Abstract: Australian economic growth and the welfare of Australians are very much related to housing sector. Recently housing affordability has emerged as a widely discussed issue among the politicians, academics and policy makers. This paper therefore analyses current housing market conditions in Australia. Specifically the paper examines the factors that have caused increased housing prices over recent years. Various effects of this housing price hike on the Australian economy are also evaluated.

Keywords: Australia, Housing Market, Housing Price

JEL Classifications: R21, R31, R38.
Australian Housing Market: Causes and Effects of Rising Price

I. INTRODUCTION

Housing is extremely important to all people. Shelter is a fundamental need. Home ownership has been considered as one of the key elements of high living standards. Home ownership provides security, independence and privacy. For most households, a house is the largest single asset as well.

Australians traditionally place a high degree of importance on homeownership which is perceived as important for stability of family life and for wealth creation. For a long period of time governments have been encouraging home ownership through direct grants to first-time home buyers. Around 70% of Australian households live in owner-occupied dwellings. Of these, 50% own their dwellings outright (without a mortgage loan), and 50% have mortgage loans. However, the proportion of homeowners without a mortgage has been decreasing over time, which is an indication of increased household indebtedness in the Australian economy. Housing accounts for around 55% of total assets of Australian households. Around 28% of Australians live in rented accommodation, and more than three-quarters of them rent from private landlords (Eslake, 2007a; Standard and Poor's, 2006).

Housing plays a strong role to the social well being of Australians. Good housing in Australia has provided the good social and economic environment that is very much essential for political stability and prosperity. The burden of government aged care welfare payments is reduced because of the high level of home ownership in Australia (HIA, 2002).

Therefore, housing is no longer just about shelter; it must be regarded as an integral part of Australia’s economic infrastructure. The family home is quickly becoming the new engine of economic growth. Many homes are used now for running small businesses, for shopping, learning and studying on-line and for performing office works. So housing is generating a flow of economic services (HIA, 2002). The contribution of the housing sector to Australian GDP and employment is also notable.

While home ownership is very vital for all Australians, housing is gradually becoming unaffordable for many Australians especially in major cities. During the five years from 2000-01 to 2005-06, established house prices increased by more than 110% (an average of 16.2% a year) (Budget, 2007-08). Between 2002-03 and 2006-07 established house prices increased by an average of 33% (ABS, 2008). Therefore housing affordability is widely discussed issue among the Australian politicians, academics and policy makers.

Against this background this paper will analyse the Australian housing market. The paper will particularly investigate factors that are driving rising housing prices. The effects of rising price will also be evaluated.

II. AUSTRALIAN CURRENT HOUSING MARKET

Types of dwellings

The vast majority of Australians (around 98%) live in private self-contained dwellings such as houses, flats or units. A small proportion of Australians also live in institutional settings such as hostels, boarding houses, residential colleges, staff quarters, prisons, nursing homes or other welfare institutions.
In 2005-06, 7.9 million households lived in private dwellings. Of these 79% lived in separate houses, 11% in flats, units or apartments, and 9% in semi-detached, row or terrace houses or townhouses (ABS, 2008).

**Home owners and renters**

Table 1 provides a detailed picture of occupied private dwellings in Australia. Owners without a mortgage declined in 2006 compared to 2001. On the other hand, owners with a mortgage increased during the same period. The number of renters is also increasing.

**Table 1: All Occupied Private Dwellings (by tenure type)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Owner without a mortgage (000)</th>
<th>Owner with a mortgage (000)</th>
<th>All owner occupied private dwellings (000)</th>
<th>Renter (000)</th>
<th>Other tenure (000)</th>
<th>Total (000)</th>
<th>Proportion of Owner occupied private dwellings (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>1548.9</td>
<td>1542.9</td>
<td>3178.9</td>
<td>1164.5</td>
<td>190.6</td>
<td>4534.0</td>
<td>70.1</td>
</tr>
<tr>
<td>1986</td>
<td>1981.9</td>
<td>1604.4</td>
<td>3586.3</td>
<td>1334.4</td>
<td>174.1</td>
<td>5094.8</td>
<td>70.4</td>
</tr>
<tr>
<td>1991</td>
<td>2362.0</td>
<td>1561.3</td>
<td>3923.2</td>
<td>1560.6</td>
<td>210.3</td>
<td>5694.2</td>
<td>68.9</td>
</tr>
<tr>
<td>1996</td>
<td>2858.0</td>
<td>1656.1</td>
<td>4314.0</td>
<td>1866.0</td>
<td>67.8</td>
<td>6247.8</td>
<td>69.0</td>
</tr>
<tr>
<td>2001</td>
<td>2810.9</td>
<td>1872.1</td>
<td>4683.0</td>
<td>1953.1</td>
<td>101.3</td>
<td>6737.4</td>
<td>69.5</td>
</tr>
<tr>
<td>2006</td>
<td>2478.3</td>
<td>2448.2</td>
<td>4926.5</td>
<td>2063.9</td>
<td>65.7</td>
<td>7056.1</td>
<td>69.8</td>
</tr>
</tbody>
</table>

