The home ownership puzzle: Affordability at breaking point

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Owning a home has long been the cornerstone of the Australian dream. But for younger generations, that dream is slipping further out of reach. Today, the path to ownership is defined by record deposit hurdles, high mortgage repayments and the sharpest generational divide in housing access in modern history.

What is housing affordability?
At its core, housing affordability is the relationship between household income and housing costs.

For aspiring home owners, it is commonly measured in two ways:

- **Mortgage serviceability:** the share of income required to meet home loan repayments.
- **Deposit gap:** the time it takes to save the upfront costs of buying a home — typically a 20% deposit plus transaction costs such as stamp duty.

These headline figures only tell part of the story. Affordability pressures fall unevenly, with first-home buyers, younger Australians and lower-income households facing far greater barriers than the median suggests.

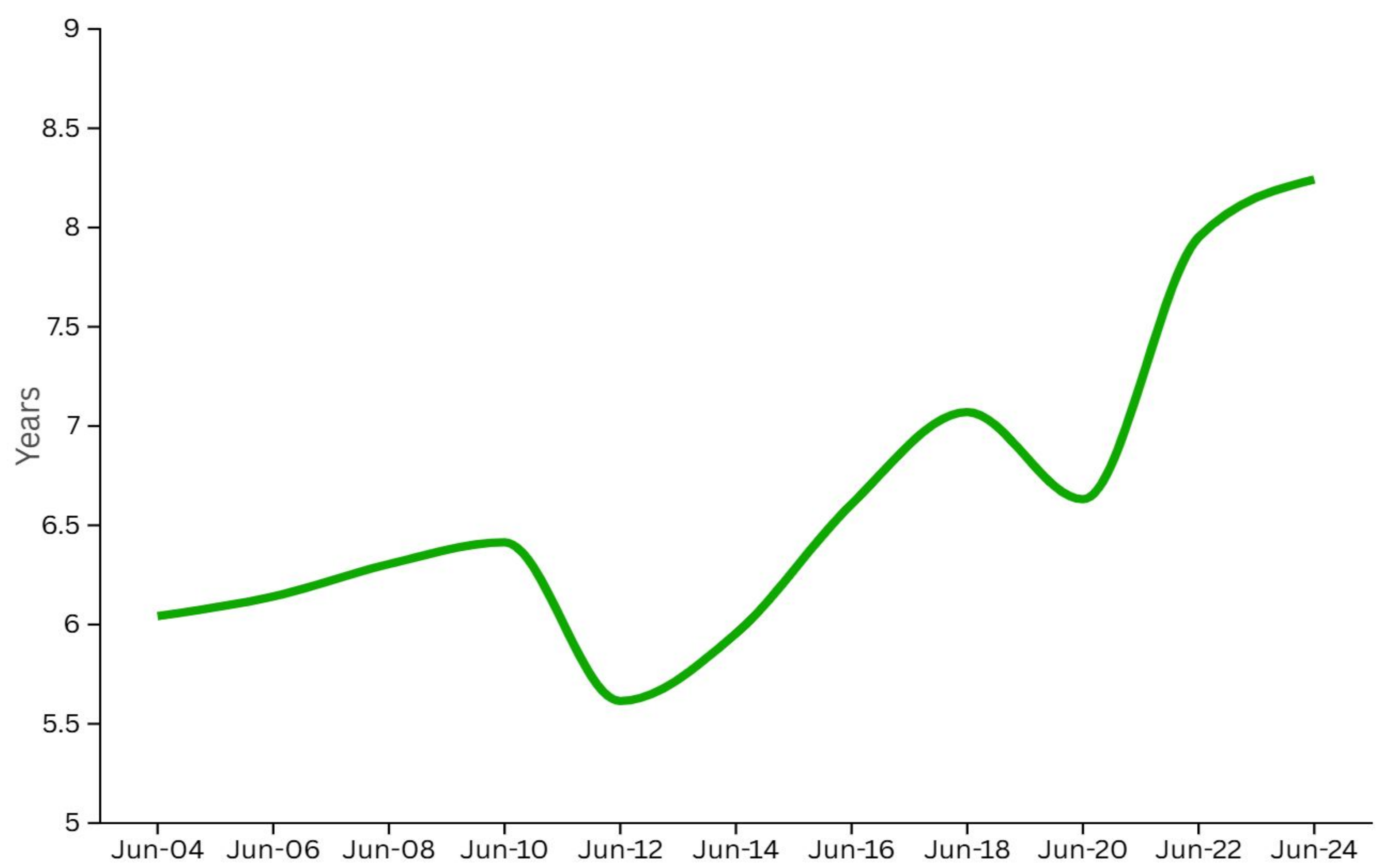
Affordability is also highly dynamic. Long periods of low interest rates have boosted property values and lifted deposit requirements, while short-term shocks — from higher borrowing costs to shifts in supply and population growth — can rapidly alter the equation.

