



RESEARCH NOTE

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Home Mortgage Trends

Introduction

The cost of purchasing a home is regularly a subject of public discussion. Along with changes in interest rates attention usually focuses on the amount of money borrowed by home buyers and it is quite common for commentators to refer to an average mortgage of \$100,000. This Research Note examines trends in mort-

gages and concludes that the typical home buyer in the Australian 'mortgage belt' has a mortgage rather smaller than popular perception suggests.

Trends in Mortgage Size

Table 1 and Chart 1 show that since the deregulation of the housing finance market in April 1986, there has been 44 percent

increase in real terms (that is after allowing for the effects of inflation) in the size of the average new mortgage. Almost half of this increase occurred in just two years - 1987-88 and 1988-89 which was a period of surging house prices. Further large increases in the average new mortgage occurred in 1992-93 and 1993-94 but this has not been accompanied by large rises in house prices. Although specific figures are unavailable, it seems generally agreed that the introduction of home loan arrangements which include other items of expenditure has distorted (upwards) recorded levels of mortgage lending.

It is important to note that average new mortgage is not the same as the average mortgage. The former refers to mortgages for a given year whereas average mortgage would include all people currently purchasing a home. Given that 80 per cent of home buyers have lived in their home for less than ten years¹, the large number of new housing loans in the last few years and the increase in average mortgage size over time, the analysis presented in Table 2 provides a useful basis for estimating the size of the average mortgage.

Table 1: Average New Mortgage 1976-77 to 1994-95 in nominal and real terms

Size of average new mortgage				
	No. of housing 'loans' ('000)	nominal dollars (\$)	real (1994-95) dollars (\$)	Change in real mortgage from previous year (%)
1976-77	254.9	20447	67310	
1977-78	249.1	22220	66777	-0.8
1978-79	270.6	23917	66443	-0.5
1979-80	276.3	25396	63996	-3.7
1980-81	271.7	27497	63400	-0.9
1981-82	228.9	28423	59292	-6.5
1982-83	232.2	30883	57760	-2.6
1983-84	314.5	33835	59289	2.6
1984-85	323.5	39957	67125	13.2
1985-86 ^a	275.9	41805	64784	-3.5
1986-87	279.3	45936	65076	0.5
1987-88	371.7	54103	71406	9.7
1988-89	359.7	63353	77925	9.1
1989-90	280.1	67690	77099	-1.1
1990-91	293.7	70739	76516	-0.8
1991-92	379.3	75239	79867	4.4
1992-93	453.1	81170	85288	6.8
1993-94	544.5	87846	90631	6.3
1994-95 ^p	451.2	93734	93734	3.4

^a Figures before and after the deregulation of housing finance, which occurred in April 1986 are not directly comparable. Prior to this housing finance usually comprised a 'cocktail' arrangement consisting of a standard mortgage together with a personal loan typically at a higher interest rate and for a shorter duration. Consequently, the pre 1986-87 figures shown here understate the 'true' mortgage size.

^p preliminary

¹ Australian Housing Survey, Selected Findings 1994, ABS Cat. no. 4181.0

The five years 1990-91 to 1994-95 account for 67 per cent of the finance lent and 58 per cent of the loans arranged over the last decade. Consequently it is reasonable to suggest that the typical mortgage is between \$75,000 and \$80,000. This is considerably lower than the average new loan of almost \$96,000 recorded for the first three months of 1995-96.

Another feature of the mortgage scene is the variation in the size of mortgages between states, particularly NSW, as shown in Chart 2. Excluding NSW, the average new mortgage in Australia in 1994-95 was \$86,361 - some 22 per cent below the NSW figure. The considerable disparity in mortgage size between NSW and the rest of Australia means that

home ownership is a far more expensive pursuit in NSW (specifically Sydney) than elsewhere.

Sources: Australian Bureau of Statistics *Housing Finance* (Cat. no. 5609.0)

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Chart 1: Average new mortgage size since financial deregulation

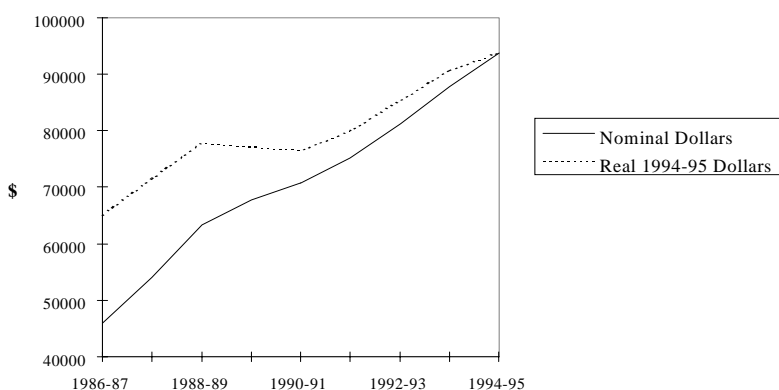


Table 2: Summary of Housing Finance 1985-86 to 1994-95

	Amount 'lent' (\$m nominal terms)	Number of loans ('000)	Average new mortgage (\$)
5 years 1985-86 to 1989-90	86 222	1566.7	55 034
5 years 1990-91 to 1994-95	176 217	2121.8	83 051
10 years 1985-86 to 1994-95	262 439	3688.5	71 151

Chart 2: Average New Mortgage by State 1994-95

