from federal government as well as significant contributions from private sector developers who ultimately pass these costs on to consumers.

Invest in transport infrastructure

An underinvestment in efficient transport infrastructure projects relative to population growth can be one of the primary contributors to high dwelling values in certain areas because housing demand becomes focused within those areas that are in a convenient location relative to work and essential amenities. This is one of the reasons why growth rates are so disparate between the Australian capital cities and regional areas.

Encourage more owner-occupier apartment development

There are just over 152,600 units under construction across Australia[12] – 85% more than the decade average and virtually double the 30 year average. With much of this stock being high rise units, and the majority being one and two bedrooms, this kind of housing

[10] RBA household finances – selected ratios (http://www.rba.gov.au/statistics/tables/xls/e02hist.xls?v=2017-04-26-20 to 41-28)
[11] CoreLogic 2017
[12] Australian Bureau of Statistics Building Activity December 16

development is more suited to investors and consequently rental markets rather than families.

Zoning and planning laws are controlled by local government which can make it difficult for state and federal governments to affect change in this space with any kind of uniformity. Nevertheless, state governments can play a role through legislative frameworks to encourage development along, for example, growth corridors, while federal government can create tax incentives for developers to create more affordable and social housing.

REDUCE DEMAND

Change negative gearing policies to reduce investors in the market

Investors have historically comprised of 33% to 40% of housing demand however the latest data from the Australian Bureau of Statistics shows investors comprised closer to 50% of new mortgage demand nationally.[13]

Actions that reduce the numbers of investors in the market need to be carefully managed as they affect the availability and therefore cost of rental accommodation. Additionally as the nation moves through an unprecedented 'boom' in apartment construction, investors play a critical role in absorbing new unit supply and ensuring off the plan sales transition smoothly to settlement.

Discussion has focused around limiting negative gearing for new property purchases only. The latest Australian Taxation Office data[14] show 9.7% of all tax payers incurred a net rental loss over the 2016 financial year and are therefore likely to be using a negative gearing strategy.

While negative gearing is widely believed to be responsible for the influx of investors into the market, low interest rates, a 50% capital gains tax concession on properties held for at least 12 months, an uncertain stock market and the ability of self-managed superannuation funds to purchase property

[13] Australian Bureau of Statistics Housing finance February 17
[14] ATO 2015

have all played a role in increasing the number of investors who have seen value in moving money into property.

Reduce foreign ownership

Foreign investors can only purchase new property under foreign ownership laws, unless they have residency, in which case a decision to leave Australia impels them to sell. According to Foreign Investment Review Board data, 36,841 approvals (7.4% of sales in the market) were made in the 2014-2015 financial year[15], which is the latest available data. Of these, mainland Chinese buyers made up 40% and the largest proportion of foreign buyers.

Reduce overseas migration

It's not a coincidence that Victoria and NSW have the highest growth in dwelling values as both states have solid upward trends in net overseas migration because of the high number of overseas migrants who move to these cities, attracted largely by job opportunities in Melbourne and Sydney. While reducing migration could ease housing availability, reducing the numbers of skilled migrants entering Australia would have equal if not greater economic consequences as our birth rates are not high enough to sustain an ageing population.

A better solution is to increase job opportunities – for both locals and migrants. More businesses and government departments located outside of the largest metropolitan areas would help to attract larger populations to regions where housing prices are typically substantially lower. State governments can offer taxation incentives to businesses to establish themselves in key areas.

OTHER OPTIONS

Incentives for first home buyers

Incentives to encourage first home buyers have been popular across the states however the policies largely have had mixed effects. Freeing up of cash for first time buyers can increase demand and without equal measures to improve supply drive prices up at the lower end of markets. Likewise, new versions of

[15] CoreLogic, FIRB 2015-2016

such a policy, such as making superannuation savings available to first time home buyers would have similar effects without additional measure to increase supply.

Change tax regimes

Currently, no tax is paid on the sale of a primary residence making home ownership one of the most significant tax breaks available to Australians. Capital gains tax is a federal tax payable on the sale of investment properties and land tax differs across states but typically applies for subsequent properties after the primary residence. Changing any of these levers are options to governments that would have an impact that would affect housing supply and demand and require closer modelling on a state by state basis.