Source: ABS: Year Book Australia 2008, PP. 313

Australians appear to prefer a free-standing house on its own block. Out of 5.5 million households that owned their home in 2005-06, 88% lived in separate houses. Also 57% of all rented households were separate houses; 26% rented flats, units or apartment; and 16% lived in semi-detached dwellings (ABS, 2008).

**Residential building approvals**

Residential building approvals are used as a key indicator of future activity in the housing market. In 2006-2007 approvals of all dwelling units increased compared to previous year. The total number of dwelling unit approvals was 152,790 in 2006-2007.

In 2006-07 the number of approvals for new semi-detached, row or terrace houses, townhouses and the like, increased by 1.9%, from 20,512 to 20,892. The number for new flats, units and apartments increased by 2.6%, from 23,924 to 24,541 in the same year.

Between 2005-06 and 2006-07 the value of total new residential building (work done) increased from $31,280 million to $31,478 million, while the value of new residential building for houses increased by $1,149 million or 5.5% (ABS, 2008).

**Housing costs**

For most Australians, housing costs are substantial. It causes ongoing expenditure throughout much of their lives irrespective of whether they buy or rent their homes. Housing costs constitute the largest regular expenses that must be met from current income. For some households, housing costs are more than 50% of earned income. For example, 9% of private renters and 8% of owners with a mortgage spent more than half of their gross income on housing in 2005-06. For owners with a mortgage,
average housing costs increased by $78 per week, after adjustment for inflation, in 2005-06 compared to 1995-96 (ABS, 2008).

House price indexes and consumer price indexes

The change of consumer price indexes (CPI) represents inflation rate. Table 2 below illustrates changes in the CPI and changes of established house price indexes (HPI). The results are based on weighted average of eight capital cities of Australia.

Table 2: Changes of CPI and HPI (weighted average of 8 capital cities)

<table>
<thead>
<tr>
<th>Year</th>
<th>Change of CPI (%)</th>
<th>Change of HPI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>2.4</td>
<td>15.5</td>
</tr>
<tr>
<td>2004-05</td>
<td>2.4</td>
<td>1.2</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.2</td>
<td>3.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>2.9</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Source: ABS: Year Book Australia 2008, PP. 677 and 682.

It is revealed that though changes of the HPI are more or less similar to those of the CPI in 2004-05 and 2005-06, changes in the HPI are much higher than those of the CPI in 2003-04 and 2006-07. In fact, established house prices increased to 2003-04, then remained flat until 2005-06. They again increased after 2005-06, in line with the rise in established home purchases.

Recent house price trends

The housing market peaked in September 2003. The growth of property price slowed dramatically in 2004. The biggest rises occurred in the years 2002, 2003 and 2004 when prices for established houses increased, respectively, by 16.49%, 17.92% and 16.72% (Standard & Poor’s, 2006).

Evidence of growth in house prices is mixed in the capital cities between June 2004 and March 2007. Growth has slowed in some capitals and has surged in others. A rapid growth of established house price is observed in Perth, with an 87% increase over the period, equivalent to an annual average growth of 26%. Considerable increase, 58% gain, is also observed in Darwin over the same period.

More modest growth in established house price, ranging from 13% in Canberra to 24% in Hobart, is also observed in other capital cities over the period of June 2004 to March 2007; the only exception is Sydney where house prices decreased by 4% during this period. However, a very large increase in property price in Sydney occurred in the preceding decade which was significantly faster than all other capital cities (ABS, 2007a).

Table 3 shows the median prices of established house transfers in eight capital cities of Australia during the period of June 2004 to June 2007. There is a clear cut price increase in all cities every year over the periods with an exception of Sydney in 2006 and Canberra in 2005. House prices notably increased in Perth and Darwin during this period.

