

HOUSING AS ECONOMIC INFRASTRUCTURE

PRESENTATION TO THE NSW FEDERATION OF HOUSING ASSOCIATIONS'
2018 AFFORDABLE HOUSING CONFERENCE

SYDNEY MASONIC CENTRE
28TH JUNE 2018

Housing is fundamental

“Everyone has the right to a standard of living adequate for the health and well-being of himself and his *[sic]* family, including ... housing”

- Universal Declaration of Human Rights (1948), Article 25

“... the Parties *[of which Australia was one]* recognize the right of everyone to an adequate standard of living for himself and his *[sic]* family, including adequate ... housing”

- International Covenant on Economic, Social and Cultural Rights (1966), Article 11

“Every Canadian deserves a safe and affordable home ... Affordable housing is a cornerstone of sustainable, inclusive communities and a Canadian economy where we can prosper and thrive”

- Canada’s National Housing Strategy (2017)

“When people are homeless it strips them of their dignity and hope ... When families move from place to place because they cannot find somewhere to settle, it takes a terrible toll on them, especially the kids ... When home ownership is out of reach people are denied the opportunity build an asset and build themselves up

- Phil Twyford, New Zealand Minister for Housing (2017)

“One of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will

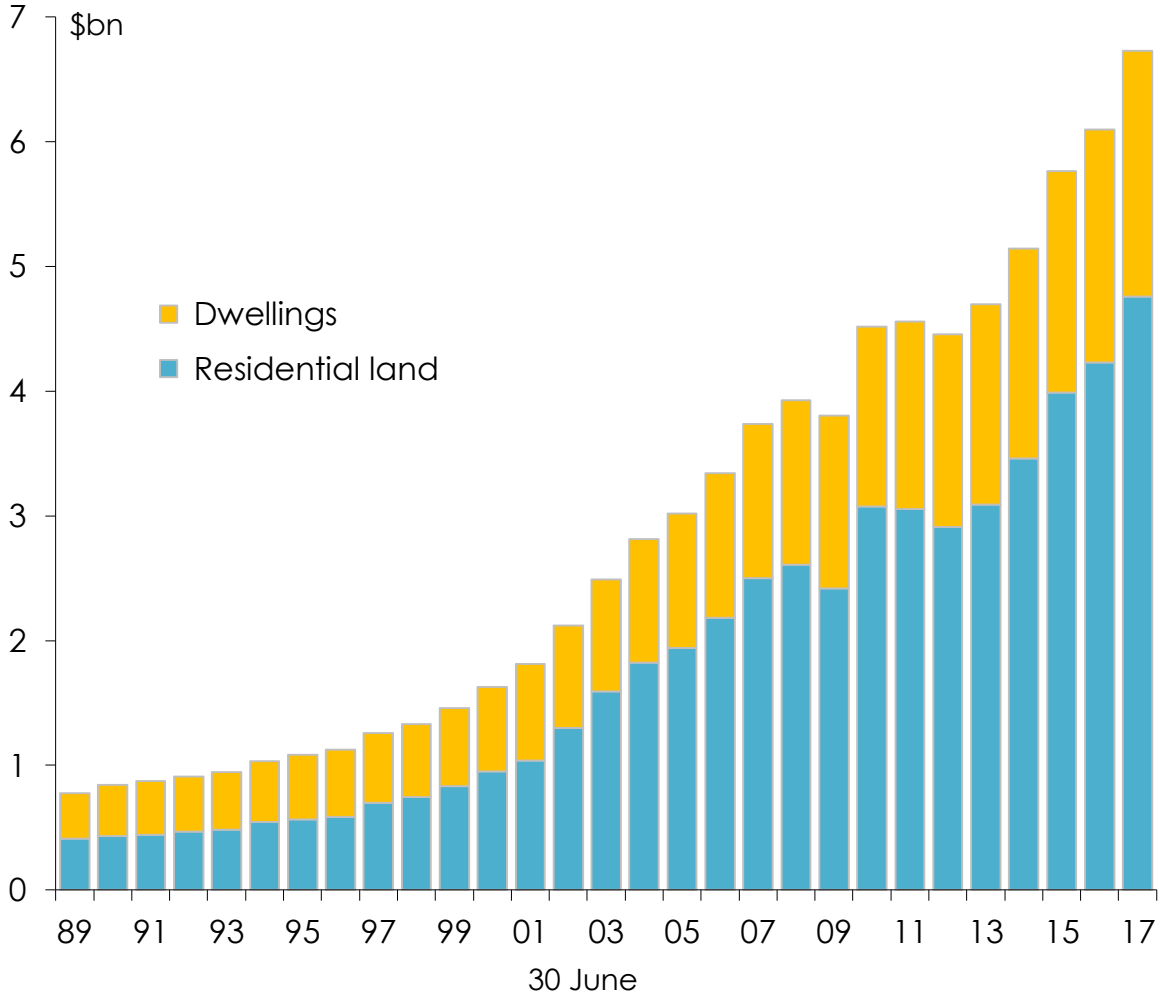
- Robert Menzies, ‘The Forgotten People’ (1942)

Access (or the lack of it) to housing has significant economic and social consequences

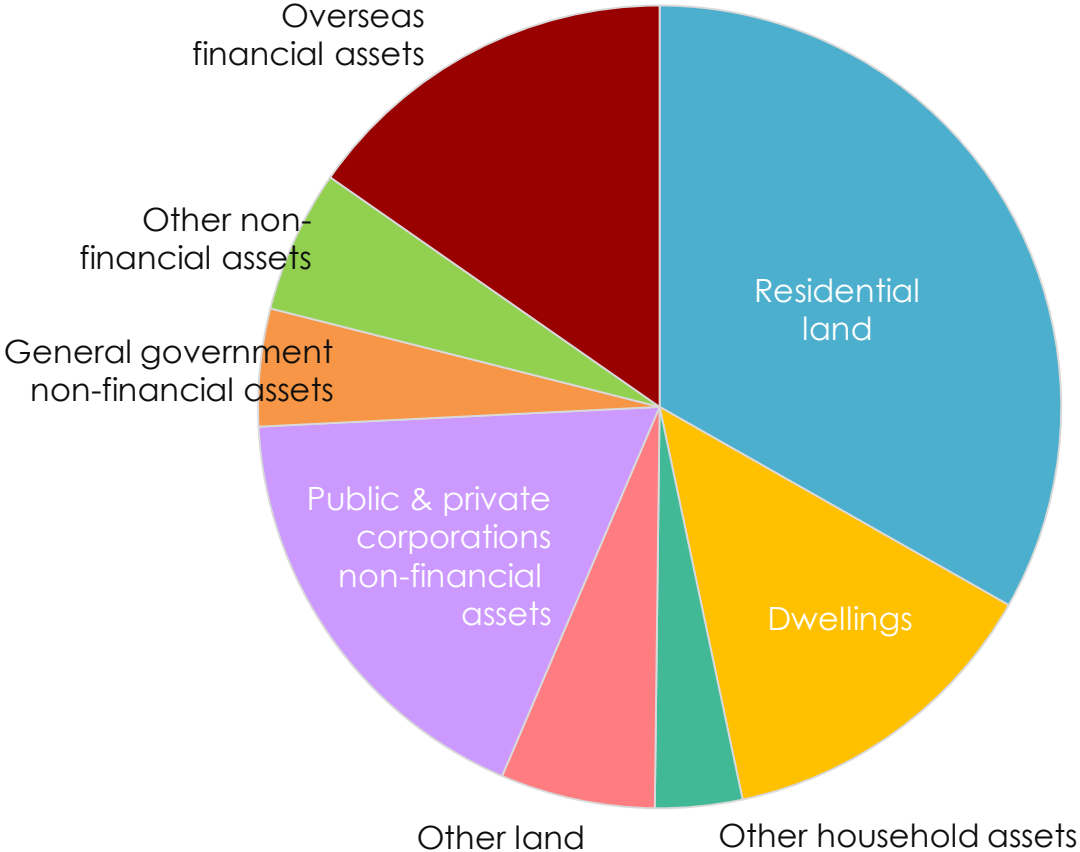
- ❑ **Housing is a significant component of household wealth**
 - residential property accounts for more than half the increase in household wealth since 1990
 - the wealthiest 20% of households own more residential property (by value) than all other households combined
 - An increasing proportion of Australian households are becoming unable to access home ownership, or to access it at the same stage of life as previous generations
- ❑ **The pursuit of property ownership has been a major driver of the increase in household debt**
 - household debt has risen from 67% to 189% of household disposable income since 1990
 - 107 pc pts of this 122 pc pt increase is attributable to housing debt
 - Australian households are much more sensitive to movements in interest rates than ever before – which acts as a constraint on monetary policy
- ❑ **Housing is a major component of household spending**
 - except for households who own their homes outright, housing costs are the largest component of household spending, accounting for 16-20% of total spending (28% for the poorest fifth of households)
- ❑ **Access to housing is an increasingly significant determinant of access to educational and employment opportunities**
 - deteriorating housing affordability may be exacerbating mis-matches between the demand for and supply of skilled labour, especially in city-based ‘knowledge industries’

Housing accounts for almost half of Australia's total national wealth

Value of residential land and buildings



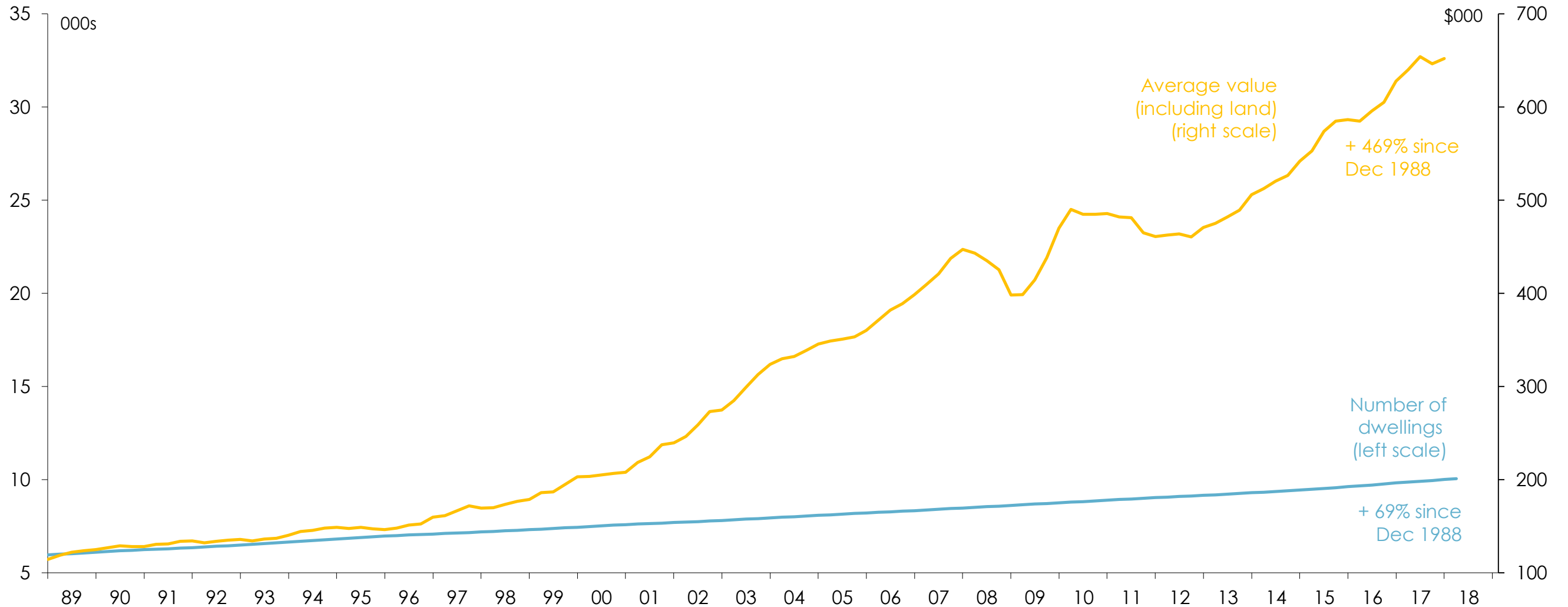
Composition of Australia's national wealth, 30 June 2017



Note: 'Wealth' in this chart is gross assets (ie, gross of liabilities). Financial assets (claims by one sector on another) net out, except for overseas financial assets.
 Source: ABS, Australian System of National Accounts (5204.0), 2016-17.

Only 8% of the increase in the total value of residential land and buildings over the last 30 years is attributable to growth in the number of dwellings

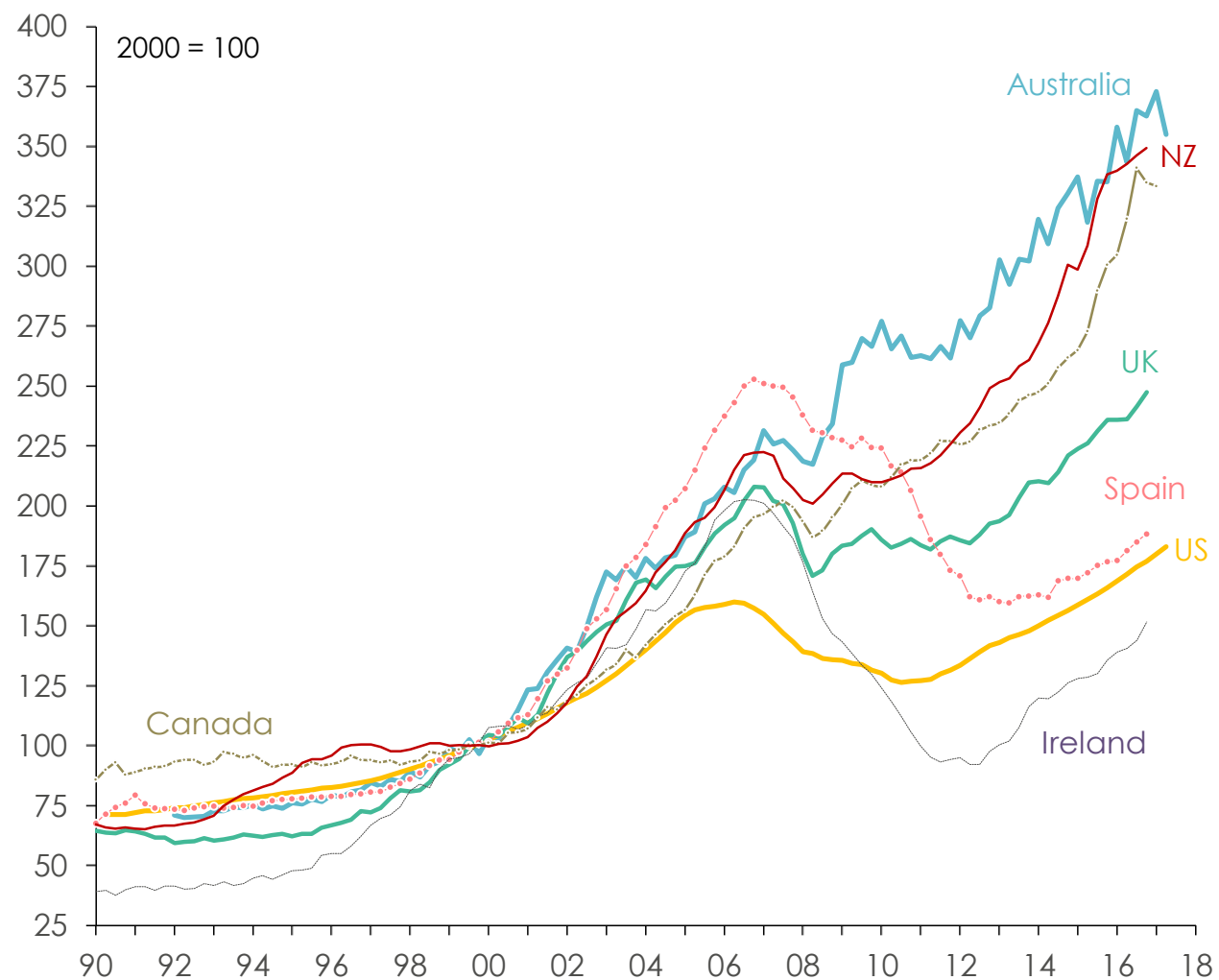
Number and value of Australian dwellings – 1988 to 2018



