

Housing

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PEOPLE & HOUSING

Housing provides people with shelter, security and privacy. Where people are more affluent, housing preferences become more focused on status, lifestyle and investment.

As population density grows in towns and cities, governments became increasingly involved in regulating housing. The main aim of regulation is to maintain:

- Quality of sewage and water
- Security of legal title
- Supply to low income groups
- Social cohesion
- Transport access

LOCATION

Unlike other tradable assets and investments, housing cannot be easily moved from land it sits on. House values are intrinsically linked to their location and the available land supply for building. The same house structure can therefore trade at quite different prices in different regions.

Using highest and lowest taxable income post codes from Australian taxation statistics and CBA house price medians, the following table indicates location differences in house prices in 2005.

Median House Prices in Top and Bottom Postcodes \$'000's			
State	Top	Bottom	Range
NSW	1,387	190	1,197
WA	1,000	230	770
VIC	900	187	712
ACT	767	335	432
TAS	502	225	277
QLD	500	164	336
NT	500	270	230
SA	450	130	320

Australian Median House price at December 2004 was \$374,000.

MIGRATION

Houses cannot be "imported" or "exported" from their location, but people can move in and out of those locations. Both internal and external migration therefore has a big impact on supply and demand pressure on housing.

Over the years 1984-89, migration to Australia increased to 150,000pa

compared to 70,000pa over the previous 5 years. Australian house prices increased by 15%pa over 1984-89 compared to 9%pa, over the previous 5 years.

DEMOGRAPHICS

An uneven population age structure can also influence demand for different types of housing and in different locations.

The establishment of suburban homes by the baby boomers in the early 1970's created increased price pressure in the major cities. An modest echo effect is occurring from their children in the 2000's.

Return of many baby boomer mothers to the workforce in the mid 1980's has also increased prices through more easily afforded home improvements and moving up to "better" suburbs.

Baby boomers are set to create a second wave effect in the 2010's if the current preference for retirement outside the major cities in "sea change" and "tree change" locations continues.

ECONOMIC CYCLES

Economic cycles are also a major influence on property prices. They affect mortgage interest rates, building costs and wages.

These cycles can be amplified by herd behavior of investors prolonging booms and busts beyond fundamental economic influences. Increased demand for investment properties requires additional housing stock to be created whereas homeowners do not.

An amplified boom from increased investment property demand was evident in Australia over 1996-2003. A major economic influence was low interest rates and high employment security. The annual median house price increase peaked at 20% in 2002. Prices are at extreme historical levels relative to average annual wages as shown in the following table:

Year	House Prices as Multiple of. Wages p.a.
1970	3.3
1975	3.7
1980	4.0
1985	3.5
1990	4.7
1995	4.6
2000	5.6
2005	7.4

Further exaggeration of property cycles can be caused by government actions such as first homeowner grants, changes in capital gains tax and negative gearing rules.

TIME HORIZONS & CYCLES

A case study (Reed, 2001) of Brisbane median house prices for 117 suburbs over 1957-1999 indicated half these suburbs had identifiable price cycles (from peak to peak) with an average length of 10 years and range from 7 to 14 years.

The length of property cycles is an indicator of the time horizon investors should focus on when investing in residential property. As well as the high transaction cost to be recovered, there is a risk of buying at a peak and selling in a trough.

A study of Australian House prices by Abelson (2004) points to significant price booms from 1971 to 1974, from 1979 to 1981, from 1987 to 1989. After each of these previous booms, real house prices (adjusted for CPI) tended to fall for a period.

TITLE TO PROPERTY

Title to individual house and land is through Old System (also called Common Law) or Torrens Title.

Old System requires documents tracing current ownership back to original title, each time a change in ownership occurs.

Torrens Title now covers the majority of property in Australia, and requires only one document, which is registered with State Land titles Offices.

Apartments or units can be owned through Strata Title or Company Title.

Strata Title gives legal title to airspace enclosed by the unit and use of common areas. A body corporate controls the funding and maintenance of common areas and the external building structure, but has no say in change of ownership of a unit.

Company Title is less common. The unit "owner" actually owns shares in a company, which convey rights to possession of a particular unit and car space in the block. Other shareholders have to approve of sale or rental of individual units.

More recent special purpose forms of title are Native Title and Community Title.

Native Title came into being in 1993. It conveys land use and occupancy rights to people who can demonstrate aboriginal family history and permanent connection with an area of land.

Community Title combines Torrens title and Strata title. It provides for mixed-use development of residential, offices and shops, with a mechanism to control use of common areas.

TYPES OF HOUSING

The majority of Australian households live in a freestanding house on unshared land. Other types of housing are apartment or unit blocks, townhouses, retirement villages, caravan parks and nursing homes.

The distribution of housing type and tenure from the 2001 Australian Census is shown below:

Type	Number of Households '000's	% Total
Houses	5711.8	78.1%
Townhouse	723.5	9.9%
Unit/Flat	825.0	11.3%
Total	7314.9	100%

OWNING or RENTING

Australians have a strong preference for home ownership rather than rental with 70% owning or paying off a mortgage on a home. The following table shows households owning and renting as at the 2001 Census:

Ownership	Households '000's	% Total
Fully Owned	2796.9	38.2%
Mortgaged	2350.5	32.1%
Priv. Rent	1536.2	21.0%
State Rent	363.2	5.0%
Other	166.1	2.3%
Total	7314.9	100%

PROPERTY PRICE INDICES

Housing price information is scarce. The few indices which are available have deficiencies. The primary sources of housing prices are:

Government Land Titles Offices (LTO)
Real Estate Institute of Aust. (REIA)
Commonwealth Bank (CBA)

FinDem monitors REIA median house price data because it is the most readily available. However it includes the effect of increasing house size and spending on home improvements. It also does not have a common sample from one quarter to the next. A number of organizations compile proprietary data series from LTO sourced data and attempt to adjust for these deficiencies.

These factors distort the long-term change in cost of a constant unit of housing. For example in the 19 years to 2003, the average floor area of a new house increased by 40%. The Australian Bureau of Statistics and Federal Treasury compile data, which attempts to adjust for this.

PROPERTY versus SHARE INVESTMENTS

Comparing residential property to other investments is difficult. There are the issues of home improvement to allow for and transaction costs are much higher for property than shares or term deposits.

The following table shows the compound growth rate in FinDem's median house price series (ignoring rents) compared to the Australian sharemarket index (ignoring dividends). Also shown are CPI and wage inflation over the same period.

Data Series 1967-2004	%pa Growth
House Price median	10.3
All Ords Share Price Index	8.0
CPI Price Inflation	6.1
AWOTE Wages Inflation	7.8

If 2004 house prices were reduced from the current 7.4 times annual wages to the long term average 4.4 times, the 10.3%pa growth for houses reduces to 8.8%pa.

SOURCES:

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Reed (2001) "The Cyclical Nature of the Brisbane Residential Housing Market", Richard Reed, The University of Queensland

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