

Housing affordability: a 21st century problem

NRV3 Final Report

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Housing affordability: a 21st century problem





Outline

1. What's the problem?
2. How did it come about?
3. What's likely to happen in the future?
4. What can we do about it?

Key messages

Housing affordability problems:

1. are structural as well as cyclical
2. are greater for renters than for purchasers
3. create risks for the economy as a whole
4. arise because of the actions of those who do NOT have an affordability problem
5. are serious and are going to get worse

What's the problem?

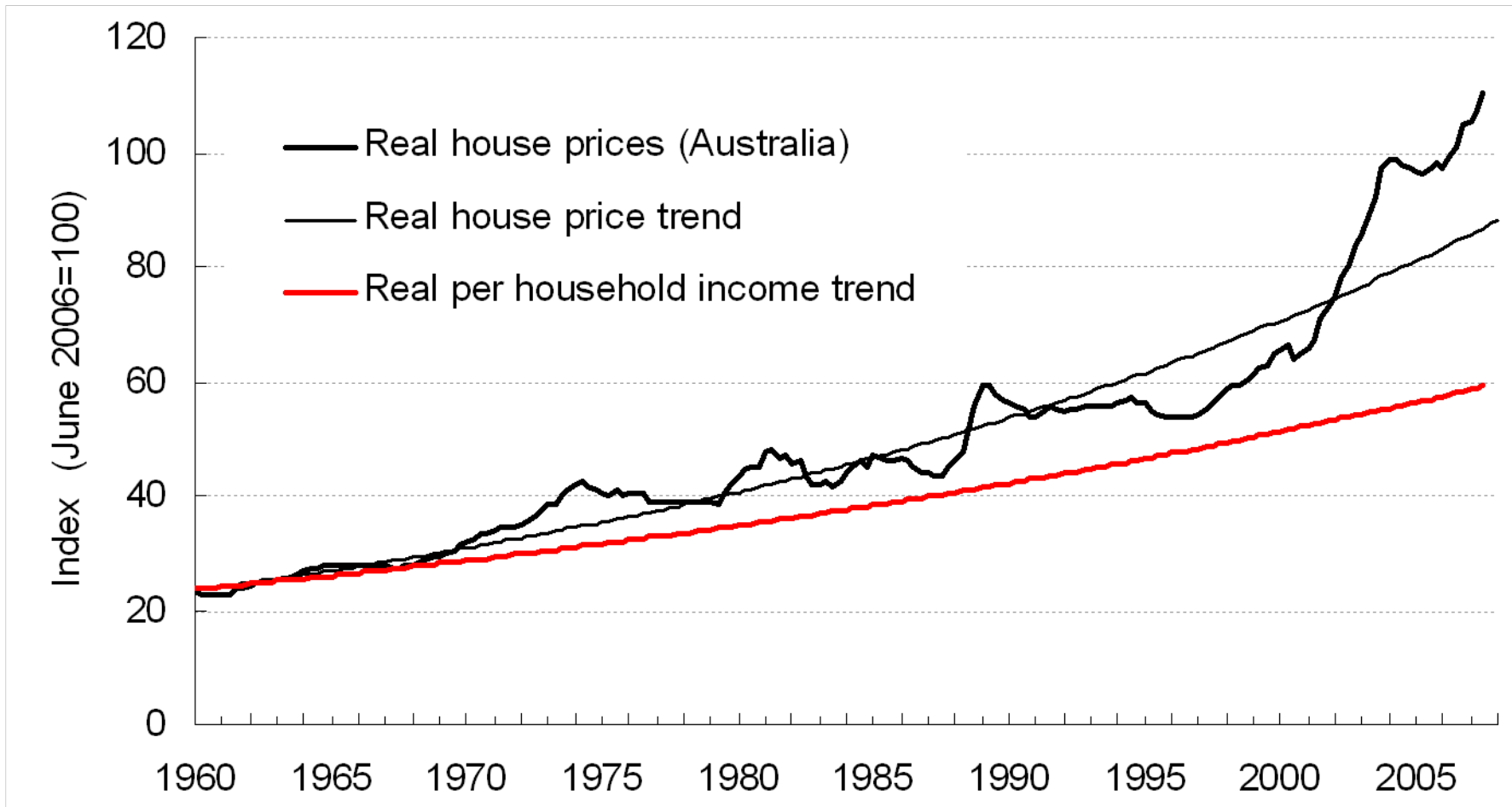
At individual/household level

- increasing costs of access to home ownership
- declining home ownership rates amongst young
- large numbers in mortgage stress
- large numbers in housing stress in private rental

