

An impossible triangle? The impact of housing policy on affordability, accessibility, and efficiency

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For full details, please see:

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Government policy interventions in the housing market serve many aims, including making homes more affordable, helping people buy houses, and using resources wisely. The challenge is finding the right balance between these goals. Making homes affordable means keeping costs low for low- and middle-income families, while accessibility means making it easier for people to own homes, especially first-time buyers, and low-income groups. Economic efficiency is about putting limited resources to their best use.

Governments use different tools to reach these goals, like giving housing grants, sharing costs with buyers, providing tax breaks, and helping with rent. In a recent study, we looked at how these tools affect the affordability of renting and owning homes, accessibility, and efficiency [Nassios *et al.*, 2024].

Our findings, shown in Figure 1, suggest that there is no one-size-fits-all solution. Each policy tool is good at improving one thing—rental or ownership affordability, accessibility, or efficiency. Using the wrong mix of tools can cost a lot and make housing goals harder to achieve.

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Figure 1: The impact of a series of A\$100m interventions in the Victorian housing market (POL[A] – POL[F]) on economic efficiency, housing affordability, and ownership accessibility.

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

Notes: Figures in each column report: (a) marginal excess burden per dollar of policy expenditure; (b) percentage change in the ratio of average dwelling prices to household incomes; (c) percentage change in the ratio of average housing rental rates to household incomes; and, (d) percentage change in the owner occupation rate. Source: authors' simulations with the economic model VURMTAX. In each row, the program is a \$100m. budget-neutral expansion in spending on each policy.

First homeowner grants (FHOGs, POL[A] in Figure 1) help both renters and owners, but they come at a cost, decreasing well-being by about 18 cents for every dollar spent. It's important to understand that this efficiency cost comes from spending money. But before the money can be spent, it must first be raised through taxes. Raising taxes also creates economic costs. On average in Australia, it costs society about \$0.30 for every \$1 of tax revenue collected. Put another way, raising \$1 in tax revenue to spend on FHOGs could end up costing about \$0.50. Shared equity schemes (SESSs, POL[B] in Figure 1), where governments become co-owners with owner-occupiers, carry similar economic costs.

Stamp duty discounts (FHODE, POL[C] in Figure 1) for first homeowners work in the opposite way to FHOGs. Being tax offsets, they help reduce the significant economic costs caused by taxes on home transfers. Unfortunately, our study suggests they don't do much for making homes more accessible or affordable.

Our study suggests that expansions in rent assistance programs (RAPs, POL[D] in Figure 1) should be more of a priority. First, their economic costs are low. If \$1 of tax revenue costs about \$0.30 to raise, raising \$1 and spending it on expansions in RAPs would cost, all up, about \$0.35. Most of the economic cost of RAPs therefore arise from revenue raising, rather than the expenditure itself.

Second, rent assistance can be targeted, directly helping low-income earners and others struggling with cost-of-living pressures. Third, although RAPs cause lower home ownership rates, this is because they assist financially strained households on the cusp of choosing between renting and buying to more easily afford rent.

Comparing POL[A] to POL[D], we find that no single policy is always best. But we find some merit in combining different tools. For example, a mix of two-thirds FHOGs and one-third FHODEs (MIX1, POL[E] in Figure 1) could help with making renting more affordable. It does this by encouraging some renters to own homes, rather than via direct subsidisation like POL[D].

MIX1 also has another advantage. Australia's rental assistance program, Commonwealth Rent Assistance (CRA), is run by the federal government. State governments cannot do much to increase payments under this scheme. So, using a mix of state tools (like FHOGs and tax breaks) can help state governments move independently of the federal government. Comparing the rental affordability response (a -0.003 percent fall in rent-to-income relative to the baseline, see Figure 1) for MIX1 to the impact of RAPs on rental affordability (-0.054%, POL[D], Table 1), we see that the magnitude of the improvement in affordability if government spent A\$100m on MIX1 is about 18 times smaller than what would materialise if governments spent A\$100m on RAP expansion, i.e., $-0.054 / (-0.003) \sim 18$. Put another way, achieving a rental affordability improvement using MIX1 that is of similar magnitude to that achieved by spending A\$100m on RAPs alone would cost approximately A\$1.8b. This places a dollar value on the potential savings of coordinated federal and state government action to combat rental affordability concerns in Australia.

Finally, we can compare MIX1 to the current FHOG/FHODE mix in Victoria, which consists of a 20% / 80% mix of FHOGs and FHODEs. For completeness, we report on A\$100m expansions in the current policy mix in Figure 1 (VICMIX, POL[F] in Figure 1). Comparing VICMIX to MIX1, we see that while VICMIX is in place to improve housing affordability, it ranks poorly as a policy to improve affordability for both owners and renters.