Home ownership: Deposit barriers and mortgage costs climbing
The biggest hurdle for first-home buyers is the deposit gap (figure 1). The median-income household now needs over 8 years to save a 20% deposit — up from 6 years in the early 2000s.

Once over that hurdle, buyers face much higher mortgage repayments than in the past. A typical new loan now consumes around 54% of household disposable income — the highest level in at least 20 years (figure 2). Mortgage serviceability was steady from the early 2000s to 2022, when it began to deteriorate substantially following the significant increase in prices combined with rising interest rates. Lower interest rates in 2025 offered some relief but this has been partially offset by continued rises in home prices for aspiring home owners.

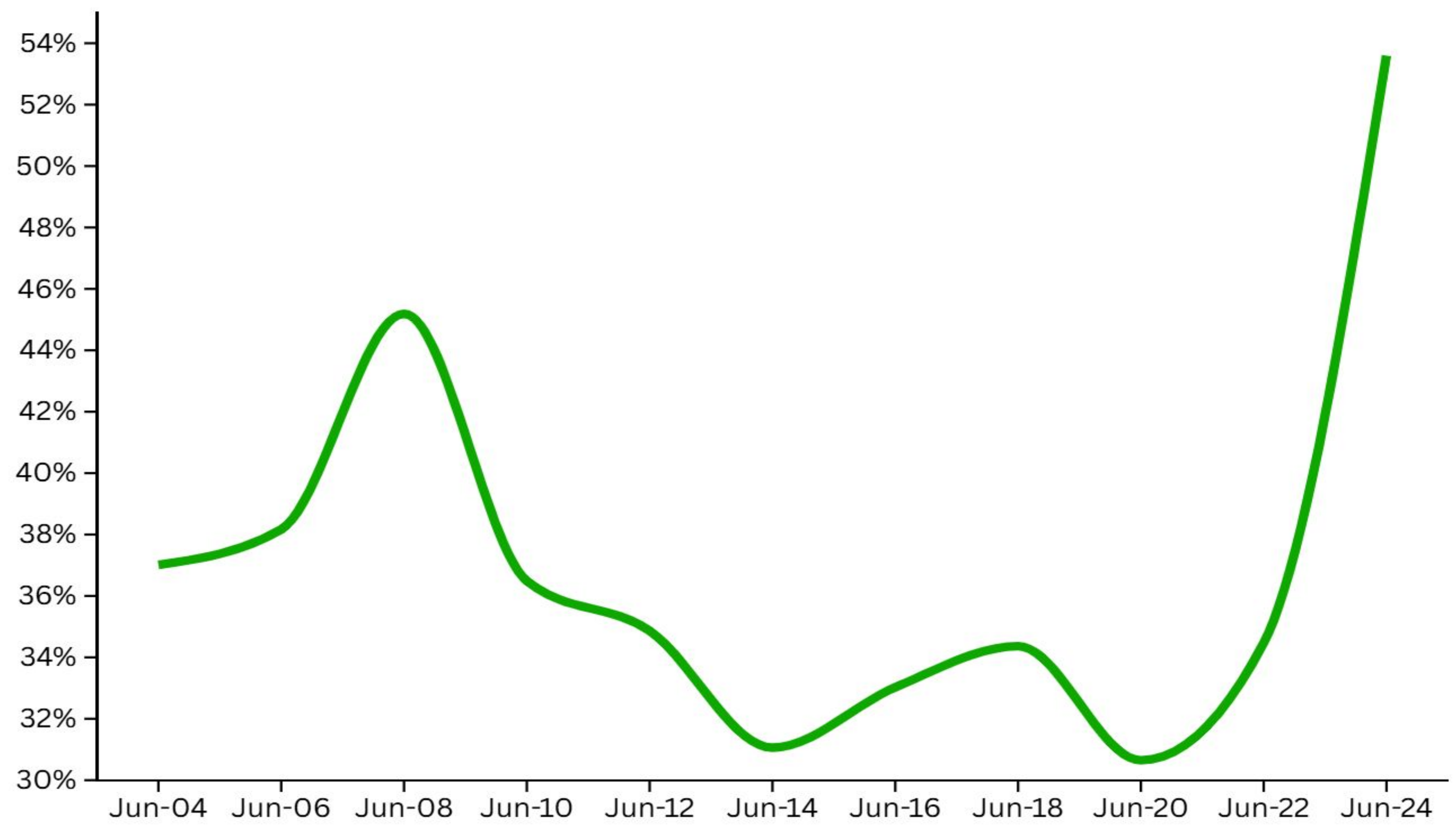
The effects are visible as younger Australians are far less likely to own a home than previous generations (figure 3). Home ownership rates for under-34s have dropped across every state, led by steep falls in New South Wales and Victoria (figure 4). Western Australia has seen smaller declines, but the generational gap is stark — those born in 1987–91 are far less likely to own a home than those born in 1947–51.

