asfa
the voice of super

Housing Affordability and Superannuation: ASFA Policy & Research Paper

March 2021

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 16 million Australians with superannuation.

The Association of Superannuation Funds of Australia Limited (ASFA)
PO Box 1485, Sydney NSW 2001
T +61 2 9264 9300 or 1800 812 798 (outside Sydney)

ABN 29 002 786 290
ACN 002 786 290

This material is copyright. Apart from any fair dealing for the purpose of private study, research, criticism or review as permitted under the Copyright Act, no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission.

Enquiries are to be made to The Association of Superannuation Funds of Australia Limited.

www.superannuation.asn.au

© ASFA 2021

Contents

1. Executive Summary 4

2. Introduction 5

3. Background information and context 6

4. Early release of superannuation for housing deposits 9

5. Superannuation fund investment in residential property 14

6. Housing affordability – policy options 16

1

Executive Summary

There have been several comprehensive reviews that have rigorously assessed the superannuation system over the last decade or so. None of these has recommended the early release of superannuation for housing deposits, while several have made recommendations to the contrary.

The impact on the housing market of early release of superannuation for housing deposits would be an increase in house prices. As take-up of the measure increased, additional purchasing power available to a broader group of potential first-home buyers would be competitively bid into higher house prices, exacerbating the upswing of the current house price-credit cycle.

The measure would risk reducing access to, and affordability of home ownership for some. People who have relatively low superannuation balances and thus have a relatively low amount of funds available for a housing deposit, could in effect be priced out of the market for a first home – even with access to those additional funds.

Indeed, given that the measure will lead to higher house prices, and thus require higher deposits, the prospect of home ownership could become even more out-of-reach for those with low superannuation balances – a cohort which would largely comprise low-income earners.

Superannuation funds are increasing investment in residential property, particularly in the embryonic build-to-rent sector, and is also a key source of funding for increasing the supply of social and affordable housing through investment in Government backed bonds issued by the National Housing Finance and Investment Corporation (NHFIC). Growth in ongoing investment has the capacity to generate increases in housing supply and improve tenure and affordability in the rental market.

Severely unaffordable housing and declining levels of home ownership cannot be solved by superannuation policy and without careful consideration may be exacerbated by it. To improve outcomes housing affordability must be tackled more holistically.

Despite rising unaffordability, there is a lack of agreement, co-ordination, and cohesiveness across Federal, State and Local Government jurisdictions in addressing the substantive issues. A co-ordinated national approach on housing is needed, with the ultimate objective of generating improvements in affordability. ASFA recommends the Federal Government commission a comprehensive, independent review of housing affordability, similar in nature to the Retirement Income Review, to establish a fact base and assess all relevant policy options.

2

Introduction

This research paper analyses how the early release of superannuation for housing deposits would impact house prices and housing affordability. It also considers how superannuation can contribute to an increased supply of residential property through institutional investment more typical overseas. Finally, it assesses whether a co-ordinated, national approach is required to drive policy consistency and address worsening affordability.

Notably, there have been several academic reviews of the Australian housing market in recent years that raise supply as a crucial, if not the crucial, contributor to lack of affordability. It is also widely recognised that favourable taxation and transfer policy has a distortionary effect on the demand for residential housing. These elements of housing policy warrant serious consideration as policy makers attempt to tackle the emerging affordability crisis.

Superannuation makes a substantial difference to the adequacy of retirement income and the ongoing affordability of the Age Pension. The community deserves to be financially confident in retirement and the superannuation system is delivering in this regard. This national beneficial outcome is the backdrop when changes to the regulation of superannuation are being considered.

3

Background information and context

The main forms of lifetime savings for Australians are superannuation and owner-occupied housing with both recognised as important contributors to quality of life in retirement. As at January 2021 superannuation assets totalled $3 trillion and residential real estate $7.4 trillion.[1]

However, worsening housing affordability presents a significant challenge. Australia's median house price is 5.7 times median gross household income, with Melbourne at 9.4 and Sydney at 11.8 times income.[2] This compares with a median US home price of 3.5 times income. Home purchase in Australia is less affordable than in most other countries with all major housing markets in Australia (cities with a population of one million or more) severely unaffordable.[3]

Approximately 80 per cent of households aged 55-64 are homeowners (including those with mortgages) and, among those aged 75 and over, 80 per cent own their homes outright. However, younger households (under age 35) have seen significant falls in home ownership. In 2013–14, just over a third (34 per cent) of these households were owner-occupiers, a decrease from 48 per cent in 1994–95. The decline has been most pronounced for households in the bottom income distribution quintiles.[4]

As well, more Australians are approaching retirement with mortgage debt. In 2018 around 40 per cent of those aged 55 to 64 still had a mortgage debt in relation to their home with a median value of $190,000.[5] Although people are tending to work longer, superannuation savings can assist in paying off such debts at retirement.

