

## AUSTRALIA

### MACROECONOMIC BACKGROUND

The Australian economy accounts for about 1% of total world GDP. The economy has been one of the most successful of the developed economies in recent years and has grown at an average rate of 4% per annum over the last decade. Interest rates in Australia have more than halved since the beginning of the 1990s, inflation has remained modest and unemployment has been falling. Australia's output in 2004 was estimated at A\$835 billion (US\$ 650 billion) and GDP per head (in PPP terms) at US\$29,000.

### DEMOGRAPHICS

The population of Australia was estimated at just under 20 million in 2003 – approximately 0.3% of the world population. The population is ageing. The median age was 35 years in 2001 compared to 34 years in 1996. A comparison of the 1996 and 2001 Census shows that proportion of the population in the oldest age group is growing while the proportion in the youngest is shrinking.

The total number of households was estimated at 7.8 million in September 2004. 2001 census data estimates the average household size at 2.6. In common with much of the rest of the world household sizes are decreasing. The average household size was 3.3 in 1971 and this fell to 2.7 in 1996 as the proportion of lone person households increased to 22.9%, from 22.1%.

### HOUSING MARKET

The total number of occupied private dwellings was estimated to be about 7.7 million in 2004, although 2001 Census data suggests that this may be a slight overestimate. The owner occupation rate according to the 2001 Census and based on occupied dwellings was 66.2% and 40% of these own their homes outright. Private rental accommodation accounts for 25% of tenure and social rental, 5%. Owner occupation rates based on households rather than occupied dwellings are slightly higher at 68.5%. Higher home ownership is in the older age categories as expected, but ownership rates in the 25-44 years age categories have been falling since the mid 1980s.

On average about 145,000 homes were started in each of the last 10 years including a trough in 1996. Since then construction levels have been stronger reflecting strong housing demand from both owner-occupiers and buy to let purchasers. Over the same period, the total number of dwellings increased at an average rate of 1.7% each year, while the number of households rose by 1.6%.

House prices have been booming in Australia since the mid 1990s with an average annual growth rate over the last 10 years of 8%. In 2003 this reached almost 20%, but there are now some signs of slowing. This growth is significantly above the general rate of inflation, and well above the growth in household incomes. High demand has fuelled house price inflation and has been driven by low mortgage rates, which fell from 15% at the end of 1990 to about 7% at the end of 2004. In addition fierce competition among mortgage lenders has also led to falls in loan rates. Australia has also seen a big increase in investment in second properties for rental, which put further pressure on demand and hence prices.

### HOUSING FINANCE

Total residential mortgage debt to GDP ratio in Australia increased massively in the last decade. The ratio was 73.6% in 2004 compared to 35.4% in 1995. This compares to the EU ratio of about 45% and the US ratio of about 70%. The total value of outstanding mortgage loans in Australia at the end of November 2004 was A\$ 614 billion (US\$ 480 billion). The value of mortgage debt outstanding increased at an average rate of 15% per annum – or by 220% in total - in the last decade.

Overall household debt as a proportion of household disposable income increased from 73% in 1993 to almost 134% ten years later. This is higher than America (116%) but still behind the most indebted European country the Netherlands (196%). Housing debt accounts for about 83% of total household debt in Australia and average residential mortgage debt per household was estimated at about A\$76,000 (US\$ 60,000) in 2004 compared to only A\$25,000 (US\$ 19,400) ten years earlier. Affordability has been deteriorating as prices increase. Interest paid on a mortgage accounted for about 6.4% of disposable income in 2003 compared to 4.4% in 1993.

Borrowing for owner occupation accounts for most residential mortgage lending, but there has been a significant growth in buy to let borrowing over the last ten years. Mortgage debt for investment in housing now accounts for about 30% of the total stock of housing loans compared with about 18% ten years ago. The average rate of growth of this type of borrowing over the last ten years is over 20% compared to about 13% for borrowing for owner occupation.

Mortgage commitments increased strongly throughout the 1990s and are estimated to have reached a record A\$120 billion (US\$ 93 billion) in 2004. Refinancing and loans for investment housing have been a big boost to this. Refinancing accounted for more than a quarter of lending in 2004, compared to less than 10% in 1992. Equity withdrawal has also been important in Australia, rising consistently and in line with the rise in real house prices, it accelerated since the mid 1990s. Availability of finance has been a major factor in the growth of lending for investment in property. The market has developed to facilitate this by removing interest rate penalties and making low-equity and interest only loans readily available. Competition has led to product innovation such as flexible loans, 100%+ and self-certification loans which have also helped the market to expand. Deposit bonds are another innovation that has helped those getting into the property market by reducing the initial outlay. Under this system an insurance company guarantees that the deposit will be paid at completion, rather than exchange, thus eliminating the need for the purchaser to raise a deposit in advance.

Most loans above 80% LTV (and below 95%) have mortgage insurance which then covers the full value of the home. Prudential regulations require loans above 80% to have insurance if they are to qualify for the concessional capital adequacy requirements for residential loans on the lenders' balance sheets. The typical loan term is 25 years.

