



Australian Social Trends 2007

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SYMBOLS AND USAGES

billion	1,000 million
kg	kilogram
m	metre
n.a.	not available
n.e.c	not elsewhere classified
n.p.	not published
n.y.a.	not yet available
no.	number
'000	thousand
'000m	thousand million
\$	dollar
\$m	million dollars
\$b	billion dollars
\$US	American dollar
%	per cent
*	estimate has a relative standard error of 25% to 50% and should be used with caution
**	estimate has a relative standard error of greater than 50% and is considered too unreliable for general use
. .	not applicable
—	nil or rounded to zero (including null cells)

Where figures have been rounded, discrepancies may occur between the sums of the component items and totals.

Wealth in homes of owner-occupier households

In 2003–04, owner-occupier households had on average \$297,000 net equity in their homes, up 68% on the 1994–95 average.

Housing is a key component of individual and family wellbeing. In addition to being a place where family and friends can gather, housing is important for a sense of security and privacy. One significant aspect of security is the wealth in the homes of owner occupiers.

The wealth of households increases as the wealth (or equity) in the homes of owner occupiers increases through paying off outstanding housing loans, and/or as property values rise. In 2003–04, the primary residence was, on average, the most valuable asset of owner-occupier households, with the net value of owned homes accounting for an average of 55% of the net worth of those households.

This article analyses the change in the level of equity in owner-occupied dwellings, for owners both with and without a housing mortgage, over the 1994–95 to 2003–04 period. Changes in the house price index are also examined to give a capital city picture of recent trends in dwelling values.

Trends in home equity

In 2003–04, 70% of households owned their homes either with or without a housing mortgage, around the same proportion as in 1994–95 (71%). Despite the proportion of owner-occupied homes being owned without a housing mortgage declining over that period (from 60% to 55%), the level of home equity among owner-occupier households has increased markedly in real terms. In 2003–04, the mean equity of all owner-occupied homes

Data sources and definitions

The majority of data in this article are drawn from the ABS 1994–95 and 2003–04 Surveys of Income and Housing (SIH). Dollar values from SIH prior to 2003–04 have been adjusted to 2003–04 prices.

An *owner-occupier* household is a household in which at least one member owns the dwelling in which they reside, either with or without a housing mortgage on that dwelling.

Equity in the dwelling is defined in this article as the value of the dwelling (i.e. estimated sale price) minus the amount owing on any housing mortgages or loans with the primary purpose of buying or building, or adding to or altering the dwelling, or for other housing purposes. It does not include amounts owing on mortgages that are only for other purposes such as consumption or investment. The estimated sale price of dwellings was provided by owners in the SIH and estimates may differ from valuations by accredited valuers or the actual sale price.

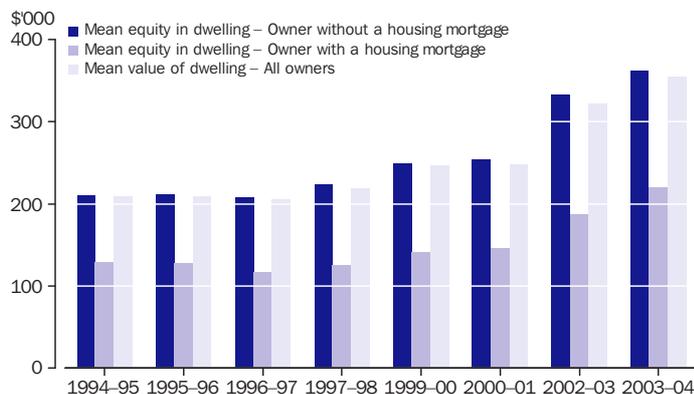
The equity, debt and value of dwellings measures in this article refer to the primary residence of each household. These measures are restricted to owner-occupier households only, where owners may be outright owners or owners with a housing mortgage.

was \$297,000, up 68% on the 1994–95 level (\$177,000). For owners without a housing mortgage in 2003–04, the mean home equity increased to \$361,000 (up 72% from \$210,000 in 1994–95), while for those with a housing mortgage, the mean equity increased to \$220,000 (up 72% from \$128,000 in 1994–95).

