An impossible triangle?

The impact of housing policy on affordability, accessibility, and efficiency

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See Nassios, J., J. A. Giesecke, and X. L. Liu. *An impossible triangle? The impact of housing policy on affordability, accessibility and efficiency*. Centre of Policy Studies Working Paper G-344, January 2024. Available at https://www.copsmodels.com/ftp/workpapr/g-344.pdf

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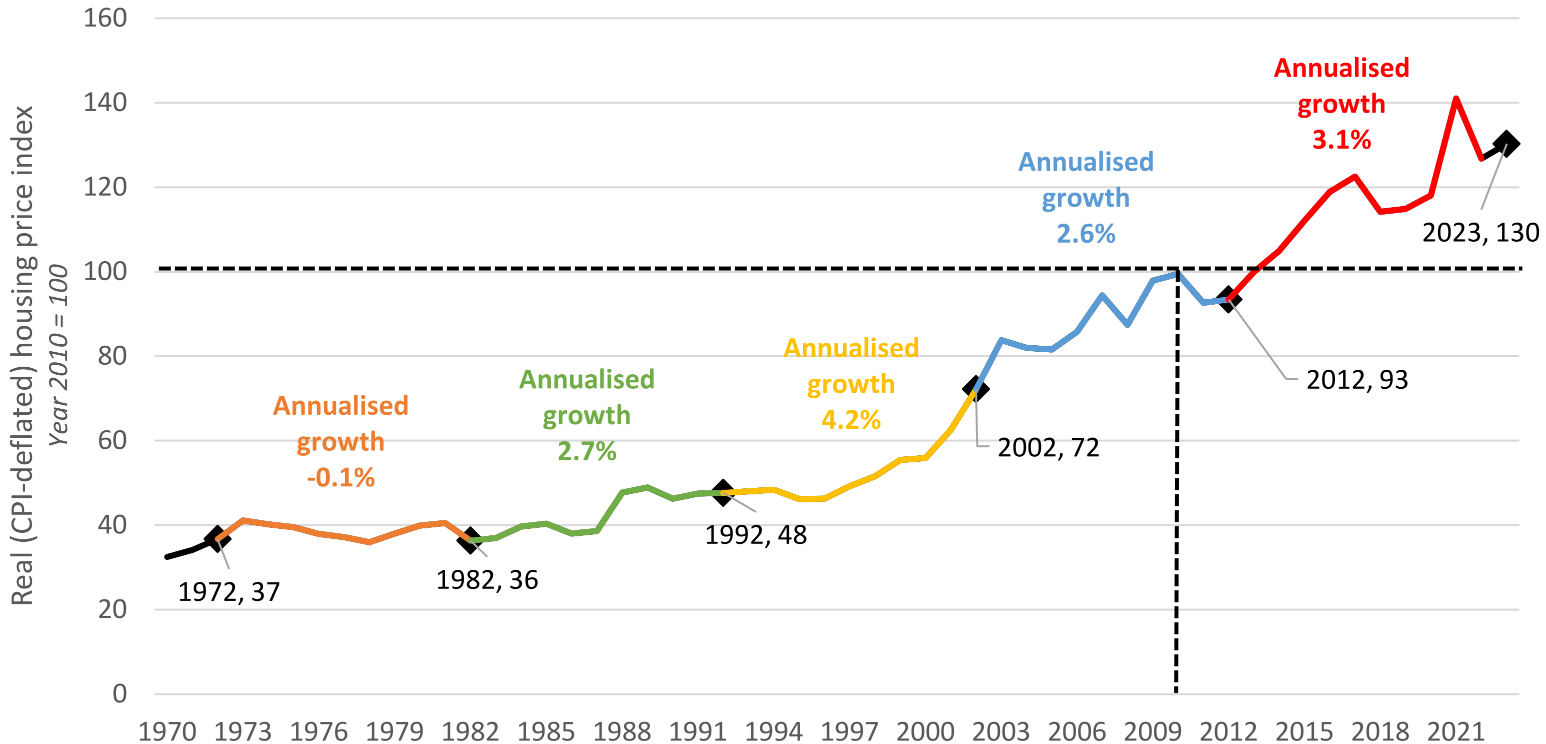
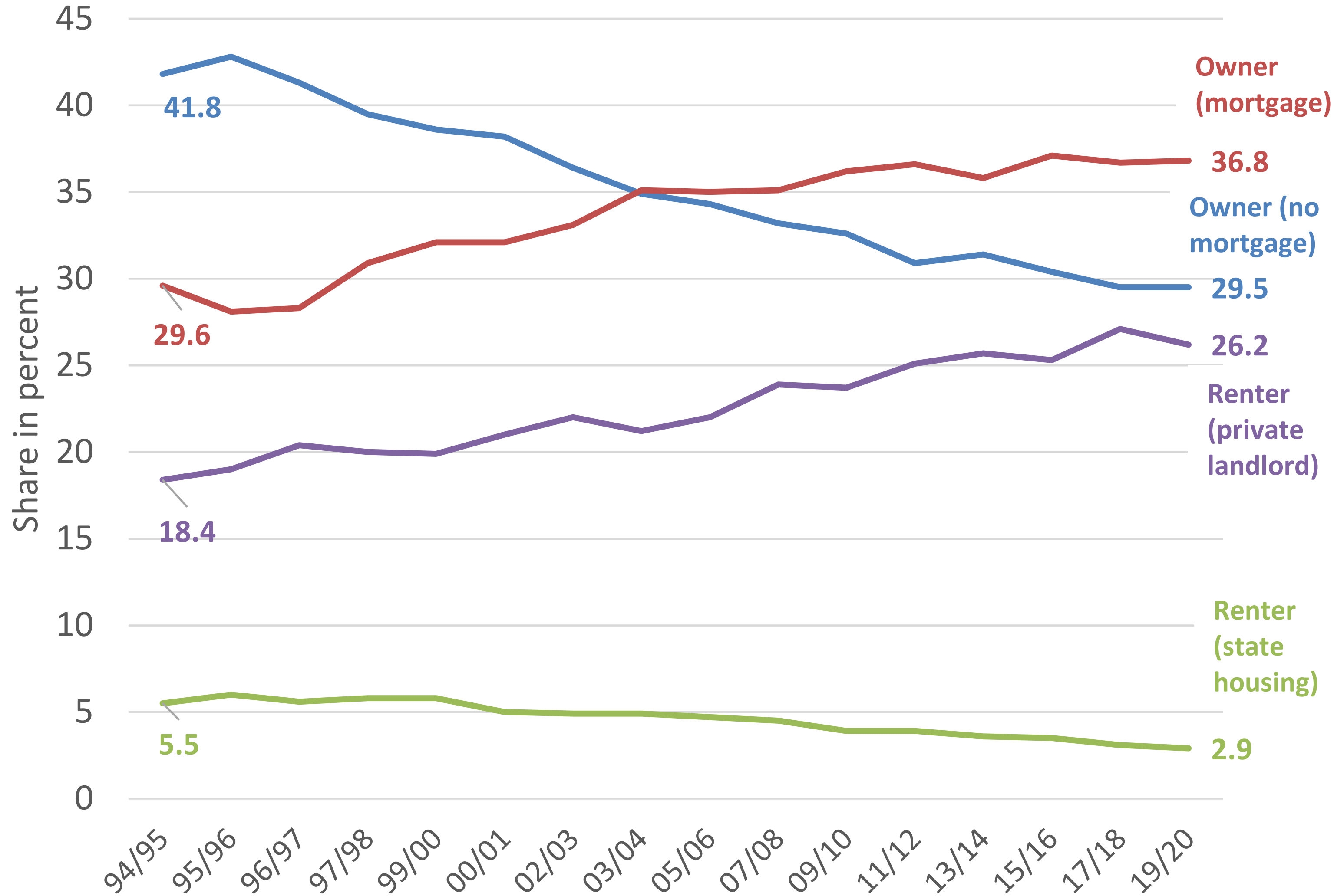
Affordability for owners continues to fall
Australian real housing price index (CPI-deflated), 1971 - present