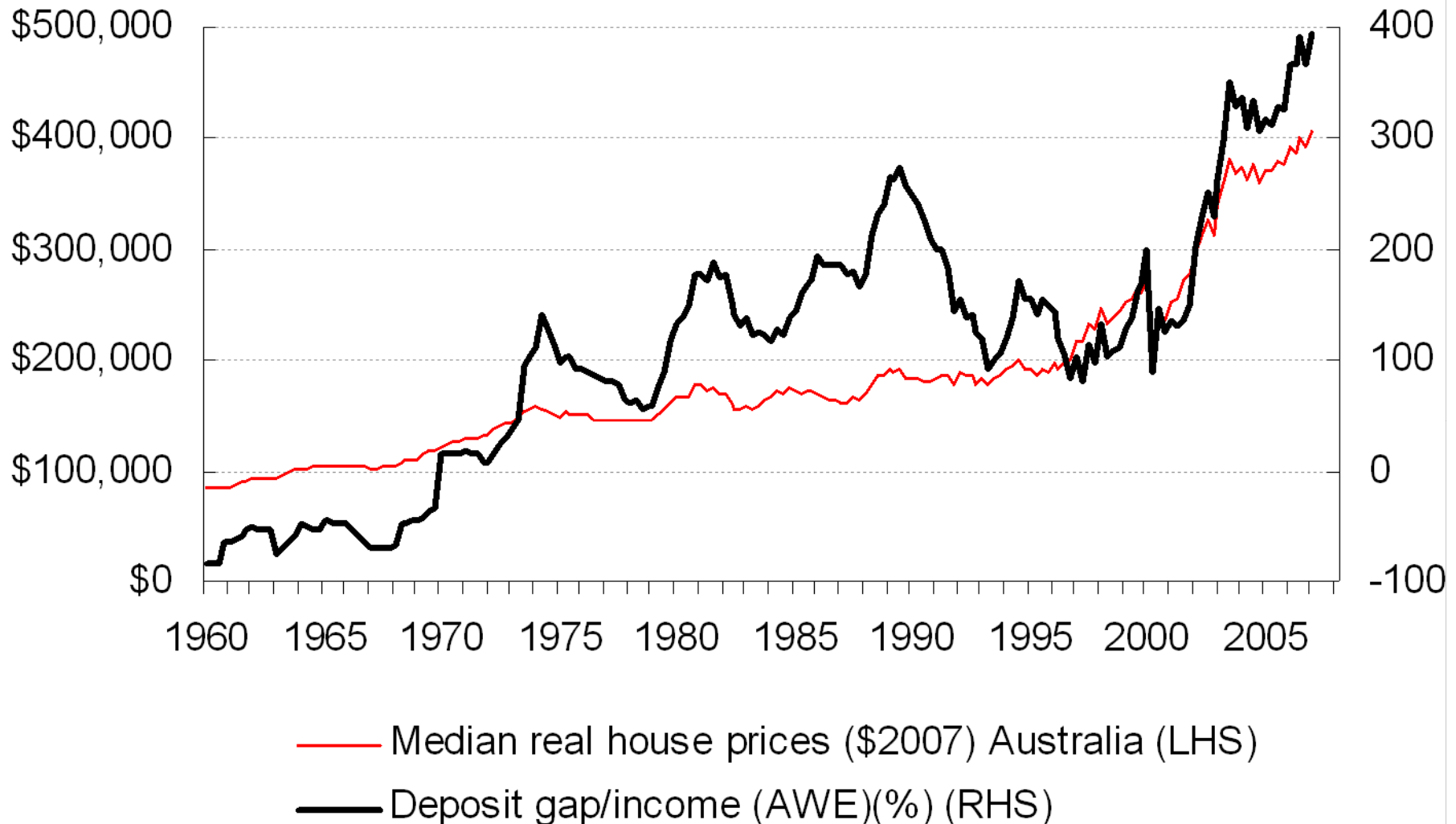
At economy wide level

- intra and intergenerational inequities
- labour market inefficiencies
- potential macroeconomic instability