Figure 1. The time required to save a deposit has increased by years.



Source: ABS, Domain
Note: Assumes a 20% savings rate of gross household disposable income before interest payments and a 20% deposit on the stratified median house price across combined capital cities. Gross household disposable income is assumed to grow at the same rate as per capita gross disposable income from June 2022. Property taxes and first home buyer support schemes are excluded.

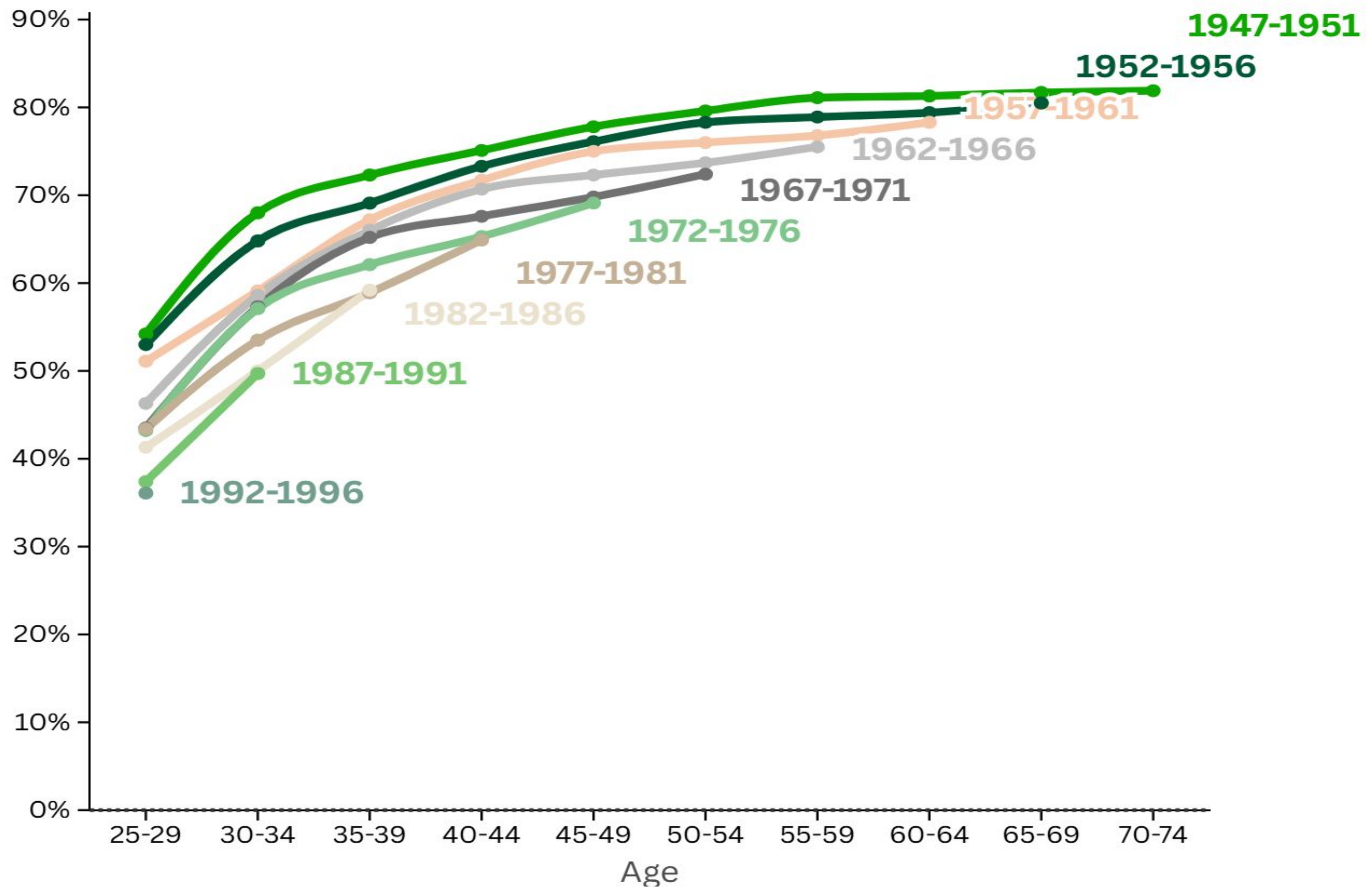
Figure 2. Mortgage repayments for new home owners have increased.
Per cent of household disposable income



