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**Financial Services Forum**

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21-22 May 2018 • Hilton Sydney



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# Housing Affordability in Australia

**Andrew Doughman, Luke Cassar and the  
Housing Affordability Working Group**

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# Introduction

- Actuaries Institute's Banking Practice Committee established a Housing Affordability Working Group
- Interactive session to capture members' views on the subject of housing affordability
- Your comments will help shape the direction of a forthcoming green paper

# Housing Affordability Working Group

- Andrew Doughman (Allianz)
- Luke Cassar (Finity)
- James Hickey (Deloitte)
- Ruby Huang (PwC)
- Brett Riley (Arch LMI)
- Paul Nuttall (Commonwealth Bank)
- David Su (Westpac)
- John McLenaghan (Actuaries Institute)
- Jason Slade (PwC)



# Agenda

1

- Motivation

2

- Does Australia have a housing affordability problem?

3

- Demand issues

4

- Supply issues



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# MOTIVATION

# Motivation

- Actuaries are independent and act in the public interest
- Actuaries often look for equitable outcomes
- Housing affordability is a complex issue
- Actuaries have focused on retirement incomes where housing is a key component

## Previous public policy papers

- The Institute has published papers on a broad range of public policy issues
  - Who Will Fund Our Health? (2014)
  - For Richer, For Poorer, Retirement Incomes (2015)
  - Unlocking Housing Wealth – options to meet retirement needs (2016)
  - Mental Health and Insurance (2017)
  - Social risks for a financial services business (2018)



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# DOES AUSTRALIA HAVE A HOUSING AFFORDABILITY PROBLEM?



# Defining “Housing Affordability”

- A household’s ability to pay the cost of housing
- Many facets of housing affordability:
  - a) First home buyers entering the property market
  - b) Existing home-owners upsizing
  - c) Mortgage serviceability and housing stress
  - d) Rental affordability
  - e) Housing for low-income earners (“affordable housing”)
- Driven by social, economic, political and demographic factors
- Affordability may vary across geographical region

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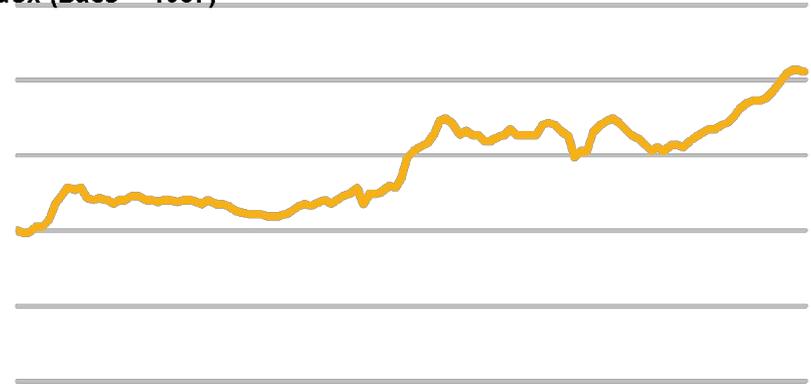
## Survey Question

1. Considering potential first home buyers, does Australia have a housing affordability problem?
  - a) No
  - b) Possibly, but affordability has not change over time (allowing for interest rate effects)
  - c) Yes but only in some capital cities
  - d) Yes

# House prices are increasing

- House price to income ratio is double what it was in 1987
- A measure of the ability to save for a deposit
- Does not allow for changes in interest rates over time

Figure 1: House Price Index (Base = 1987)