Income and house price trends 1960 - 2007



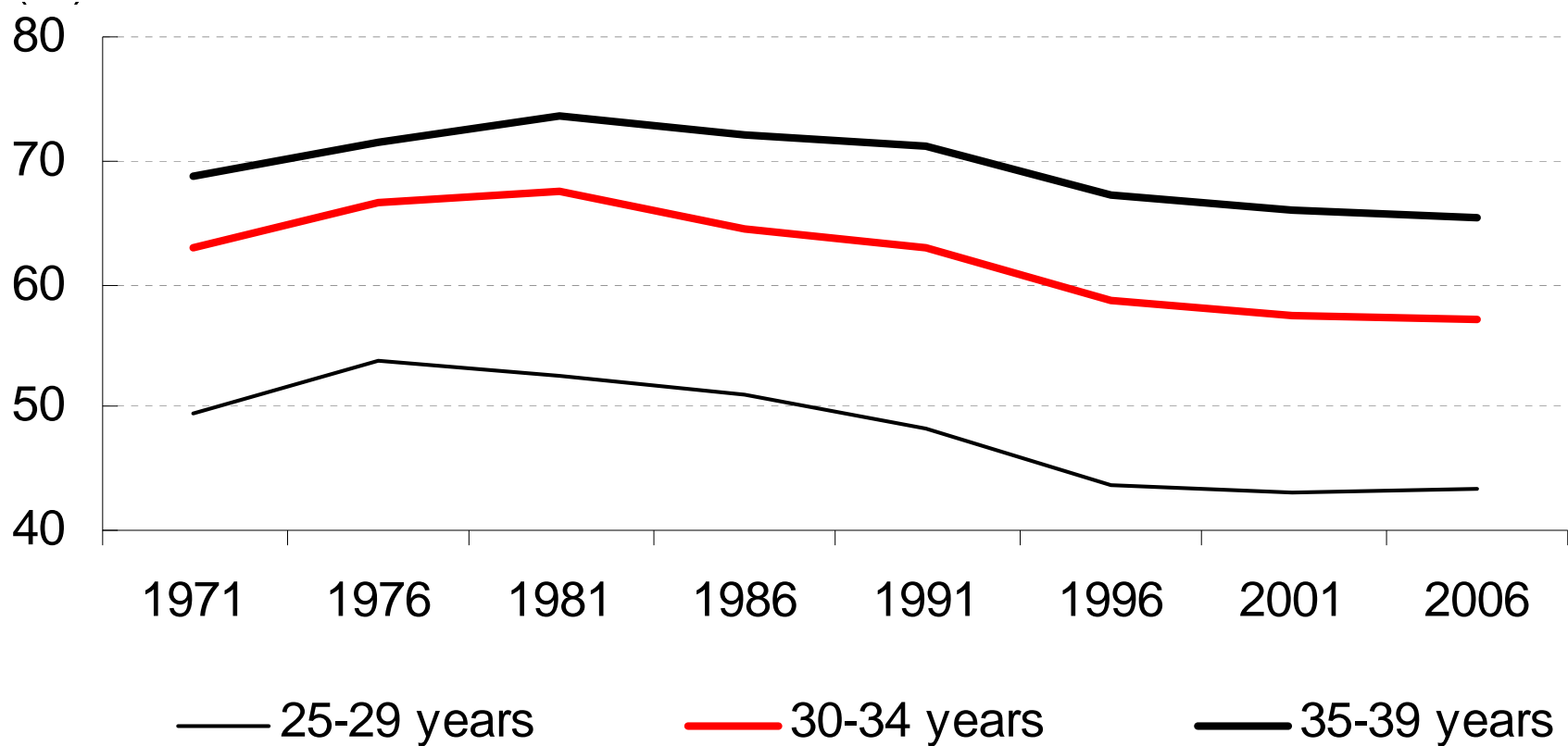
Deposit gap/income (AWE) ratio 1960-2007



Source: NRV3, FR; NRV3, RP11 + updates

Implications

age specific HO rates



Key message 1

Housing affordability problems are structural

- began 30-40 years ago (when inflation switched focus on housing from providing shelter security to providing wealth security)
- exacerbated by changes in CGT (in 1986 favouring owner-occupiers; in 1999 favouring investors)

What's the problem?