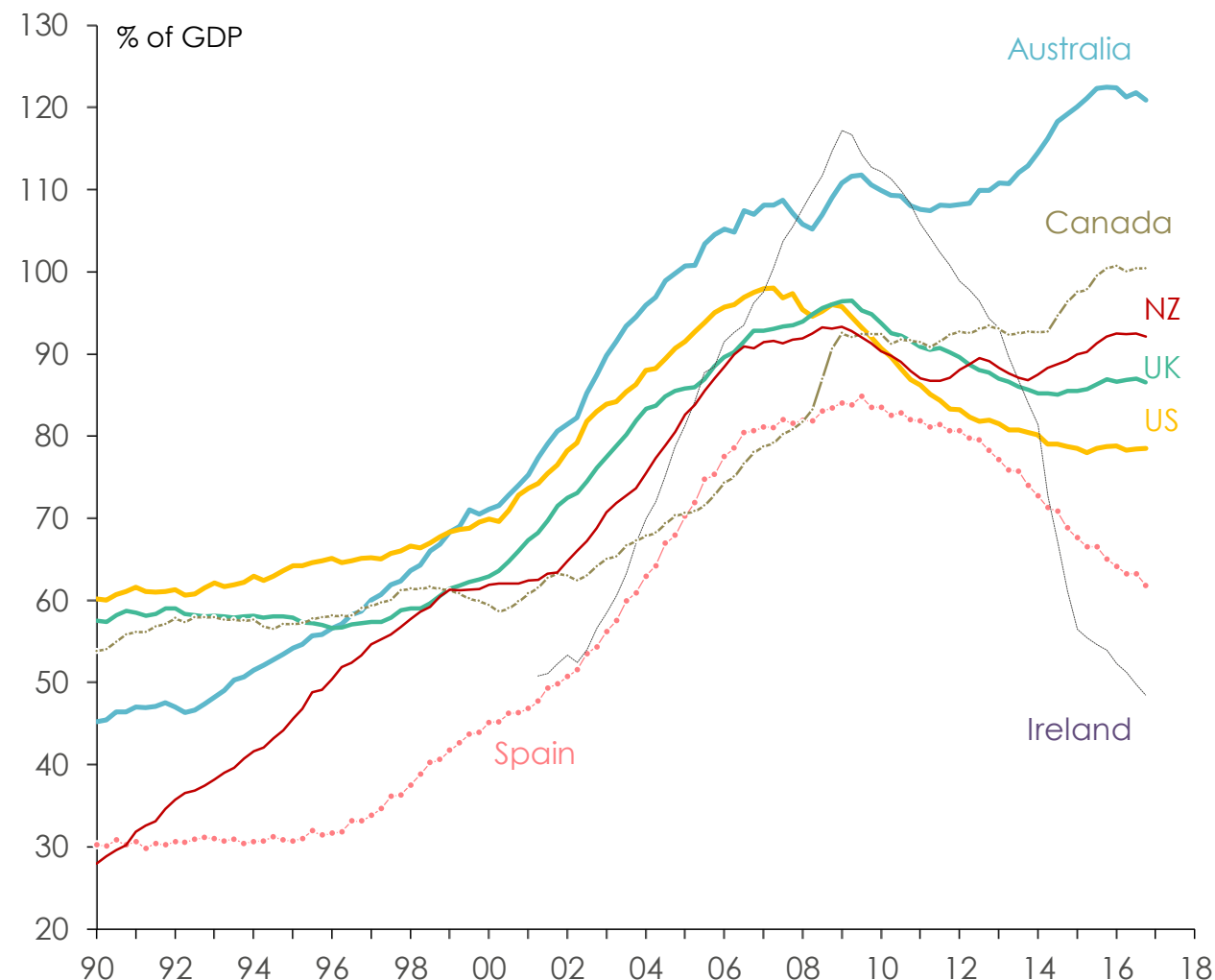
Sources: ABS, Australian National Accounts: Finance and Wealth (5232.0); RBA, Statistical Tables E1.

Australia now has amongst the world's most expensive urban residential real estate – and amongst the world's highest levels of household debt

Residential property prices – Australia and selected other 'advanced' economies



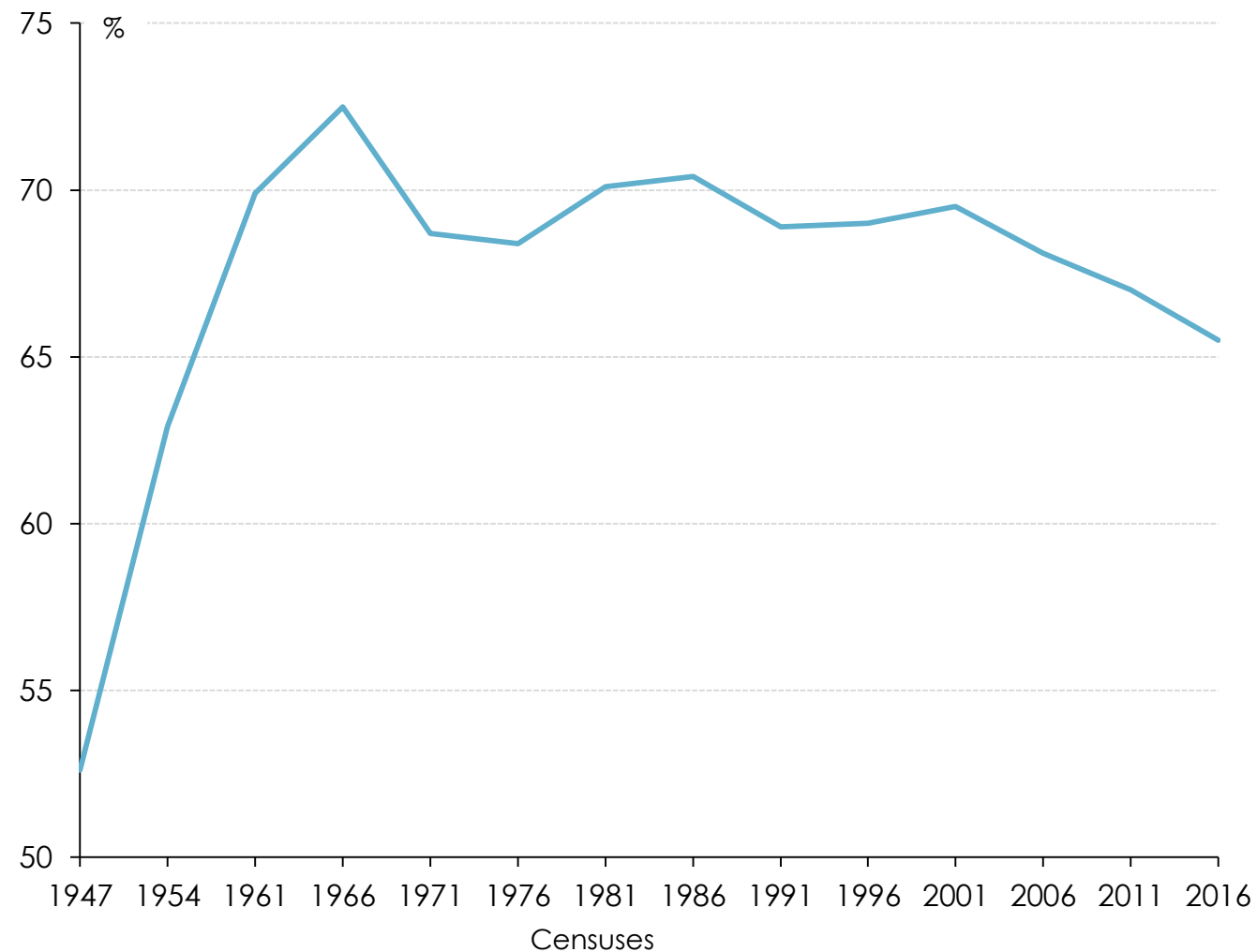
Household debt as a pc of GDP – Australia and selected other 'advanced' economies



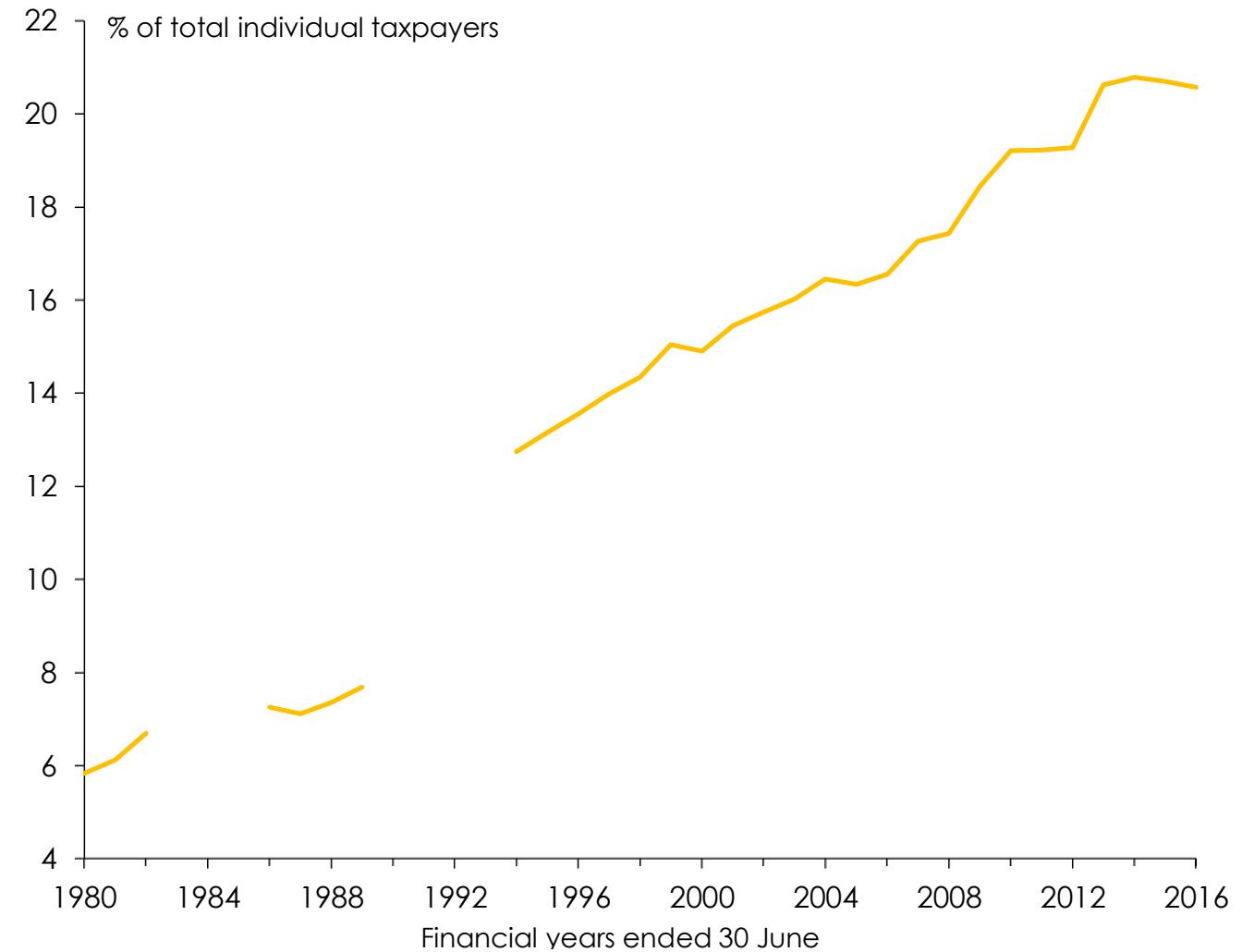
Sources: CoreLogic; Bank for International Settlements, Residential property prices: long series (nominal) and Credit to the non-financial private sector.

The ownership of Australia's housing stock has changed significantly over the past three decades ...

