



EXECUTIVE SUMMARY

Housing tenure, mobility and labour market behaviour

Inquiry into housing policies, labour force participation and economic growth

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Inquiry panel members

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Mary Cavar	Productivity Commission
Marilyn Chilvers	Department of Family and Community Services, NSW
Michael Fusarelli	Department of Family and Community Services, NSW Government
Shane Garrett	Housing Industry Association Limited
Michael Lennon	Housing Choices Australia
Paul McBride	Department of Social Services, Australian Government
Marty Robinson	Treasury, Australian Government
Iain Scott	Department of Social Services, Australian Government

Executive summary

Key points

The analysis in this report examines the relationships between housing and labour market behaviours, including geographic mobility, reservation wages (i.e. the minimum wage that an unemployed individual finds acceptable), and job search behaviour. It takes as its conceptual basis the Oswald thesis, the spatial mismatch hypothesis (SMH) and job search models. Through regression analysis of longitudinal data, it identifies some stylised relationships between housing characteristics and behaviours and outcomes in the labour market.

Key regression model findings (after controlling for individual, household and contextual factors) include the following.

- Individuals in private rental accommodation are approximately 15 per cent more likely than outright owners to report moving in any given year.
 - Owner-occupier mortgagors with low loan-to-value ratios (LVRs) exhibit the lowest rates of geographic mobility.
 - There is some evidence that risk aversion is associated with reduced geographic mobility. Risk-averse individuals in private rental accommodation are approximately 2.5 per cent less likely to report moving relative to non-risk-averse individuals in private rental accommodation.
 - Unemployed owner-occupier mortgagors with low LVRs report lower rates of job search and higher reservation wages than outright owners. Relative to outright owners, their reservation wages are approximately 6 per cent higher.
 - For the underemployed, geographic mobility does not appear to be associated with greater attachment to the labour market.
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Key findings

This report examines the linkages between housing, housing markets and the labour market. The analysis is motivated in part by recognition that housing and housing markets play an important role in facilitating the efficient operation of the labour market. The backdrop to this report is an institutional environment, in terms of the labour market, that has undergone substantial change over the past three decades. While the aggregate labour market outcomes have proved to be reasonably robust over the past two decades, there is an understanding that continued economic growth and prosperity will be contingent on a labour market that is flexible and is supported by other policy settings that support labour market adjustment, including housing policy.

The analysis presented in this report is quantitative in nature and follows from the interrogation of the Household Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA data is a longitudinal survey that has been used widely in the social sciences, including economics, to investigate labour and housing behaviours and outcomes of Australian households and

individuals. The statistical analysis in this report examines key patterns in the data relating to: geographic mobility; job search behaviours; reservation wage determination; and transitions across different labour market states. In doing so, the analysis makes a novel contribution and extends existing research by, among other things: considering the experience of individuals classified as underemployed; exploring tenure and housing-related issues in a more nuanced way than existing studies; and examining the impact of attitudes to risk on behaviour.

The analysis in this report addresses a series of research questions, as follows.

- 1 How does geographic mobility of households differ across tenures following the loss of employment?
- 2 What effects do housing tenure and associated impediments to geographic mobility have on the labour market and related behaviours for underemployed individuals?
- 3 What roles do tenure status and related housing costs play in job search and the determination of reservation wages for the unemployed?
- 4 What impact does housing tenure have on labour market outcomes following economic shocks?
- 5 What do the findings reveal about the role that housing policy plays in influencing geographic and job mobility and behavioural responses to labour market shocks?

The key findings on the relationship between housing tenure and employment outcomes are as follows.