The increase in home equity over the period is due to the increase in the estimated value of dwellings, which has been only slightly offset by the rising cost of mortgages. Between 1994–95 and 2003–04 the mean estimated value of owner-occupied homes in Australia increased in real terms from \$209,000 to \$355,000, an average growth of 6% per year. The mean estimated value of homes held by households who had a housing mortgage (\$348,000) was lower than those who owned their homes outright (\$361,000).

The average amount of principal owed on the homes of owners with a housing mortgage increased by 61% between 1994–95 and 2003–04, less than the 72% increase in equity over the period. The slower rate of increase in the principal outstanding on homes owned with a housing mortgage is in part a reflection

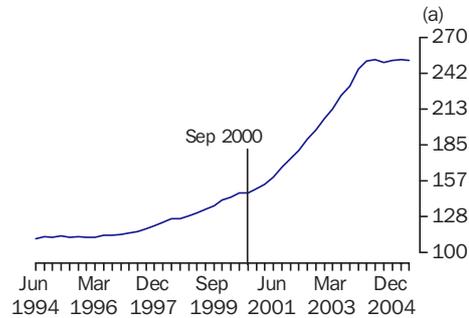
Mean equity in and estimated value of dwelling(a) by owner type



(a) Adjusted to 2003–04 prices.

Source: ABS Surveys of Income and Housing.

Established house price index, June 1994–June 2005



(a) Base year for index: 1989–90 = 100.

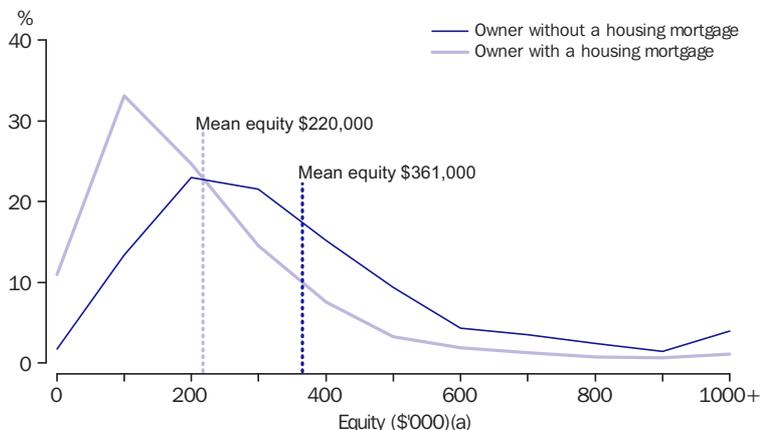
Source: *House Price Indexes: Eight Capital Cities* (ABS cat. no. 6416.0).

of the fact that most (85%) home owners with a housing mortgage in 2003–04 bought either their current or a previous home before September 2000. After this date the annual rate of increase in the established house price index increased sharply for around three years.

Distribution of equity

As with overall household wealth, the level of equity that owner-occupier households have in their homes is not evenly distributed across households. In 2003–04, 41% of all households had less than \$200,000 in home equity, while 23% had equity of more than \$400,000.

Owner-occupier households: distribution of home equity — 2003–04



(a) Equity plotted in \$100,000 ranges where the data point represents the midpoint of each range.

Source: ABS 2003–04 Survey of Income and Housing.

Established house price index

The established house price index (EHPI) data are from *House Price Indexes: Eight Capital Cities* (ABS cat. no. 6416.0). The EHPI provides a measure of price change for the stock of established houses, including the land component, in the eight capital cities. It is expressed as an index, with a selected base year set to 100.0. Differences in the price in subsequent years from the price in the base year are expressed as an index number equivalent to 100 plus or minus the percentage change from the base year. Price changes therefore relate to changes in the total price of both the dwelling and the land.