Source: ABS, Domain
Note: Loan payments assumes a 80% LVR on median price house on a 30 year term being charged the average variable discounted rate for owner occupiers. Income is measured by household gross disposable income before interest payments. Gross household disposable income is assumed to grow at the same rate as per capita income from June 2022.

Figure 3. Home ownership rates have dropped across all age groups, especially for those under 34 years.

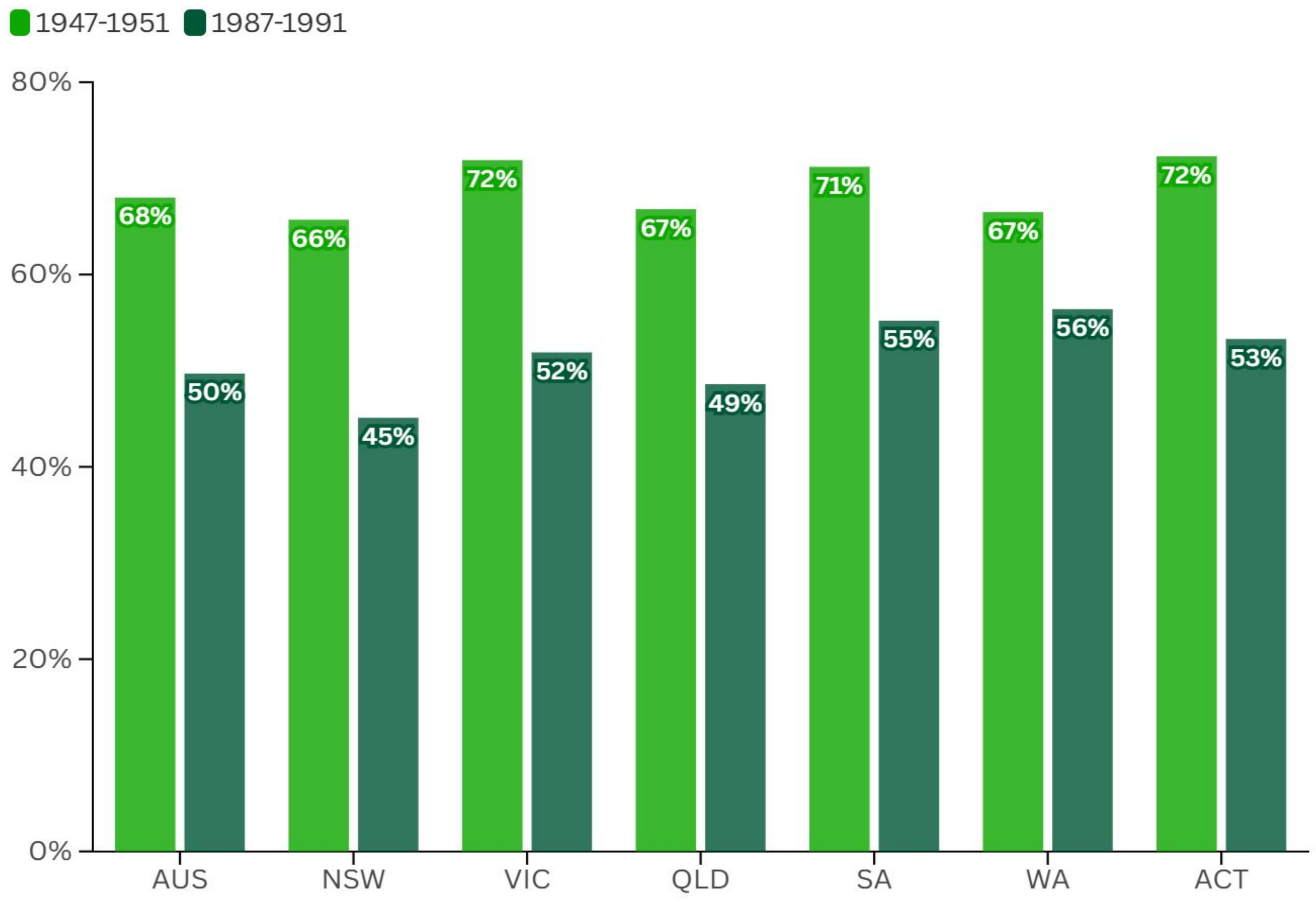
Home ownership rate by birth cohort and age group



