SURVIVE THRIVE

Natural Selection
Financial Services Forum

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Actuaries Institute
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
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
  – 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)
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
Defining “Housing Affordability”

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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

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

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- 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

- 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?

<table>
<thead>
<tr>
<th>Measure</th>
<th>From 2006 to 2016</th>
<th>By Geography</th>
<th>Measure Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>House price to income</td>
<td></td>
<td></td>
<td>- Doesn't take into account cost of serviceability</td>
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<td></td>
<td></td>
<td></td>
<td>- Doesn't take into account cost or impact of lenders mortgage insurance</td>
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<tr>
<td>Scheduled repayments</td>
<td></td>
<td></td>
<td>- Highly dependent on interest rates</td>
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<tr>
<td>Required deposit to income</td>
<td></td>
<td>Metropolitan</td>
<td>- Doesn't take into account cost or impact of lenders mortgage insurance</td>
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<tr>
<td>Home ownership rates</td>
<td></td>
<td>Regional</td>
<td>- Impacted by broader social and demographic factors as well as economic factors</td>
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<tr>
<td>First home buyer proportion</td>
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<td>WA &amp; Vic.</td>
<td>- Only measures owner-occupier first home buyers, not investment buyers</td>
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<tr>
<td></td>
<td></td>
<td>Other States</td>
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</tbody>
</table>
Survey Results

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   c) Yes but only in some capital cities
   d) Yes
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?
Survey results

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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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B. (Dis)incentives to downsize; including tax policy
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E. Land-locked – concentration in major cities
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 (e.g. 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