Home ownership rate



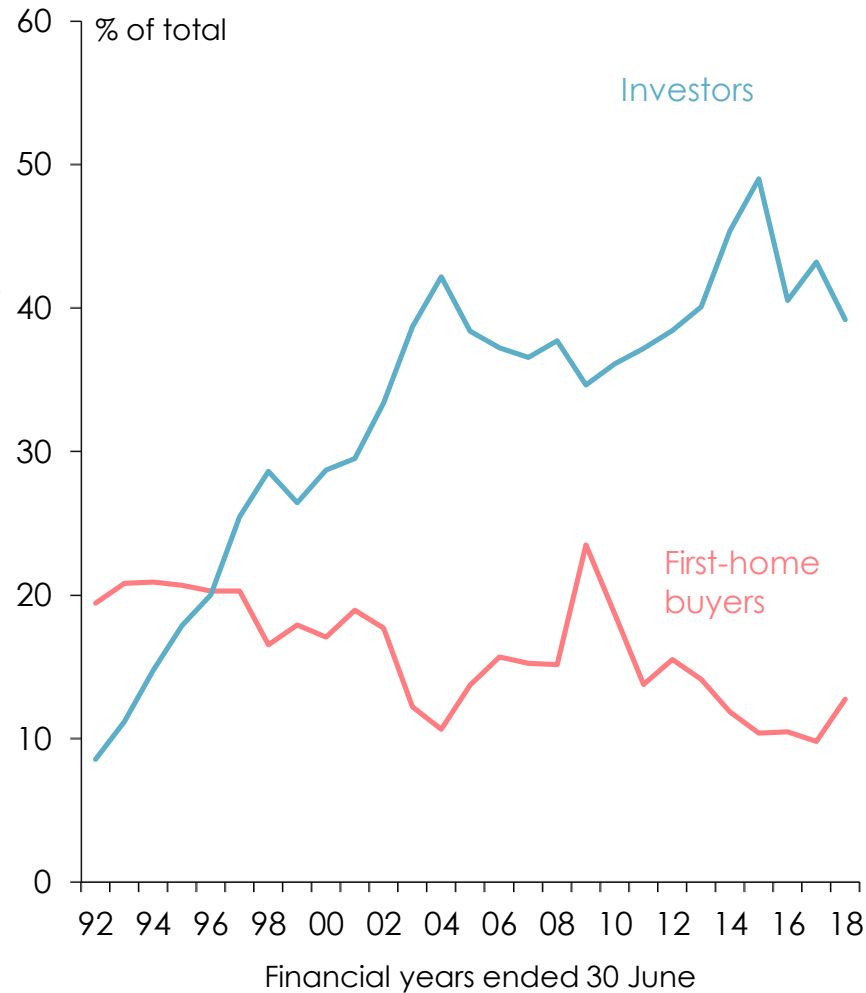
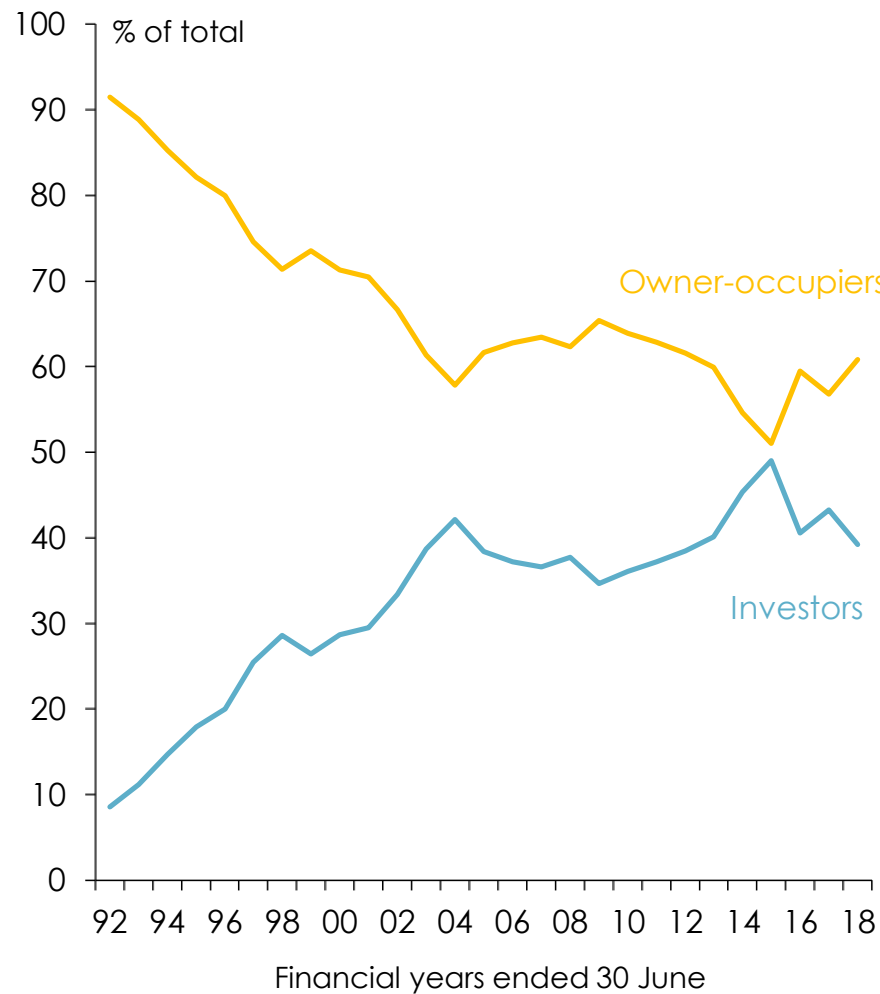
Taxpayers with rental income



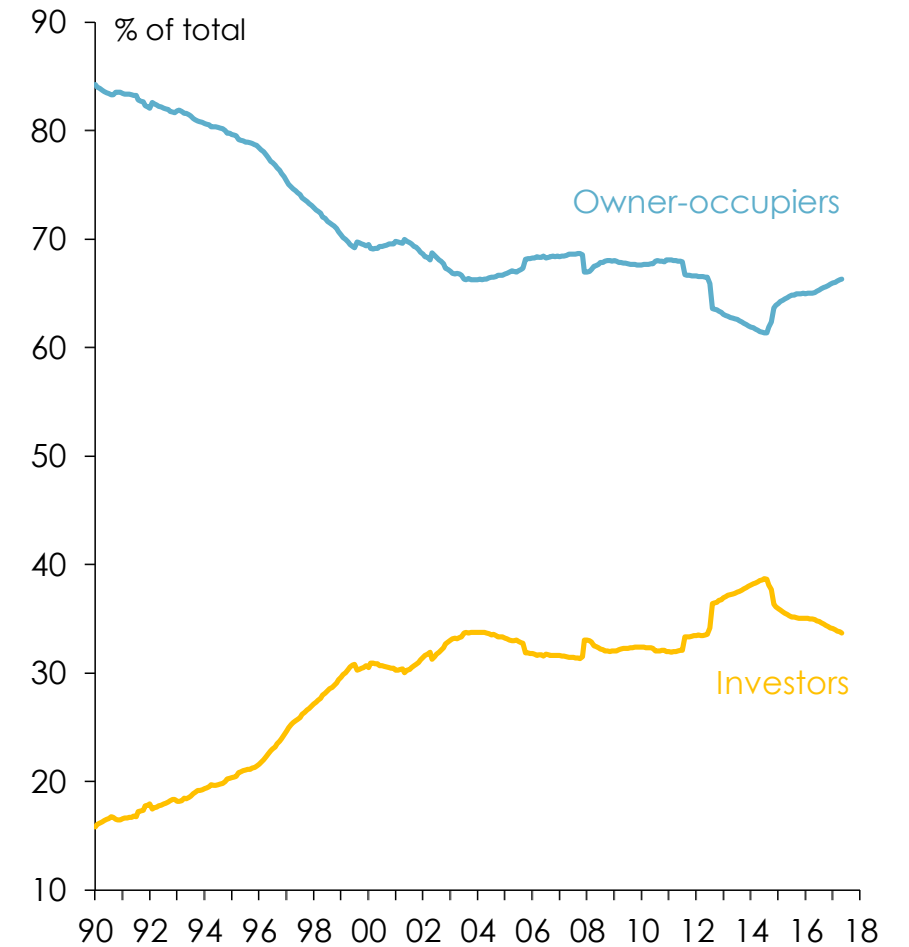
Sources: ABS, Census data; Australian Taxation Office, *Taxation Statistics*.

... which owes a good deal to a profound shift in the direction of lending over the past 25 years

Housing finance commitments to owner-occupiers and investors



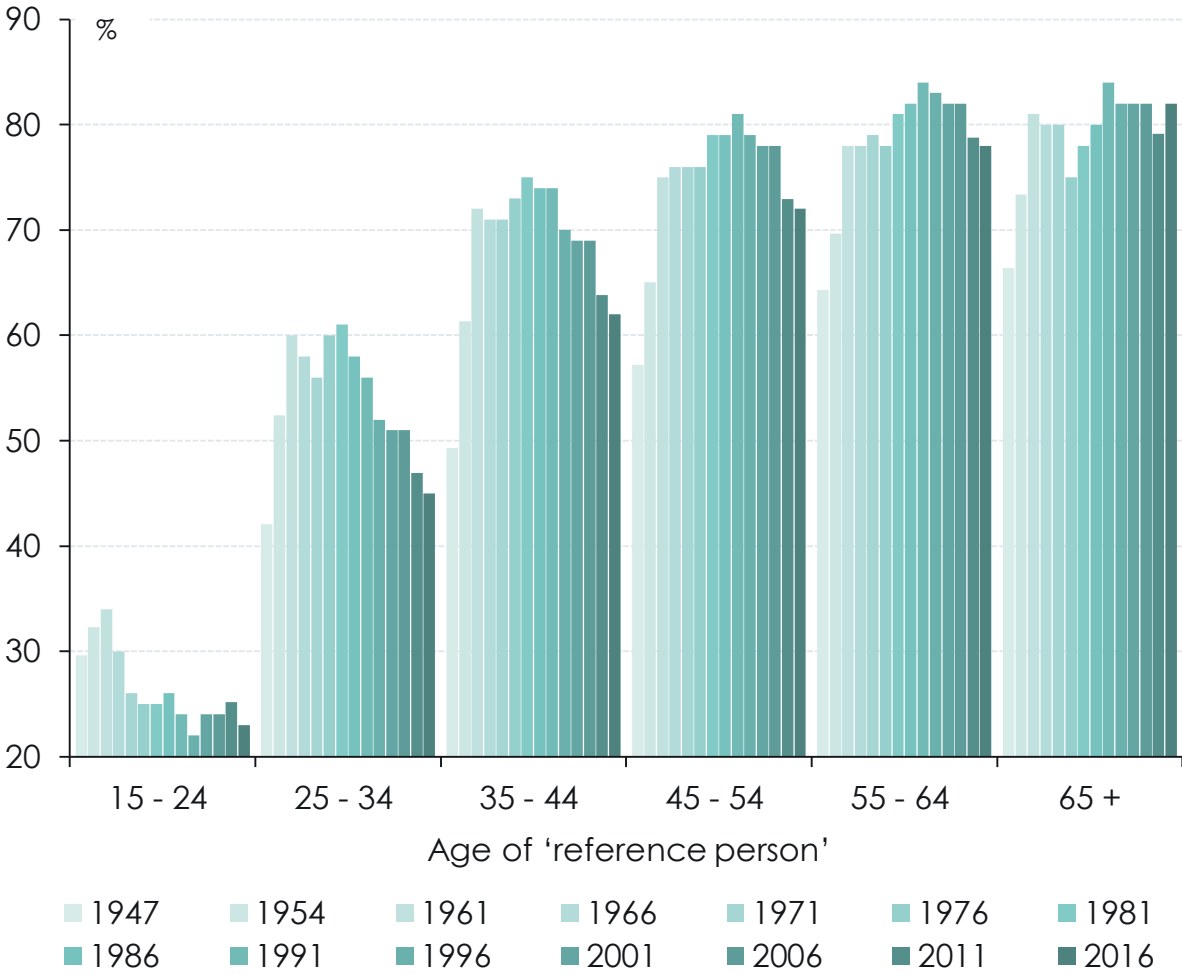
Housing credit outstanding, by type of borrower



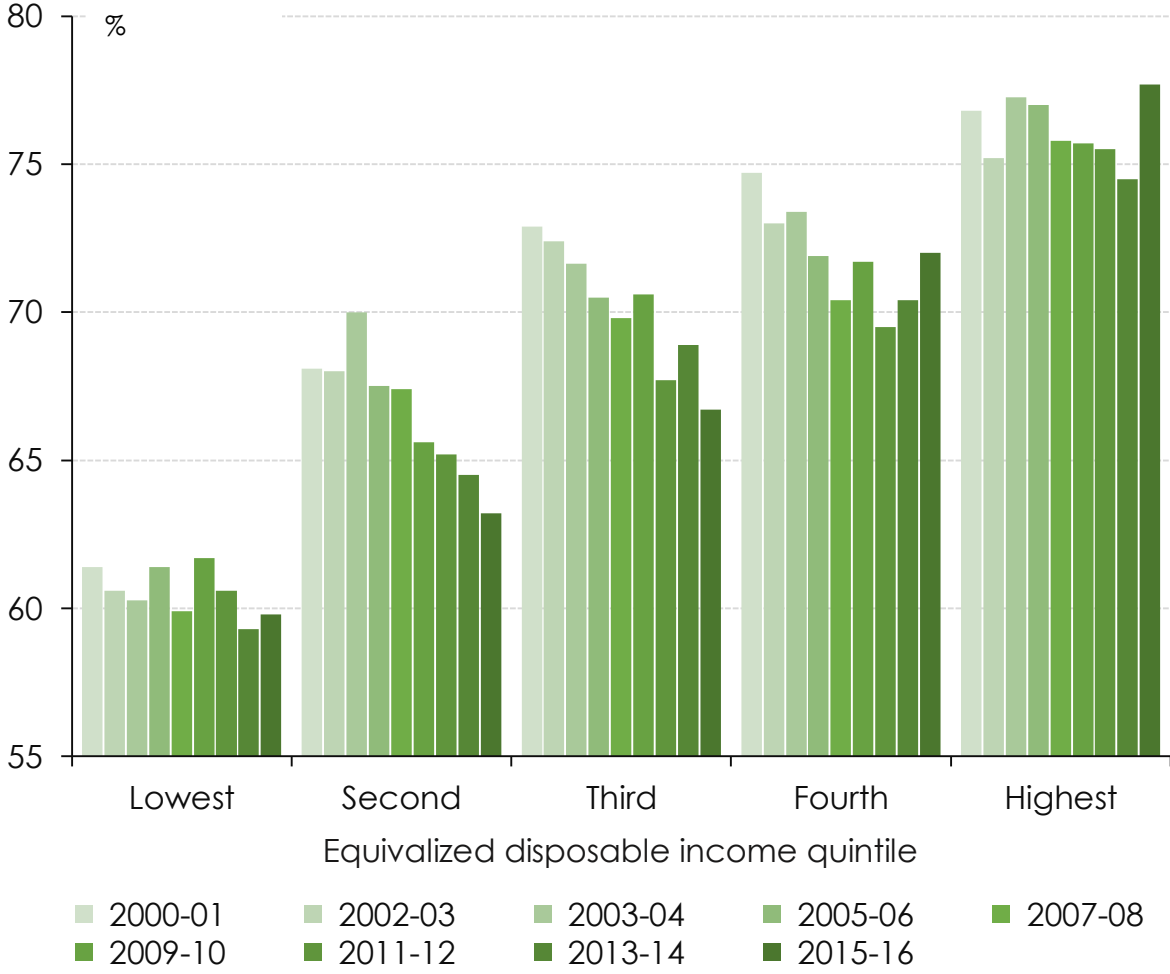
Note: Housing finance commitments exclude re-financing of existing loans. 2017-18 data are for the first 10 months (July 2017-April 2018).
Sources: ABS, Housing Finance (5609.0) ; RBA, Statistical Tables D2.