- Ownership affordability is deteriorating…
- …but real housing price appreciation is not new issue.
    - Compounded recently by a fall in real wage growth.



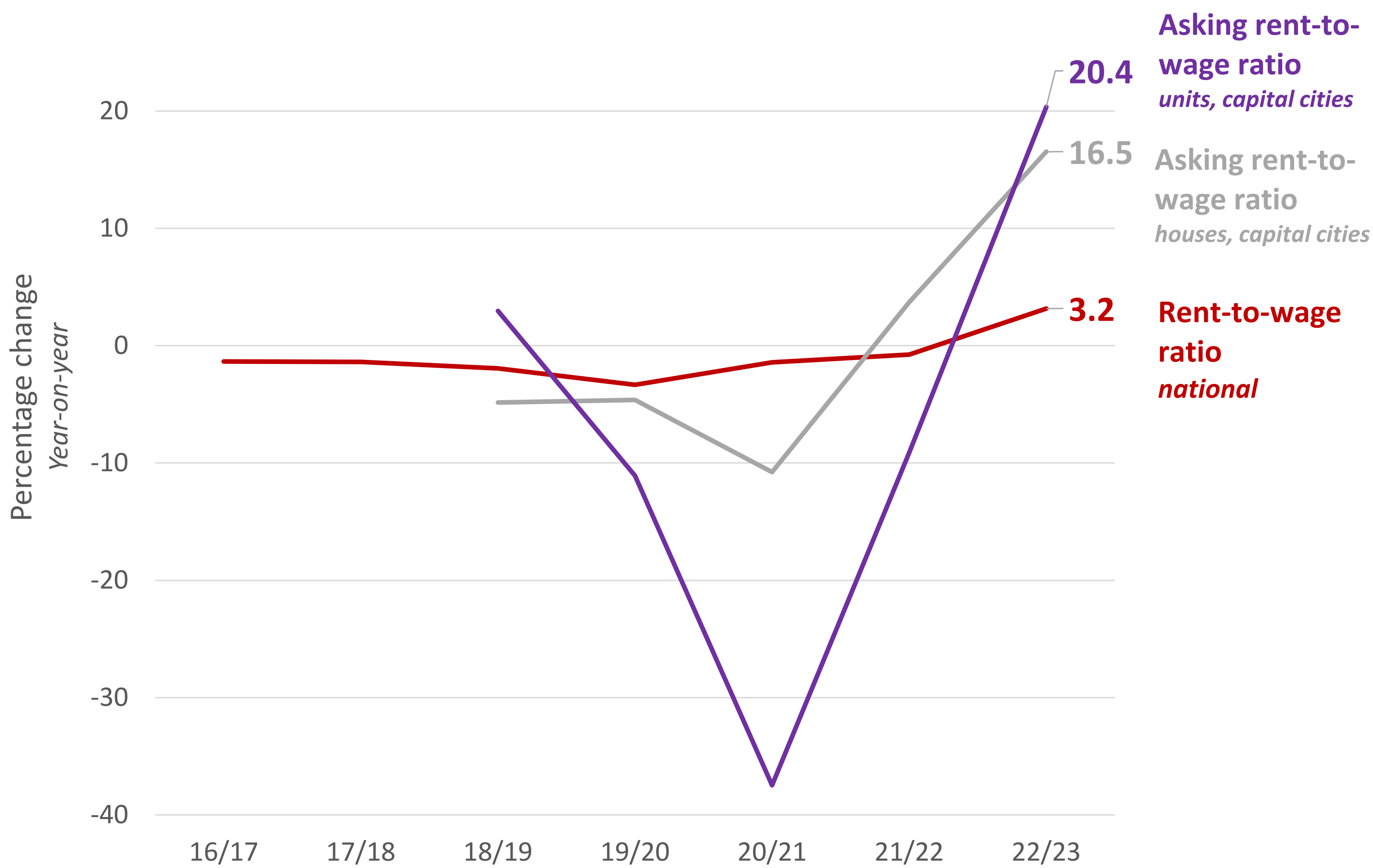
Data series sourced from the Bank for International Settlements.

This is evident in housing tenure and mortgage statistics
Australian housing, tenure and mortgage status (share in percent)



Source: Housing Occupancy and Costs, Table 1.3 (ABS)

Rental affordability is being squeezed
Australian rent-to-wage ratios (various), year-on-year change



Source: Authors calculations, see Nassios et al. (2024)

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Summary and contributions

- We study the capacity of A$100m expansions in four housing subsidies in one state (VIC) to improve efficiency, affordability and accessibility.
  - Analyse the near-term (impacts after four years).

- Policies can be classed as :
  - **Grants/transfers:** First homebuyer grants (FHOGs), Rent assistance (RAP).
  - **Concessions:** First homebuyer duty exemptions and concessions (FHODEs).
  - **Co-investment:** Shared equity schemes (SESs).

- Rank each based on its:
  - Economic efficiency (welfare loss per dollar spent);
  - Affordability (for owners and renters) impact;
  - Accessibility (for owners) impact.

- **Question:** Is there one policy response to rule them all?

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Policy summaries
What is different? What is common?

- **FHOGs:** modelled as pure construction subsidies.
  - National accounts treat them as capital transfers.
  - Binding lock-in to owner occupation of one year (possibly longer).
  - Typically paid to builders at first installment.

- **SESs:** available on new and existing homes (unlike FHOGs).
  - Much larger existing claim share (in Victoria).
  - Don't have to be a first homebuyer.
  - Want to rent it out? Careful of the buyout trigger!

- **FHODEs:** paid on new and existing homes (like SESs).
  - Similar lock-in to FHOGs.
  - Bias towards new homes, compared to stamp duty collection shares.

- **RAPs:** modelled as rented housing subsidies (very different from others).
  - National accounts treat them as welfare payments.

