

Wednesday 15 November | 11.00am – 12:30pm (AEDT)

# Supporting first home buyers

## *The good, the bad and the unintended consequences*

### Speaker

Professor Stephen Whelan

### Respondents

Eliza Owen, CoreLogic

Dr Marcus Spiller, SGS Economics & Planning



# HOUSEKEEPING

**Webinar recording available at:**

<https://www.ahuri.edu.au/events/first-home-buyers/consequences>

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## **Upcoming events**

**Webinar: Adapting housing to climate change - minimising the impacts of disaster**

**29 February 2024; 12.00-1.30pm AEDT**

**One day Conference: Circular Economy Housing - making the shift**

**9 May 2024; Sydney**

**National Homelessness Conference 2024**

**13-14 August 2024; Adelaide Convention Centre**

**Find out more: <https://www.ahuri.edu.au/events/upcoming-events>**

# Presentation

## **Financing first home ownership: Opportunities and challenges**

**Professor Stephen Whelan – University of Sydney**

Download the report: <https://www.ahuri.edu.au/research/final-reports/408>

# Supporting first home buyers

*The good, the bad and the unintended consequences*



# Welcome I

*I would like to acknowledge and pay respect to the traditional owners of the land on which we meet; the **Gadigal people of the Eora Nation**. It is upon their ancestral lands that the University of Sydney (Camperdown Campus) is built.*

# Welcome II

**AHURI Inquiry - Financing first home ownership: opportunities and challenges**

# Homeownership – an enduring aspiration

- The aspiration for homeownership in Australia has a long genesis
  - ‘Forgotten People’ speech of then-Prime Minister Robert Menzies in 1942
  - Succinctly encapsulated into the notion of ‘the Great Australian Dream’
- Support for enabling home ownership have been explicit policy aims of governments of all political persuasions at both state and federal levels since the mid-20th century.
- Homeownership has some desirable features and benefits
  - Security of tenure
  - Neighbourhood and civic effects associated with externalities
  - A means of savings
- But it also comes with costs
  - Illiquid and high mobility costs.
  - Can be risky

