



Media release

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Going once, going twice – is the housing dream really over?

Australians are clinging to the dream of buying their own home despite a dramatic drop in housing affordability across all states and a decline in outright home ownership across all demographics, according to a new AMP.NATSEM report on housing.

Income has failed to match the pace of growing house prices, which jumped 400 per cent between 1986 and 2007 while income increased just 120 per cent. According to the report, Australian households needed 7.5 times their annual disposable income to buy a typical house in 2006, up 53 per cent from 1996 when households needed five times annual disposable income.

The report, *Wherever I lay my debt, that's my home*, compares the 1995-1996 situation with the latest available data from 2005-2006. The report shows that between 1996 and 2006, all Australian states experienced significant drops in housing affordability:

- New South Wales is Australia's least affordable state, with homes costing 8.3 times annual disposable household income in 2006, up almost 40 per cent on 1996 figures, while the Northern Territory is the easiest place to buy a house, with house prices just five times median disposable income.
- Western Australia wasn't far behind New South Wales, with housing unaffordability increasing 63 per cent to 7.45 times annual disposable income while Tasmania saw the biggest jump, up 65 per cent to 6.1 times annual disposable income.

According to the report, young Australians are being priced out of the market with only one in 20 Gen Y (15-29 years) households owning a home. Even the older generations are taking more debt into retirement with more than twice as many people aged over 60 still paying off a mortgage compared to the same age group in 1995-96.

"Buying a home has always been a great Australian dream but it is fast becoming out of reach for many. Even those who may have been in the housing market for an extended period are likely to be feeling the strain," Managing Director AMP Financial Services, Craig Meller said.

"As home owners across Australia tighten the purse strings to meet the growing cost of housing we need to ask ourselves if we are wanting too much too soon, before we are able to make the biggest financial commitment in our lives."

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Key Findings

Australia has one of the least affordable housing markets

Out of all English speaking industrialised countries, Australia has one of the least affordable housing markets, with nearly 90 per cent of areas surveyed considered severely unaffordable. Western Australia's Mandurah is one of the most unaffordable places surveyed, ranked sixth, behind centres such as Los Angeles and San Diego. The Sunshine Coast is ranked seventh least affordable while the Gold Coast and Sydney are both ranked 11th.

Home ownership drops across all ages

Over the past decade outright home ownership dropped from 42.9 per cent to 34.3 per cent. The most dramatic home ownership decline occurred for those aged 45-59. Only 35.8 per cent of this group fully owned a house in 2005-06 compared to 54.4 per cent in 1995-96.

NSW the least affordable regional area

Households in regional New South Wales need 7.5 times annual income to buy a home making it the most expensive regional area in Australia and more expensive than all capital cities except Sydney. Housing affordability in regional Western Australia (6.8) is the second worst behind regional New South Wales while regional Tasmania has the best housing affordability at 5.8 times annual income.

More retiring with debt

Older generations are taking more debt into retirement with more than twice as many people aged over 60 paying off a mortgage compared with a decade ago (9.5 per cent in 2006 compared to 4.2 per cent in 1996). This group also experienced the biggest jump in housing stress which almost doubled from 5.3 per cent in 1996 to 9.5 per cent in 2006. Outright home ownership also dropped over the past decade for this group, from 79.6 per cent to 74.5 per cent.

Housing stress highest for Gen Y

In 2006, Gen Y (15-29 years) households had the highest levels of housing stress at 35.3 per cent, while 31.8 per cent of Gen X (30-44 years) households were in housing stress compared to just 18.8 per cent of baby boomers (45-59 years) and 9.5 per cent of boomers (over 60 years).

First home buyers biggest strugglers

Recent first home buyers are the most vulnerable to housing stress. This group had the lowest incomes and paid the highest prices for houses due to the current housing boom, putting 62 per cent of first home buyers in housing stress.

Can renters break into the housing market?

Home ownership is well within the reach of the richest class of renters who need four times their annual disposable income to buy a house outright – well below the national average of nine times annual income. But the gap between poor and rich renters is significant with the poorest class of renters, those who had less than half the median income, needing nearly 27 times their annual disposable income to buy a typical house outright.

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Gaps between the professions¹

A slightly higher number of white collar workers (35.7 per cent) than grey (31.1 per cent) and blue (30.2 per cent) are spending 10 per cent or less on housing costs. There were some differences in housing stress among the professions with 30.3 per cent of grey collar workers experiencing housing stress compared with 23.4 per cent of white collar workers and 22.7 per cent of blue collar workers.

NATSEM Director, and co-author of the report, Professor Ann Harding said: “One of the most striking features revealed in the report was the generational impact of rising house prices. Older generations can afford to be much more complacent about rising house prices with about half of all baby boomers and three quarters of age 60 and over spending 10 per cent or less of their income on their housing costs.

“However, this report clearly confirms what everyone has been saying about the booming housing market – more needs to be done – before the great Australian dream of home ownership becomes unattainable for too many.”

This report is the 19th edition of the AMP.NATSEM Income and Wealth Report. AMP publishes these reports as a service to the community and its customers, who make up one in four working Australians.

Note: A copy of the report will be available on AMP's media centre <http://media.amp.com.au/>, from 12.01am Tuesday 18 March 2008. A podcast with Shane Oliver, AMP Capital Investors Chief Economist, commenting on the current housing situation and future trends, will also be available on the media centre.

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¹ “White collar” refers to managers, professionals and associate professionals; “grey collar” includes advanced, intermediate and elementary clerical; and “blue collar” means tradespeople and labourers.