It is important to note that the EHPI can only be used to compare the rate of change in prices among capital cities and not differences in the price levels. In this article, movements in the EHPI are calculated and presented as a percentage change. Percentage change is used to compare movements in house prices that are independent of the level of the index.

For more information on how the house price index is derived and what it means, see *A Guide to House Price Indexes, Australia, 2006* (ABS cat. no. 6464.0).

More than half (58%) of owners with housing mortgages had home equity of less than \$200,000, compared to just over a quarter (27%) of owners without housing mortgages. Very few owners with a housing mortgage (2%) had home equity of \$750,000 or more, compared with 8% of owners without a housing mortgage.

...across age groups

Because older people are more likely to have paid off a greater proportion of their mortgage or be outright owners than younger people, equity tends to increase with age. In 2003–04, younger households (with a reference person aged less than 35 years) were the least likely of all age groups of home owners to own their home without a housing mortgage, with 12% being outright owners. Households with a reference person aged under 35 years also had the lowest mean equity of all age groups (\$164,000). Those in the 55–64 years group had the second highest rate of outright ownership (78%) and the highest mean equity (\$365,000). In the older age group (aged 65 years and over) the relationship between increasing age and mean equity did not hold. Despite having the highest level of outright home ownership at 97%, the mean equity for older householders was \$342,000, \$23,000 less than the 55–64 years group.

The lower equity in their homes of households with a reference person aged 65 years and over reflects the lower value of their dwellings on average. This may be related to

the smaller size of their dwellings (averaging 2.8 bedrooms, compared with the average of 3.0 for all households) and also the higher proportion of home owners of this age living outside the capital cities (42% compared with 37% for all other home owner households).

For owners with a housing mortgage, younger households aged under 35 years had the lowest mean equity of \$147,000, while households aged 65 years and over had the highest mean equity at \$310,000.

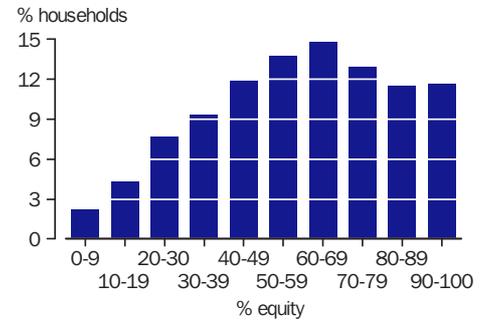
Among owners without a housing mortgage, the lowest mean equity (\$286,000) was in the households with a reference person aged less than 35 years, while the highest was in the age group 55–64 years (\$390,000). In the older population (aged 65 years and over), mean equity was less (\$343,000) than for all other age groups older than 35 years.

Relative equity and gearing

While the value of equity in the home has increased considerably for owner-occupier households in real terms over the period from 1994–95 to 2003–04, the amount of equity relative to the estimated value of the home (i.e. relative equity) has remained largely unchanged. In 2003–04, owner-occupier households held an average equity of 81% of their homes' estimated value, compared with 82% in 1994–95.

The relative equity for owners with a housing mortgage increased slightly, from an average of 57% in 1994–95 to 59% in 2003–04. Nearly two-thirds (65%) of home owners with a housing mortgage in 2003–04 held more than 50% of the estimated value of their home in equity, 12% held at least 90% relative equity, while 2% held less than 10% relative equity.

Owners with a housing mortgage: distribution of relative equity in home — 2003–04