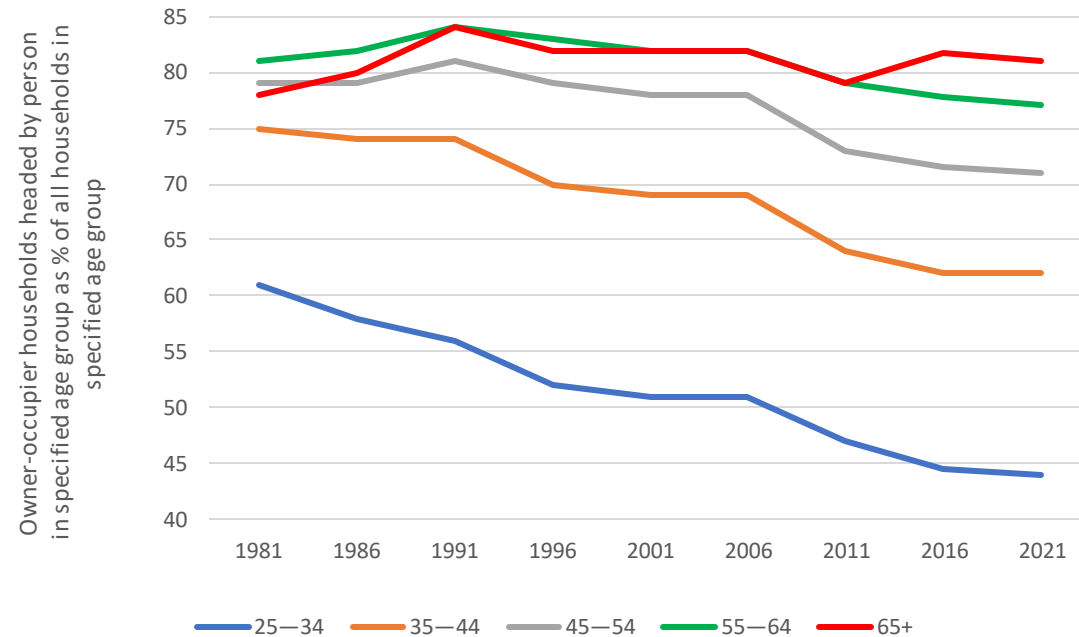


# Homeownership – an enduring challenge

- The story that I am about to tell is not new ...
- A rapid expansion of owner-occupation in the early postwar period peaked at over 70 per cent in the late 1960s
- Important to emphasise that homeownership rates in Australia are ‘average’, not ‘high’ as is perhaps commonly perceived
- What followed was a gradually declining home-ownership rate since 2000 if not earlier
  - This decline was especially pronounced among younger adults
  - The rate for the 25–34 age cohort fell from 51 per cent in 2001 to 44 per cent in 2021
  - There may be ‘good’ reasons for this decline related to social and demographic developments
  - There may also be ‘bad’ reasons for this decline, often associated with affordability,

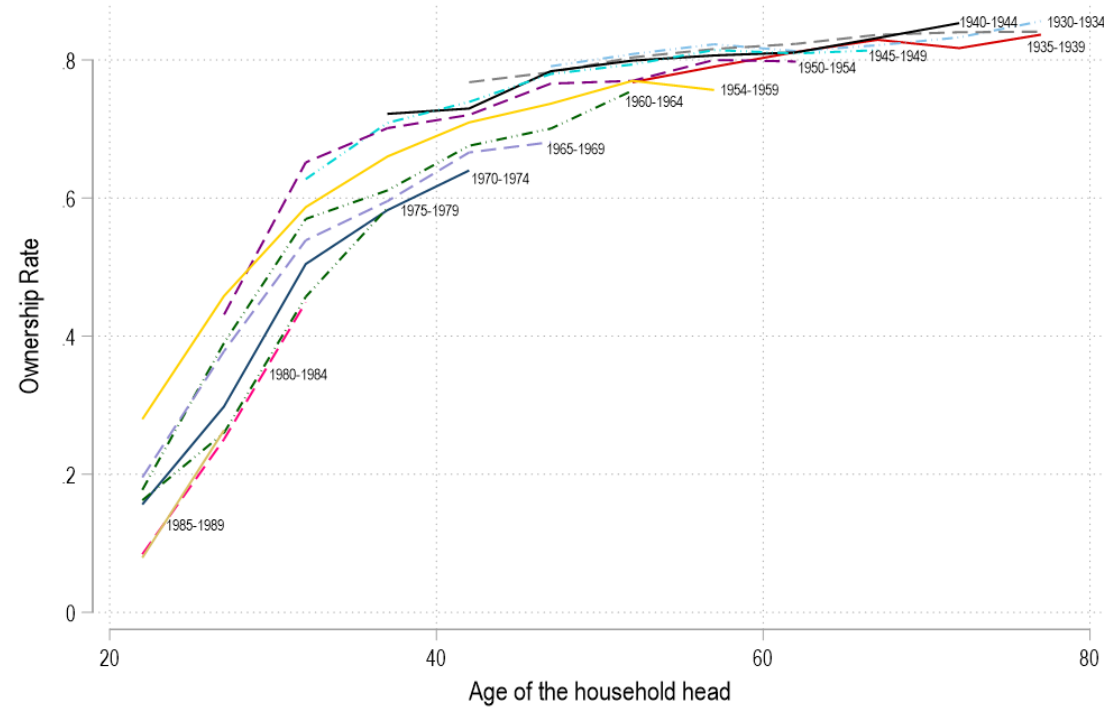
# Homeownership – an enduring challenge

- Different ways to tell the same story
- Figure 1: Age-specific home-ownership rates: 1981–2021



