



RESEARCH NOTE

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Homes Ownership, Loan Interest and Loan Repayments

1. Home Ownership

Most Australians consider home ownership as a natural occurrence in their lives - something that can be attained if so desired. In the 15 years after World War II, home ownership increased dramatically from less than 53% in 1947 to almost 70% in 1961. (See table 1). From 1961, the home ownership rate has remained fairly constant in the upper 60% range.

From 1947 to 1991 the total number of private, occupied

dwellings has increased by nearly 4 million, or over 210%, to 5.85 million, while the number of dwellings owned or being purchased increased by 2.9 million, or almost 300%, to 3.92 million.

Internationally, Australia's rate of home ownership equals or betters that in other developed countries. (See table 2).

2. Home Loan Interest Rates

Currently the monetary arm of government policy is operating to

increase interest rates to attempt to slow down the rapid growth in the economy. These increases in official interest rates flow through into home loan rates. As can be seen from table 3, interest rates increased rapidly in 1986 (after the removal of the interest rate ceiling for owner occupied housing in April 1986), fell in line with inflation in 1988 and then increased very abruptly into 1989 at the time of the last economic boom. Rates then decreased to 8.75% by September 1993, and remained at that level

Table 1: Home Ownership, Australia, 1947-1991

	Census								
	1947	1954	1961	1966	1971(a)	1976	1981	1986	1991(b)
	per cent								
Home ownership (c)	52.6	62.9	69.9	70.8	68.7	66.7	68.1	69.1	67.0
Renting	43.4	34.1	27.4	26.5	26.4	25.2	24.9	25.7	26.7
Other (incl not stated)	4.0	3.0	2.6	2.7	5.0	8.1	7.0	5.1	6.3

(a) Information was only published for private houses and self-contained flats.

(b) Includes, for the first time, nature of occupancy for caravans etc in caravan parks.

(c) Occupied, private dwelling that is owned or being purchased by the occupier(s).

Table 2: Home Ownership: International Comparison

	Year	Owner occupier	Private rental	Public housing (a)	Other (b)
	per cent of all tenures				
Australia	1991	67	19	8	6
Canada	1986	62	32	6	na
United States	1988	64	35	2	na
Denmark	1988	55	18	21	6
England	1990	68	8	24	na
New Zealand	1986	73	14	9	5
Germany (FRG)	1987	38	42	16	4

na Not applicable.

(a) Public housing, non-profit and co-operatives. For Australia also includes 'not stated' rental category and government employees

(b) Includes such categories as 'rent free' and also 'not stated/ inadequately described'.

through to August 1994. Subsequently, rates rose to 9.50% in September 1994 and had reached 10.50% by the end of the year.

However, when we look at real home loan interest rates, (table 3), a slightly different picture appears. Apart from 1962 and 1963, real rates have been high only from 1984 and, from 1984, have generally been on the increase until 1991. The fall in nominal rates over this time was not as great as the fall in inflation and from 1992 to mid 1994, although real rates fell, they were still at high levels. Currently, real rates have increased to the 1990 position.

3. Home Loan Repayments

Given the competition within the Banking sector, there has so far been a reluctance on the part of the banks to pass on the full extent of

the three rises in official interest rates that have occurred so far. However, as the gap between official and home loan rates narrows, more pressure is felt by the banks (if they wish to maintain their profitability levels) to increase their home loan rates. Table 4 shows the monthly repayments needed to service various size mortgages at different interest rate levels for a 25 year term loan.

Sources:

Censuses of Population and Housing. ABS.
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The Bulletin. RBA.
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Table 3: Home Loan Interest Rates: Nominal and Real

June	nominal	real (a)	June	nominal	real (a)	June	nominal	real (a)
1947	3.880	0.3	1963	5.000	0.0	1979	9.500	0.7
1948	3.880	-4.3	1964	5.000	2.1	1980	10.000	-0.7
1949	3.880	-5.1	1965	5.375	4.2	1981	11.500	2.6
1950	3.880	-5.5	1966	5.375	3.3	1982	13.500	2.4
1951	3.880	-11.0	1967	5.375	2.7	1983	12.500	1.3
1952	3.880	-14.1	1968	5.375	2.2	1984	11.500	7.2
1953	4.500	0.0	1969	5.875	2.8	1985	12.000	5.1
1954	4.500	3.6	1970	7.250	3.5	1986	15.500	6.5
1955	4.500	2.8	1971	7.250	2.0	1987	15.500	5.7
1956	5.000	-0.8	1972	7.000	0.5	1988	13.500	6.0
1957	5.000	3.2	1973	7.000	-1.1	1989	17.000	8.7
1958	5.000	0.8	1974	8.375	-5.4	1990	16.500	8.2
1959	5.000	1.5	1975	10.125	-5.8	1991	13.000	9.3
1960	5.000	3.8	1976	9.875	-1.9	1992	10.500	9.2
1961	5.500	3.6	1977	9.875	-3.2	1993	9.500	7.5
1962	5.500	-0.7	1978	9.250	1.2	1994	8.750	6.9

(a) Converted to real terms using the inflation rate at June of each year calculated from the Consumer Price Index.

Table 4: Home Loan Repayments

mortgage (\$)	interest rate (% pa)								
	8.75	9.50	10.50	11.00	11.50	12.00	12.50	13.00	13.50
	monthly mortgage repayments (\$)								
10,000	82	87	94	98	102	105	109	113	117
20,000	164	175	189	196	203	211	218	226	233
30,000	247	262	283	294	305	316	327	338	350
40,000	329	349	378	392	407	421	436	451	466
50,000	411	437	472	490	508	527	545	564	583
60,000	493	524	567	588	610	632	654	677	699
70,000	576	612	661	686	712	737	763	789	816
80,000	658	699	755	784	813	843	872	902	933
90,000	740	786	850	882	915	948	981	1015	1049
100,000	822	874	944	980	1016	1053	1090	1128	1166