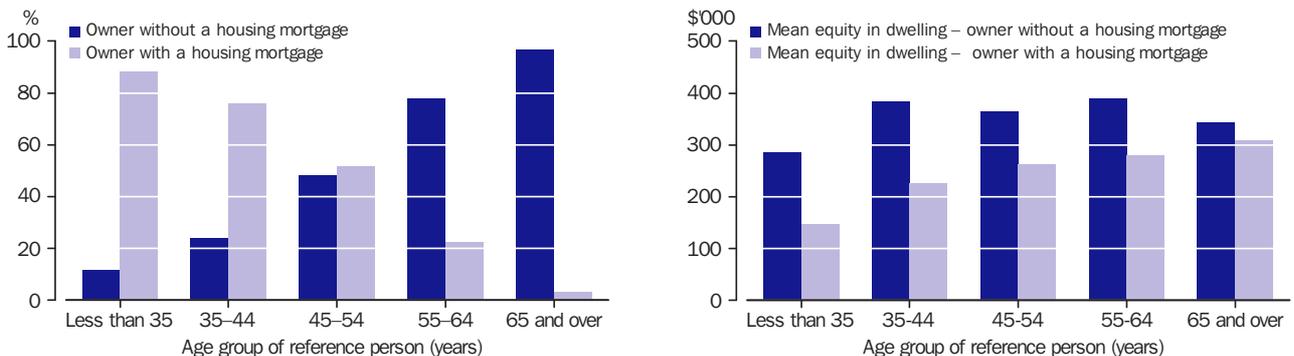
Source: ABS 2003–04 Survey of Income and Housing.

A related concept to relative equity is property gearing, or mortgage debt as a proportion of home value. In 2003–04, the average gearing across all owner-occupier households was 19%. However, for the 45% of owner households with a housing mortgage, the average gearing was 41%. As expected, the younger households (aged under 35 years) with a housing mortgage had higher average gearing of 54%, and older households (aged 65 years and over) with a housing mortgage averaged 17%.

...recent first home buyers

There were 394,000 recent first home buyers in 2003–04, that is, households that purchased their first home within three years prior to the date of interview. All of these households purchased their first home after mid 2000 and 94% held a housing mortgage. Despite the less favourable market for first home buyers, these recent first home buyers with a housing mortgage in 2003–04 had mean equity in their homes of \$102,000. Their homes had an estimated mean value of \$266,000, giving them an average 37% equity

Owner occupier households: Age, tenure type and mean equity — 2003–04



Source: ABS 2003–04 Survey of Income and Housing.

Dwelling equity and values for recent first home buyers(a) with a housing mortgage

	1994–95(b)	2003–04
Equity (\$'000)	57.7	101.9
Equity (%)	30.1	37.1
Estimated home value (\$'000)	170.4	266.3
Households ('000)	175.5	370.2

(a) Recent first home buyers are households that purchased their first home in the 3 years before interview.

(b) Adjusted to 2003–04 prices.

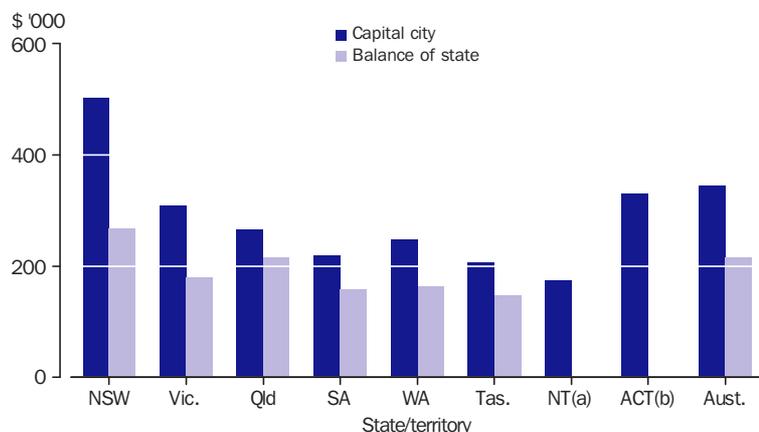
Source: ABS 1994–95, 2003–04 Survey of Income and Housing.

in their home. In 1994–95, the mean equity of recent first home buyers with a housing mortgage was \$58,000 and they held an average 30% of their estimated home value in equity.

Capital city – balance of state differences

While estimated home values and equity have grown strongly overall, there have been geographic disparities among the states and between the capital cities and the states in growth over the nine years to 2003–04. The home equity in capital cities grew 73% between 1994–95 and 2003–04, compared with 53% for households outside the capital cities.