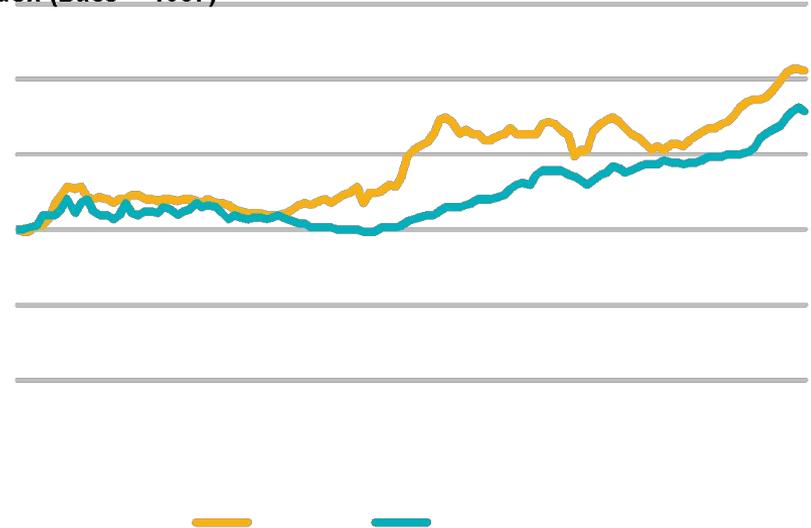


nominal house prices divided by nominal disposable income per head, index based to 1987

# House prices are increasing

- Trend is not unique to Australia
- See for example:
  - Canada

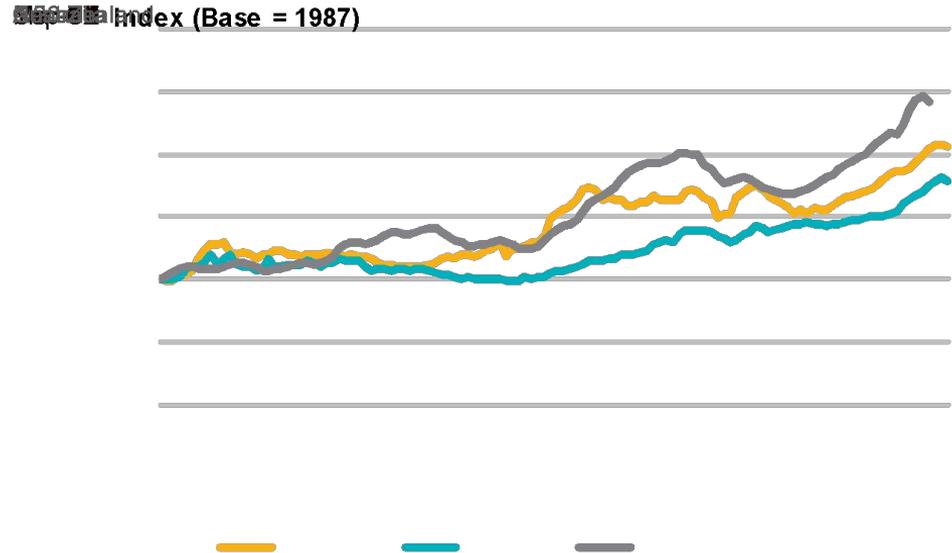
Maple Index (Base = 1987)



nominal house prices divided by nominal disposable income per head, index based to 1987