There are a several options worth exploring to improve housing and retirement outcomes, including:

- housing affordability is holistically addressed by a formal Government review to reverse what could otherwise be a structural decline in home ownership
- increasing the supply of social housing and affordable rental accommodation with greater stability of tenure
- increasing levels of superannuation savings so that retirees can meet their housing expenses and other costs of living without undue hardship.

---

1 CoreLogic January 2021.
2 Data for median household gross income is from ABS, *Household Income and Wealth*, 2017-18. Data for house prices is from *Domain House Price Report*, December quarter 2019.
3 15th Annual Demographia International Housing Affordability Survey: 2019.
4 ABS 4130.0 – Housing Occupancy and Costs, 2013-14.
5 RBA statistical tables E7.

Current macro-economic and housing market conditions provide cause for caution, if not concern. There are a number of factors that may precipitate worsening affordability, including:

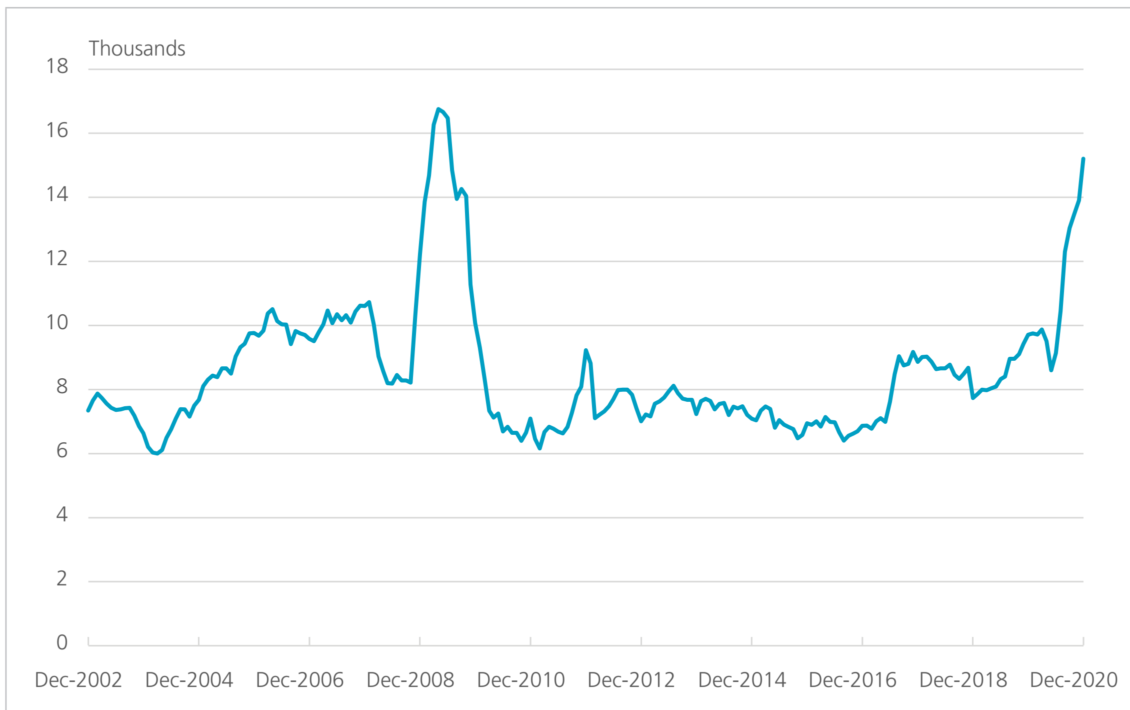
- historically low interest rates that are likely to persist into the foreseeable future
- the recent relaxation of macro-prudential requirements
- expansionary fiscal policy settings.

Despite surging demand for housing, the Reserve Bank of Australia has confirmed that it does not expect to increase the cash rate for several years at least,

> *"Before increasing the cash rate, the Board wants to see inflation sustainably within the 2 to 3 per cent target range. Meeting this condition will require a tighter labour market and stronger wages growth than we are currently forecasting. It is difficult to determine exactly when this condition might be met but, based on the outlook I have discussed today, we do not expect it to be before 2024, and it is possible that it will be later than this. So the message is: interest rates are going to be low for quite a while yet. The Reserve Bank is committed to provide the support the economy needs as its recovers from the pandemic.*[6]

In November 2020 the number of new loan commitments to owner-occupier first home buyers was around 13,900 – the highest level since November 2009.[7] Over the past year, the number of first home buyer loan commitments has increased by almost 50 per cent.

Chart 1: New loan commitments to owner-occupier first home buyers



Source: ABS.

6 Phillip Lowe, RBA Governor, *The Year Ahead*, Speech to the National Press Club, 3 February 2021.
7 ABS, Lending Indicators, November 2020.

The culmination of rapid lending growth and record low interest rates is likely to be sharp increases in house prices, in markets that are already severely unaffordable.