Source: AIHW analysis of ABS data

Figure 4. Declines in home ownership rates among younger Australians have been sharpest in New South Wales and Victoria.

Home ownership rates for 30-34 year olds across birth cohorts



Source: Domain, AIHW analysis of ABS data

The drivers are largely structural:

- Long periods of low interest rates have boosted property values, which have boosted deposit requirements.
- Income volatility and insecure work make long-term borrowing riskier.
- Later marriage and families having fewer children may have shifted preferences towards renting versus home ownership.

Home ownership for younger households is hindered by high deposit requirements and rising property taxes, such as stamp duty

The long-term decline in global interest rates has increased asset values around the world, including Australian property prices. This has contributed to growing deposit requirements, which have made it harder for aspiring home owners to enter the market.

At the same time, the tax burden for home owners has increased over time. This is partly because stamp duty brackets remained largely unchanged in many states until 2019. As property values rose significantly over the same period, more buyers were pushed into higher tax brackets, increasing their overall tax burden.[1] In turn, this has added to the time it takes aspiring home buyers to save for a purchase and enter the market.

Reserve Bank of Australia research estimates that falling interest rates alone account for 90% of the observed decline in home ownership rates across the household age distribution,[2] with the benefits of cheaper credit accruing primarily to those who already owned property.[3]

A global phenomenon: Decline in home ownership among young households extends beyond Australia

