A model of the Australian housing market

AHURI HAS DEVELOPED A MICROSIMULATION MODEL TO ANALYSE THE IMPACT OF EXISTING AND PROPOSED GOVERNMENT POLICIES ON THE AUSTRALIAN HOUSING MARKET.

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KEY POINTS

- The AHURI Housing Market Microsimulation Model (AHURI-3M) presented in this study is the first comprehensive microsimulation policy tool designed for the Australian housing market.

- AHURI-3M takes into account both the demand side and the supply side of the housing market and is designed specifically to assess the quantitative impacts of housing policy measures.

- In a first report based on analyses from AHURI-3M, the authors examine three contemporary housing policy issues:

  – which households would be economically better off in home ownership rather than renting but are effectively impeded by borrowing constraints;

  – the impact of the Australian Government First Home Owners Grant on supporting access to home ownership;

  – the impact of Commonwealth and State taxes on investment in affordable housing in the private rental market.

AHURI HOUSING MARKET MICROSIMULATION MODEL (AHURI-3M)

The full impact of any proposed policy on the housing market is difficult to accurately predict because of the array of factors involved. The purpose of AHURI-3M is to simulate the economic impact of policy measures, to provide guidance to policy makers and help close the information gap.

AHURI-3M is designed to provide housing policy makers and housing market analysts with an economic tool to assess the impact on the housing market of both Commonwealth and State policy measures, and of changes to the economic environment.

AHURI-3M has two key elements:

- a theoretical framework of the decision-making processes of housing market participants;

  – on the supply side, AHURI-3M measures the annual economic costs of investors (landlords) in the private rental market;

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– on the demand side, AHURI-3M measures the annual economic costs of housing consumers as homeowners, and compares this with the rent they are required to pay in rental housing markets; and

– in mortgage finance markets, AHURI-3M measures the impact of lending criteria on housing consumers' borrowing capacity.

• the implementation of that framework using representative Australian survey data.

– the model utilises two important Australian Bureau of Statistics' surveys for this purpose – the 1997 Rental Investors Survey and the 1996-97 Survey of Income and Housing Costs.

AHURI-3M is able to investigate a number of aspects of demand and supply in the Australian housing market:

• whether any particular household has the wealth required to place a deposit on home purchase (i.e. deposit requirements), or the income to sustain mortgage payments (repayment requirements);

• the impact of Federal Government income taxation on the economic costs of housing investors (landlords) and (potential) home owners (because marginal income tax rates are a critical determinant of these costs);

• the impact of Federal Government income and asset tests (that govern entitlement to transfer payments including Commonwealth Rent Assistance) on housing affordability;

• the impact of state and local government taxation on the economic costs of both housing investors and (potential) homeowners;

• the effect that variations in mortgage interest rates and the rate of inflation have upon decisions to invest by landlords and decisions to purchase by (potential) home owners.

FINDINGS

A number of housing market and housing policy simulations have been conducted with AHURI-3M. These simulations include:

• the role that relative prices and income and wealth constraints play in determining who gets access to home ownership;

• a comparison of alternative policy measures to promote the supply of private rental housing affordable to low income households;

• the role of land taxes and stamp duties as an impediment to the emergence of multi-property landlords;

• the role of first-homeowner grants and of shared equity schemes as policy instruments to support access to homeownership.

These findings are covered in more detail in other AHURI Research and Policy Bulletins (see below for further information).

FURTHER INFORMATION

For more information about this project, see the Final Report:

www.ahuri.edu.au/attachments/80088_final_microsimulation.pdf

See also the following Research and Policy Bulletins:

Bulletin 29, Increasing the supply of affordable private rental housing, November 2003.

Bulletin 30, Predicting the outcomes of home purchase assistance schemes, November 2003.

Those interested in commissioning analyses using AHURI-3M should contact AHURI Ltd on +61 3 9660 2300.