Home ownership rates have fallen sharply among people aged 25-45, and among lower – and middle-income households

Home ownership rates, by age group



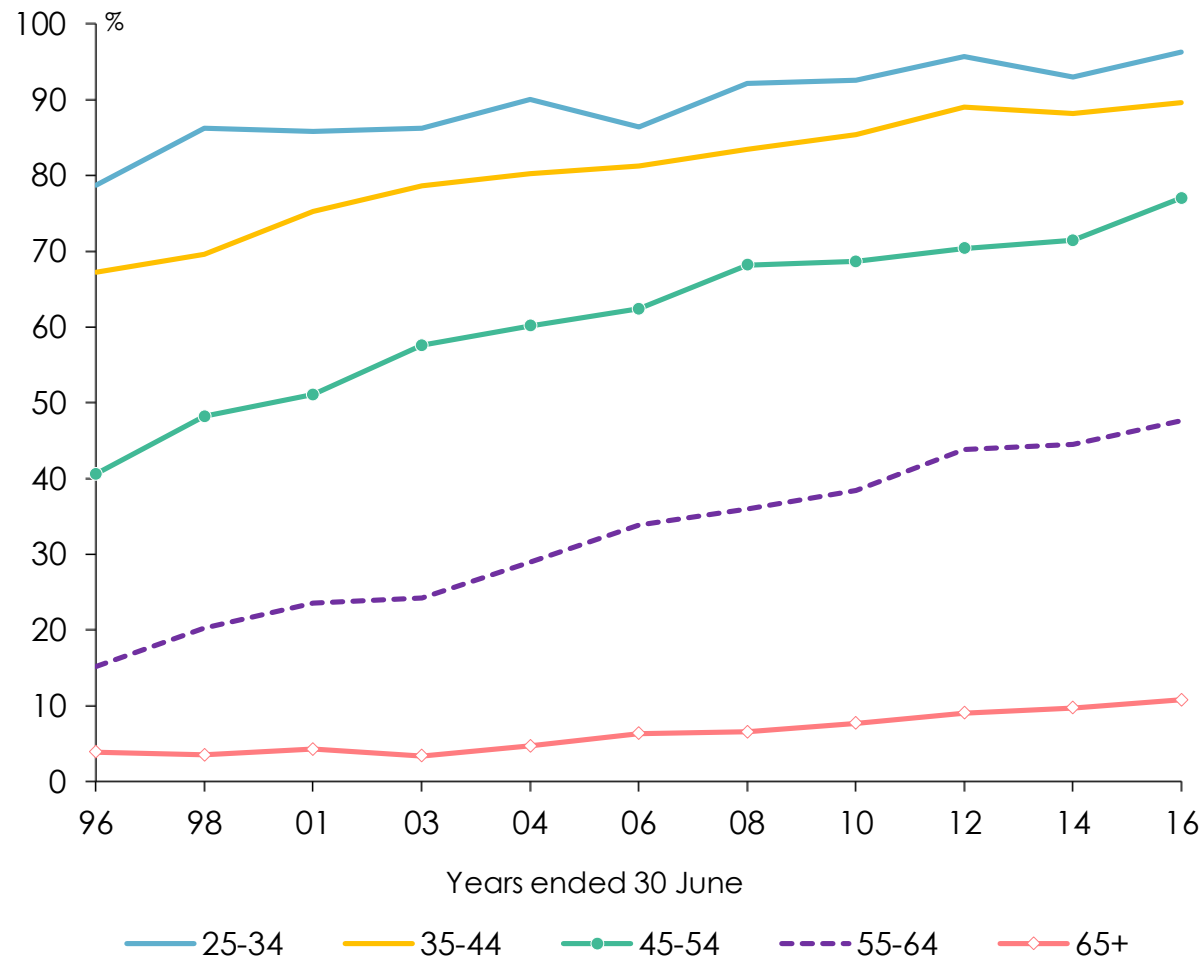
Home ownership rates, by income quintile



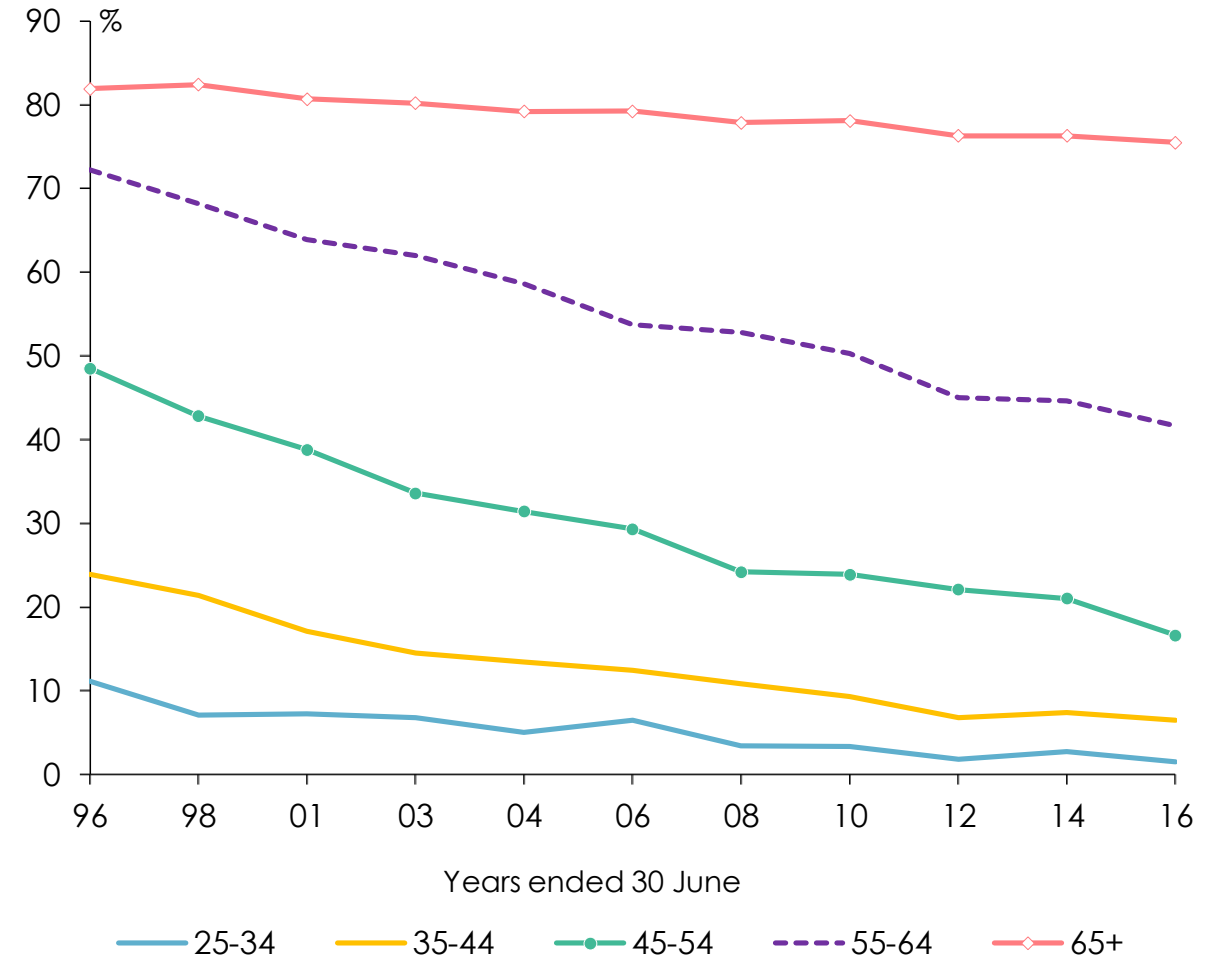
Sources: ABS, Census data; Household Income and Wealth (6523.0), 2015-16 and earlier issues.

A rising proportion of older home owners still have mortgage debt owing – and may have to use their superannuation to pay it off

Proportion of home owners with mortgage debt outstanding, by age



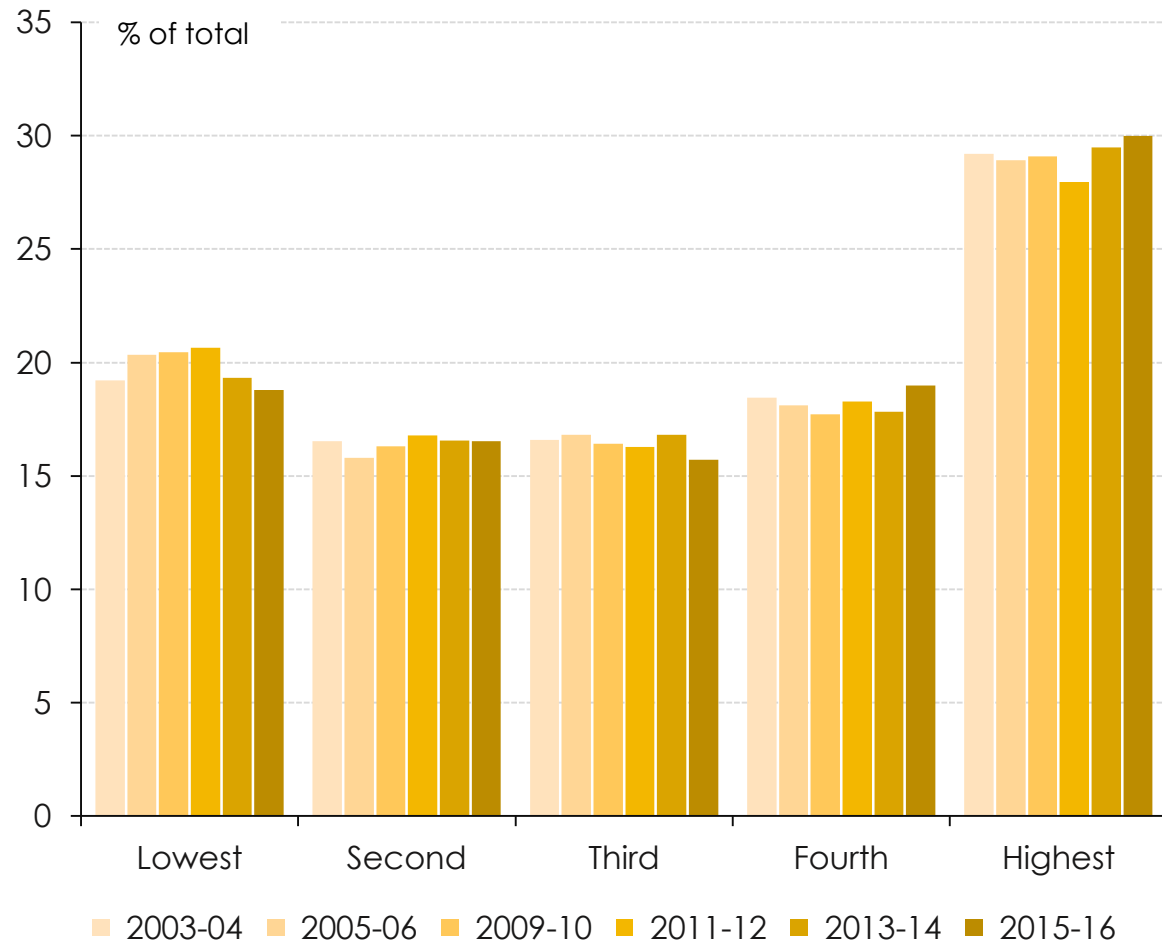
Proportion of home owners who own their homes outright, by age



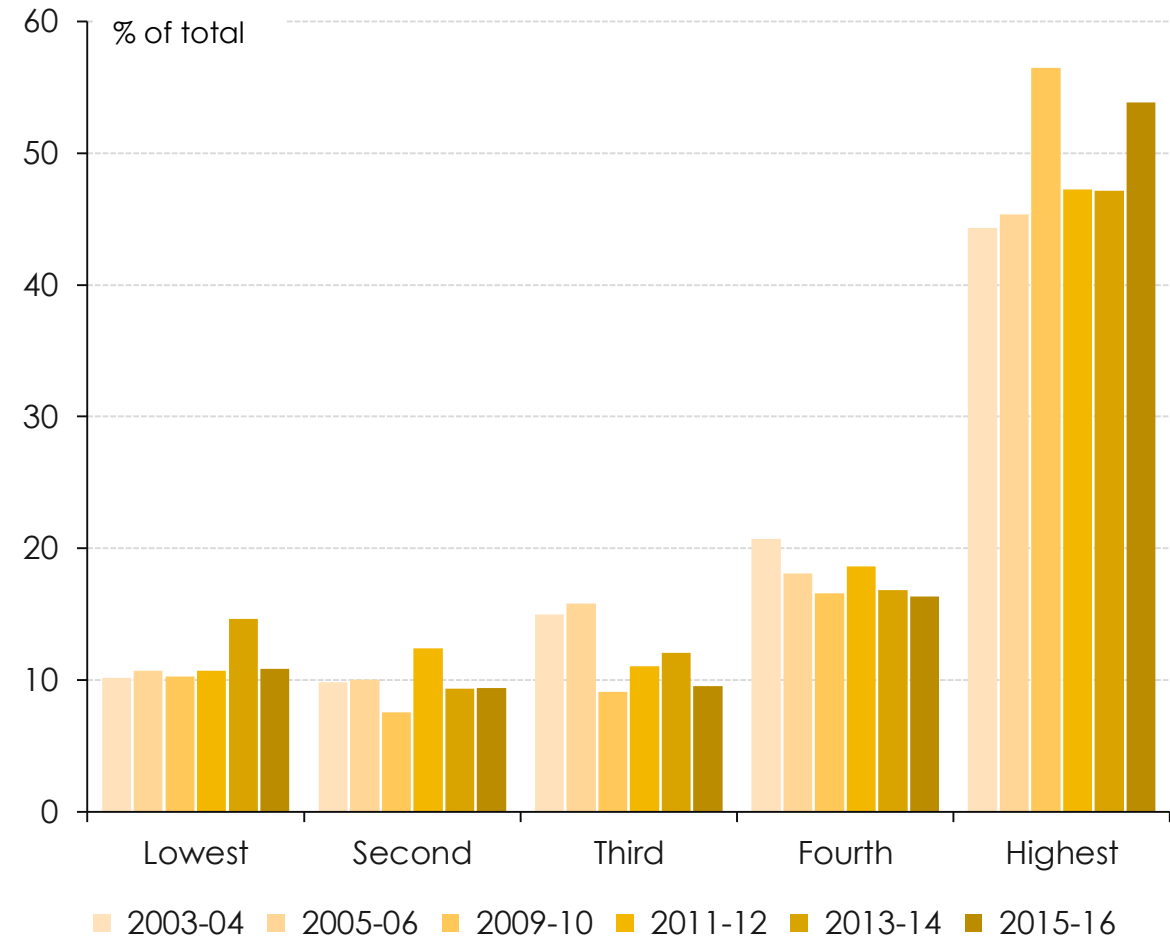
Source: Australian Bureau of Statistics, *Housing Occupancy and Costs* (4130.0).