Equity of owner occupier households: Capital city, balance of state — 2003–04



(a) Balance of state not available for NT.

(b) Balance of state not available for ACT. Capital city estimate relates to total ACT.

Source: ABS 2003–04 Survey of Income and Housing.

Mortgages for non-housing purposes

In this article, one of the main components of equity is the amount owing on a mortgage taken out primarily for housing purposes. This includes amounts owing on mortgages that were used to purchase or renovate a home, and for any unsecured loans for housing purposes for the selected dwelling. Also included are portions of housing loans used for non-housing purposes such as consumption expenditure.

In 2003–04, 16% (403,000) of households with a housing mortgage used at least part of their mortgage for non-housing purposes. The mean value of the non-housing component was \$19,300.

Mortgages may also be taken out for a main purpose other than housing. In 2003–04, 5% (265,000) of owner occupied households had a non-housing mortgage. The mean value of these non-housing mortgages was \$64,500 and the mean equity in the dwelling for these households was \$297,000 – the same as for those without such a mortgage. However, for these households, if we were to calculate an alternative measure of equity by also including the amount owing on non-housing mortgages, this equity measure would be much lower at \$232,000.

The mean level of equity for a capital city owner in 2003–04 was \$344,000, \$129,000 more than the equity of home owners in the balance of state (\$215,000).

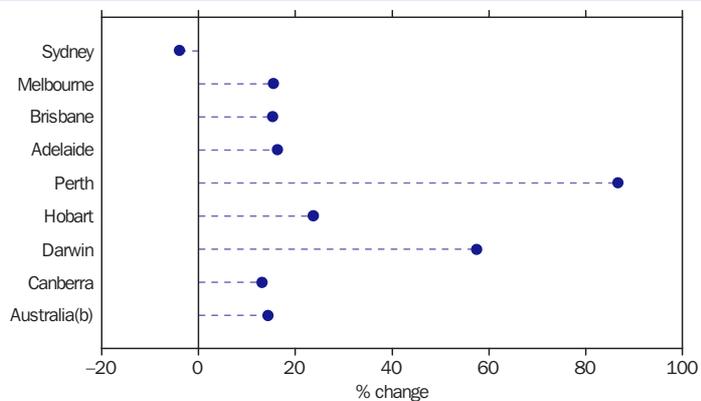
In 2003–04, Sydney had the highest mean equity with \$503,000, followed by Canberra with \$330,000 and Melbourne with \$307,000. Owner occupiers in Hobart and Darwin had the lowest levels of equity among the capital cities in 2003–04 with \$206,000 and \$174,000 respectively. Looking at areas outside of capital cities, Tasmanians living outside of Hobart had the lowest mean equity, at \$148,000 (data are not available for the Northern Territory balance of state).

Recent trends in capital cities

While data on the home equity of owner occupiers for the period since 2003–04 is not currently available, recent trends in the change in house prices from the established house price index may provide an indication of the direction and magnitude of the home equity differentials among the capital cities since that time.

Between June 2004 and March 2007 there is evidence that growth in house prices has slowed in some capitals but has surged in others. The established house price index shows rapid growth in Perth, with an 87% increase over the period, equivalent to an annual average growth of 26%. Darwin house prices also increased considerably, gaining 58% over the same period.

**Percentage change in capital city house price index(a):
June 2004 – March 2007**



(a) Based on established house prices.

(b) Data for Australia is for the weighted average of all capital cities.

Source: *House Price Indexes: Eight Capital Cities* (ABS cat. no. 6416.0).

Sydney was the only capital to record a decrease in house prices over the period (4%). However, this followed the very large gains of the preceding decade in which Sydney house prices grew significantly faster than all other capital cities. Apart from Sydney, most of the remaining capitals had more modest growth in established house prices over the June 2004 to March 2007 period, ranging from 13% in Canberra to 24% in Hobart.

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