In February 2021 house prices increased by 2.1 percent[8], the largest monthly increase in the CoreLogic national home value index since its inception in August 2003.[9]

The Commonwealth bank, Australia's largest home loan lender, predicts national house prices will rise by 9 percent in 2021 and a further 7 percent in 2022.[10]

---

8 Core Logic Home Property Value Index – Monthly Indices.
9 Ben Wilmot, *Home prices rising at the fastest rate in 17 years*, The Australian, 1 March 2021.
10 Ellen Lutton, *House Prices to rise by 16 per cent over 2021 and 2022: CBA forecast*, Domain, 16 February 2021.

4

Early release of superannuation for housing deposits

4.1 Inconsistency with the objective of superannuation

While there are variants in terms of precise settings, the essence of the measure is that some or all of current and future preserved superannuation balances (largely derived from Superannuation Guarantee contributions) could be used to fund home loan deposits for first home buyers.

There have been several comprehensive reviews that have rigorously assessed the superannuation system over the last decade or so, including:

- The Super System Review chaired by Jeremy Cooper released in 2009-10
- The Financial System Inquiry (FSI) chaired by David Murray released in 2013-14
- The Productivity Commission Review into Efficiency and Competitiveness in 2017-18
- The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry led by Commissioner Kenneth Hayne AC QC, 2017-19
- The Retirement Income Review led by independent panellists Michael Callaghan, Deborah Ralston, and Carolyn Kay released in 2020.

> **KEY FACT**
>
> None of the comprehensive reviews of superannuation have recommended the early release of superannuation for housing deposits, while several have made recommendations to the contrary.

FSI panellist Kevin Davis said if super could be accessed to buy first homes it would contradict the point of compulsory super.[11] The FSI report recommended superannuation be exclusively reserved for funding retirement income, through legislating an objective for superannuation,

> *"The Inquiry's single primary objective prioritises the provision of retirement incomes and precludes the pursuit of other objectives at the expense of retirement incomes".*[12]

---

11 Gareth Hutchens & James Eyers, *Joe Hockey says people could use super savings as a 'shock absorber'*, SMH 12 March 2015.

12 Financial System Inquiry Final Report, November 2014, p.98.

In his final report to Government, Commissioner Hayne noted,

> *"…..the central principles governing superannuation arrangements are, and must remain, the best interests of members and the sole purpose test."*[13]

According to APRA, the sole purpose test precludes using superannuation for the purpose of pre-retirement benefits such as owner-occupied housing,

> *"The sole purpose requirements contained in section 62 of SIS limit the provision of superannuation benefits by regulated superannuation funds to a range of prescribed or approved retirement or retirement related circumstances. The test is the legislative expression of the retirement income objective which is the key rationale for superannuation savings."*[14]

The Retirement Income Review observed,

> *"Offering prudent and limited access to superannuation prior to retirement is consistent with the objective of balancing living standards pre- and post-retirement. Early access allows the system to respond to financial pressures people may face while still facilitating saving for retirement. Equally, superannuation is not intended to solve every financial problem experienced in working life. Shifting the balance too far in that direction would compromise its main objective of providing retirement income."*[15]

Recent reports into housing have also not supported early release of superannuation for home deposits, due to the impact on housing affordability, retirement outcomes and the Commonwealth Budget.

Dr Judith Yates found,

> *"Demand side policies, such as increasing grants to First Home Buyers, introducing concessional savings schemes, or allowing access to superannuation, all aim to increase income or reduce the deposit gap. Their main effect will be to enable marginal buyers to purchase bigger homes in better locations. They are band-aid solutions that might be politically popular in the short-term, but will be ineffective in the long-run. None will change the fundamental causes of declining affordability."*[16]

---

13 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Final Report, Volume 1, p.244.

14 APRA Superannuation Circular No. III.A.4, The Sole Purpose Test, February 2001.

15 Retirement Income Review Final Report, July 2020, p.176.

16 Dr Judith Yates, 'Overview', Housing Australia, Committee for Economic Development of Australia, August 2017, p.25.

Saul Eslake concluded,

> *"First, such a proposal, if implemented, would have exactly the same effect as measures such as cash grants to or stamp duty concessions for first time buyers – namely, that it would allow first time buyers who took up the opportunity to use their accumulated superannuation savings in order to put down a larger deposit on the purchase of a first home to pay more for their first home than otherwise; and hence that the likely result, in a market where the demand for housing exceeds the supply of it, is higher housing prices, rather than higher rates of home ownership."*[17]

The Reserve Bank of Australia (RBA) has similarly recognised,

> *"It is now widely accepted that policies that simply give people more money to spend on housing are likely to be capitalised into higher housing prices."*[18]

KEY FACT

Early release of superannuation for housing deposits is fundamentally inconsistent with the objective and central principles of superannuation. It would also be ineffective in improving housing affordability and increasing rates of home ownership.

