Housing Affordability

by Michael Cameron

Australians have had a long love affair with property and a history of aspiring to own their own home. Home ownership reached almost 70% in the early 1960s, an amount considered to be extraordinary at the time. Still today, this love affair continues. Despite house prices climbing some 9% per annum for the last 15 years, approximately 69% of Australians currently own their own home.

In a painstaking examination of Australian house prices from 1880 through to 2006, Stapledon (2007) discovered that during the period from 1880 to the mid 1950s there was only a marginal upward trend in Australia's real house price. Since the mid 1950s, however, this trend has changed. The gap between Australian house prices and the national average wage has blown out from three times in the 1950s to seven times in recent years. So, what has triggered this change?

There are seven major factors affecting Australian average house price. They are population, household income and wealth, unemployment, inflation, interest rates, financial availability and finally the supply of new housing.

Unemployment, and household income and wealth, have had little effect on long term house prices over the last 50 years. Surprisingly, Australia's steady and relatively lower inflation has actually had a contractionary affect on Australia's average house price.

Largely though the driving force is upward as the majority of the determinants, that is: population, financial availability, interest rates and housing supply, have all fuelled demand and propelled Australia's average house price forward.

To what degree each of these forces is having is uncertain. The tug of war between upward and downward pressure is undoubtedly variable.

Looking to the future, it is more than likely that the determinants will continue to drive Australian house prices up. The only question is; by how much?

Source: ABS, Stapledon (2007), Kohler & Rossiter (2005) , Parliament of Australia (2008) , TU (2000)