Housing serves a dual role

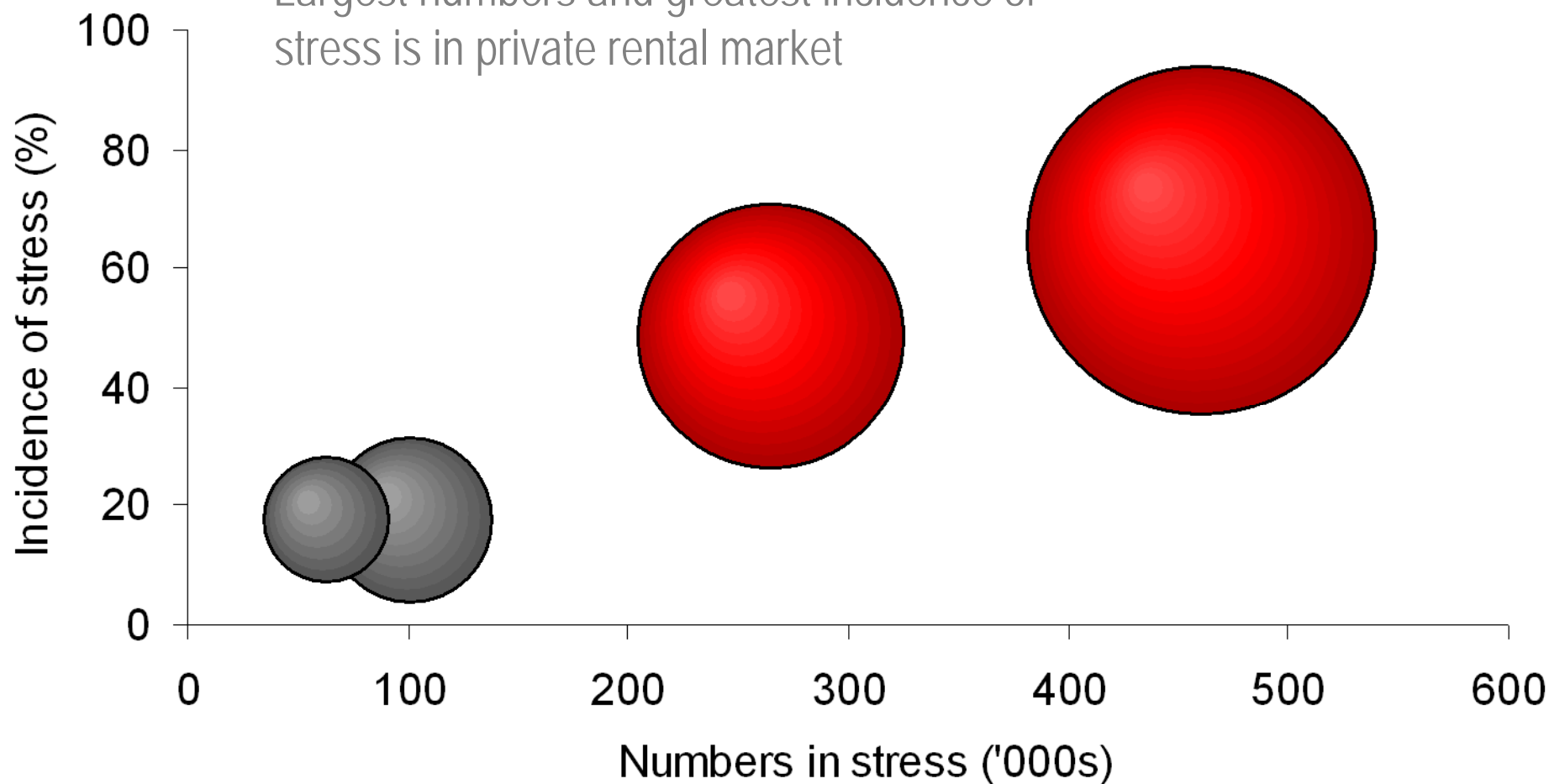
- consumption – provides shelter
- investment – provides wealth

Affordability problems arise because

- role as asset for wealthy crowds out
- role of shelter for less well off

Housing stress

- Largest numbers and greatest incidence of stress is in private rental market



Key message 2



Housing affordability problems are greater for renters than for purchasers

What's the problem?