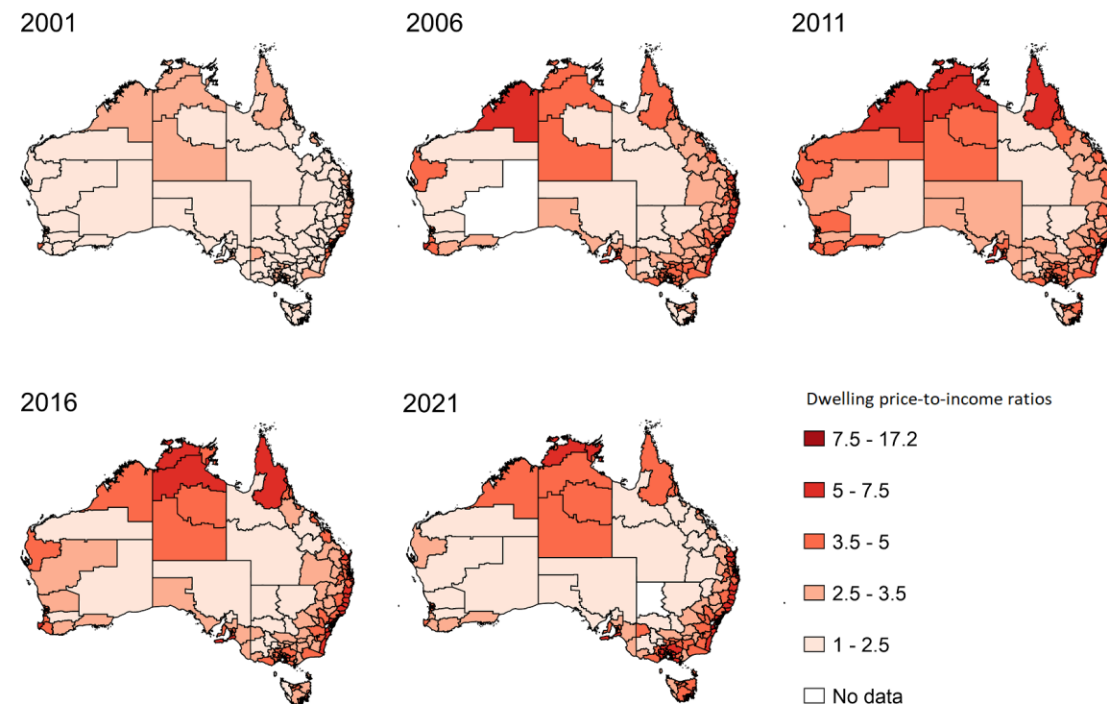
# Homeownership – an enduring challenge

- Figure 2: Home ownership rates for different cohorts across ages



# Homeownership – an enduring challenge

- Figure 3: Dwelling Price to Income ratios, Australia 2001–2021



# Homeownership – some initial takeaways

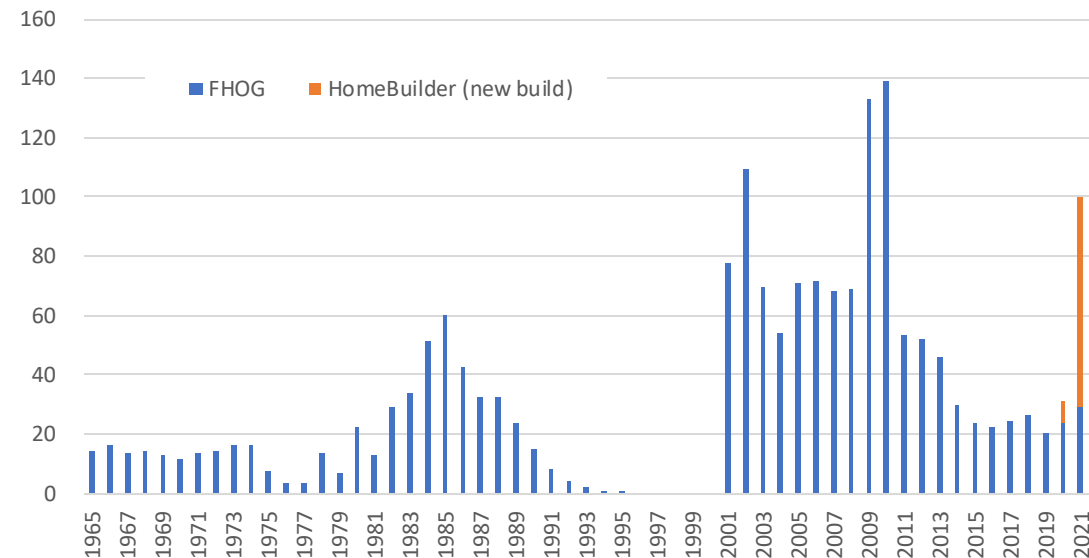
- Developments in homeownership over the past couple of decades are complex, and there is no single narrative to explain what has happened or how to address it. Nonetheless...
  - Homeownership rates have fallen, but not by as much as might be perceived
  - The story is complex and there is evidence that the fall in homeownership rates among younger cohorts (25-34 years) is not simply a delayed entry into owner-occupation. The ownership gap at older ages (50+) remains with only 75% catch up
  - Failure to attain homeownership at or near retirement has important economic and social consequences
  - Australian households/ families still aspire to attain homeownership – it is embedded in the Australian psyche
  - Affordability is a nebulous concept
  - Some (many?) of the problems we face are of ‘our’ own making – they reflect policy choices
- ,