- Substantially lower rates of geographic mobility for owner-occupiers (mortgagors and outright owners) compared with private renters (approximately 15 percentage points lower), especially among mortgagors with low LVRs and those who own their homes outright (after controlling for individual, household and contextual factors). Owners typically move for lifestyle and reasons relating to the dwelling and not for work reasons.
- A higher propensity for geographic mobility across unemployed and underemployed individuals, although mobility is not largely influenced by work related reasons.
- The potential role of house prices as a push factor in encouraging geographic mobility. Housing costs and financial stress are strongly implicated in the dynamics of housing tenure and labour market adjustment.
- Risk averse individuals are less likely to exhibit geographic mobility over time.
- Lower rates of job search (in the order of 0.25 fewer types of search methods) and higher reservation wages (6 per cent higher) for owner-occupiers (mortgagors) with low LVRs relative to outright owners and private renters.
- Unemployed individuals tenured in private rental accommodation and social housing report significantly lower reservation wages compared to outright owners and private renters (after controlling for a range of socio-economic and demographic characteristics).
- Housing-related financial stress is associated with significantly higher rates of job search activity. Unemployed individuals who report not being able to cover housing costs use, on average, an additional 0.4 search methods per month.
- For underemployed individuals, geographic mobility does not appear to be associated with greater engagement in the labour market.
- Home owners are most likely to change jobs without moving address, compared with other tenures.

- There is some preliminary evidence that labour transitions from unemployment and underemployment differ by tenure status. The strongest effects relate to transitions from underemployment. Mortgagors with higher LVRs are most likely to transition into adequate employment following a period of underemployment between consecutive time periods.

Policy development options

The findings from the analysis have some important implications for housing-related policy development. Broadly speaking, these can be couched in two key areas.

Tax policy

Like earlier studies, the analysis in this report identifies the relatively high rates of geographic mobility among private renters (Productivity Commission 2014b). The geographic mobility of home owners, especially outright owners, is substantially lower than that exhibited by private renters. From an economic perspective, it is widely accepted that transaction taxes such as stamp duty tend to reduce the geographic mobility of owner-occupiers. This reduced mobility is one of the key considerations that drives the results of the Oswald thesis—that is, that the systemic rises in the level of unemployment experienced by economies over time can be linked to increases in home ownership rates. By curtailing the geographic mobility of individuals and households, the ability of individuals to respond to adverse labour market shocks is diminished, and higher rates of unemployment may eventuate.

It is important to note that the institutional environment in Australia is characterised by favourable tax treatment for owner-occupied housing. Both implicitly and explicitly, the tax system in Australia favours owner-occupation as a preferred form of tenure. While such a bias may be well-grounded, given the extent of private and social benefits that derive from owner-occupation, this also potentially presents a problem to the extent that owner-occupation as a form of tenure exceeds a level consistent with economic efficiency and the efficient functioning of labour markets.

From a policy perspective, the analysis in this report, and the institutional environment more generally, highlights the need to ensure that tax policy is as neutral as possible—that is, that it does not favour one tenure unduly over another. An obvious starting point for such a change in policy is the introduction of broad-based land taxes in lieu of stamp duties. While limited moves have been made in this direction, such a policy would likely offer a range of advantages to governments and individuals alike, offering overall enhancements to efficiency while minimising the negative impact of tenure choice on the ability of individuals and households to respond to adverse labour market shocks.

Transfer policy

Private renters exhibit substantially higher rates of geographic mobility than individuals in other tenures. In Australia, private renters who qualify for any of a range of government payments may receive a rent subsidy in the form of Commonwealth Rent Assistance (CRA). A key benefit of CRA is that it follows the household; unlike public or social housing, CRA is not lost by moving to a region where better employment opportunities are available. Indeed, over time, CRA has become the dominant form of housing assistance. Given the differences in rental markets across Australia, it is possible that consideration could be given to providing CRA at rates that reflect local housing market conditions. This may better facilitate the mobility of individuals and households to regions that offer better opportunities for employment and economic advancement, but with higher housing costs. In a similar fashion, public housing policy could be revised to ensure that such assistance is delivered in a way that removes potential impediments for individuals to engage in the labour market.