At individual/household level

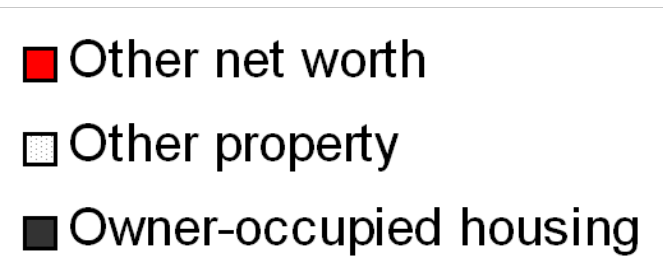
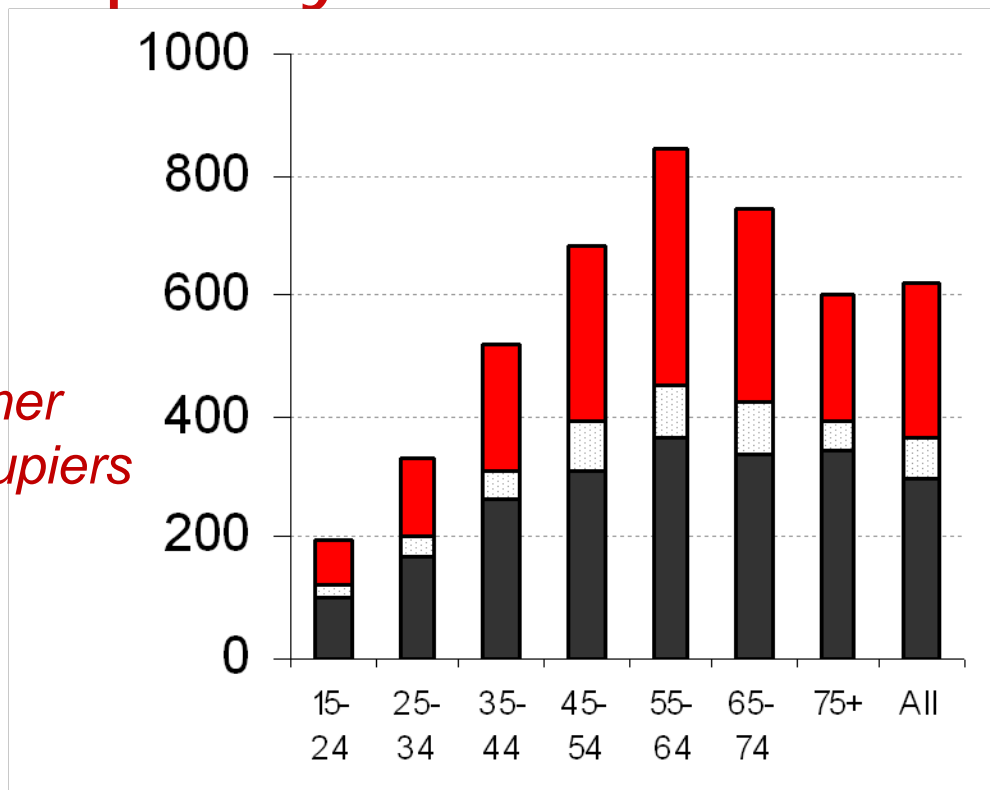
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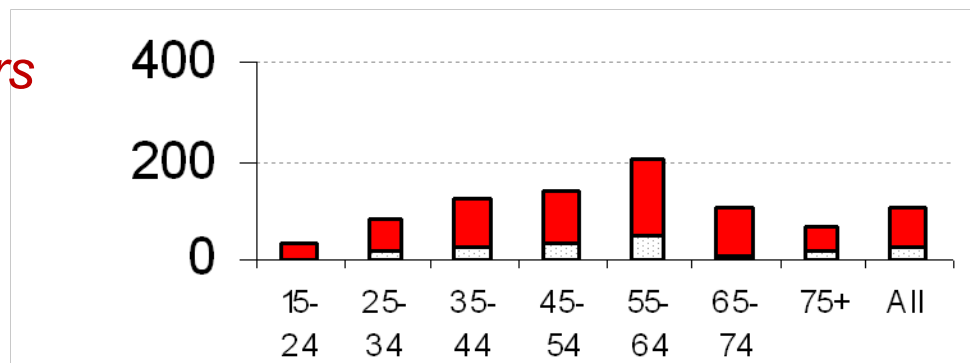
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Inequality

*Owner
occupiers*



Others





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Inefficiency



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Instability

Key message 3



Housing affordability problems create risks for the economy as a whole as well as problems for individual households

How did it come about?

From demand pressures

- increasing number of households (population growth + decreasing household size)
- increasing incomes
- increased availability of mortgage finance
- increasing wealth assisted by lack of capital gains taxes on owner-occupied housing
- spatial concentration of demand (in urban and coastal regions)

How did it come about?

