

Housing Affordability in Australia and the UK : Common Problems and Common Solutions

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Issues for this evening

- **Housing in a long-run context**
- **Declining rates of home ownership**
- **The effect of general increases in housing supply on affordability.**
- **General supply policies versus targeting**
- **Funding for affordable housing**

Housing in a long-run context

Housing should be seen in a long-run context, since policy and outcomes cannot be changed quickly. But for most households, housing conditions have improved enormously over the last 50-100 years. Housing problems are about tails in the distribution. Nevertheless, many improvements have not come about through explicit housing policies. Housing policy is a poor relation to wider fiscal and monetary policy and this contributes to high housing market volatility.

Housing in the late 19th century

Death Rates in the Empire, (Deaths per 1000 living residents)

Period	England & Wales	London	Glasgow	New South Wales	Victoria	Ceylon	Jamaica
1881	18.9	21.3	25.3	15.1	14.2	27.2	26.0
1905	15.2	15.7	19.8	10.1	12.1	27.7	21.9

‘ The tenements in which I have visited are occupied from the cellars to the allies, and almost altogether kept for lodging houses, many of them being more fit for pig-styes than dwellings for human beings; and in not a few the donkeys and pigs rest at night in the same apartment with the family. The entrance to these abodes is generally through a close, not unfrequently some inches deep with water, or mud, or the fluid part of every kind of filth, carelessly thrown down, ...’

Report of the Glasgow Fourth District Surgeon, Perry (1844)

Declining home-ownership: Temporary or permanent?

**Declining home-ownership – temporary or permanent:
Too much credit or too little? Our research indicates that, in addition to demographics, the propensity to become a home owner depends on affordability, the income distribution, credit availability and competition from investors. On this basis, some (but not all) of the factors causing declining home ownership may be temporary. But, the housing problems of low-income households are not cyclical, but structural.**

From the Housing Minister ...

"Ultimately we are public servants and serve the people who elect us, and 86% of them want to own their own home. It is entirely logical that we are very clear that our focus is on increasingly housing supply and moving home ownership back in an upwards direction. " (page 27, transcript of evidence by Brandon Lewis MP to the House of Lords Economic Affairs Committee, 22nd March 2016).

Box 1

There are significant issues for low-income households arising from an over-concentration on restoring home ownership, particularly in an environment where there are stringent controls on overall public expenditure. Increasing home ownership is not a free good. Policy is fighting against strong market forces and attempts to overcome those forces can be at the expense of affordable housing for those towards the bottom of the income distribution.

The Lord Kerslake view

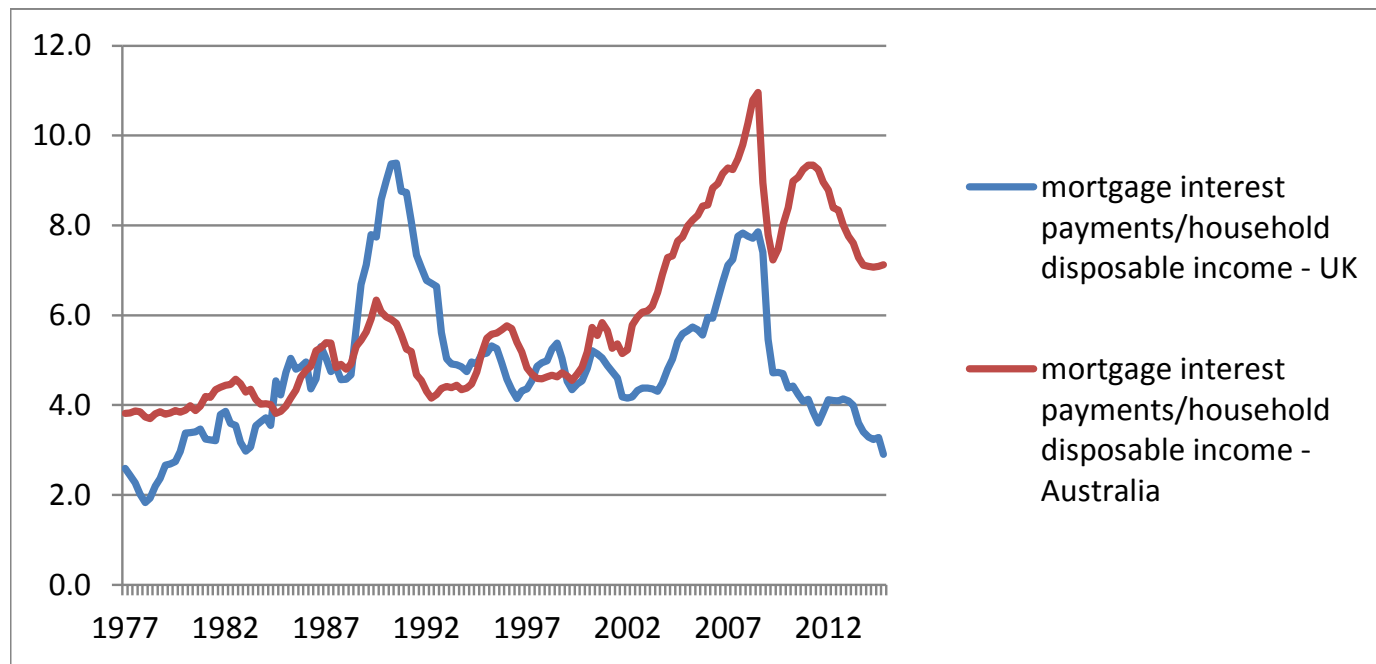
It is simply not possible to deliver the new housing the country needs without building more houses of all types and tenures, including social housing.

