

The Falling Rate of Home Ownership in New Zealand

The falling rate of home ownership in New Zealand may be part of a structural shift in the housing market and not just a result of new generations postponing home ownership, according to a statistical analysis of the last four census figures.

Based on research by Philip S. Morrison that examines the decline in home ownership across the age groups by household type, income and access to dwelling type and location. The research compares cross sections from the four successive censuses. It also organises census data into 'synthetic cohorts' to reflect longitudinal changes of a temporally defined group of individuals, all of whom enter a system or given status in the same time period. International experience is noted. The research was commissioned by the Centre for Housing Research, Aotearoa New Zealand (CHRANZ).

The year 2006 marked the third successive New Zealand census in which rates of home ownership fell, after peaking at 73.7 percent in 1986. In 1991, 72.4 percent of all private dwellings were owner-occupied. By 2006, this had fallen to 66.9 percent.

This research involves a comparative analysis of census statistics and suggests that not only are younger generations deferring home ownership – along with other decisions like career entry, marriage and childbearing – but also that lower levels of ownership are becoming characteristic of these younger generations as they age. While there is evidence of some catch-up in home ownership purchase after initial deferral, each successive age cohort does not catch-up in full with the home ownership rates of previous generations. This implies a structural shift in the parameters around ownership rather than simply a deferment by the young. Other evidence points to the fact that the traditional housing career has changed, along with other broader changes associated with household formations and dissolutions.

Policy implications of falling home ownership rates and associated underlying changes include the consequential wealth redistribution from young to old, the rising relative demand for rental housing and the geographical and environmental implications of different housing choices.

Key Points

- Rates of home ownership have fallen from a high of 73.7 percent in 1986 to 66.9 percent in 2006, a rate last prevailing in the 1950s.
- This decline has resulted in a marked redistribution of housing equity across age groups, income groups and household type, to the relative disadvantage of the young, single parents and low income households.
- The relationship between tenure, housing type and location is changing, implying more demand is being placed on housing as an asset rather than a lifestyle support. Some buyers are prepared to substitute accessibility and amenities for assets even where this involves higher commute costs.
- More households are compensating for the rising cost of ownership by purchasing multi-unit properties, traditionally the preserve of renters, and by purchasing 'out of town,' further from major employment, especially in the 2001–2006 period. It appears many have traded off the cost of commuting against the cost of ownership to secure an asset. This may have longer-term social, economic, ecological and sustainability implications.
- More longitudinal data is needed to understand the contemporary housing career and the new contexts in which tenure decisions are made.
- This longitudinal analysis of census data suggests that the decline in home ownership rates is a result of structural shifts in the housing market and not just a deferral of home ownership by the young.

Findings

Historical Patterns

Until the 1930s, the majority of households in New Zealand were not owner-occupiers. Not until 1936 did half (50.2 percent) of households own their usual residence. The steady growth in home ownership stabilised at just under 70 percent with the end of the post-war baby boom. After peaking in 1986 at 73.7 percent, the home ownership rate fell steadily to 63–66.9 percent at the 2006 census and is projected to fall to 61.9 percent through to 2016.

International Trends

The decline in home ownership among young New Zealanders is similar in Australia, the UK, USA and Canada. However, New Zealand appears to be unusual in not maintaining home ownership levels at the levels reached by other countries in the late 1980s. Stable aggregate home ownership levels in these other countries often mask unstable rates for subpopulations.

Contemporary Housing Career

The traditional housing career (with its linear pattern from renting through purchase to outright ownership) is being replaced with a contemporary housing career that has greater uncertainty and more frequent switching between tenures. Specific events like partnering, break-ups and spells of unemployment have been shown to precipitate tenure transition. A greater number and variety of factors are at play. Decisions to leave the parental home, together with the decision to work, to study and to form partnerships, all have a bearing on the number (and type) of households coming through to potential ownership. The housing, labour and partnership markets among youth are characterised by a certain degree of chaos and volatility.