On supply side

- increasing cost of land
- time taken for release of new land
- move to user pays for infrastructure financing
- increasing scarcity value well located land
- displacement of FHBs by rental investors (encouraged by taxation incentives)
- reduced supply of affordable private rental housing
- declining supply of social housing

Key message 4

Many housing affordability problems arise because of the actions of those who do NOT have affordability problems

- demand for well-located housing from established and well-off owners has fuelled affordability problem for newly formed and renter households
- established home owning households have benefited significantly from increases in house prices
 - through increases in value of owner-occupied housing and
 - through increases in value of rental housing

What's the future?

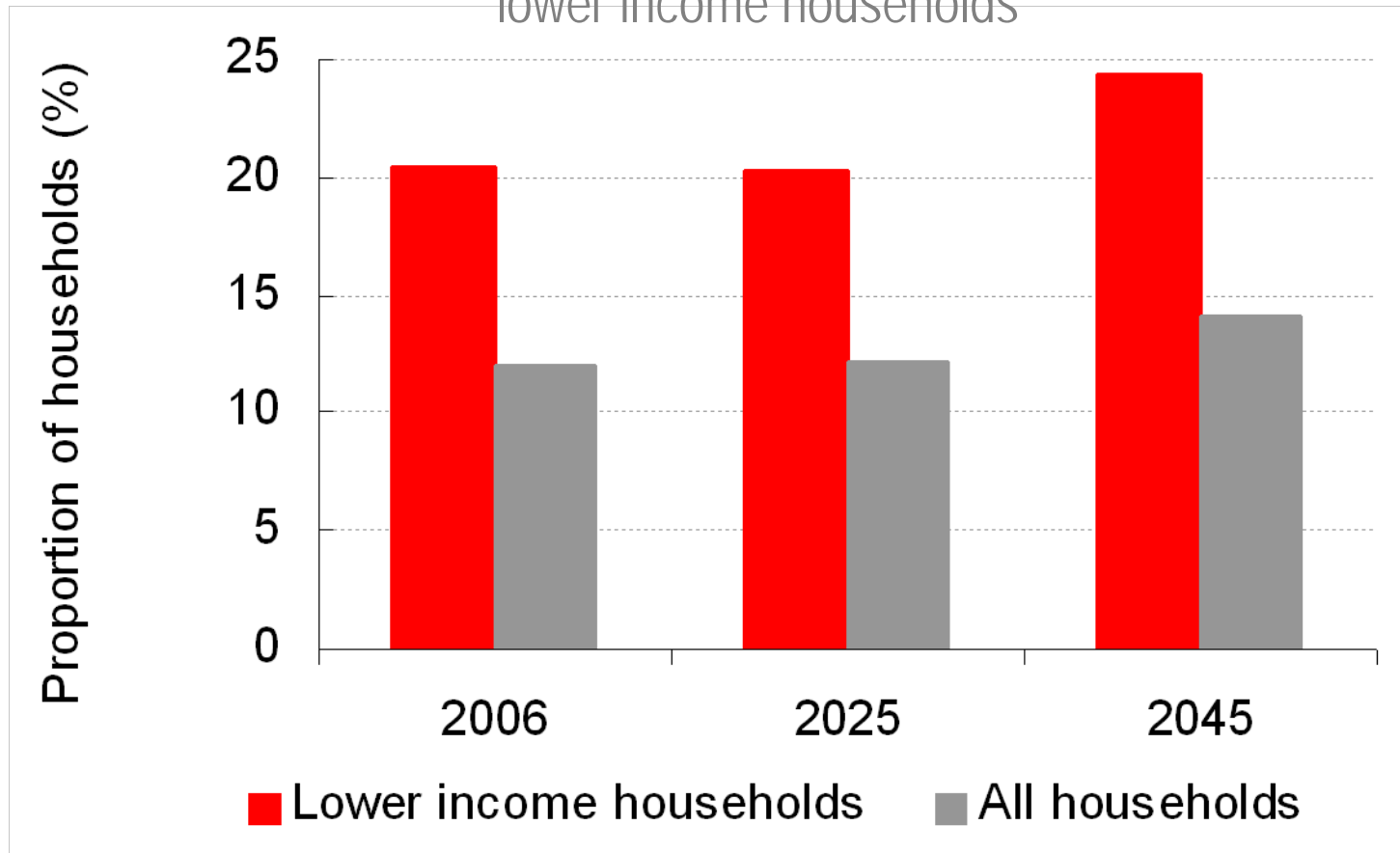
If current trends continue, increases numbers of lower income households in housing stress as a result of

- impact of decline in home ownership and
- impact of no growth in public housing.
- ageing of population.