Factors affecting home-ownership

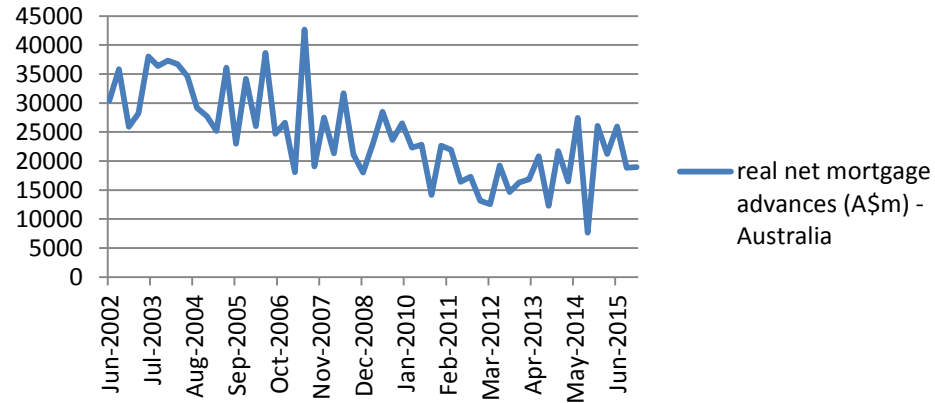
- **Affordability**
- **The availability of mortgage credit (notably deposit requirements)**
- **The income distribution**
- **Competition from the investment market**

Some of these are cyclical, or temporary, and some more structural or possibly permanent.

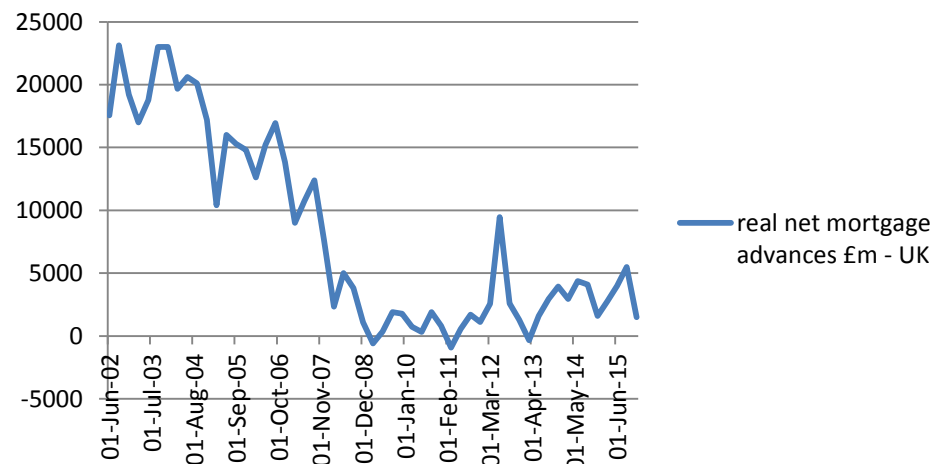
One measure of affordability



real net mortgage advances (A\$m) - Australia



real net mortgage advances £m - UK



Factors affecting house price risk

- **the variance of house price movements,**
- **the covariance between the return on housing and risky financial assets**
- **and the market value of the housing stock.**

The Productivity Commission (2004) Report into First Homeownership

“ ... the case for providing assistance explicitly directed at increasing home ownership levels is not strong, and that diverting some or all of that assistance into other measures to help low income households may well provide a better return to the community”.