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  - Canada
  - New Zealand

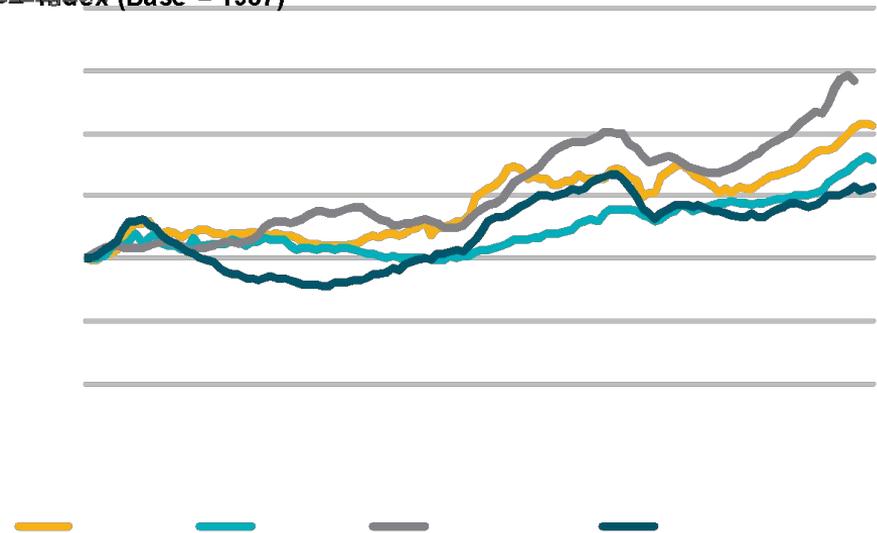


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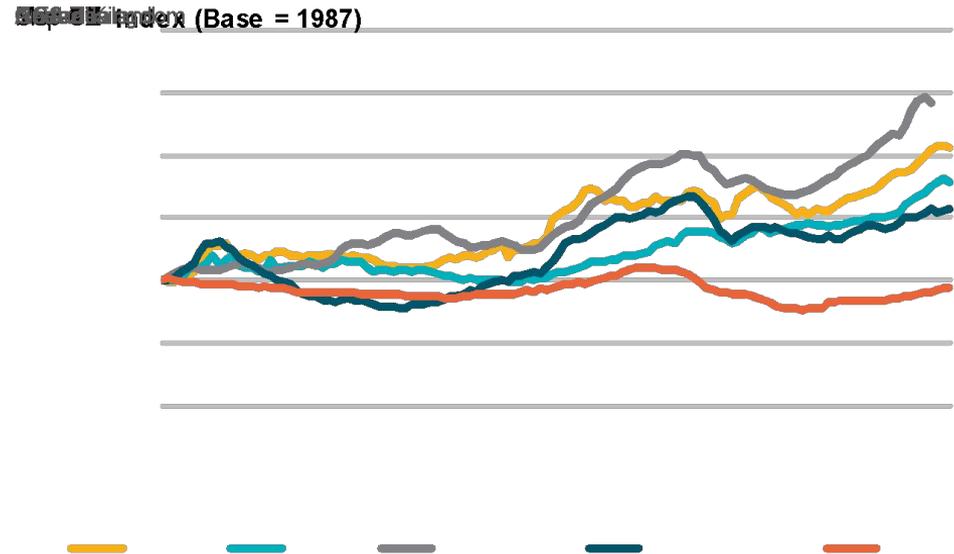
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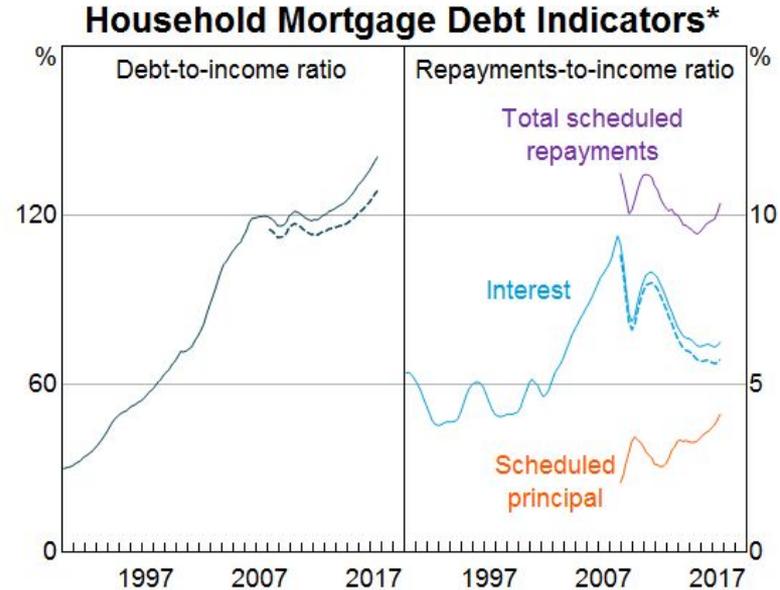
- Trend is not unique to Australia
- See for example:
  - Canada
  - New Zealand
  - United Kingdom
- USA is different



nominal house prices divided by nominal disposable income per head, index based to 1987

# Scheduled repayments are lower

- While a higher house price means a higher deposit, lower interest rates have made it easier to service the debt