Investment property ownership is much more unequally distributed than owner-occupied housing, and has become more so

Distribution of owner-occupied housing net worth, by income quintile



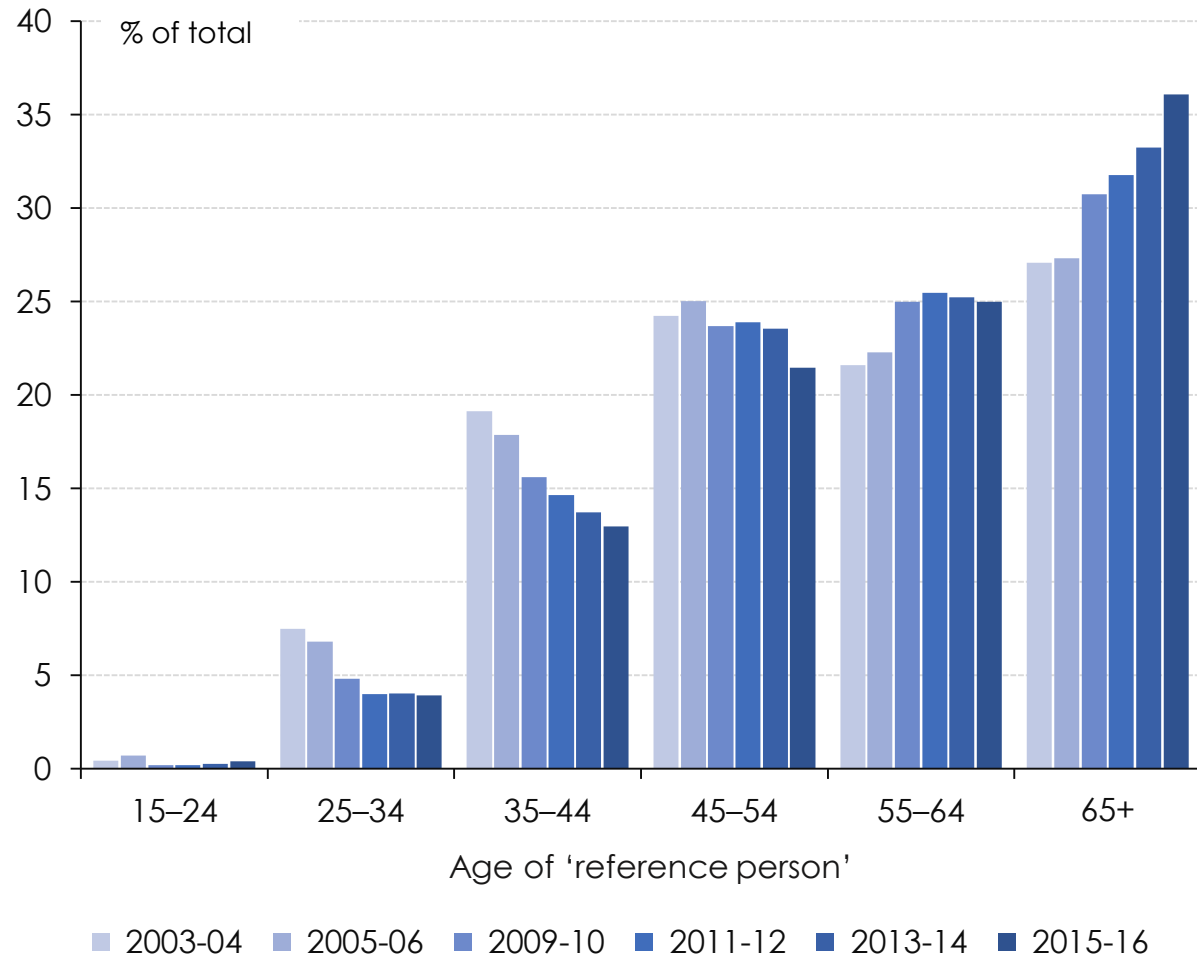
Distribution of other property net worth, by income quintile



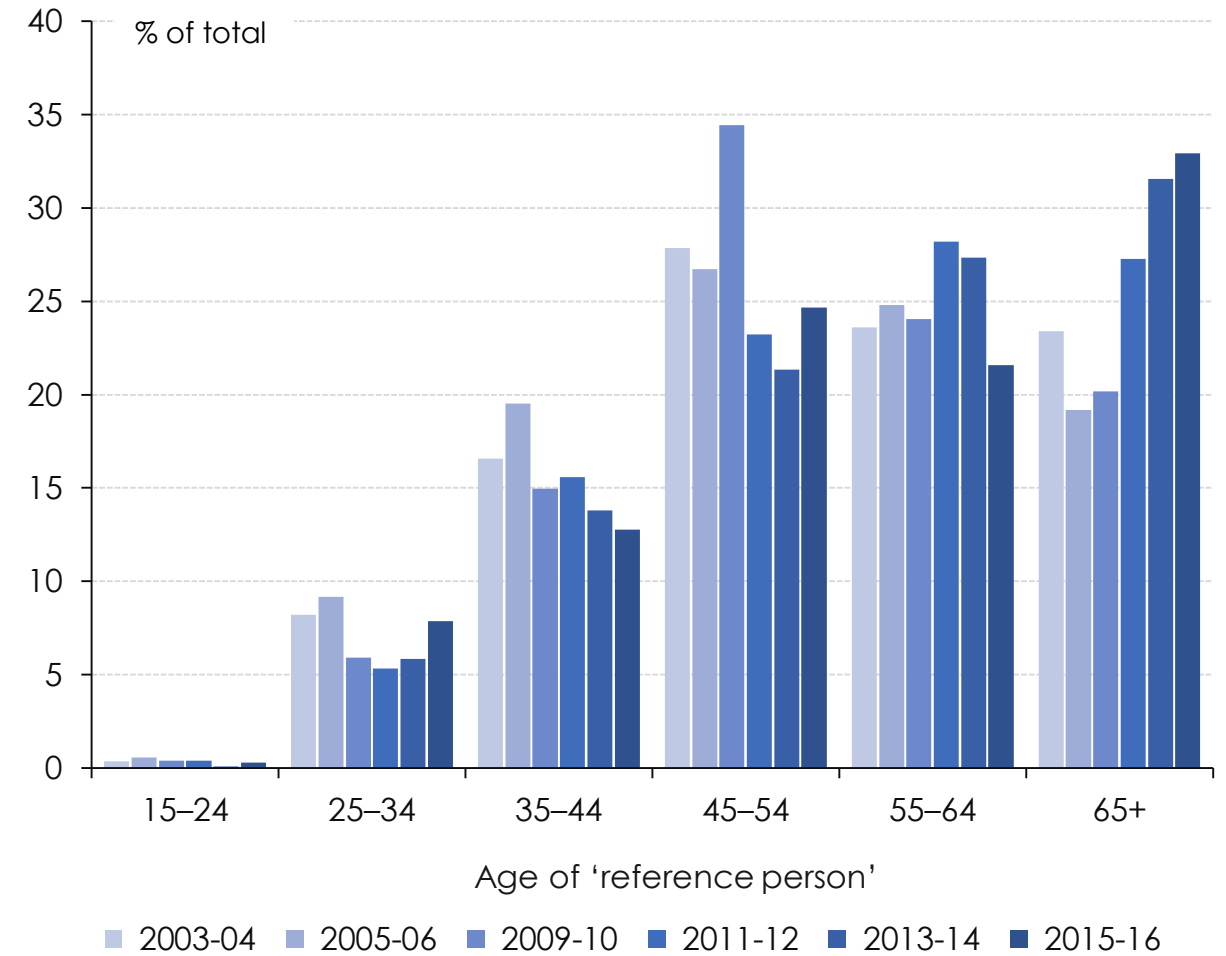
Note: 'Net worth' is gross value of owner-occupied housing and other property wealth, respectively, less corresponding debt. Income quintiles are of equivalized disposable income. Sources: ABS, *Household Income and Wealth (6523.0)*, 2015-16 and earlier issues.

Inequality in the distribution of property-related net worth by age has become significantly more pronounced over the past 15 years

Distribution of owner-occupied housing net worth, by age group



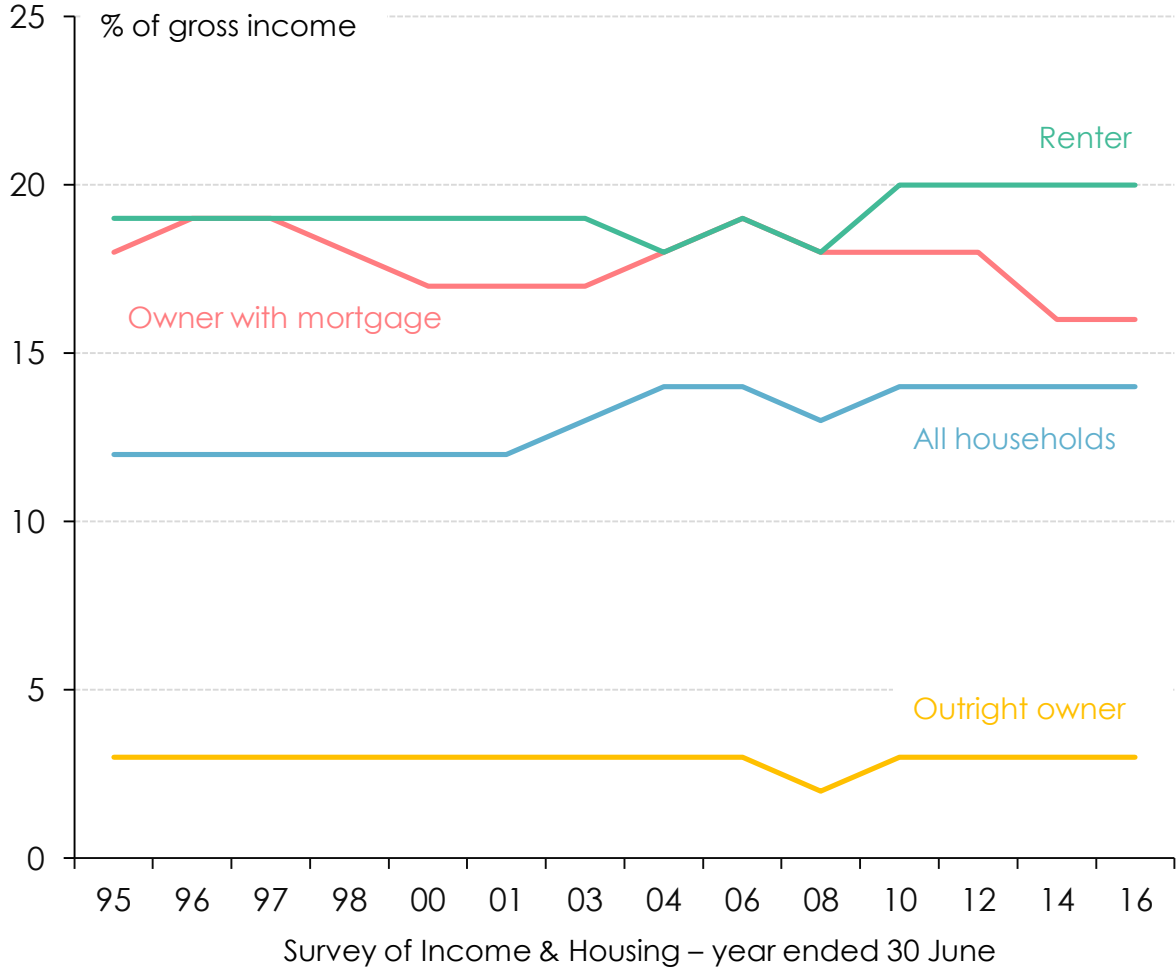
Distribution of other property net worth, by age group



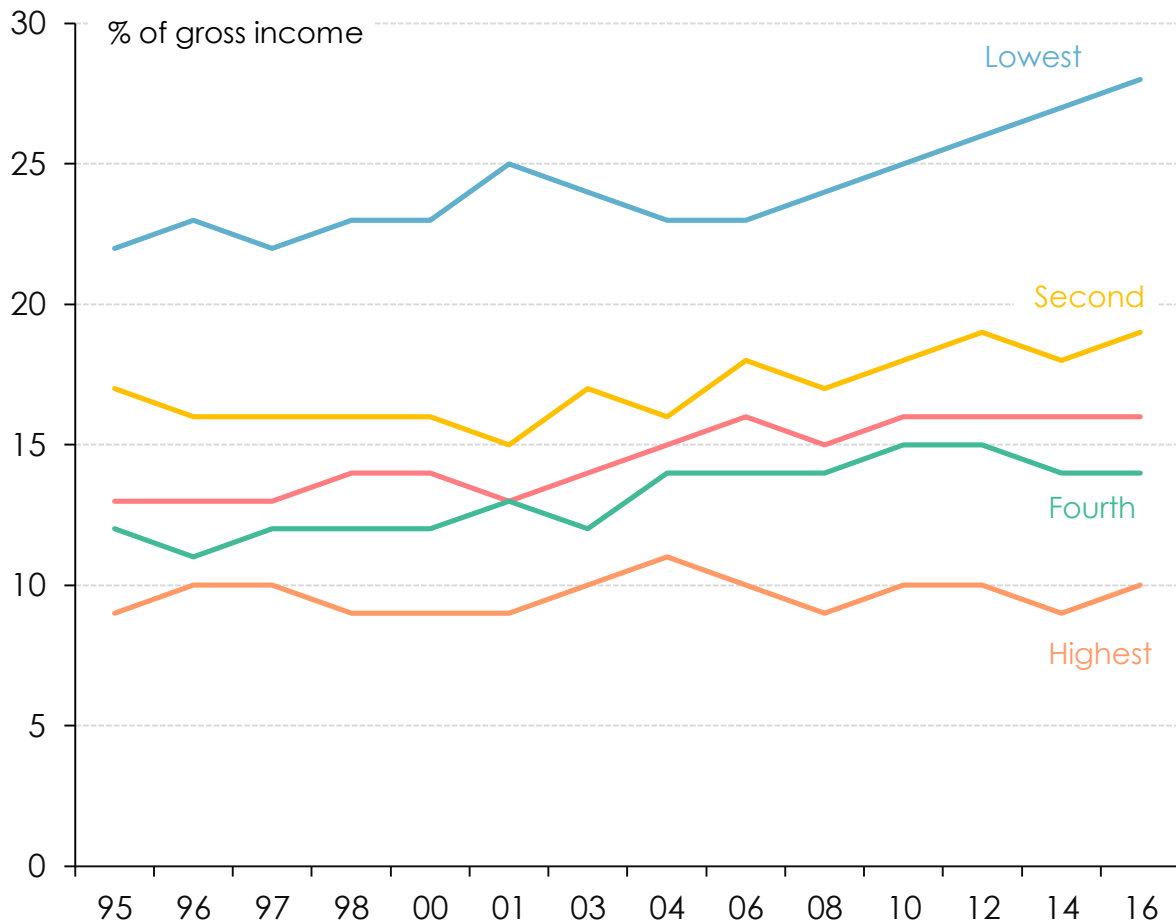
Note: 'Net worth' is gross value of owner-occupied housing and other property wealth, respectively, less corresponding debt.
Sources: ABS, Household Income and Wealth (6523.0), 2015-16 and earlier issues.