Table 3: Median price of established house transfers (unstratified)

<table>
<thead>
<tr>
<th>Period</th>
<th>Sydney $000</th>
<th>Melbourne $000</th>
<th>Brisbane $000</th>
<th>Adelaide $000</th>
<th>Perth $000</th>
<th>Hobart $000</th>
<th>Darwin $000</th>
<th>Canberra $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 June</td>
<td>499</td>
<td>308</td>
<td>305</td>
<td>255</td>
<td>262</td>
<td>225</td>
<td>249</td>
<td>374</td>
</tr>
<tr>
<td>2005 June</td>
<td>500</td>
<td>320</td>
<td>310</td>
<td>270</td>
<td>300</td>
<td>250</td>
<td>280</td>
<td>374</td>
</tr>
<tr>
<td>2006</td>
<td>497</td>
<td>345</td>
<td>330</td>
<td>285</td>
<td>408</td>
<td>270</td>
<td>350</td>
<td>399</td>
</tr>
</tbody>
</table>
III. FACTORS AFFECTING HOUSING PRICE

Like other commodity prices, house price is also mainly determined by demand and supply factors. When demand exceeds (relatively fixed) supply, price rises, according to standard economic theory. Berry and Dalton (2004) mentioned the factors that are considered responsible for house price rise in Australia. They divided these forces into three categories: short term/cyclical, institutional, and long term/ fundamental. The authors rightly mentioned that although these factors were arbitrarily separated, in fact, their impacts interact in complex ways not fully understood.

Short-term factors

**Interest rates**

For any given price level, lower interest rates imply lower mortgage repayments which allow borrowers to borrow more at any given repayment-to-income ratio. This causes an increase in housing demand and housing prices, other things being equal. On the other hand, once interest rates go up, housing demand will ease and price will remain steady or rise moderately or even go down (depending on the collective influences of other factors).

In the Australian economy interest rates fell rapidly from the late 1980s through the general economic recession. There was a moderate rise during 95-96, and after that fell again and remained low thereafter which continued till the end of 2003. The lower interest rates over the years contributed a lot to increased housing price in Australia. Quoting from an econometric study of Yong (2000), Berry and Dalton (2004) also noted that nominal mortgage interest rates had both short and longer-term effects on real house price inflation.

**Investment demand**

Investment in housing has increased since 1995. As a result, investor-landlords became an important driver of house price rises in Australia. Ex Reserve Bank Governor, Ian Macfarlane, pointed out that since 2001 investors had fuelled the continuing inflation in the housing market, supported by the generous tax benefits (Berry and Dalton, 2004 quoted from Colebatch, 2003). In the 18 months to July 2002, loan approvals for investors rose by 113 percent, against 48 percent for owner occupiers (Berry and Dalton, 2004 quoted from RBA, 2002). The monthly value of housing loan approvals for investors was increased by $2.4 billion during that period.

Tax benefits, underlying socio-demographic factors, institutional reforms, increasing rental income, broader development in the economy and capital markets contributed to increased investment demand for housing. Sharp downward correction was observed in equity market around the world in mid-2000; this caused a capital switch from shares to other assets like bonds and real estate. A sharp increase in the flow of debt-financed private investment into residential property occurred with the perception that investment in property is preferable in terms of risk and return.

**Economic climate**

Over past several years economic conditions in Australia have very good; inflation was under control and the unemployment rate had been continuously falling. The average income of people was rising. So sentiments among investors and owner
occupiers were stronger. These factors increased housing demand. Yong (2000) found that unemployment had significant effects on real housing prices in Australia both in the short and long runs (Berry and Dalton, 2004).

**Institutional Factors**

*Financial deregulation and innovation*

In the 1980s, Australia’s financial system was notably deregulated. Many direct government controls over the lending activities of financial institutions like the banks were removed. Simultaneously, new lending and other institutions including foreign banks, mortgage brokers and originators, mortgage insurers and industry superannuation funds entered into the market for housing finance. New sources of finance for housing purchase were mobilised by the secondary residential mortgage market. New lending criteria—such as consideration of the full value of a second household income for establishing maximum lending limits—were introduced. All these factors were favourable to increase housing demand and housing price.