Since 1996 the number of companies offering mortgage loans has increased by about 50% to 140, but the market is concentrated with 70% of the market held by the five largest banks, 4% by building societies, 6% by credit unions.

Securitisation is increasingly used and accounts for almost 20% of all outstanding mortgages, but more interestingly mortgages now account for approximately 75% of all securitised assets in 2004 compared with 60% (of a much smaller market) in 1990.

## **GOVERNMENT POLICY AND OBJECTIVES**

The housing finance market was deregulated mid 1980s and government involvement in finance is now only through prudential regulation. As in many other countries, housing policy in Australia has moved away from supply side measures through the direct provision of public housing to demand side responses offering assistance to homebuyers and rental assistance. First Home-Owners Grant scheme (FHOG) provides A\$7,000 (US\$5,400) to all first home-buyers regardless of income. Some states also run additional grants for housing purchase.

There is a regulatory limit on the LTV ratio of 80% but this increases to 100% if there is insurance.

Stamp duty is payable on both the mortgage contract (up to 0.4% of the amount borrowed) and the sale of a property (up to 5.5% of the higher of the price paid or the market value of the property). On a median priced home in Sydney it was the equivalent of 15% of annual income in 1995. By 2003 it was more than 30%.

Capital gains tax on privately rented housing has recently been changed by shifting the tax from real to nominal gains and limiting it to 50% of the gain. Investors in Australia are also allowed to offset housing related costs in excess of the rental income against their overall income tax liability. This is called negative gearing and it can apply to investment in equities as well as rental property.

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## SUMMARY DATA FOR AUSTRALIA 1994-2004

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Real GDP growth	3.6%	3.0%	3.8%	2.5%	3.2%	4.3%	5.2%	3.9%	4.3%	3.5%	4.9%
Unemployment rate	5.7%	6.1%	6.4%	6.8%	6.3%	6.9%	7.7%	8.2%	8.2%	8.2%	9.4%
Consumer Price inflation	2.8%	2.8%	3.0%	4.4%	4.5%	1.5%	0.9%	0.3%	2.6%	4.6%	1.9%
Residential mortgage debt outstanding, A\$ billion	614.5	539.8	448.1	384.4	330.3	280.5	243.4	216.1	192.0	172.3	152.9
Residential debt /GDP Ratio	73.6%	69.2%	60.9%	55.5%	50.7%	46.3%	42.2%	39.6%	37.1%	35.4%	33.2%
Residential mortgage debt per household A\$	79,223	70,422	59,390	51,763	45,194	39,023	34,427	31,038	28,089	25,655	23,127
No Households, millions	7.8	7.7	7.5	7.4	7.3	7.2	7.1	7.0	6.8	6.7	6.6
Home ownership rate				68.5%					67.8%		
House price index (1990=100)	249.7	228.3	193.2	163.8	147.2	135.9	126.8	118.1	113.5	112.7	111.3
Annual house price growth	8.2%	18.2%	18.0%	11.2%	8.3%	7.2%	7.4%	4.0%	0.8%	1.2%	3.6%
Typical LTV	62.5%	58.1%	60.9%	61.8%	58.6%	68.6%	67.6%	64.9%	63.2%	63.7%	59.0%
Number of private dwellings,000s	7,754	7,625	7,498	7,498	7,072	7,127	7,015	6,910	6,762	6,668	6,579
Housing starts (000s)	167,565	163,580	170,140	133,948	141,797	152,145	146,160	135,163	116,486	131,011	179,557
Mortgage interest rates	7.0%	6.5%	6.3%	6.7%	7.6%	6.5%	6.6%	7.2%	9.6%	10.3%	8.9%
Mortgage commitments A\$ million	120.8	99.8	88.3	70.2	71.5	55.7	53.1	46.3	41.4	48.0	41.5
Refinance share	26.9%	25.2%	21.8%	19.0%	18.8%	15.3%	16.7%	18.7%	21.3%	17.2%	13.2%
MBS outstanding A\$ billions	122.5	98.6	75.5	59.3	43.7	34.0	25.5	18.0	10.7	6.4	4.7
Exchange rate US\$ per A\$1	0.78	0.75	0.57	0.51	0.55	0.65	0.61	0.65	0.80	0.75	0.78

Sources: Australian Bureau of Statistics, Reserve Bank of Australia, IMF

### Notes:

1. Outstanding debt includes securitisations; 2. Refinancing of loans for owner occupation only; 3. Lending rates for loans to owner-occupiers; 4. Mortgage interest rates - building society standard rate; 5. Lending commitments reflect 95% of the market; 6. House price index to Q3 2004. 7. House price growth and housing starts for 2004 are for the year to Q3; 8. Private dwellings estimated on Australian Social trends data up to 2000 and 10-year growth trend. 2001 census data suggests a lower number estimate based on of 7,072 occupied dwellings in 2001; 9. Owner-occupation rates are on a household basis and denominator includes other and unknown tenures.

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