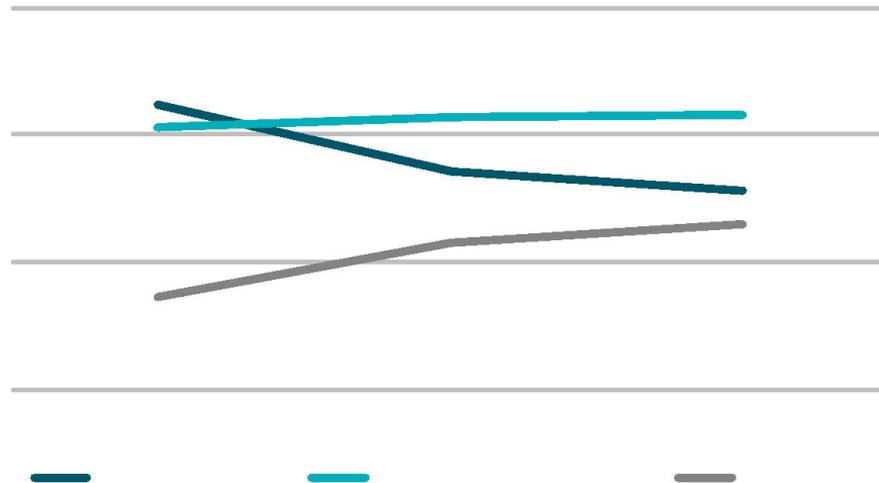


\* Excludes non-housing debt; dashed lines are calculations based on debt balances net of offset accounts; income is household disposable income before housing interest costs

Sources: ABS; APRA; RBA

# Home ownership rates are decreasing

2006 and 2016  
Proportion of Households by Ownership



Source: ABS census 2006, 2011 and 2016

- From 2006 to 2016 in Australia, the proportion of households owned outright fell from 36% to 33% while the proportion renting increased from 28% to 31%.
- This affects households across all household incomes
- Notable declines among young and middle-aged households
- There is not a lot of difference between metropolitan households and regional households

# How does affordability look across other measures?

Measure	From 2006 to 2016	By Geography	Measure Limitations
House price to income			<ul style="list-style-type: none"> <li>- Doesn't take into account cost of serviceability</li> <li>- Doesn't take into account cost or impact of lenders mortgage insurance</li> </ul>
Scheduled repayments			<ul style="list-style-type: none"> <li>- Highly dependent on interest rates</li> </ul>
Required deposit to income		<p>Metropolitan </p> <p>Regional </p>	<ul style="list-style-type: none"> <li>- Doesn't take into account cost or impact of lenders mortgage insurance</li> </ul>
Home ownership rates		<p>Metropolitan </p> <p>Regional </p>	<ul style="list-style-type: none"> <li>- Impacted by broader social and demographic factors as well as economic factors</li> </ul>
First home buyer proportion		<p>WA &amp; Vic. </p> <p>Other States </p>	<ul style="list-style-type: none"> <li>- Only measures owner-occupier first home buyers, not investment buyers</li> </ul>

# Survey Results

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# Question 1

<https://api.cvent.com/polling/v1/api/polls/sp212kw6>

# DEMAND ISSUES

## Demand pressure points

- A. Concentration of employment in capital cities
- B. Net migration to Australia and its capital cities
- C. Access to credit
- D. Great Australian dream to own a home (low appetite for renting)
- E. Tax policy – access to superannuation, capital gains relief, negative gearing, asset test eligibility etc.

## Demand pressure points

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## Survey question

2. Should first home buyers be allowed to use a portion of superannuation for a housing deposit?
- a) No, it will drive up house prices
  - b) No, superannuation should be for income in retirement only
  - c) Both a and b
  - d) Yes but with limits (caps on amounts, restricted to certain income levels)
  - e) Yes

## Current situation

- First Home Super Saver Scheme: \$30,000 can be saved in the superannuation fund at a 15% concessional tax rate to go towards the purchase of the first home
- Internationally:
  - New Zealand allows withdrawals to purchase property only (though anyone can opt-out of the KiwiSaver scheme)
  - Singapore has a compulsory saving scheme to provide for retirement income, health care and housing
  - Switzerland allows the sale of occupational pension assets to finance a home purchase or improvement as an owner-occupier

## Positives and negatives

- + Easier entry into the property market for first home buyers
- + Generally, retirement assets are much greater for property owners than renters

- Increases demand and pushes up house prices
- Intergenerational shift in tax concessions (needs a broader consideration)

- How would it work?
  - What happens to the proceeds of sales?
  - How to target first home buyers only?