4.2 ASFA analysis

To further inform consideration, ASFA has analysed the potential effects of the measure on housing affordability. This analysis (see Appendix A) indicates that the measure would be likely to:

- increase already high house prices and levels of household leverage, increasing the vulnerability of households and the broader economy to negative shocks
- exacerbate the upswing of the current house price-credit cycle
- be an effective transfer of Australians' retirement savings to property owners and developers
- be ineffective in assisting those interested in achieving home ownership given that most non homeowners in target age groups have low superannuation balances
- make home ownership even more difficult for those with low superannuation balances or no superannuation due to the house price impact
- mostly be used by individuals who would achieve home ownership in any event

---

17 Saul Eslake, *No Place Like Home – The impact of declining home ownership on retirement*, Australian Institute of Superannuation Trustees, March 2017, p.20.

18 The Senate, Select Committee on Housing Affordability in Australia, *A good house is hard to find: Housing Affordability in Australia*, June 2008, p.143.

- increase inequity in that higher income home purchasers would be able to gain home ownership by utilising superannuation tax benefits, whereas lower income purchasers will be less able or unable to take advantage of these benefits
- be a national policy which would be addressing a problem that is more severe in Sydney and to a lesser extent Melbourne
- expose households to significant asymmetric risk with respect to personal circumstances. For example, if a homeowner with a mortgage loses his/her job and cannot service the mortgage, the mortgage lender could repossess the dwelling for sale, leaving the individual without a home and with reduced retirement savings.

The measure would also be likely to precipitate increased superannuation fund asset allocations to cash and other highly liquid assets to fund redemptions. The effect of this would be to decrease investment returns to all superannuation members, as well as diminishing aggregate returns in the system and placing pressure on the Age Pension.

As well, where an individual redeems their entire superannuation balance (or a significant proportion of it), for a lengthy period post-withdrawal, they will not have the benefit of superannuation as a form of insurance against genuine financial hardship.

KEY FACT

The direct effect on the housing market of early release of superannuation for housing deposits is that increased purchasing power would be near fully capitalised into higher house prices, exacerbating the upswing of the current house price-credit cycle.

4.3 Existing first home buyer support mechanisms

The First Home Super Saver Scheme (FHSSS) announced in the 2017-18 Federal Budget allows voluntary contributions to superannuation made from 1 July 2017—over and above any compulsory contributions—to be accessible to fund a home loan deposit for first home buyers, along with associated deemed earnings.

The most recent figures for the first quarter of the 2020-21 financial year (as at 30 September 2020) indicate that almost 3,250 FHSSS release requests worth $44.1m were received from individuals seeking the release of FHSSS amounts.

Federal and State Governments also have in place several other demand side support mechanisms for first home buyers that, in accordance with the earlier section in this paper, further erode the rationale for early release of superannuation.

For example, the Federal Government's First Home Loan Deposit Scheme (FHLDS) administered by NHFIC reduces the need for a significant deposit.

Under the Scheme, eligible first home buyers can purchase or build a new home with a deposit of as little as 5 per cent, because the National Housing Finance and Investment Corporation (NHFIC) guarantees to a participating lender up to 15 percent of the value of the property purchased that is financed by an eligible first home buyer's home loan.

In the 2020-21 Federal Budget, the Australian Government announced an additional 10,000 FHLDS places for the 2020-21 financial year, specifically for eligible first home buyers building or purchasing new homes.

All State and Territory Governments, and the Federal Government, have first homeowner or homebuilder grant schemes in operation that provide a direct contribution of between $10,000 and $25,000 to first home buyers meeting eligibility criteria (generally the purchase or building of a new home up to a threshold value) and/or stamp duty concession schemes.

KEY FACT

In aggregate, the First Home Super Saver Scheme, First Home Loan Deposit Scheme, and state based first homeowner and homebuilder grant and stamp duty concession schemes provide significant support for first home buyers looking to enter the housing market.

5

Superannuation fund investment in residential property

RBA research has shown that demand side financial factors, in aggregate, have been the key driver of residential property price growth over the long term. Policy settings such as negative gearing and Capital Gains Tax discounts have made residential property investment relatively more attractive for individuals, contributing to price growth and lowering rental yields. This has impacted the risk-adjusted return profile of the sector and made it less viable for superannuation funds.

There has also been a lack of scale of opportunities to provide a viable asset class for wholesale investment that justifies due diligence costs and achieves meaningful deployment and sufficient diversification.

However, with the right policy settings, superannuation funds could support long-term housing affordability improvements through institutional investment more typical in overseas jurisdictions. Market development could improve return profiles and create scalable opportunities for funds to invest in the development of build-to-rent multifamily properties.

Such development may be facilitated by Government providing exemptions from land tax, offering exclusive tendering or other concessions such as planning and zoning approvals, making public sector land available for purchase at a discount to market value, or contributing to the development of public spaces and amenity. The recent announcements of land tax concessions for build-to-rent properties from the NSW and Victorian Governments are a step in the right direction.