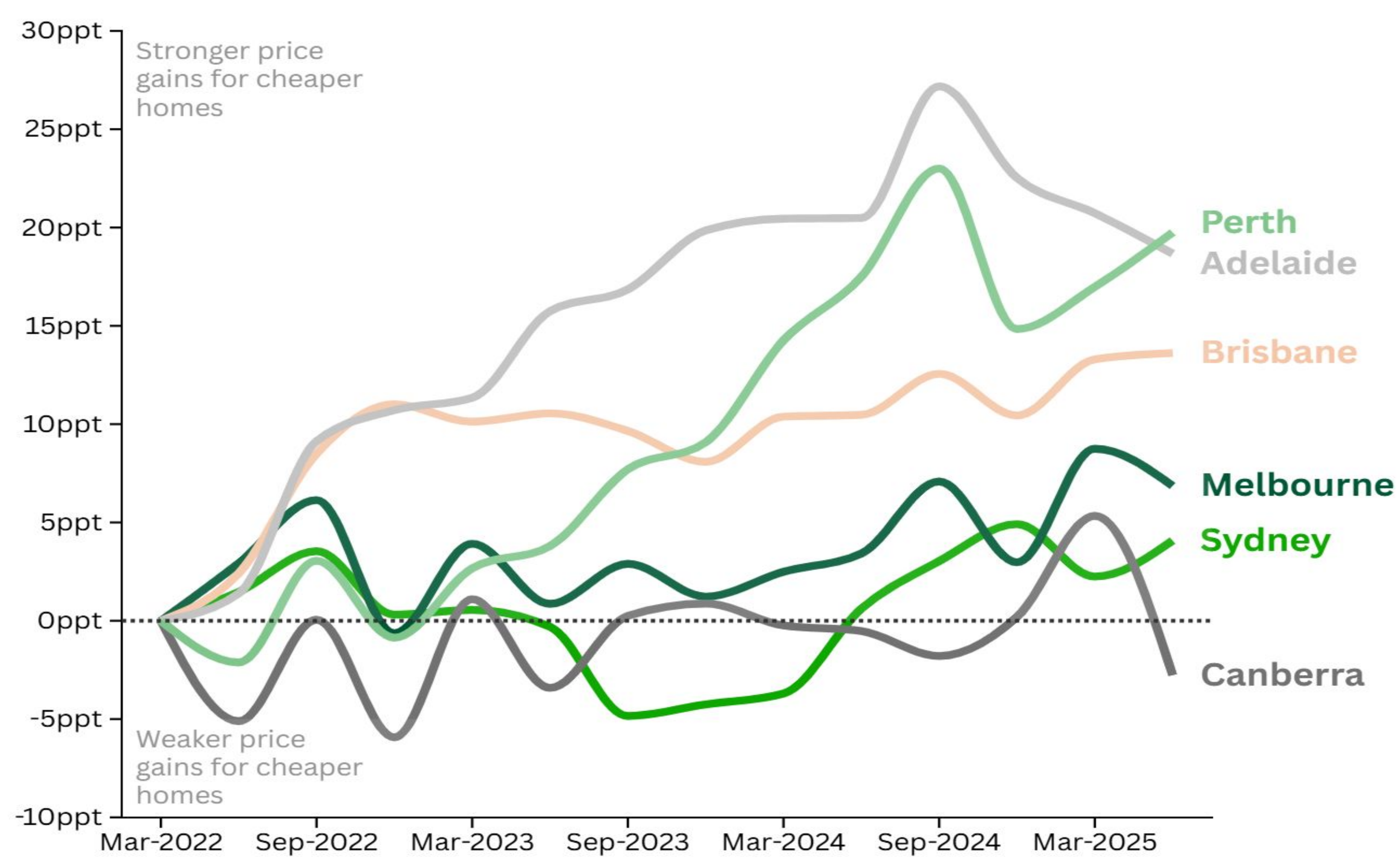
The home ownership prospects of young people are declining globally.[4] This is the case across Australia, the UK, the US and Europe.[5,6,7,8] International studies have also highlighted that the trend towards greater income risk, or job certainty, and the trend towards marrying later are also important factors that have driven home ownership rates lower.[9,10]

Buyer behaviour is evolving

Affordability pressure is reshaping demand patterns. Lower-price homes have outperformed premium properties in price growth since 2022 in most cities (figure 5). This relationship is most stark in Perth, Brisbane and Adelaide, which have experienced a sharp rise in prices.

Figure 5. Cheaper homes have experienced stronger prices in most cities since 2022.

Cumulative difference in house price growth between 25th and 75th percentile



Source: Domain

Search trends reflect this shift, with “dual”, “granny” and “duplex” now breaking into the top ten most-searched terms – none of which featured just a few years ago, reflecting rising interest in affordable and higher-density housing (table 1).

Table 1. Affordable-related search terms are seeing increased usage.

Australia’s top keyword searches		
Rank	**FY25**	**FY21**
1	Waterfront	Pool
2	Pool	Waterfront
3	View	New
4	Dual	Study
5	Beach	Balcony
6	Granny	Courtyard
7	Garage	Beach
8	Duplex	Shed
9	Study	Garage
10	North	Garden

Source: Domain

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Policy Implications

Australia’s housing affordability challenge is defined by the structural barriers to home ownership. Deposit requirements, stamp duty, lending standards and higher interest rates are combining to delay or block entry for aspiring buyers.

Reforms could focus on reducing these entry barriers by:

- **Replacing stamp duty with a broad-based land tax,** to lower upfront costs and improve mobility.
- **Expanding shared-equity and low-deposit schemes,** to help first-home buyers bridge the deposit gap.
- **Reviewing lending standards,** to strike the right balance between financial stability and access to credit.

Broader tax reforms also warrant review, including:

- The structure of income taxes.
- Negative gearing and capital gains tax discounts on investment properties.
- The exemption of owner-occupied housing from the aged pension assets test.

With home ownership rates declining and entry barriers increasing – particularly for younger Australians – there is a growing imperative to tackle the structural drivers eroding access to home ownership. Doing so will require coordinated, sustained action across all levels of government, alongside industry and the community sector.

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