The goal
Measuring the economic impacts of A$100m government expenditures

Measure the *marginal excess burden of expenditure*:

$$MEBE(t) = \frac{-d\_welfare(t)}{d\_expend(t)}$$

Measure impact on *housing rent-to-income ratio*:

$$R2I(t) = \frac{RENT(q,t)}{H\_INC(q,t)}$$

Measures of economic impact

Efficiency

Affordability *owners*

Affordability *renters*

Accessibility *owners*

Policies of interest

FHOG

SES

FHODE

RAP

Measure impact on *housing price-to-income ratio*:

$$P2I(t) = \frac{PVS(q,t)}{H\_INC(q,t)}$$

Measure the *owner-occupation rate*:

$$OOR(q,t) = \frac{O\_HSE(q,t)}{T\_HSE(q,t)}$$

Summary results
The impact of fully-funded A$100m expansions in Victoria

Positive implies policy expansion damages efficiency

***FHOGs:** Already lots of tax advantages for owners over renters!*

Negative means improvement in affordability (renters)

***FHOGs:** Less renters, more owners.*

		Efficiency *Welfare loss per dollar spent*	Affordability *Housing price-to-income deviation (cum. in %)*	Affordability *Housing rent-to-income deviation (cum. in %)*	Accessibility *Owner-occupation rate deviation (cum. in %)*
POL[A]	FHOG	18	-0.072	-0.008	0.004
POL[B]	SES	19	0.029	-0.003	0.016
POL[C]	FHODE	-35	0.123	0.007	0.009
POL[D]	RAP	5	0.095	-0.054	-0.095

Negative means improvement in affordability (owners)

***FHOGs:** Land and capital are imperfect substitutes. Investment can rise, due to densification*

Positive means improvement in accessibility (owners)

***FHOGs:** More houses, more owner occupiers.*

Worst performer

Best performer

Applying our results
The silver bullet?

Your friend is a policymaker in state government. Over coffee, they ask:

Q: *My minister is interested in improving productivity, putting a handbrake on housing prices, helping renters and boosting sagging owner-occupation rates.*

		Efficiency *Welfare loss per dollar spent*	**Affordability** *Housing price-to-income deviation (cum. in %)*	**Affordability** *Housing rent-to-income deviation (cum. in %)*	**Accessibility** *Owner-occupation rate deviation (cum. in %)*
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A: *None of the three policies your minister can tweak will individually help you in this case, I am afraid. Nor can rent assistance.*

Applying our results
Playing DJ and mixing it up

You offer the following alternative policy mix:

What about (2/3, 1/3) mix of (FHOGs, FHODEs)? Your minister has control over these, it carries zero excess burden, and improves rental affordability slightly.

		Efficiency *Welfare loss per dollar spent*	**Affordability** *Housing price-to-income deviation (cum. in %)*	**Affordability** *Housing rent-to-income deviation (cum. in %)*	**Accessibility** *Owner-occupation rate deviation (cum. in %)*
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POL[E]	MIX1	0	-0.007	-0.003	0.006

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Case Study
How does the current mix across states rank?

- Choose Victoria. FHOGs/FHODEs mix is 20/80 rather than 67/33.
  - Motivated on housing affordability grounds.
  - Little evidence to support this motivation. Current mix damages affordability.

		Efficiency *Welfare loss per dollar spent*	**Affordability** *Housing price-to-income deviation (cum. in %)*	**Affordability** *Housing rent-to-income deviation (cum. in %)*	**Accessibility** *Owner-occupation rate deviation (cum. in %)*
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POL[E]	MIX1	0	-0.007	-0.003	0.006
POL[F]	VICMIX	-25	0.084	0.004	0.008

Some policy advice

You leave them with one last piece of advice:

The current mix isn't helping affordability.

Our alternative is an improvement on current policy…

…but costs more than 10 times what RAPs would to deliver similar rental falls.

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Can't your minister pick up the phone?

Conclusions

- We provide a standardized assessment of four housing market policies currently active across Australia. This enables direct comparison across a suite of metrics.
    - **Economic (in)efficiency** can best be addressed by scaling back owner-occupier assistance.
        - Already lots of owner-occupied housing exemptions!
    - **Ownership accessibility** is best addressed via co-investment.
        - Reduce upfront costs and encourage ongoing owner-occupation.
    - **Ownership affordability** is not helped by duty concessions.
        - Discounts today (and expected future ones) capitalized into land prices.
    - **Rental affordability** is best addressed via direct subsidization.

- Some points on comparing our findings with past work.
    - Why do FHOGs not drive housing price inflation?
        - Have previous studies allowed for land/capital substitutability?
        - Do previous studies assume policy packages are funded?
            - If not, the impact of fiscal expansion is conflated with the policy.