The benefits for superannuation funds of a viable local build-to-rent sector include increased portfolio diversification and access to a long-term yield focused asset class with a visible and consistent long-term rental income stream, that matches the demographic shift to pension phase. Institutional ownership means there is capacity to offer leasing stability and inflation-linked rental adjustments, improving tenure and affordability in the rental market. Leases may also contain options to purchase, enabling ownership where sought.

Superannuation funds have recently participated in the development of several projects in what remains an embryonic local sector. For example, Aware Super has invested in key worker affordable housing in several New South Wales and Victorian suburbs, and HESTA has invested in affordable housing projects in Queensland and Victoria. In 2020,

AustralianSuper purchased a 25 per cent stake in a Melbourne-based developer which specialises in 'build-to-rent-to-sell' developments.

Superannuation funds have also funded increases in the supply of social and affordable housing by community housing providers (CHPs). Finance has been provided to CHPs through investments in Government backed bonds issued by NHFIC. Cheaper and longer-term finance is provided by aggregating CHP borrowing requirements and issuing bonds to the wholesale market at a lower cost and longer tenor than bank finance.

Since its establishment in 2018 NHFIC has issued $1.2 billion dollars in bonds in three tranches, with the most recent tranche in June 2020 totalling $562 million.[19] Superannuation funds have provided strong and ongoing support by way of investment in the bond issuances.[20]

However, implementation of the performance benchmark indices proposed by Treasury in the 'Your Future, Your Super' reforms (introduced into Parliament in February 2021), could inhibit growing levels of investment in affordable housing and the build-to-rent sector, as the reforms may lead funds to shift their investments to the types of assets that are contained in the indices.

The proposed property index is dominated by a small number of property developers, who have a fundamentally different risk profile than owners of property assets.

KEY FACT

Superannuation has been a key source of funding for increasing the supply of affordable housing. Patient, long-term superannuation capital has the capacity to generate increases in housing supply and improve tenure and affordability in the rental market.

---

19 The Hon Michael Sukkar MP, Third NHFIC bond secures 775 new affordable homes, media release, 24 June 2020

20 Mr Nathan Dal Bon, CEO, NHFIC, Testimony to the House of Representatives Standing Committee on Social Policy and Legal Affairs Inquiry into Homelessness in Australia, 29 July 2020

6 Housing affordability – policy options

Severely unaffordable housing and declining levels of home ownership cannot be solved by superannuation policy and without careful consideration may be exacerbated by it. To improve outcomes housing affordability must be tackled more holistically.

There are a multitude of policy options available to address housing affordability including:

- Improve land release, zoning, planning & approval processes – reducing the complexity and costliness of these processes at a State and Local Government level can increase housing supply and improve affordability
- Reducing stamp duties or replacing them with land taxes – removes the economic barrier of high transaction costs for people to move to a new house, potentially increasing the supply of available homes which can put downward pressure on prices
- Removal of negative gearing – would decrease demand for residential property among individual investors. This is likely to improve affordability as prices moderate to reflect rental yields and lower long-term growth rates (due to the removal of the taxation incentives)
- Capital gains tax (CGT) reform – the CGT exemption for owner-occupied housing means that it is valued at a premium to other assets where CGT is payable, so removal of the exemption is likely to lead to a moderation in price growth over the longer term
- Inclusion of the family home in the Age Pension asset test – including significant owner-occupied housing wealth, beyond which public income support cannot be justified on equity grounds, would increase equity in the retirement income system and disincentivise overinvestment in housing that exacerbates housing affordability concerns. The current blanket exemption is also a natural barrier to downsizing and supply side constraint
- Encourage institutional investment in residential property, particularly the 'build-to-rent' sector – with the right policy settings to reduce the cost base and improve risk-adjusted returns, superannuation funds could support long-term housing affordability improvements through institutional investment more typical in overseas jurisdictions
- Increasing the supply of social and affordable housing using institutional finance – continuing the positive trend of aggregated institutional finance at lower rates assists community housing providers to build more social and affordable housing to fill the supply gap that exists.

Some of these options are being progressed by Government, with the potential for increased housing supply and improved affordability.

For example, the ACT Government has reduced stamp duty over time and implemented corresponding land tax increases to offset the lost taxation revenue. The NSW Government is currently consulting on a proposal whereby purchasers could choose between a one-off upfront stamp duty or ongoing land tax payments.

There have also been recent announcements from the NSW and Victorian Governments of land tax concessions to encourage the development of the 'build-to-rent' sector in Australia and improve housing outcomes for renters.

The development of the NHFIC bond aggregator has enabled superannuation funds to partner with Government in providing finance to community housing providers, increasing the supply of social and affordable housing.

While these are positive developments, many of the more difficult reforms are yet to be tackled, and there are indications that house prices may again escalate rapidly in the absence of much needed reform.

Notably, there have been several academic reviews of the Australian housing market in recent years and all raise supply as a crucial contributor to lack of affordability. It is also widely recognised that favourable taxation and transfer policy has a distortionary effect on the demand for residential housing.