*Land supply and the land-use planning system*

Housing prices and affordability are related to land price which is largely determined by the supply of developed urban land. Residential land supply is affected by factors like development costs, the structure of the land development industry, relative returns from non-housing uses, and the rules and effectiveness of the land-use planning system. Controls over the uses of land impact on both the availability of developed land and the land cost. It takes time to bring underdeveloped land into use and this regulations lag reduces the short-term responsiveness of supply to immediate demand pressures. Therefore this short-term price inelasticity of supply is one factor for increased house price in Australia.

During 1992-2003, the real price of land increased by around 12 percent per annum, while the price of constructing a dwelling increased by around 3 percent per annum. Over the past decade, the land component has contributed by around 80 per cent to the increase in the price of an established dwelling in Australia (Bond, 2003).

*Government taxes, levies and charges*

In Australia government at all levels imposes taxes, levies and charges on the development and use of urban land. To some extent these costs are in turn passed on in final house prices. These costs are: developer levies (local government and other infrastructure providers), stamp duty on the sale and transfer of land and land tax (state government); and GST on new house construction and the renovation of existing houses. All of these costs add up to a notable component of housing prices. Quoting from the Housing Industry Association, Berry and Dalton (2004) noted that, for new housing, “the total indirect tax take is over $124,000 in Sydney and $88,000 in Melbourne”.

**Long-term factors**

*Demography*

Demographic factors significantly affect housing prices in the long run. Increasing population growth increases the number of households in a country which in turn increases the housing demand and thus housing price.

Australia’s population has been growing over time (see Table 4). Total population reached to 20.7 million in 2005-06, compared to 19.4 million in 2000-01. Also the average household size is declining due to increase of single person and single
parent households. The average number of people per household fell from 2.7 to 2.5 over the nine years to 2003-04 (ABS, 2007c). The growth of overall population and smaller households, other things being equal, implies an increasing demand for housing which is the major determinant for the housing price hike in Australia. International migrants who are living in the capital cities are considered fundamental drivers of housing development and price inflation in those cities over the long term.

**Table 4: Components of population change and estimated resident population**

<table>
<thead>
<tr>
<th>Year</th>
<th>Births 000</th>
<th>Deaths 000</th>
<th>Natural increase 000</th>
<th>Net overseas migration 000</th>
<th>At end of period 000</th>
<th>Increase* 000</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>247.5</td>
<td>128.9</td>
<td>118.6</td>
<td>135.7</td>
<td>19413.2</td>
<td>259.9</td>
<td>1.36</td>
</tr>
<tr>
<td>2001-02</td>
<td>247.4</td>
<td>130.3</td>
<td>117.2</td>
<td>110.6</td>
<td>19654.9</td>
<td>241.6</td>
<td>1.24</td>
</tr>
<tr>
<td>2002-03</td>
<td>247.4</td>
<td>132.2</td>
<td>115.2</td>
<td>116.5</td>
<td>19902.7</td>
<td>247.9</td>
<td>1.26</td>
</tr>
<tr>
<td>2003-04</td>
<td>252.1</td>
<td>133.2</td>
<td>118.9</td>
<td>100.0</td>
<td>20139.8</td>
<td>237.1</td>
<td>1.19</td>
</tr>
<tr>
<td>2004-05</td>
<td>255.8</td>
<td>131.4</td>
<td>124.5</td>
<td>123.8</td>
<td>20409.1</td>
<td>269.4</td>
<td>1.34</td>
</tr>
<tr>
<td>2005-06</td>
<td>264.3</td>
<td>133.1</td>
<td>131.2</td>
<td>134.6</td>
<td>20701.5</td>
<td>292.3</td>
<td>1.43</td>
</tr>
</tbody>
</table>

* The difference between total growth and the sum of natural increase and net overseas migration is due to intercensal discrepancy.


Changing economic roles have also reinforced the demographic factors with regard to housing demand in Australia. Long run paid workforce participation of women has increased the number of two-income households which effectively increased the housing demand. Most of the population live in urban areas. This population concentration is also causing permanent house price inflation in Australia (Berry & Dalton, 2004 quoted from Ellis & Andrews, 2001).

**Economic growth**

A positive relationship exists between household income and housing demand. In a country like Australia the income elasticity of demand for housing is likely to be one or greater (Berry & Dalton, 2004 quoted from Bourassa & Hendershot, 1995; Meen & Andrew, 1998). So the demand for housing increases at least proportionately with income. The long term trend in real income is important in explaining house price.