# Homeownership – the (bad?) policy choices

- Support for aspiring homeowners has been a feature of the Australian political and policy landscape for many decades
  - Evolved over time – post war support and actions by governments were very different...
  - ... But it was a different world back ‘then’ (pre 1980s)
  - Much greater focus on supply side in the past – *policies ‘that fund or otherwise enable the production of housing’ suitable for a cohort of FHBs*
  - Demand side measures – *policies ‘designed to boost the purchasing power of FHBs’*
- It is important nonetheless to understand that these are choices that have been made, and that over time there has been a substantial shift from supply-side to demand-side measures
  - Stamp-duty concessions and FHOGs

# Homeownership – the (bad?) policy choices

- Expenditures >\$37 billion over the past five decades, in direct grants and tax concessions targeted at FHBs
- Figure 4: FHOG and HomeBuilder, total annual expenditure per capita (\$2021), Australia, 1965-2021



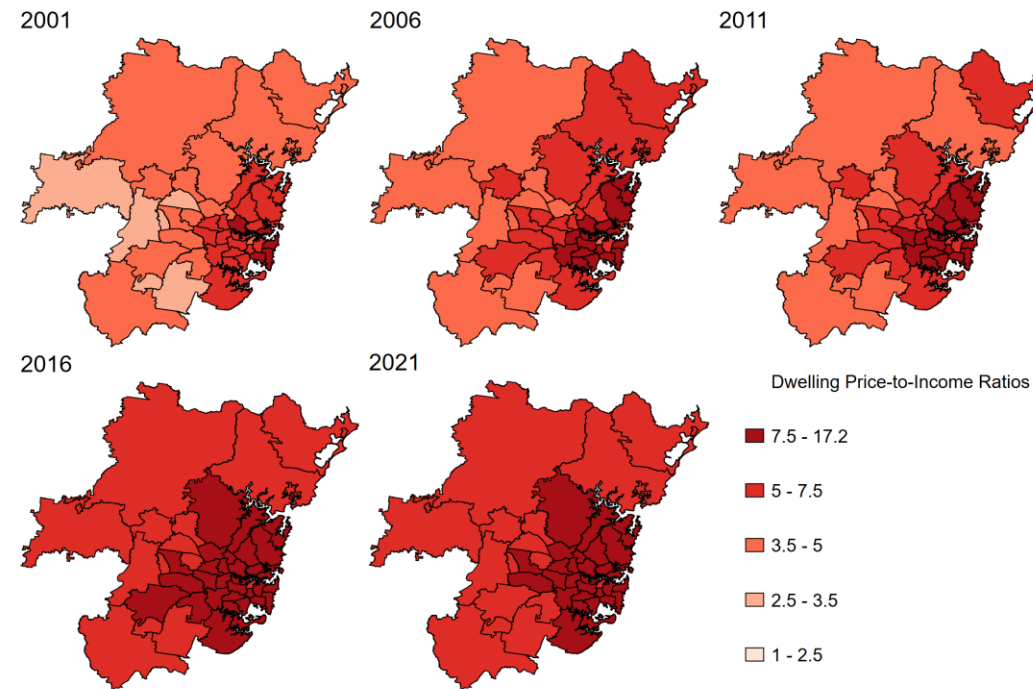
# Homeownership – the (bad?) policy choices

- There are very good reasons to question these policies
  - Grants may be capitalised into prices – a very simple model tells us this
  - Higher prices benefit existing, not aspiring owners
  - At best they changes the timing, not the attainment of homeownership
- It is worth highlighting that notwithstanding the significant expenditures over time, homeownership rates have continued to decline among younger cohorts
- It is also important to note that such policy settings are simply one in a suite that contribute to and influence housing/ homeownership choices
  - Stamp-duty
  - Capital gains tax treatment
  - Negative gearing rules