However, despite rising unaffordability, there is a lack of agreement, co-ordination, and cohesiveness across Federal, State and Local Government jurisdictions in addressing the substantive issues. A co-ordinated national approach is needed, with the ultimate objective of generating improvements in affordability.

KEY RECOMMENDATION

The Federal Government commission a comprehensive and independent review of housing affordability, similar in nature to the Retirement Income Review, to establish a fact base in relation to:

- the causes of unaffordable housing in Australia
- the detrimental impacts of unaffordable housing on the community
- the degree and transparency of costs in the housing sector including commissions to intermediaries
- an assessment of the various policy options to resolve the issues identified and improve housing affordability.

6.1 Include significant owner-occupied housing wealth in the Age Pension means test

The Retirement Income Review found that there were "many very large superannuation balances" in the system with over 11,000 people with a balance in excess of $5 million receiving very large tax concessions on their earnings.

ASFA has recommended Government address this inequity in the system by requiring those members aged 65 or older with a total superannuation balance as at 1 July 2022 in excess of $5 million to withdraw the excess out of superannuation.[21]

In a similar vein, it is inequitable that significant owner-occupied housing wealth is excluded from Age Pension means testing. The Review observed that the current exemption of the principal residence from the Age Pension assets test is a disincentive to using the equity in the home to support retirement incomes.[22]

ASFA considers that Age Pension means testing should include significant levels of owner-occupied housing wealth, beyond which public income support cannot be justified on equity grounds.

Appropriate policy design should be predicated on improving equity in the retirement income system. It could also disincentivise over-investment in housing and remove a barrier to downsizing, to help address housing affordability concerns.

KEY RECOMMENDATION

Age Pension means testing should include significant levels of owner-occupied housing wealth, beyond which public income support cannot be justified on equity grounds, to improve equity in the retirement income system and housing affordability.

---

21 ASFA Pre-Budget Submission for the 2021-22 Budget, February 2021
22 Retirement Income Review Final Report, July 2020, p.19

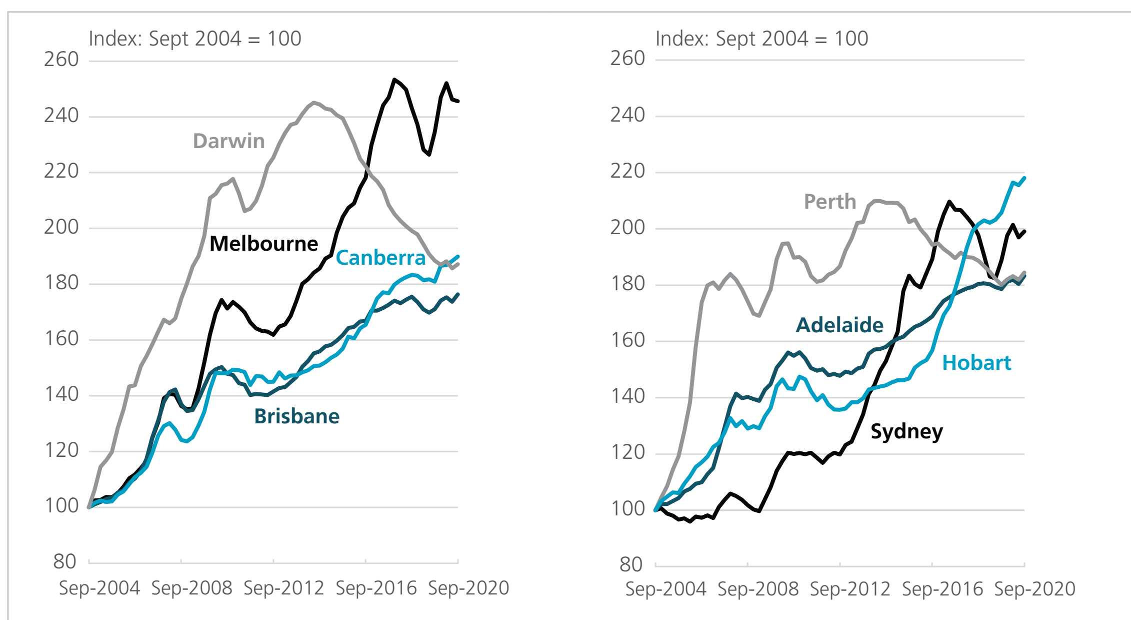
Appendix A: House price impacts and macro-economic risk

The early release of superannuation for housing deposits needs to be assessed from a broad economic perspective for a number of reasons. Firstly, depending on its uptake, such a measure would affect the housing market and house prices. Further, given the large size of the housing market and its broader linkages, flow-on effects also would be expected to the wider economy and financial system.

Demand-side factors have been a key driver of house price growth

House prices have increased significantly over the past few decades – albeit by differing degrees across the state capitals (Chart 2). For example, the ABS Residential Property Price Index shows that since September 2004, average annual house price growth in state capitals has ranged from 3.6 per cent for Brisbane to 5.8 per cent for Melbourne.[23]

Chart 2: ABS Residential Property Price Index – state capital cities[24]



Source: ABS.