NEW FUNDING MODELS FOR AFFORDABLE HOUSING

As purchasing property becomes increasingly unobtainable for a greater number of Australians, the burden falls upon the rental market. The federal government is currently considering four new potential models to increase finance available to supply affordable housing[16]. These include the creation of housing trusts, the creation of housing loan/bond aggregators to attract greater investment, encouraging housing cooperatives and a new form of financing called 'impact investing' that seeks to address a shortage of affordable housing.

[16] SMH 2017

a. How does Australia's housing affordability compare internationally?

Australia consistently ranks as one of the least affordable countries in the world for housing. The annual Demographia International Housing Affordability Survey states our five capital cities rank within the top 20 least affordable cities in the world while only 4 of our 54 property markets across the country ranked as affordable.

According to the Demographia research, Australia ranks in the top 3 of unaffordable national markets with only Hong Kong and New Zealand are less affordable.

The research uses a system of median multiples to determine affordability where the median house price is divided by median household income. Using this model, a ranking of 3.0 and under is regarded as affordable, while a ranking of over 5.1 is deemed severely unaffordable.

Demographia ranks Australia's affordability at 6.6 putting it in the category of severely unaffordable, compared with Hong Kong at 18.1 and New Zealand at 10.1. Internationally, Demographia ranks Sydney as the second least affordable city for housing in the world with a median multiple of 12.1 behind Hong Kong, with Melbourne with a median multiple of 9.5 the fifth least affordable. Adelaide was ranked 16th, Brisbane 18th and Perth 20th.

The United States has the most affordable housing with a median multiple of 3.9 which it ranks as moderately unaffordable. In comparison, Japan has an average multiple of 4.1, the United Kingdom 4.5, Canada 4.7 and Singapore 4.8.

The survey states that a lack of affordable housing has serious consequences for residents by reducing discretionary incomes and affecting standards of living.

Of the 54 property markets identified in Australia by Demographia, 33 are severely unaffordable, while 14 are seriously unaffordable. Only 4 of the 54 markets are affordable and these are all in mining towns which the survey highlights could skew the results.

Demographia flags that Sydney's median multiple has risen 60% since the first survey was conducted in 2004. Over the past two years, Sydney has represented the poorest housing affordability ever recorded outside Hong Kong.

10 Least Affordable Major Housing Markets

Rank: Least Affordable	Affordability Rank (Out of 92)	Nation	Housing Market	Median Multiple
1	92	China	Hong Kong	18.1
2	91	Australia	Sydney, NSW	12.2
3	90	Canada	Vancouver, BC	11.8
4	89	N.Z.	Auckland	10.0
5	88	U.S.	San Jose, CA	9.6
6	87	Australia	Melbourne, VIC	9.5
7	86	U.S.	Honolulu, HI	9.4
8	85	U.S.	Los Angeles, CA	9.3
9	84	U.S.	San Francisco, CA	9.2
10	83	U.K.	Bournemouth & Dorset	8.9

Source: Annual Demographia International Housing Affordability Survey: 2017

10. Conclusion

Affordable home ownership is a dream held onto tightly by every generation of Australians, but the research shows that for growing sections within our society, owning a home is becoming an insurmountable challenge.

Without action, owning a place of your own – regardless of whether it's a house or a unit – will be out of reach for Australians who are younger, working part time, earning average wages, or living in key states. Increasingly, home ownership is becoming the premise of the rich, the older and the lucky.

Despite our huge size as a country, our centralisation around major working areas has focused housing demand within close proximity to the largest capital cities, which has in turn reduced affordability around city centres. A lack of sufficient transport linkages to outer lying areas detracts from their desirability despite their more affordable housing profile. A lack of job opportunities in rural areas has in turn limited their growth.

Australia's federated political structure makes it harder to address the issue of housing affordability, with legislative (and tax) structures, split across councils, states and federal government. But address it, we must.

Australian households have more than half their wealth tied up in the residential housing sector and about 70% of their debt is housing related. Placing housing on the agenda of COAG is a logical first step to creating cooperation and coordination between federal, state and local governments combined with the appointment of a Federal Housing Minister who is tasked with formulating and executing a cross-jurisdictional housing strategy.

Changes in taxation structures around housing, including how states are compensated for stamp duty revenue or removing the tax burden from 'buying' and replacing it with ownership could play a significant role in decreasing up front barriers and freeing up supply.

These could be key elements for discussion across state and federal ministers combined with solutions to address the balance of both local and foreign investment purchases, improving town planning and decentralising employment and infrastructure. All options would require significant economic and statistical modelling to identify the best outcomes and allow policy decisions to be made with confidence.

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