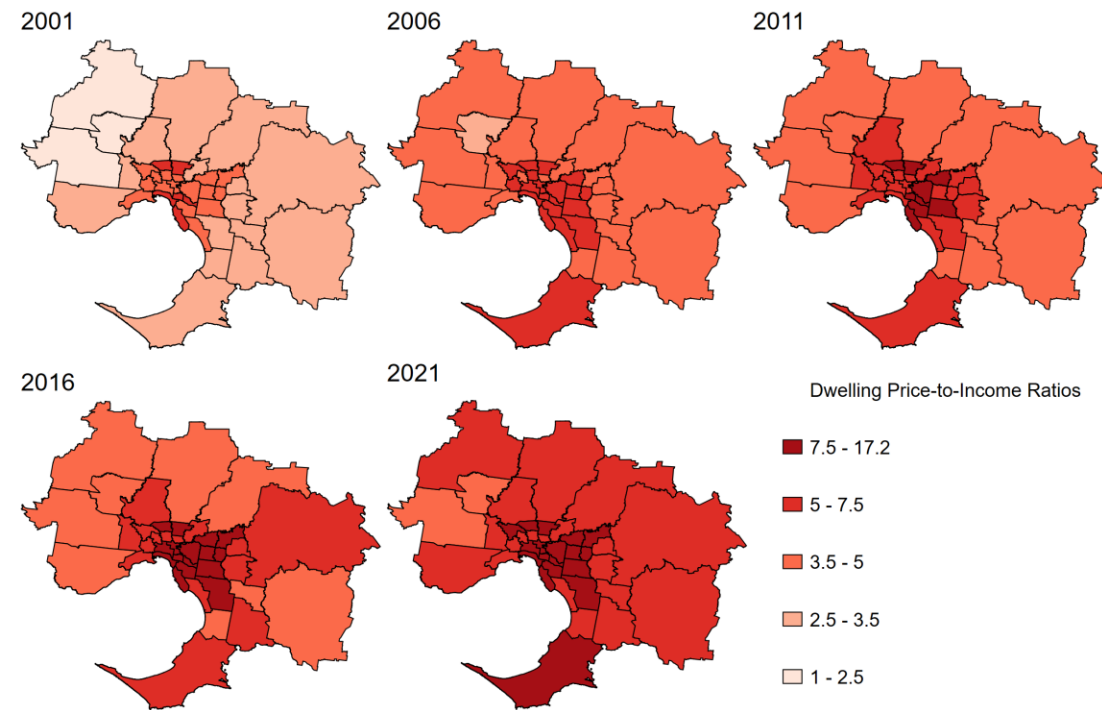
# Homeownership – are there better (good?) policy choices

- Let me return to the issue of prices and to channel Charles Dickens, a tale of two cities
- Figure 5: Dwelling Price to Income ratios, Sydney 2001–2021



# Homeownership – are there better (good?) policy choices

- Figure 6: Dwelling Price to Income ratios, Melbourne 2001–2021



# Homeownership – are there better (good?) policy choices

- Affordability is not an easy concept to define as there are many exogenous and endogenous factors that go into determining what is affordable
- Nonetheless, an important distinction to make is:
  - accessibility—the downpayment constraint
  - affordability—the repayment constraint.
- Policy has increasingly recognised that ‘accessibility’ is a key challenge for aspiring FHBs and that ‘sugar hits’ from past policies are actually likely to be counter-productive
- So what are the alternatives?
  - First Home Guarantee (FHBG) - an eligible home buyer’s home loan from a Participating Lender is guaranteed by Housing Australia and facilitates home purchases with as little as 5% deposit
  - Family Home Guarantee
  - Shared Equity Schemes such as *Help to Buy* slated to start in 2024

# Homeownership – beware the unintended consequences

- As an economist I cannot not talk about unintended consequences
- Why?
- Homeownership per se is a poor objective
  - Individuals are exposed to risk
  - The macro economy is exposed to risk
- Policy choices that seem appealing may be misguided
  - FHOGs and stamp duty concessions
  - Prudential regulations that seek to limit borrowing and asset (i.e. house price) inflation
  - Tax settings that ‘spillover’ beyond their intended domain

# Some final comments

- Homeownership can be **good**
- We have made some **bad** policy choices
- Past and current policy choices can have **unintended consequences**
- Some final thoughts....
  - Homeownership is a complex challenge – it has many dimensions
  - Policies ostensibly designed to assist aspiring FHBs should not be done in a piecemeal manner
  - Homeownership policies must be part of a broader housing policy

Thank you....

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# Thank you for attending

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