Shifts in housing tenure and the fact that renters typically spend a higher proportion of income on housing explain trends in overall housing costs

Housing costs as a pc of gross income, by tenure



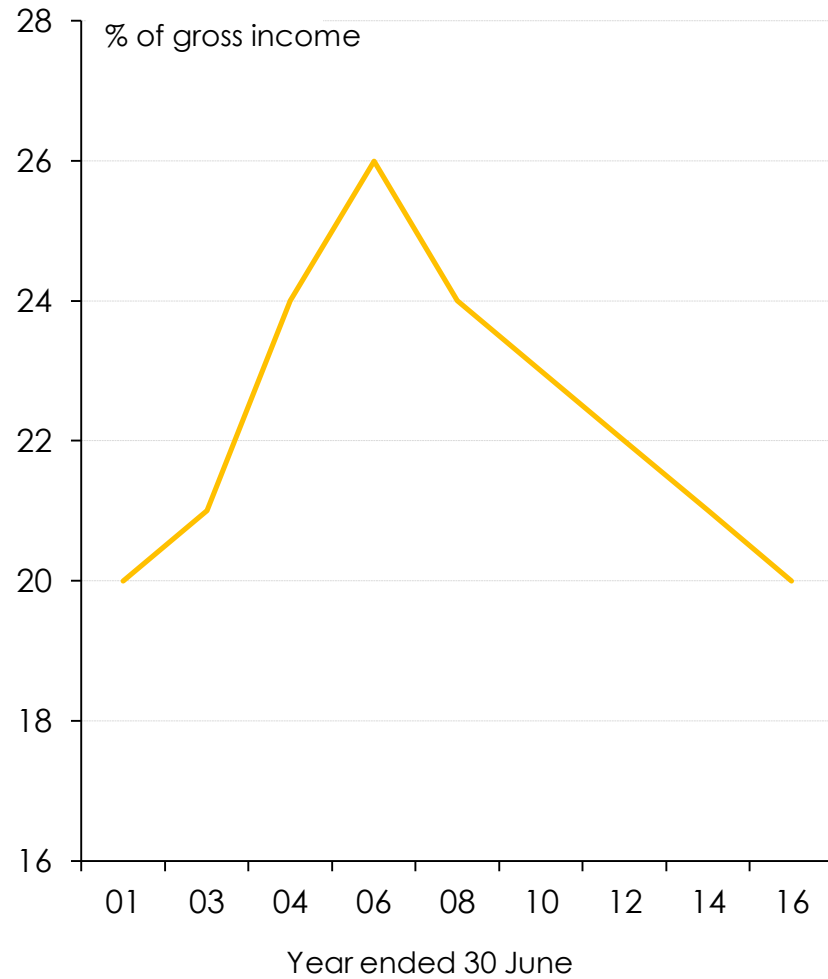
Housing costs as a pc of gross income, by income quintile



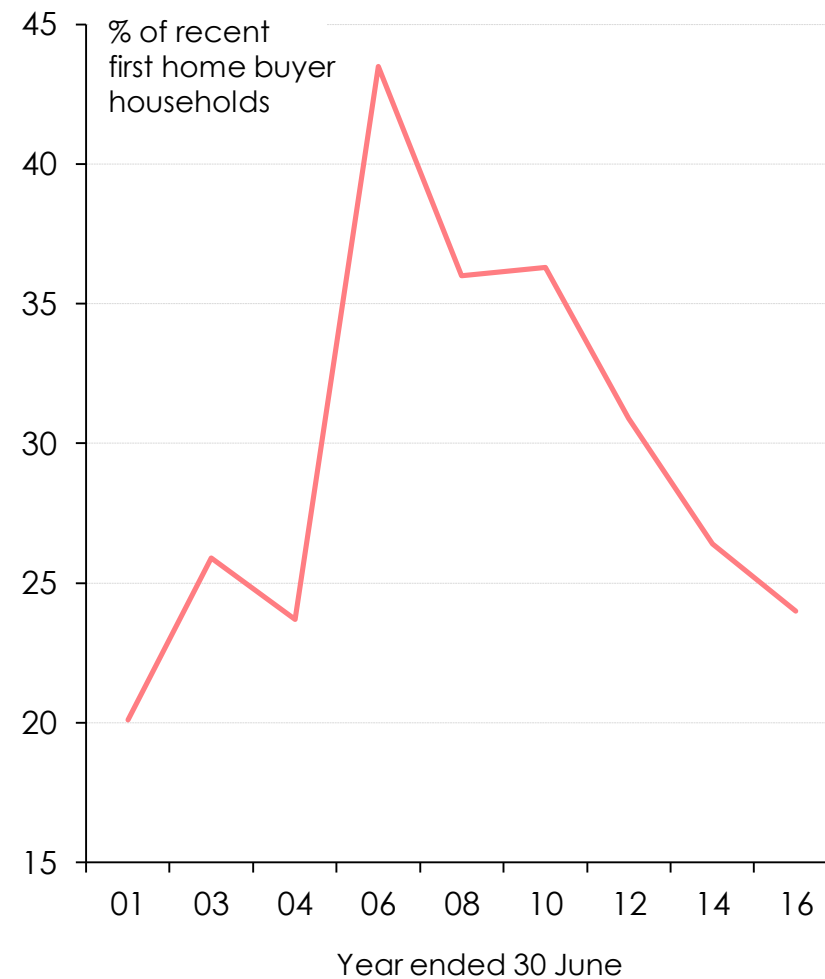
Source: ABS, Household Occupancy and Costs (4130.0.0), 2015-16.

Largely because of lower interest rates, first home buyers' housing costs have declined relative to their income – but there are fewer of them

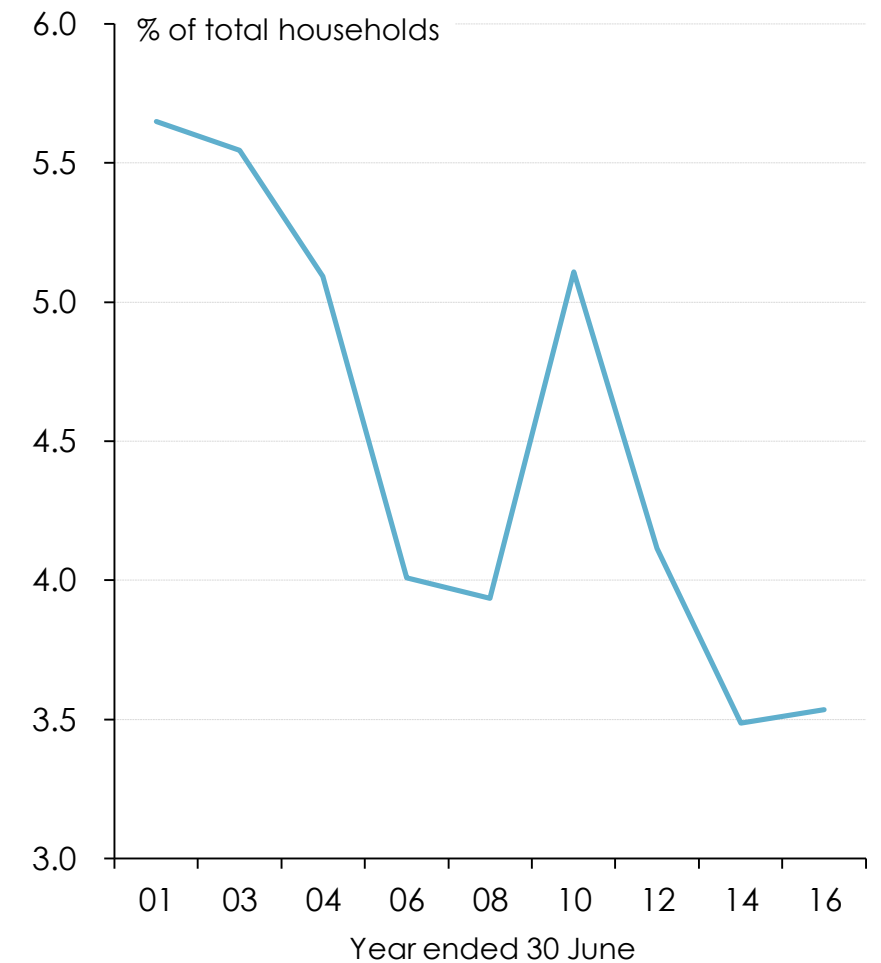
Recent first home buyers housing costs



Recent FHBs with housing costs > 30% of gross income



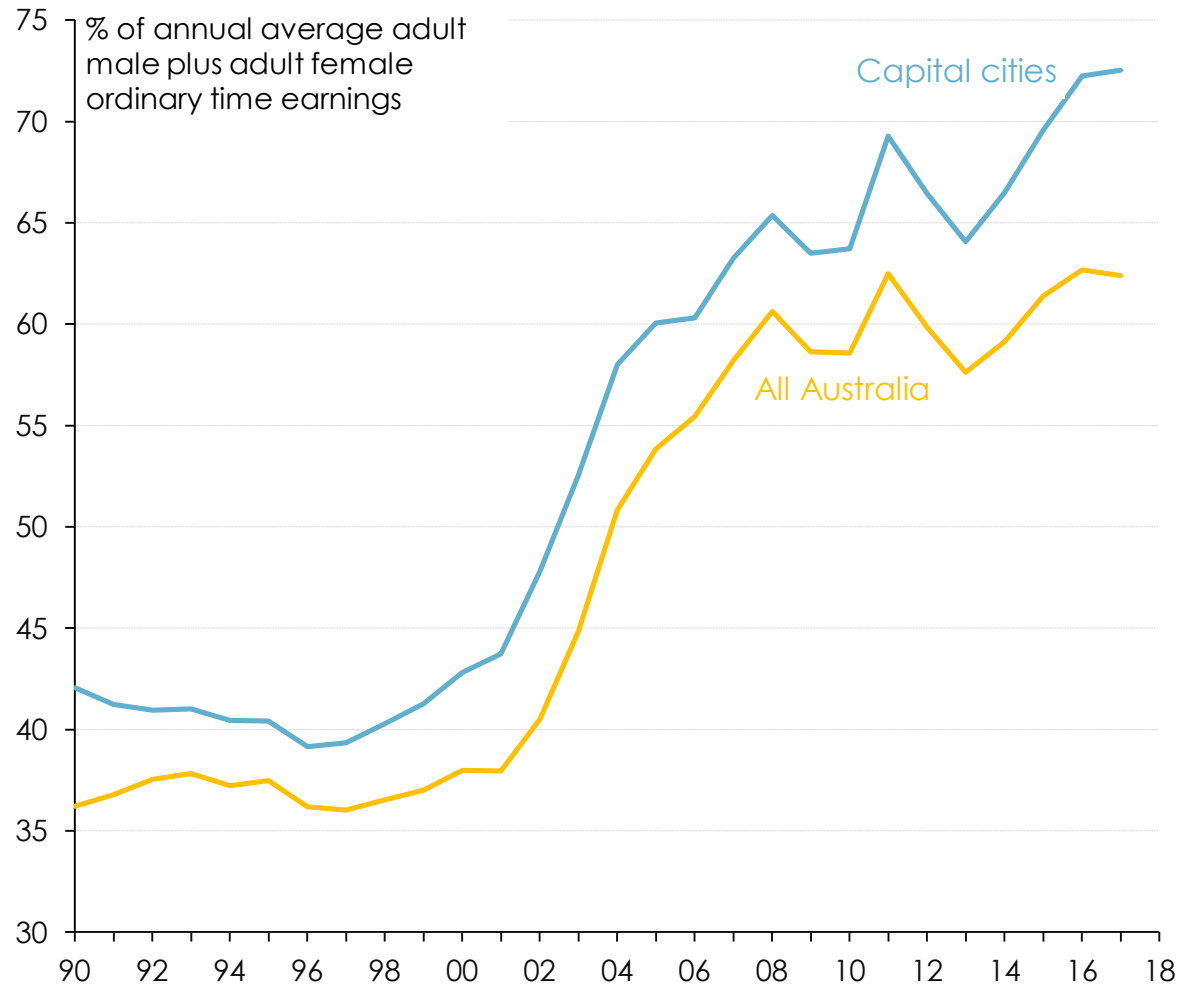
Recent FHBs as a pc of all households



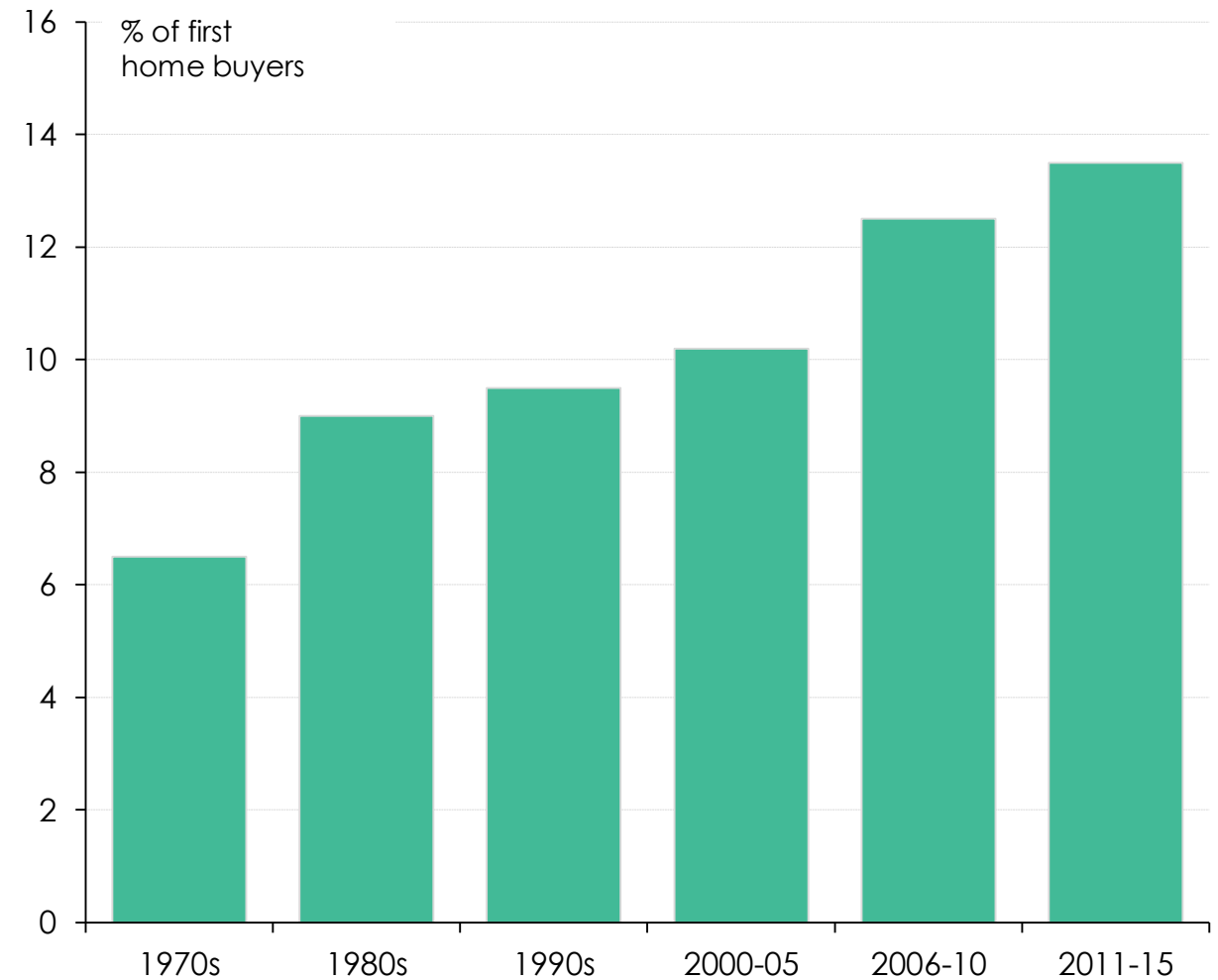
Note: 'Recent first home buyers' are those who have purchased their first homes in the three years prior to the survey.
Source: ABS, Housing Occupancy and Costs (4130.0).