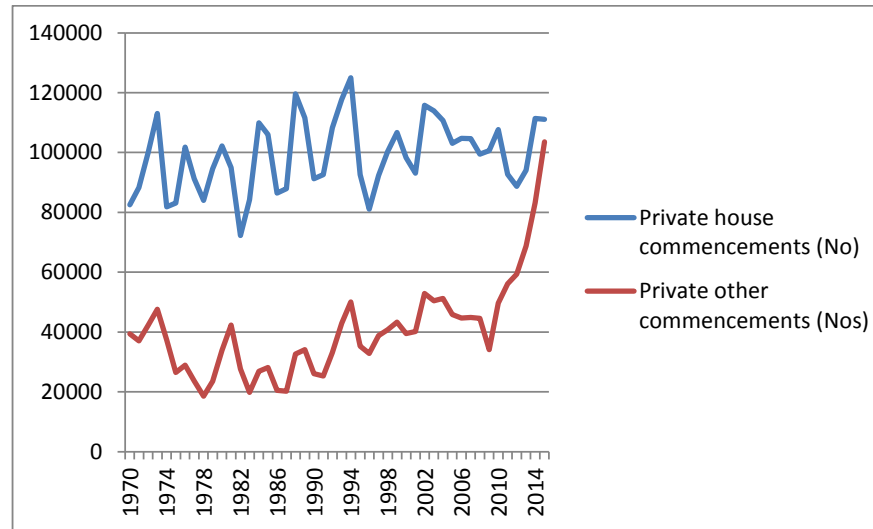
Housing costs by income quintile: Australia, 2013-14

Survey of Income and Housing 2013-14		Owner without a mortgage	Owner with a mortgage	State/territory housing authority	Private landlord	Total renters	All households
Housing costs as a proportion of gross household income							
Lowest quintile	%	8	45	25	47	40	27
Second quintile	%	5	23	19	29	28	18
Third quintile	%	3	20	14	21	21	16
Fourth quintile	%	2	17	13	19	18	14
Highest quintile	%	1	12	9	12	12	9
All households	%	3	16	21	20	20	14

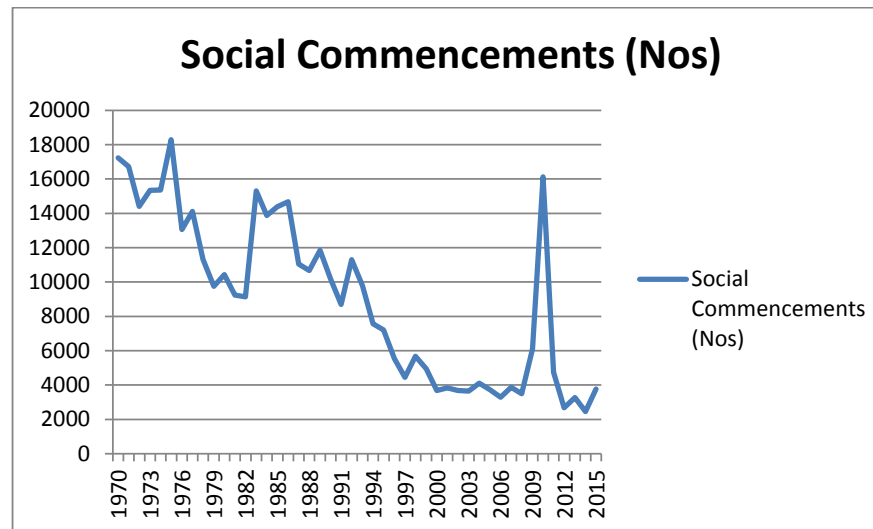
Housing supply and affordability

General increases in housing supply have only a limited effect on affordability unless they are large and sustained and are accompanied by changes in fiscal policy. These are not alternatives.

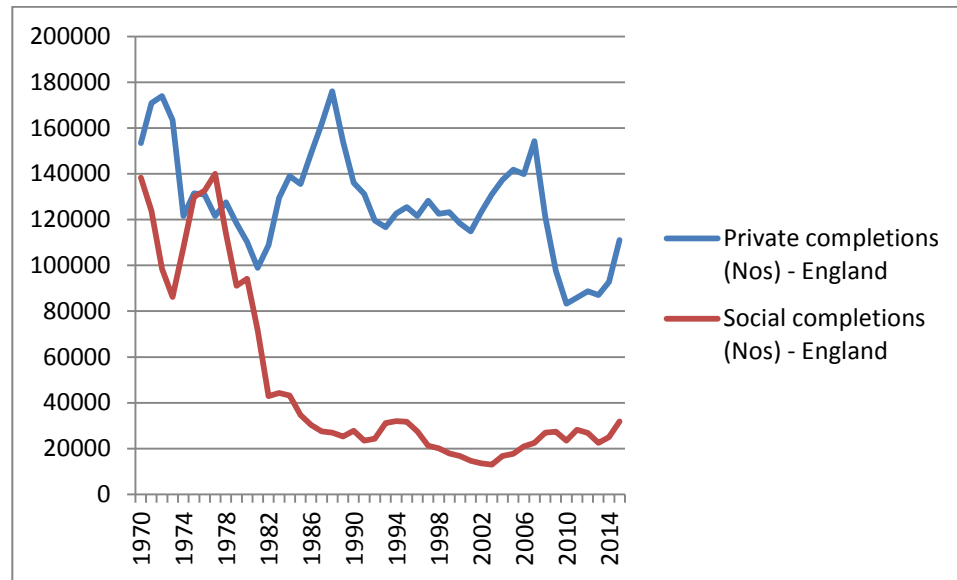
General market increases in housing supply have only a limited trickle-down effect to affordable housing for low income groups.