Table 5 reveals that household disposable income has been increasing over time. Average real household incomes in 2005-06 are 10% higher than in 2003-04 and 34% higher than in 1994-95. The real income of high income people rose by 36% over the eleven years to 2005-06. This compares to a rise of 31% for low income earners and 32% for middle income earners (ABS, 2007d).

**Table 5: Equivalised disposable household income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean income per week (All persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>$481</td>
</tr>
<tr>
<td>1997-98</td>
<td>$504</td>
</tr>
<tr>
<td>2000-01</td>
<td>$539</td>
</tr>
<tr>
<td>2002-03</td>
<td>$552</td>
</tr>
<tr>
<td>2003-04</td>
<td>$585</td>
</tr>
<tr>
<td>2005-06</td>
<td>$644</td>
</tr>
</tbody>
</table>

Clearly the house price inflation in Australia over the past several years has been driven partially by the long period of economic prosperity and relatively rapid economic growth since the middle of 1990s. Quoting from the study of Sutton (2002), Berry & Dalton (2004) noted that a 1 percent increase in GNP, average house prices increased by about 1.5 per cent over the next 4 years in Australia.

Wealth effect
In every society, housing is generally considered as the major store of wealth. In Australia gross housing assets account for more than half of total personal wealth (Berry & Dalton, 2004 quoted from Kelly, 2001). Owner occupiers and landlord-investors feel wealthier with the rising prices of existing houses. This is called ‘wealth effect’ which leads to an increase in consumption expenditure. As a result, aggregate demand, and thus economic growth, occurs which in turn support rising housing prices through a self-reinforcing cycle. This factor also contributed to the recent price hike of Australian housing.

Furthermore, the availability and cost of land, the cost of construction and achievements in the improvement of the quality of the existing housing stock are the supply side factors that affect housing price. Reduced supply of affordable private rental housing, declining supply of social housing and lengthy time taken to release new land also positively contributed to house price inflation in Australia.

IV. EFFECTS OF RISING HOUSE PRICE ON THE ECONOMY AND HOUSEHOLDS

Positive effects

House price can affect aggregate demand and economic activity in various ways. First, more optimistic expectations with regard to the returns on property investment occur with the rising house prices. Market demand in property related sectors increases as builders start new construction. Second, private consumption increases as a result of increased house prices as homeowners feel wealthier. Third, financial behaviour of homeowners changes as a result of price hike, and homeowners become home purchasers. Taking an empirical study Helbling and Terrones (2003) note that increases in property prices tend to have a positive impact on real GDP in many countries (Zhu, 2003).

In an economy like Australia real estate is an important investment asset. If property prices rise above the cost of construction, it is profitable to construct new buildings. As a result, the boom in the construction sector boosts employment and demand in property-related sectors. This impact can be substantial as real estate investment usually represents a significant proportion of the economy.

An increase in house price indicates an increase in household wealth. So according to the permanent income hypothesis of the life cycle model, owner-occupiers may increase their consumption expenditure reducing their savings.

Negative effects

The strength of the aggregate wealth effect stated above is not certain, however. It depends on several factors such as duration of the house price gains, home ownership rate in the economy and the like. The house price gains could be either temporary or permanent. The wealth effect will not be the same in both these situations. Furthermore, rising house price increases the wealth of homeowners but
reduces the affordability of those households who want to purchase their own homes. First home buyers will need to save more to pay higher initial deposits and higher mortgage payments. As a result, their consumption actually drops when house prices increase.

Furthermore, house price increases usually affect the relative positions of specific groups of people. For example, the relative positions of current home-owners and home buyers can be mentioned. It is expected that the propensities to spend would be different for each of these categories. As a result, the wealth transfers through increased house price can have macro-economic effects (Catte, et.al., 2004).

With regard to housing affordability in Australia, Yates and Gabriel (2006) noted that 542,000 urban households and 308,000 non-urban-based households were under housing stress in 2002-03. The highest incidence of housing stress was found amongst young and lone person households. Housing stress and crisis were prevalent amongst urban compared to non-urban households. A high incidence of affordability problems was generally observed amongst lower income home purchasers. Of the lower income households, 14 percent were suffering from housing crisis (housing costs at least 50 percent of gross household income). It was also noted that 36 percent of all lower income working households were in housing stress compared with 28 percent of all lower income households, and 17 percent of all lower income working households were suffering from housing crisis - spending at least 50 percent of their incomes.