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Appendix Charts

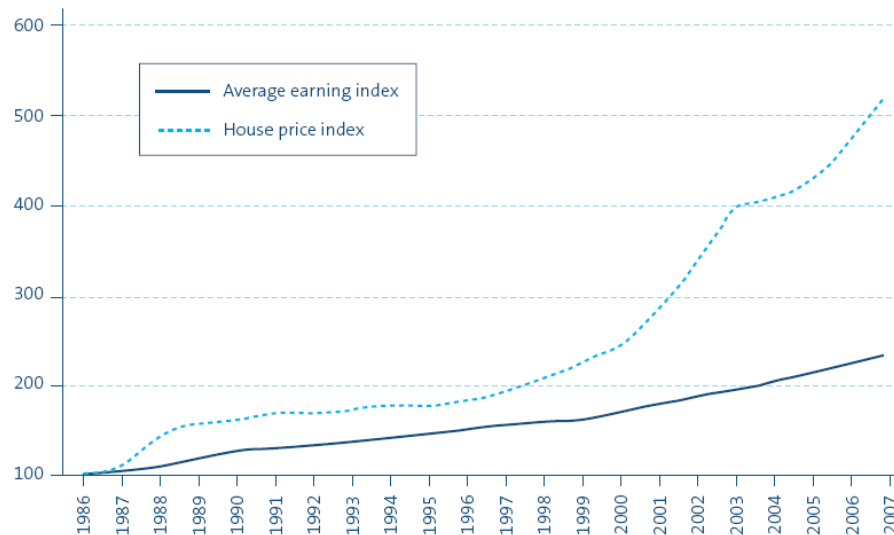
1. Number of urban areas according to housing affordability ratings by nation, 2007

NATION	AFFORDABLE	MODERATELY UNAFFORDABLE	SERIOUSLY UNAFFORDABLE	SEVERELY UNAFFORDABLE	TOTAL
Australia	0	0	3	25	28
Canada	13	9	3	4	29
Ireland	0	1	4	1	6
New Zealand	0	0	0	7	7
United Kingdom	0	0	3	25	28
United States	46	30	23	30	129
Total	59	40	36	92	227

Notes: Housing affordability was measured in terms of values of median multiples, the ratio of median house price to median gross household income. The rating was as follows: affordable: median multiple 3.0 or less, moderately unaffordable: 3.1-4.0, seriously unaffordable 4.1-5.0, severely unaffordable 5.1 or higher.

Source: Cox and Pavletich (2008) 4th Annual Demographia International Housing Affordability Survey: 2008 Ratings for Major Urban Markets.

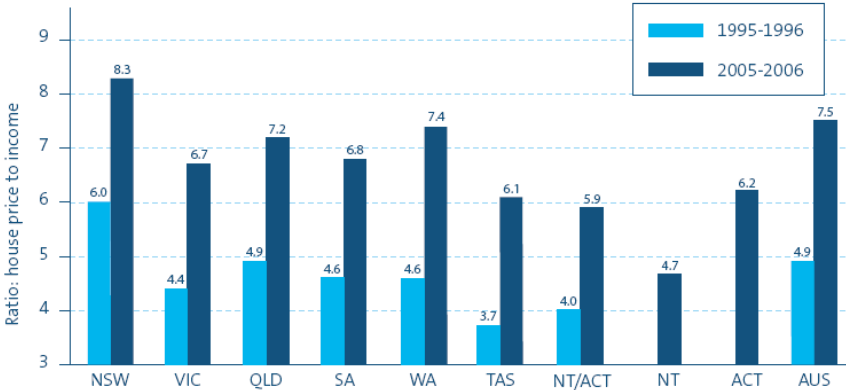
2. Trend in income and house prices, 1986-2007



Notes: The average earning index was calculated using data on weekly average earnings of Australians. Base year for both indices is 1986. Data sources: Derived from ABS (2007a) House Price Indexes: Eight Capital Cities, cat no. 6416.0, ABS (2007b) Average Weekly Earnings, Australia, cat no. 6302.0.

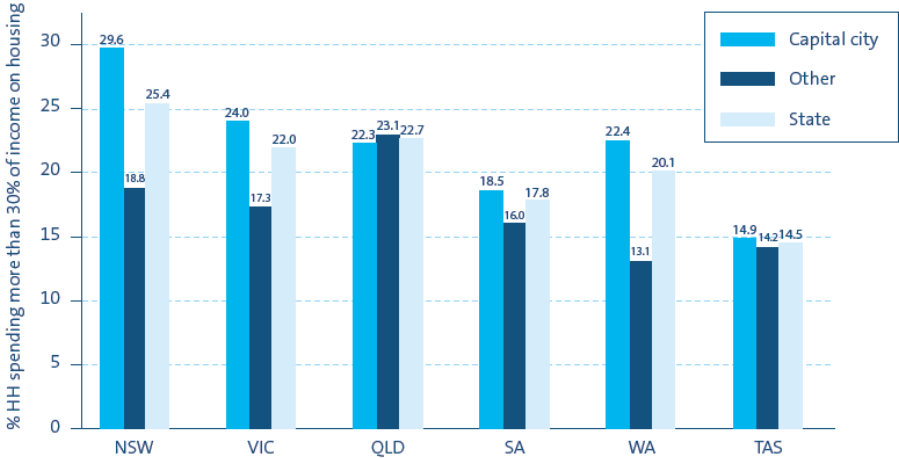
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3. Housing affordability by state/territory, 1995-96 and 2005-06



Notes: Detailed data on housing unaffordability are in Appendix Table 2, including per cent increase in unaffordability.

4. Percentage of households in housing stress by state and place of residence, 2005-06



Note: Additional data on housing cost as proportion of disposable household income are in Appendix Table A-3.

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5. Percentage distribution of households by proportion of income spent on housing and age of the household reference person, 1995-96 and 2005-06