Remember that conventional measures of housing affordability for first home buyers don't take account of deposit requirements

20% deposit on median-priced dwellings as a pc of average gross income



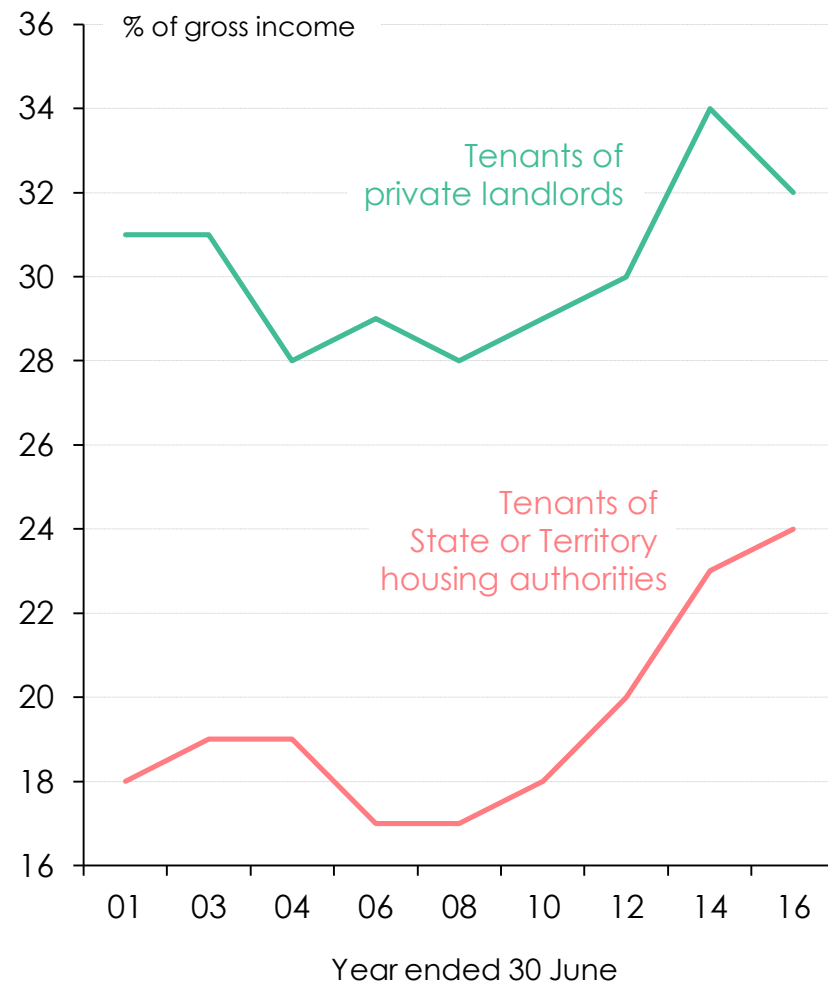
Proportion of first home buyers receiving assistance from family or friends



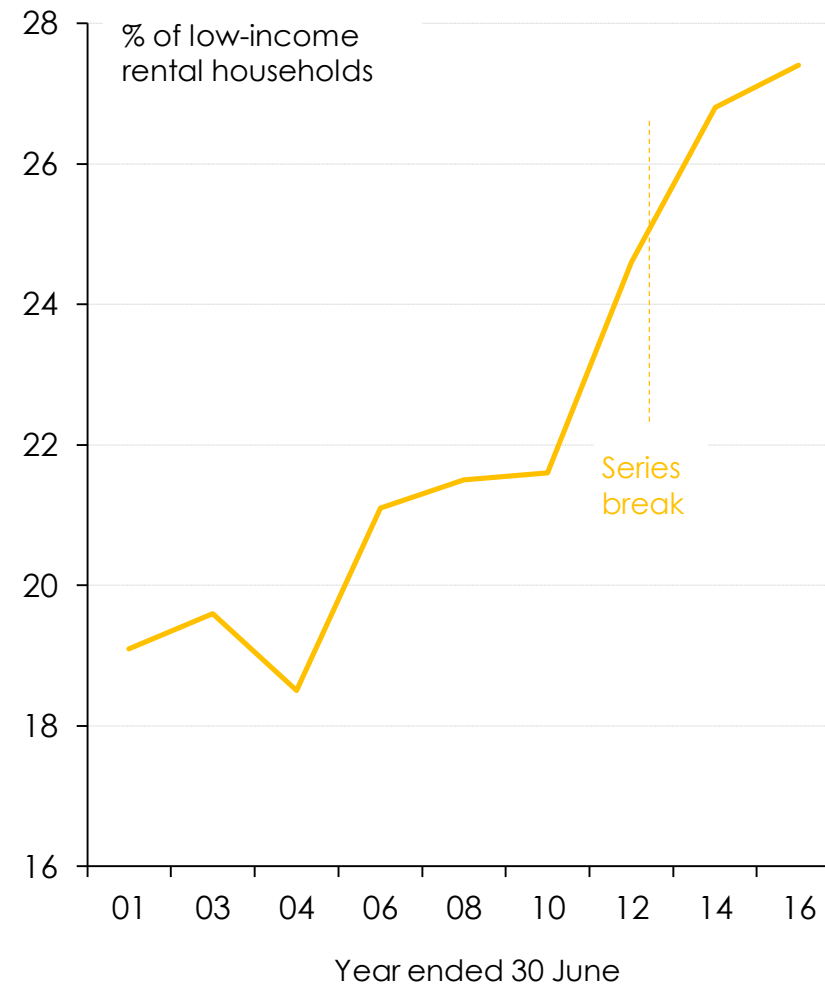
Sources: Core Logic; ABS, *Average Weekly Earnings* (6302.0) ; Luci Ellis (RBA), 'Opening Remarks to Plenary Panel at the Australian Housing Researchers Conference, Melbourne, 16th February 2017

Low-income rental households have experienced the greatest increase in housing costs relative to income – partly because more are renting privately

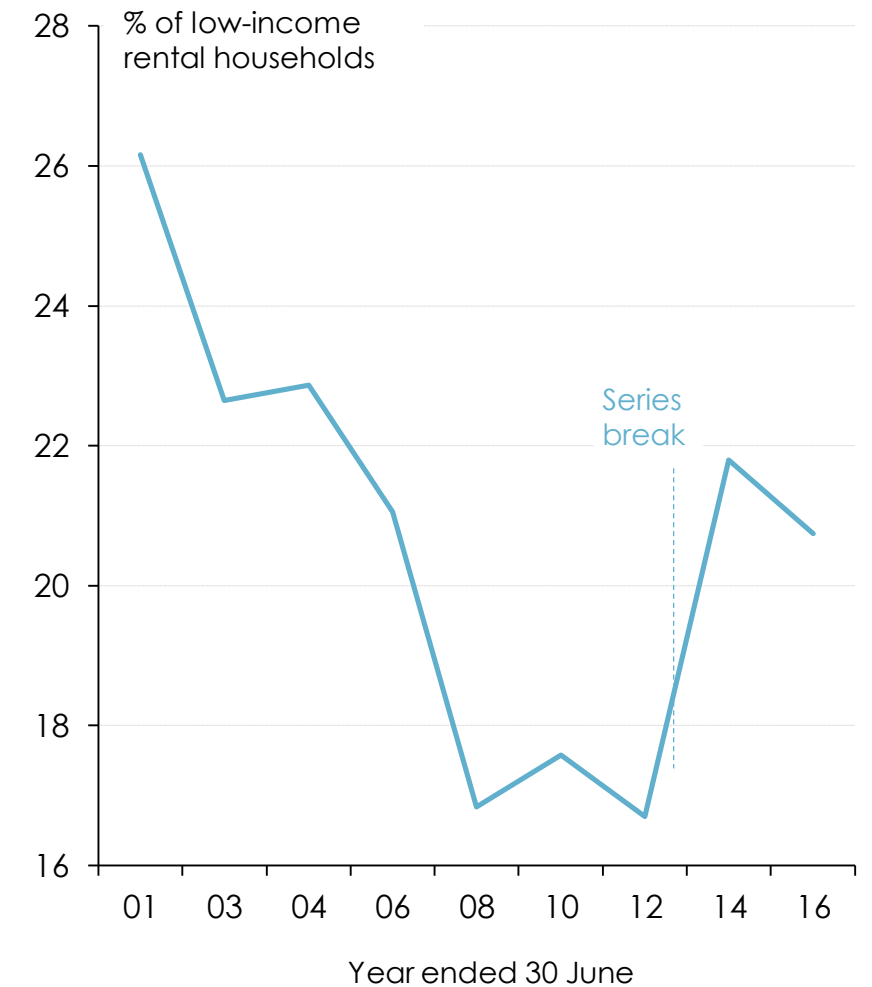
Low-income rental (LIR) households housing costs



LIR households with housing costs > 30% of gross income



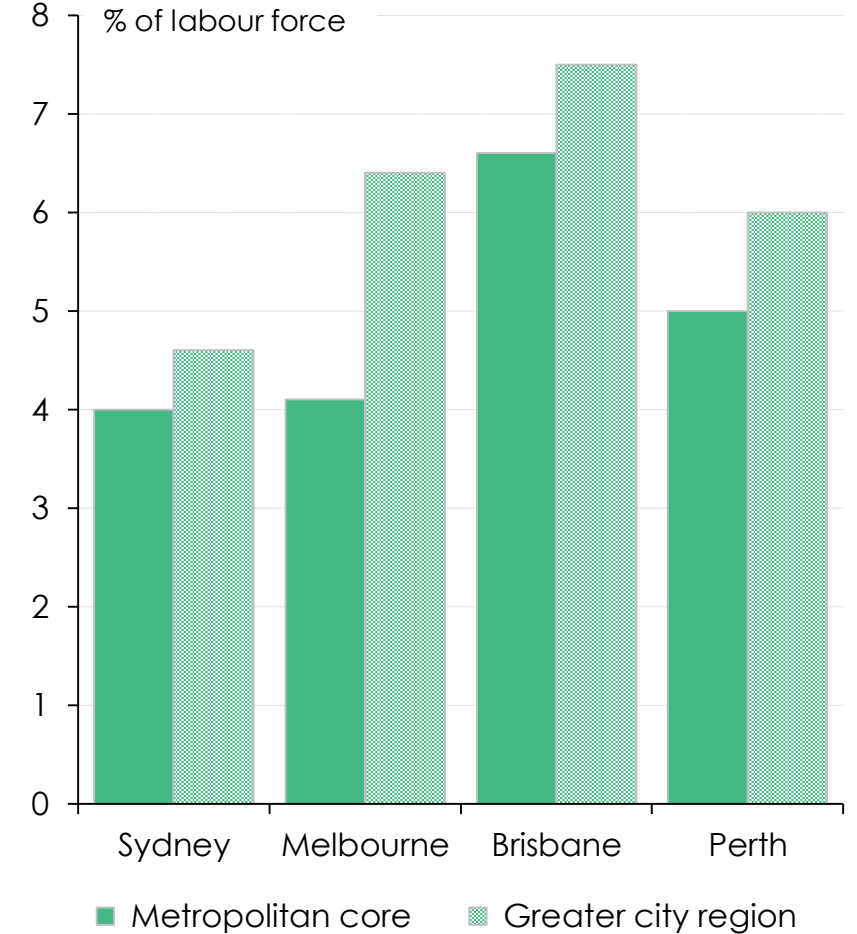
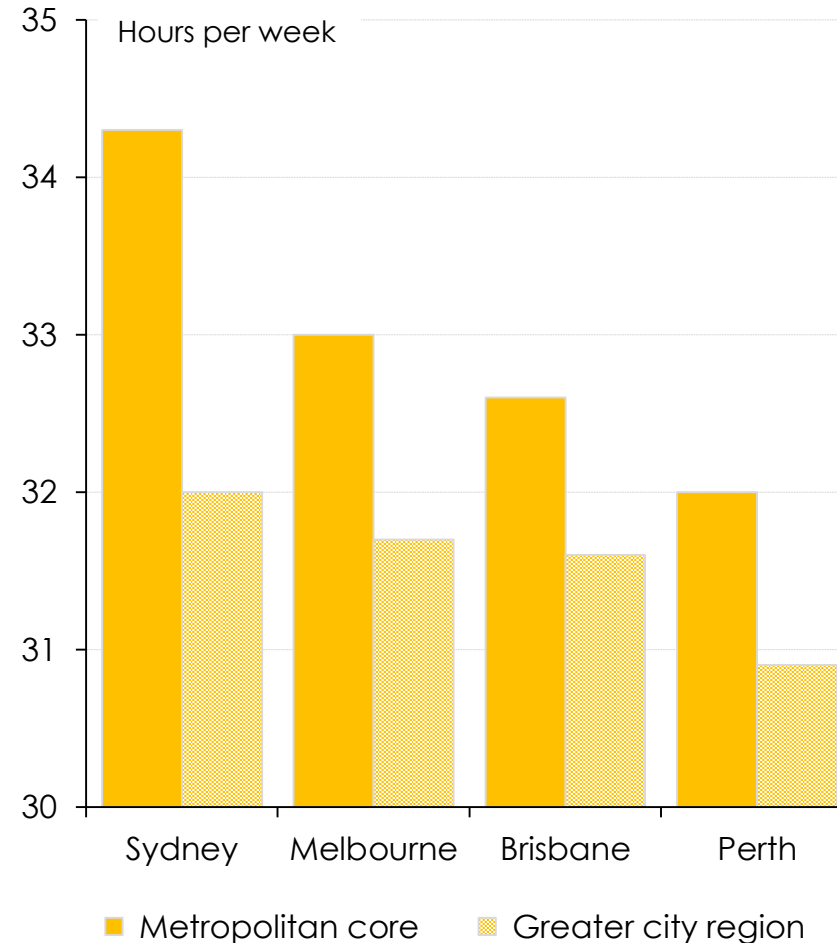
Recent FHBs as a pc of all households



Note: The definition of 'lower income households' in the ABS Survey of Income and Housing was changed from those in the 10th through 40th percentiles of equivalized disposable income (inclusive) to those between the 3rd and 40th percentiles, with effect from the 2013-14 survey. This is marked by 'series breaks'.
 Source: ABS, *Housing Occupancy and Costs* (4130.0).