Home Ownership Probability by Age

Using cross sectional (snapshot) data, the prevailing pattern of home ownership in New Zealand shows the probability of home ownership rises at a diminishing rate with age, from around 20 percent of households

aged 20 to 25 through to about 80 percent of households in their 40s, after which the growth in ownership with age is much slower. Falling home ownership rates are widespread. Home ownership rates for all except the very oldest age groups fell with each successive census between 1991 and 2006. A comparison between 1991 and 2006 age-related ownership rates shows a seven year difference in the time taken to achieve a given likelihood of ownership. In 1991, households headed by a 25-year-old had a 50 percent chance of being owner-occupied, whereas by 2006, the head of the household had to reach age 32 to have that same chance.

Household Attributes and Tenure

Marriage and having children remain dominant influences on the propensity to own.

According to 1991 statistics, couples exhibited the highest likelihood of owning in almost all age categories. The presence of children had the effect of raising the probability of ownership by between a quarter and three-quarters of a percent in couples as well as single adult households. By contrast, single adult households experience much lower probabilities of ownership and reach their peak probabilities much later in life. By 2006, ownership probabilities as a whole fell, but the most marked drop occurred among single parents responsible for raising children. Among couples, it was the younger families who experienced the greatest decline.

Household income also clearly influenced ownership probability, with lower income groups noticeably less competitive in the ownership market in 2006 than they were in 1991. (As household income is heavily dependent on the number of earners, some of the changes documented will reflect changes in household composition.)

Dwelling Type, Location and Ownership

As the price of single-unit housing has risen beyond the purchasing capability of an increasing proportion of households, increasing numbers are transferring their demand for an asset into the multi-unit market.

In 1991, the gap between the probability of owning a single-unit dwelling or a multi-unit dwelling was rarely less than 30 percent at any age group. By 2006, that gap had narrowed to within 10 percent as the probability of being the owner-occupier of a single unit fell and the probability of being the owner-occupier of a multi-unit rose. This change was insufficient, however, to compensate for an overall decline in the chances of ownership.

A striking feature of the 1991–2006 period was the increasing importance of location in differentiating opportunities for ownership. Outside Auckland, the odds of ownership increase only marginally in small town and rural New Zealand, increase significantly in Wellington and the secondary centres, and increase most spectacularly in Christchurch where the chances of ownership exceeded Auckland by a third. Households in rural and small town New Zealand were less likely to be owner-occupiers in the 1990s, but by 2006, their rate of ownership began to exceed Auckland, Wellington and Christchurch.

Synthetic Cohorts and Home Ownership

The debate surrounding home ownership is largely about generations, and household formation and ownership patterns, rather than age group per se. Accordingly, this research extracts longitudinal or generational data from the census by identifying and tracking the birth cohort (generation) of the household reference person (head of the household) for each census and then analysing ownership probabilities by cohort. This analysis shows two effects: younger cohorts (generations) are deferring home ownership, and – despite evidence of an acceleration or catch-up in ownership rate after initial deferral – lower levels of ownership are becoming characteristic of these younger generations as they age. This indicates that a structural or overall downward shift in the rate of ownership is occurring, rather than just a deferral of purchase by the young.

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Policy Implications

There are four main policy implications:

- Falling owner-occupancy in younger generations represents a redistribution of wealth to older generations, and few mechanisms are likely to offer relief in the short term.
- The consequences of deferred owner-occupancy by young households – for example, rental choices and trade-offs in household expenditure – warrant wider discussion.
- The consequences of the additional pressure on rental stock is as yet unclear, for example, patterns of conversion of dwellings between tenures and the potential for rental increases to depress housing deposit accumulation.
- The economic, social and environmental implications of increasing demand for cheaper accommodation outside urban centres are potentially wide-ranging and long-term.

Further Information

This bulletin is based on the research report *On the Falling Rate of Home Ownership in New Zealand*. A copy of the report and this bulletin can be found on the CHRANZ website under “Our Publications”.

Other useful reports include:

- *Census 2006 and Housing in New Zealand*. (August 2007) DTZ New Zealand.
- *The Future of Homeownership and the Role of the Private Rental Market in the Auckland Region*. (April 2007) DTZ New Zealand.
- *Housing Tenure Aspirations and Attainment*. (October 2005) DTZ New Zealand.
- *Furthering our Understanding of Tenure Transition. The impact of financial circumstances on tenure choices in New Zealand*. (2004) Business and Economic Research Limited.
- *Changes in the Structure of the New Zealand Housing Market vol 1 and 2*. (May 2004) DTZ New Zealand.

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