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## Question 2

<https://api.cvent.com/polling/v1/api/polls/spe2ncfz>

# SUPPLY ISSUES

# Supply pressure points

- A. Planning and development rules; density policies
- B. (Dis)incentives to downsize ; including tax policy
- C. Lack of desire to decentralise
- D. Lack of infrastructure to supply decentralised employment
- E. Land-locked – concentration in major cities

# Supply pressure points

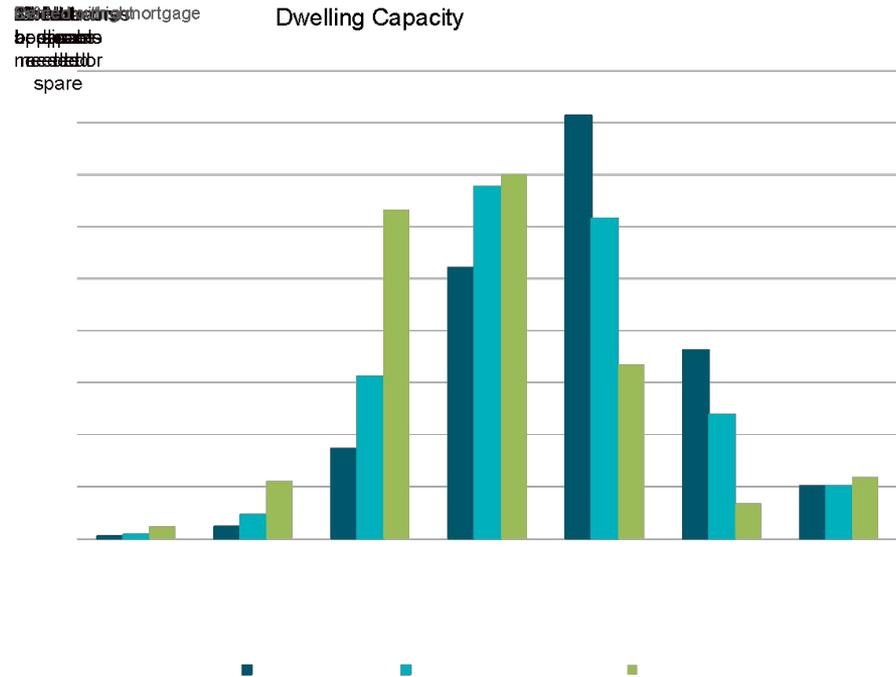
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## Survey question

3. Should we be doing more to encourage retirees to downsize to increase the supply of suitable housing?
- a) No, it would not materially improve supply
  - b) No, it could be unfair to retirees
  - c) Yes, by limiting the aged pension asset test exemption
  - d) Yes, but use other incentives eg. Land tax replacing stamp duty
  - e) Yes, with a combination of c and d

# Argument for promoting downsizing

- How much unused space is out there?
- Most homes owned outright have at least one bedroom spare
- Could also boost supply by subdividing large blocks of land



# Promoting downsizing

- Currently the home is exempt from the aged pension assets test
- If retirees were to sell their home and purchase a smaller dwelling, the residual sale proceeds would not be exempt from the assets test

## Stick

- Cap the exemption for the home
- Cap is indexed and varies by region

## Carrot

- Allow proceeds from downsizing to be exempt if invested into complying product (eg. annuity)

# Some issues with promoting downsizing from the Grattan Institute

- 2017 Budget: People aged 65 and over can make a post-tax contribution into their superannuation of up to \$300,000 from the proceeds of selling their home
- Some issues with this policy measure:
  1. Aged pension assets test will apply to sale proceeds (therefore no incentive for pensioners)
  2. The emotional cost to leaving a long-standing home
  3. Established suburbs have fewer smaller dwellings because planning laws restrict subdivision
- In the end this policy measure benefits those going to downsize anyway

## Survey results

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## Question 3

<https://api.cvent.com/polling/v1/api/polls/sp-vo9uje>

# QUESTIONS