Lack of affordable access to inner-city employment is likely to affect productivity and labour market participation

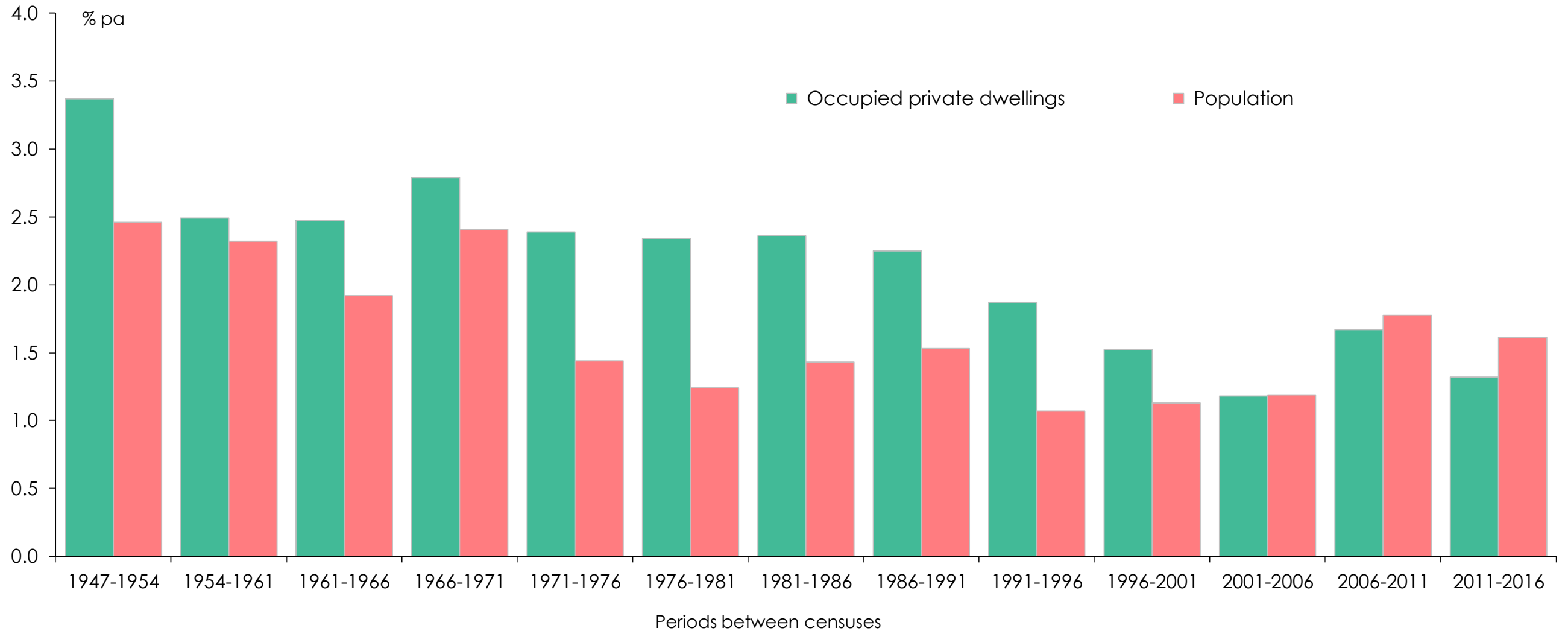
Productivity and employment – city centre vs metropolitan region, Australia's largest cities



Source: National Economics and Australian Local Government Association, *State of the Regions Report 2018-19*.

(Mainly federal) government policies have boosted housing demand while (mainly state & local) government policies have constrained supply

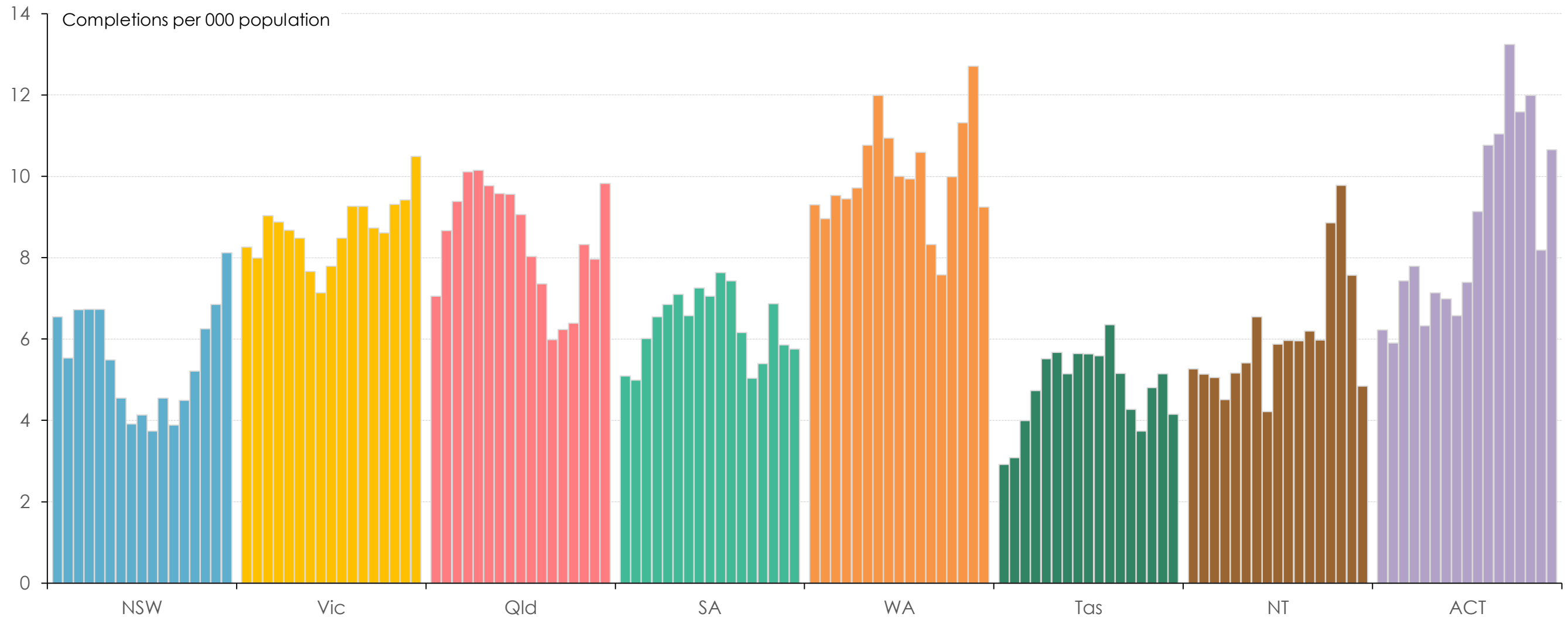
Growth in the housing stock vs population between censuses, 1947-2016



Source: ABS, Census data.

Supply-side constraints were particularly acute in New South Wales, until very recently, while supply growth has also been slow in SA & Tasmania

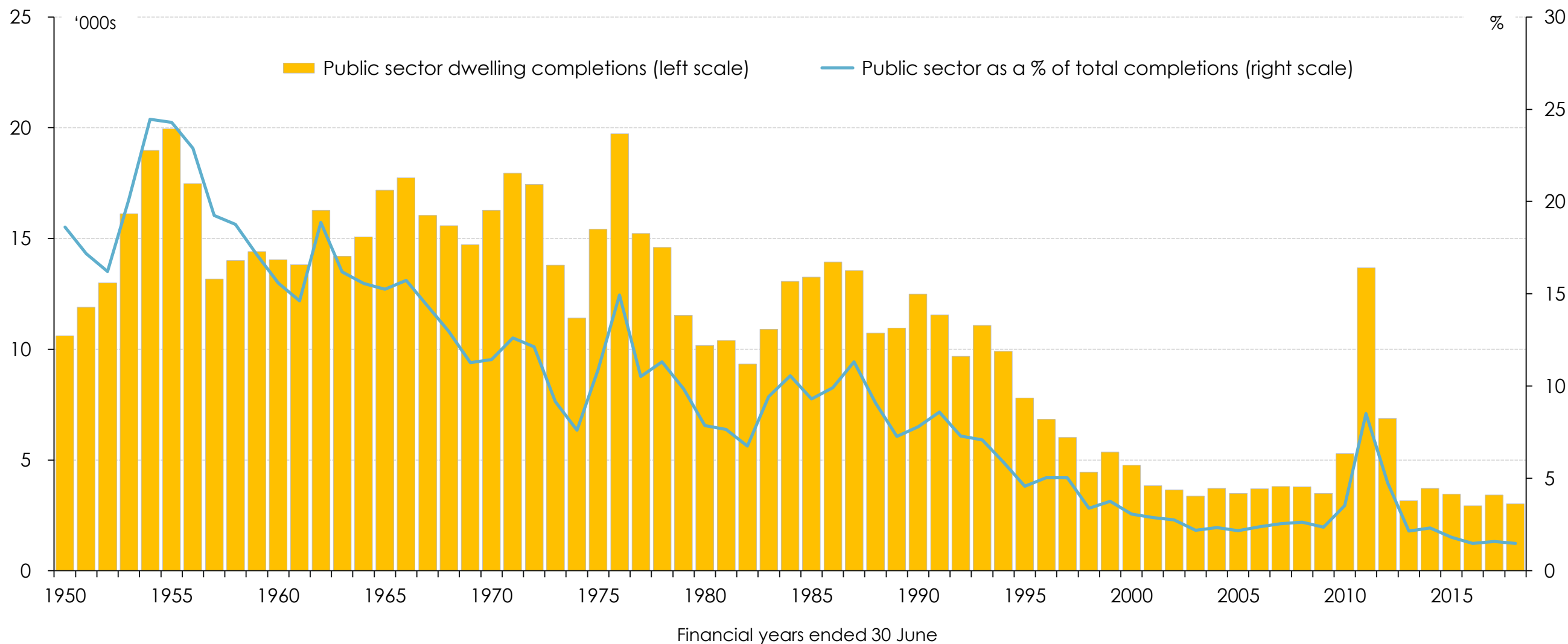
Residential dwelling completions per 1000 of population, 2000-01 through 2016-17



Sources: Australian Bureau of Statistics, *Building Activity* (8752.0) and *Australian Demographic Statistics* (3101.0); Corinna Economic Advisory.

The public sector played a major role in housing supply up until the 1990s – which would be difficult (and perhaps not sensible) to replicate today

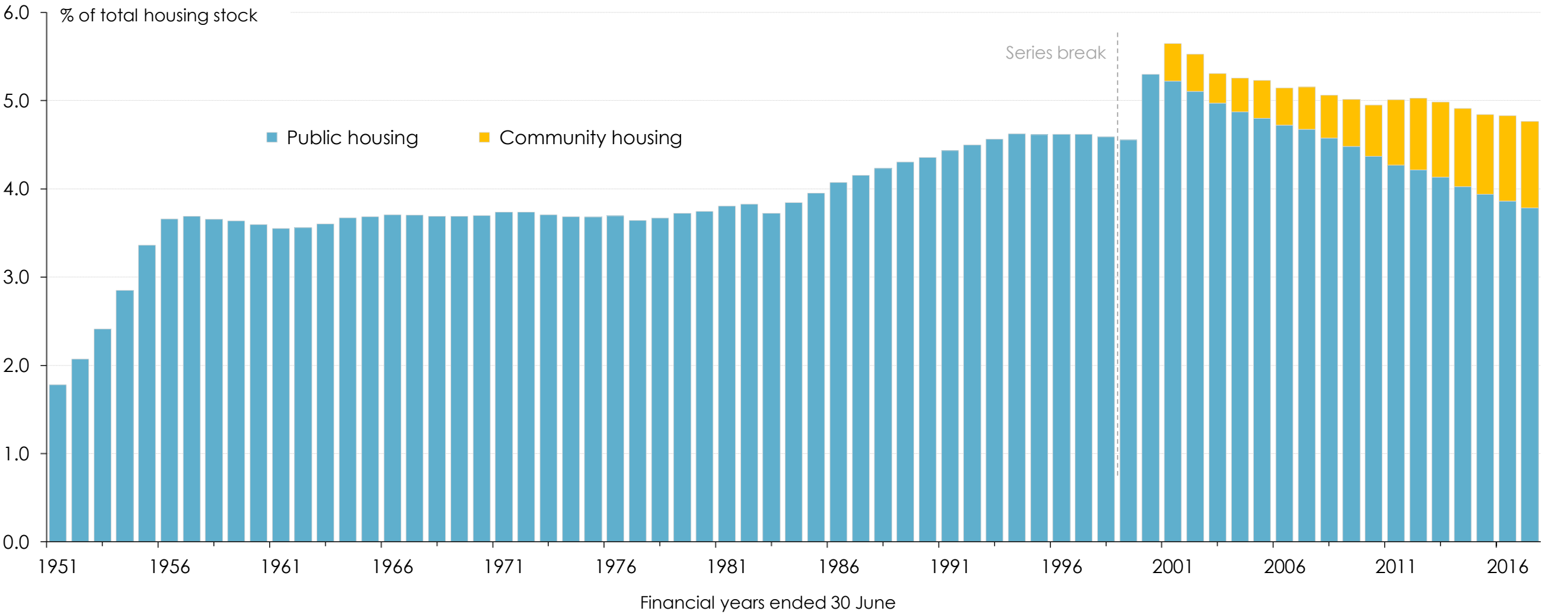
Public sector housing completions, 1950-2018



Note: Data for 2017-18 are first half at annual rate. Source: ABS, Building Activity (8752.0).

However the level of government investment has not been sufficient even to prevent the stock of social housing from declining as a share of the total

Public sector housing completions, 1950-2018



Note: data excludes State-owned and managed Indigenous housing, and Indigenous community housing.
Source: Productivity Commission, *Housing Assistance and Employment in Australia*, Volume 2 – Research Papers, April 2015, p. 3; Productivity Commission, *Report on Government Services 2018*, Volume G, *Housing and Homelessness*, Tables 18A.3.

Some policies that would make a difference

- ❑ **Wind back policies that unnecessarily inflate housing demand**
 - curtail negative gearing and reduce the capital gains tax discount
 - eliminate first home owner grants and stamp duty concessions
 - include value of principal residence (above location-specific thresholds) in pension assets test
 - enforce regulations / taxation of foreign investment (especially of established housing)
 - maintain strengthened prudential supervision of mortgage lending practices
- ❑ **Introduce or extend policies which encourage more housing supply**
 - reform state and local planning systems to make subdivision and higher-density development (especially in middle-distance suburbs)
 - replace stamp duty on land transfer with a more broadly-based land tax and 'value capture' measures
 - reform land tax structures to reduce disincentive to institutional investment in rental housing
- ❑ **Build more social housing**
 - funded directly from government budgets and/or via stock transfers that allow community housing providers to 'leverage up' to fund more additions to stock
 - make greater use of 'inclusionary zoning' requirements especially where sale or transfer of government-owned land is involved
- ❑ **Increase targeted rent assistance to low-income rental households**
- ❑ **Reform tenancy laws**
 - to provide greater security of tenure and scope for personalization by tenants