Private Commencements (Nos, Australia)



Social Commencements (Nos, Australia)



Private and Social Completions (Nos, England)

Box 2

Insufficient housing supply in both countries has attracted considerable attention, but, importantly, in both, the fall has occurred primarily in the public sector. Over long periods of time private construction has exhibited no upward or downward trend, although there has been strong volatility.

The Productivity Commission again ...

- *Much of this increase in housing demand has been due to cheaper, more accessible finance and buoyant economic growth through the 1990s*
- *This led to higher prices because of the inherent limitations on the responsiveness of housing supply to surges in demand, particularly **as much of the demand came from existing home owners seeking to ‘upgrade’ in established areas.***

“.. the cumulative response to lower finance costs was a growing demand for housing, most of it not from first home buyers” and “... in addition to the effects of cheaper and more accessible credit, a sizeable proportion of the burgeoning demand for housing has come from higher incomes and more jobs ... in short economic growth”.

The Lyons Review and build out rates

“The speed at which sites are built out is dictated by market demand for the finished houses. Because of the risks of land scarcity, house price volatility and the high upfront capital costs of development, house builder business models are predicated on a high profit margin and double-digit returns on capital (frequently cited at 20% per annum). Most volume house builders work to targets for both sales volumes and return on capital. This means that private new build starts follow the same pattern as overall rate of house sales”.

Summary (1)

- 1. In order to stabilise affordability, the increase in the number of new homes must be greater than the increase in households.**
- 2. The change in affordability in the long run is determined by the growth in household incomes relative to the growth in the housing stock. The former usually exceeds the latter.**
- 3. It is unlikely that private housing increases will be sufficient to stabilise affordability. This would require major permanent shifts of resources and builders' models are unlikely to bring this about. Furthermore, there would need to changes to housing taxation to reduce demand.**

Summary (2)

1. It follows that the “trickle down” effects onto affordable housing for low-income households will also be modest.
2. Despite the fact that Australia builds, on a per capita basis, more than twice the number of homes as England, there are still similar problems – falling home ownership and insufficient low cost rental homes.
3. But this does not imply that the need to increase housing supply should be neglected; rather it is a recognition of the limitations to what general housing supply strategies can achieve alone in terms of improving affordability. Supply should be one part of an integrated approach, including the factors that affect the demand for housing by existing households and a greater recognition of the needs of housing in macroeconomic policy. Furthermore, it suggests the need for more targeting.

Support for low-income housing

Funding for low-income housing will not primarily come from government and, therefore, there is a need for innovative funding methods.

Advantages of direct provision

- **targeting low-income groups** becomes feasible, rather than relying on indirect trickle-down effects;
- social housing is **not constrained by market demand** in the same way as the private sector – it does not need to drip feed the market and build out rates may be faster.
- it can be **used counter-cyclically** to offset reductions in private building in a slump;
- it can utilise **public sector land holdings**.

Social housing: Australia

Year @ 30 th June	Public Housing	Community	SOMIH	Total
2007	339,771	34,707	13,098	387,576
2009	336,464	42,384	12,056	390,904
2011	331,371	59,777	9,820	400,968
2013	328,340	65,865	10,084	404,289
2015	321,627	72,105	10,035	403,767

Source: the Council on Federal Financial Relations *Affordable Housing Working Group: Issues Paper* (2016)

An ideal world, where the private sector can meet all demands?

- All planning regulations are abolished or at least there is a presumption in favour of development except in areas of high environmental quality,
- Major reform takes place with respect to housing taxation so that the system is neutral across tenures and asset classes,
- The construction industry is highly competitive, there are no skills or finance shortages and the industry is innovative and highly productive,
- There is little housing market volatility so that the risk premium required by builders is lower,
- Monetary policy takes greater account of housing conditions,
- There is a more equal income distribution.