More generally, the analysis in this report highlights the need for the unemployed to receive support in a comprehensive manner. While there is little direct evidence that unemployed people across tenures (including those in social housing) differ in their job search intensity, the analysis highlights the need to ensure that effective and efficient support is provided for those in receipt of housing assistance to return to gainful employment. Indeed, recent reports by the Productivity Commission (2015) and the New South Wales Government (2015), emphasise the need for tenants in public housing to receive support that is comprehensive and complementary, in a way that provides opportunities to engage with the labour market. Such policy responses may encompass support for individuals to upgrade skills, and provide measures that facilitate geographic mobility so as to ensure that individuals locate to regions with strong employment prospects. There is a critical need for the supply of new social housing to be located in areas with strong employment growth, including entry level and key worker employment that is accessible to public transport, social infrastructure, and services (NSW Government 2015). Further, initiatives that facilitate mobility for home owners, to avoid them being 'trapped in place' in areas with limited economic prospects, may enhance the efficient operation of labour markets over time.

Background to the study

This report forms part of an AHURI Inquiry into housing policies, labour force participation and economic growth. The research in this report examines some key linkages between housing and labour markets. The analysis was motivated by the recognition that housing and housing markets are a critical component of an 'efficient economy' more generally. The research is informed by the Oswald thesis (1996; 1999) and the SMH (Kain 1968), and the job search models which underpin these theories. The empirical analysis focuses on a number of key economic behaviours: the geographic mobility decision, the level of job search intensity and the level of reservation wages¹.

The study is set in the context of an Australian economy that has undergone significant structural change over the past three decades. In the labour market there has been a sustained move away from the traditional centralised bargaining approach, with wage determination shifting towards the enterprise and individual workplace levels. While such changes have sought to increase the flexibility of labour markets, arguably they have also made employment more precarious and in doing so potentially created impediments to adjustment in the labour market. In the housing context, owner-occupation remains the dominant form of tenure, notwithstanding increasing prices over time, especially in the capital cities. Moreover, despite relatively strong employment performance over the past two decades, there is increasing concern around the sustainability of growth and productivity improvements over time. It is likely that housing markets and housing policy can play an important role in facilitating growth by supporting continued labour market adjustment over time.

The analysis is quantitative in nature and uses the Household Income and Labour Dynamics in Australia (HILDA) dataset for the statistical analysis. The HILDA is a large panel dataset that tracks Australian households and their occupants annually over a period of 14 years, beginning in 2001. The dataset contains an array of information about the characteristics of households and their occupants, along with detailed information on their behaviours over time. The data has been widely used in social sciences research for this reason.

¹ The reservation wage represents the lowest wage at which an unemployed individual will accept an offer of employment.

The statistical analysis uses the full 14 waves of the HILDA data available at present. The geographical focus of the analysis is Australia. The empirical research focuses on three main behaviours.

- Geographic mobility decisions across waves of HILDA. Separate analysis was undertaken for groups including the unemployed, the underemployed and couples. Moreover, alternative types of geographic mobility were analysed, including moves across distinct spatial units.
- The job search intensity of unemployed individuals.
- The level at which the reservation wage is set for unemployed individuals.

For each analysis, the key focus is on tenure and housing-related determinants of behaviour. Broader socio-economic determinants of behaviour are also incorporated in the empirical analysis.

The analysis in this report extends our existing understanding of mobility and other labour market related behaviours in a number of ways. First, the use of the HILDA data allows for the incorporation of controls for unobserved heterogeneity across individuals.² Further, the analysis examines the underemployed, a group that has received little attention previously but for whom the labour market may be characterised as leading to an inefficient outcome. In addition, the empirical analysis considers the issue of geographic mobility and job mobility jointly. Finally, a measure of risk is incorporated into the analysis.

² Unobserved heterogeneity refers to differences across individuals that cannot be observed. For example, motivation is a characteristic of individuals that is not measured accurately but may help explain behaviours such as engagement in the labour market.

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HILDA disclaimer

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