23 It should be noted that the ABS indexes abstract from quality improvements to the stock of housing over time, such as increases in the size and numbers of rooms.

24 ABS, *Residential Property Price Indexes*, Cat no. 6416.0, September quarter 2020.

In broad terms, the key factors that drive house prices relate to the fundamental supply of, and demand for housing, and to various (largely demand-side) financial factors.

With respect to the former, the trajectory for the fundamental demand for housing reflects population growth, changes to age demographics and changes to the size of households (which in turn reflects factors such as rates of divorce), while the trajectory for the fundamental supply of housing reflects the pace at which newly constructed dwellings are added to the dwelling stock (net of demolitions).

Imbalances between fundamental supply and demand are reflected in house price movements. Over recent decades, periods of deficit (where fundamental demand exceeds supply) have tended to be more prolonged than periods of surplus, implying a greater tendency for upward price pressure.

However, as RBA research shows, the cumulative impact (of imbalances) on house prices represents a relatively minor contributor to long-term price growth, while demand-side financial factors have typically been more important[25] – in particular, factors related to rising levels of mortgage debt for owner-occupiers and investors (in rental properties).[26]

With respect to owner-occupiers, mortgage interest rates have declined markedly over the last three decades, from around 17 per cent at the beginning of the 1990s to around 4.5 per cent now. This decline has facilitated larger mortgages. Indeed, all else being equal, such a reduction in rates would enable a person (with a 20-year mortgage) to increase the size of their mortgage by almost 230 per cent for the same level of repayments.

It is therefore unsurprising that the average value of new mortgages for owner-occupiers has increased over this period. Since the beginning of the 1990s, the average value of new mortgages has increased from around $70,000 to around $480,000 – an increase of about 600 per cent (Chart 3), or around 225 per cent in real terms.

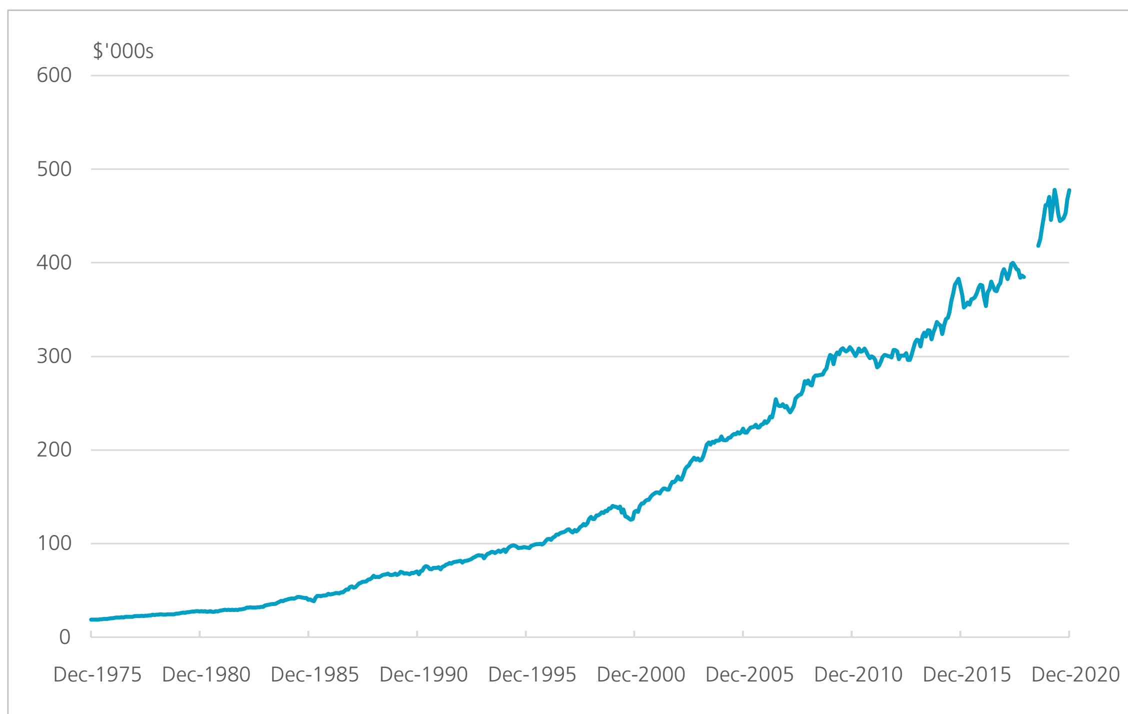
---

25 For example, Kohler, M. and Van der Merwe, M. (2015) *Long-run trends in housing price growth*, Reserve Bank of Australia, RBA Bulletin, September Quarter.

26 Financial deregulation during the late 1980s and early 1990s, coupled with the shift from a high to a low inflation environment has, over time, increased borrowers' access to credit and reduced the cost of that credit.