Results in more older low income households in private rental by 2045.

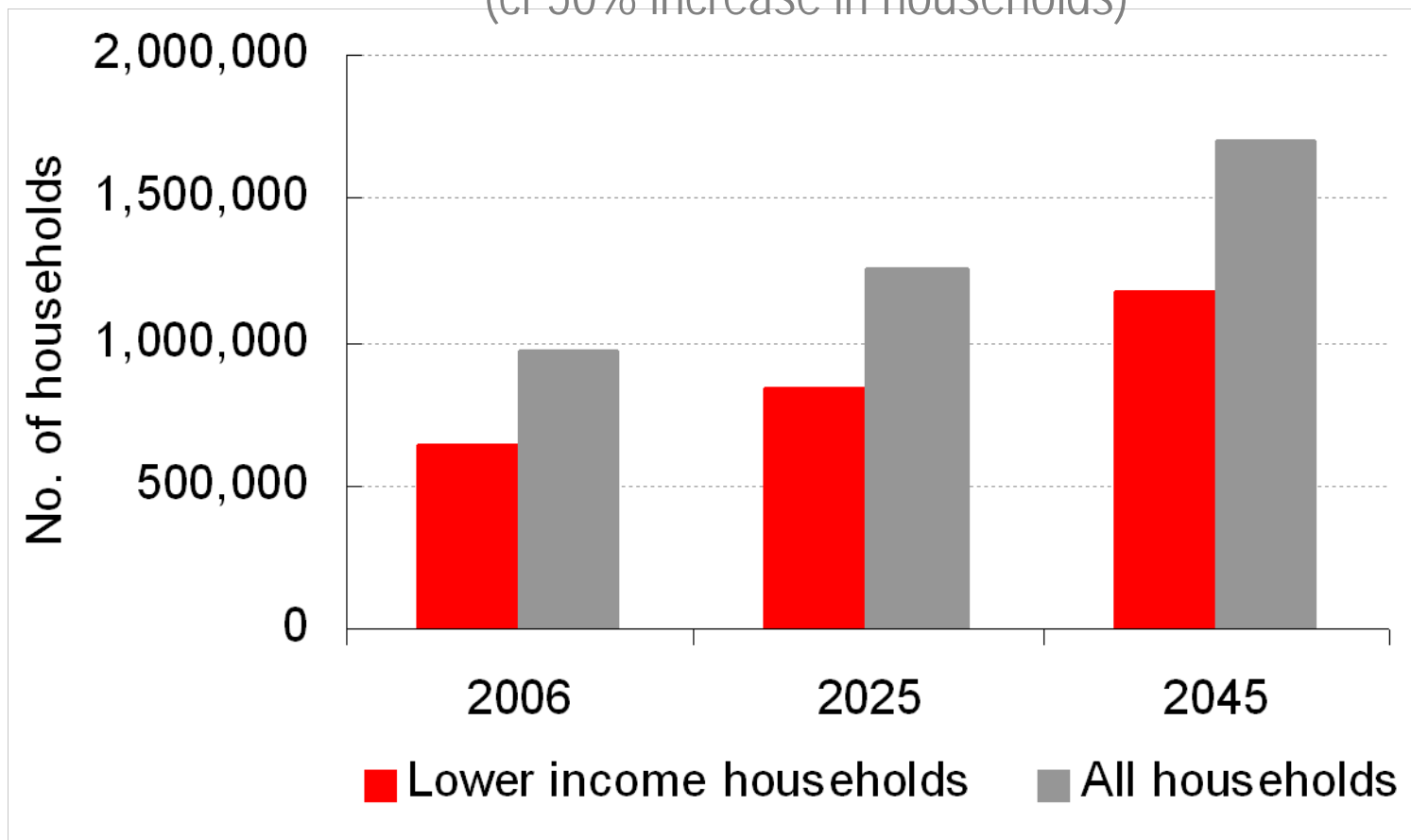
Projected incidence of housing stress

- 25% increase in incidence of stress for lower income households



Projected numbers in stress

- 77% increase in households in stress (cf 50% increase in households)