*The Economist* magazine (2003) argues that if house price is over-valued, which may be the case in Australia, nominal house prices are likely to drop as well as real prices. If a housing burst occurs it will do more harm to the general economy than when the stock market collapses. The following three arguments may be mentioned to support this claim.

i) Housing investment is a much larger part of direct household wealth than shares. Thus a fall in housing prices will give households a feeling that they are significantly less wealthy than a proportionately similar fall in share prices. So homeowners and investors (major portion of the population) reduce consumption, the aggregate level of economic activity decreases and the risk of an economic recession increases.

ii) It is much more likely that households borrow more heavily to purchase houses than they do to purchase shares. As a result, over-indebtedness occurs which may lead some borrowers to sharply curtail their consumption when they are caught between falling house prices and rising interest rates.

iii) If borrowers are heavily mortgaged in times of declining house values, they may eventually end up with ‘negative equity’. This is because they owe more on their mortgage loan than the current market value of their homes. So the probability of mortgage default raises, and the proportion of non-performing loans held by banks and other lenders increases. As a result, lending capacity (of banks and other lenders) for all purposes

---

1 Households in stress defined according to 30/40 rule. Those households whose gross income falls in the bottom 40% of the income distribution and who are paying more than 30% of their household income to meet their housing costs.
V. CONCLUSIONS AND POLICY RECOMMENDATIONS

The housing sector plays a vital role in Australian economic growth and welfare of Australians. This paper has analysed the current Australian housing market. It has investigated the factors that are responsible for the house price hike over last couple of years. The possible effects of this increased housing price on the Australian economy and households are also evaluated.

It is observed that both the number of homeowners with a mortgage and the number of renters have increased over the years. For owners with a mortgage, average housing costs increased substantially in recent years. Changes of HPI are much higher than those of CPI in 2003-04 and 2006-07. This research also revealed that the biggest house price increases occurred in the years 2002, 2003 and 2004 in Australia. With an exception of Sydney in 2006 and Canberra in 2005, there is a clear cut price increase of established houses in all cities every year during the period of 2004 – 2007 as well.

Factors affecting housing prices in Australia have been classified into three broad categories- short / cyclical, institutional, and long term / fundamental. Among the short-term / cyclical factors, interest rates, investment demand and existing economic climate play a vital role to influence housing prices. In Australia, the lower interest rates over the past decade also contributed a lot to increased house prices. Investor-landlords also became an important driver of house price rises in Australia for the last several years. Very good economic conditions for last several years have also contributed to increased housing demand and housing prices.

Among the institutional factors financial deregulation and innovation, land supply and the land-use planning system, and government taxes, levies and charges, are the main players that affect house prices in Australia. Financial deregulation since the 1980s, the short-term price inelasticity of supply of land, increased land prices, government taxes, levies and charges positively contributed to increased house prices.

Demography, economic growth, and wealth effect are the three major long-term factors. All these three factors positively contribute to Australian housing prices.

Rising house price has both positive and negative impacts on the Australian economy and households. However, negative effects are strongly observed by academics and policy makers as they are detrimental to the society and the economy. A high proportion of Australian households is under housing stress and housing crisis, and the numbers is increasing.

Therefore housing affordability must be improved through proper policy formulation and execution for the greater interest of the Australian economy and households. Policies which work only on the ‘demand side’ of the housing market without clearly and significantly increasing supply are almost certain to fail, with respect to affordability aims. From this point of view, Federal Government First Home Owners’ Grant, stamp duty concessions, or cash assistance to the renters must be viewed as costly failures. These steps merely result in more expensive houses. Instead, increasing the supply of housing- particularly low-cost housing- should be the focus of the policy. Special attention must be given to reduce the time taken to bring land and housing to market (Eslake 2007b; Berry and Dalton, 2004).
In addition, the supply of desirable land, with proper infrastructure and transport facilities, and the supply of affordable rental housing must be increased. The marginal purchasers must be supported, through appropriate help, to stay in their homes. The government can ease the housing price by reducing taxes, levies and charges. Finally, this research supports the idea of Yates (2007) regarding the development of a national affordable housing strategy which will help reduce housing stress and housing crisis in Australia.

References


Budget 2007-08. ‘Decision for our future - Fact sheet’, Western Australian Budget 2007-08.


Helbling, Thomas and Terrones, Marco. 2003. ‘Real and financial effects of bursting asset price bubbles’, *IMF World Economic Outlook*, chapter 11, April.


Yates, Judy. 2007. ‘The housing affordability challenge’, Seminar Presentation, September 12, AHURI.