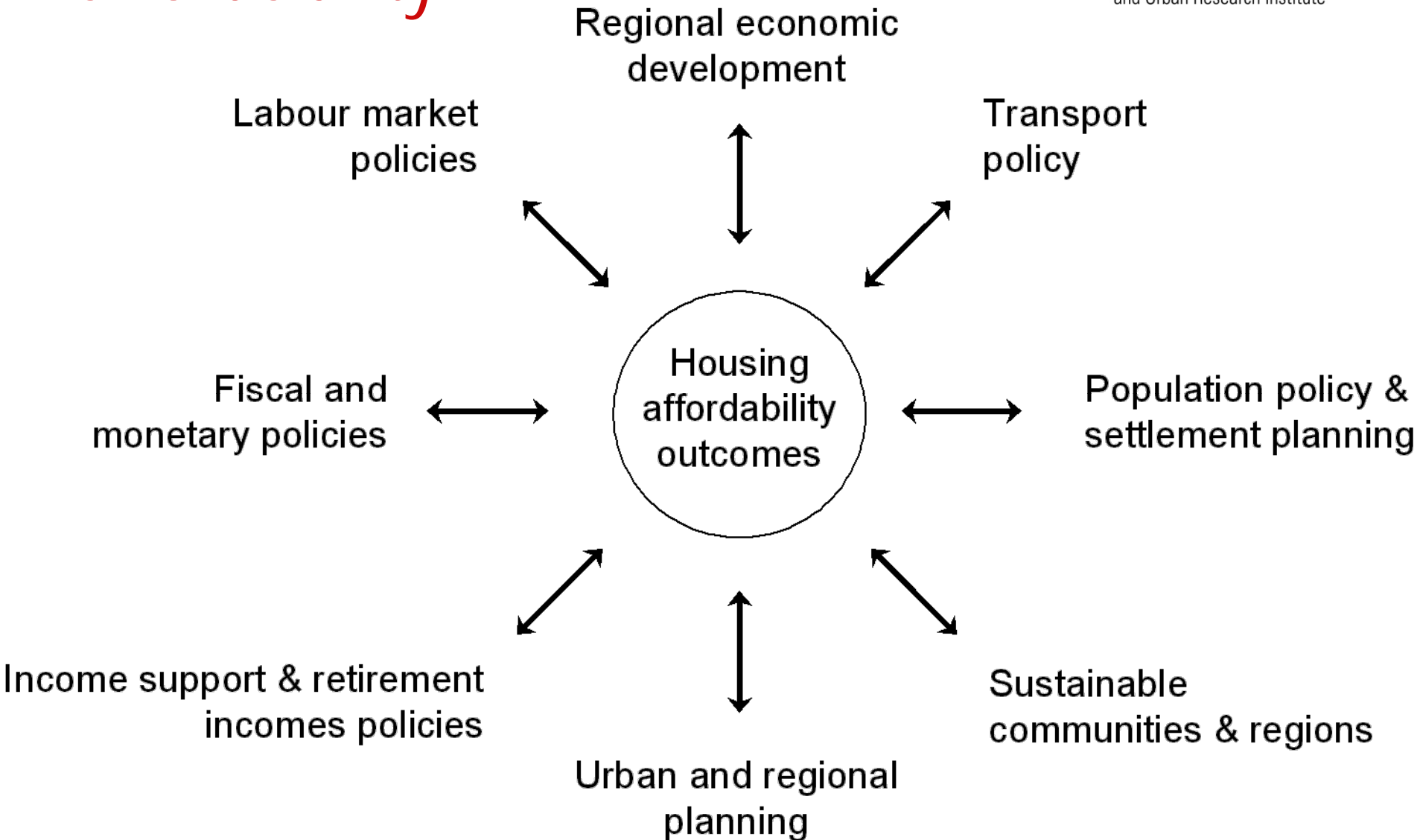


Key message 5



Housing affordability problem is serious and it is going to get worse

Policies affecting housing affordability



What can we do about it?



1. Recognise that housing outcomes go well outside range of housing policy
 - e.g. introduce housing impact statement

What can we do about it?

2. Reduce scarcity of desirable land

- Increase supply desirable land (infrastructure, transport etc)
- Reduce desirability of scarce land (decrease tax incentives for owning land; increase density)

What can we do about it?

3. Increase housing available for shelter for low to moderate income households

- Increase supply affordable rental housing
- Help marginal purchasers stay in their homes

Key policy messages

1. Systemic changes needed to reduce pressure on housing affordability over medium to long term
 - anticipate risks and address causes
2. Housing assistance measures required in short to medium term to assist individual households in stress or at risk of stress
 - ameliorate risks and address symptoms

None of us should think
it will be easy!!!