Chart 3: Average value of new mortgages for owner-occupiers[27]

Note the series break from December 2018 to July 2019 inclusive



Source: ABS and ASFA calculations.

Lending to investors has also increased during this period – and at a faster pace than that for owner-occupiers. Over the last three decades, while the level of aggregate credit outstanding for owner-occupiers has increased by 11 per cent per annum (on average), the level of aggregate credit outstanding for investors has increased 15 per cent per annum. In 1990, the level of investor credit outstanding was only around one-fifth of the level of owner-occupier credit – it is now over half the level.

The long-term increase in levels of housing-related debt represents a long-term increase in purchasing power. With respect to the general impacts on house prices, it would be expected that any broad-based and permanent increase in the level of household purchasing power will lead to an increase in the level of house prices.

That rising levels of housing-related debt has been a key driver of rising house prices is supported by RBA research (discussed further in following sections).[28] While complex feedback dynamics between house prices and debt levels are certainly present, the direction of causality would tend to be from debt to house prices rather than the converse – again supported by the RBA research.[29]

---

27 ABS, *Lending indicators*, December 2020 and ABS, *Housing Finance*, November 2018.

28 Kohler, M. and Van der Merwe, M. (2015) *Long-run trends in housing price growth*, Reserve Bank of Australia, RBA Bulletin, September Quarter 2015.

29 Kohler, M. and Van der Merwe, M. (2015) *Long-run trends in housing price growth*, Reserve Bank of Australia, RBA Bulletin, September Quarter 2015.

> Historically, rising household purchasing power has been a key driver of house price growth in Australia.

Early release of superannuation for housing deposits and individuals' financial constraints

For prospective first-home buyers, access to additional funds for a housing deposit from superannuation accounts would mean they would have more funds for a housing deposit than otherwise would be the case. The impact of the measure on nominal purchasing power (for those who can access it) would depend, in large part, on the nature of their financial constraints, as the stylised examples below illustrate.

For people for whom the only binding constraint on a larger mortgage is the housing deposit (typically calculated as some percentage of the house purchase price), an increase in funds available for a deposit would translate into a larger (potential) mortgage. Of course, the actual multiplier effect would vary from case to case, depending on the particular lender's requirements and individual's circumstances. Any resulting increase in the (potential) mortgage would represent an increase in nominal purchasing power (all else being equal), as the following stylised example illustrates.

- For a house deposit requirement of 20 per cent of the purchase price (or a loan-to-valuation ratio of 80 per cent), a $200,000 deposit would allow a maximum allowable mortgage of $800,000 and provide nominal purchasing power of $1,000,000.
- An additional $50,000 for a deposit would boost the deposit to $250,000 and would increase the maximum allowable mortgage to $1,000,000 and nominal purchasing power to $1,250,000.
- Thus, a 25 per cent increase in the deposit would lead to a 25 per cent increase in the maximum allowable mortgage, and a 25 per cent increase in nominal purchasing power (absent other factors).

For people for whom the only binding constraint on a larger mortgage is expected (future) household income (for loan servicing), an increase in funds available for a housing deposit would translate into an equivalent absolute increase in nominal purchasing power (all else being equal), as the following example demonstrates.

- For a maximum allowable mortgage of $800,000 (constrained by income), and a deposit of $200,000 (loan-to-valuation ratio of 80 per cent), nominal purchasing power would be $1,000,000.
- An additional $50,000 for a deposit would increase purchasing power by $50,000 to $1,050,000. In this case, nominal purchasing power would increase by 5 per cent.

In reality, individual circumstances can be more complex. For example, for some people additional funds for a house deposit may lead to a higher allowable mortgage that is ultimately constrained by expected household income for loan servicing.

In aggregate, the impact of additional funding from superannuation on nominal purchasing power (for those who can access it) would depend, to a large degree, on which constraints bind among those people. For a measure targeted at first-home buyers, it is likely that the former constraint would be more prevalent than the latter – which is consistent with other research on the financial constraints faced by first-home buyers.[30]

Early release of superannuation for housing deposits would lead to higher house prices

Given the nature of the demand-side pressures in the housing market, as outlined above, standard economic theory suggests that the impact of additional nominal purchasing power, in the form of additional funds from superannuation accounts, would be an increase in the level of house prices.

As access to the measure increased, additional nominal purchasing power available to prospective first-home buyers would be competitively bid into higher house prices. Competitive pressures would be amplified in housing sub-markets in which there is a relatively large presence of prospective first-home buyers (with access to additional funds from superannuation accounts). In a large, diverse city like Sydney, the housing market can be thought of as comprising numerous sub-markets that are stratified by location and price. For a measure that targets prospective first home buyers, these direct price effects would likely be greatest in the cheaper sub-markets.

It should be noted that heightened competitive dynamics would not be confined to just prospective first-home buyers. An increase in the competitive pressure from prospective first-home buyers (with access to additional funds), would likely lead to other prospective buyers (such as established owners looking to upgrade and investors) responding in kind – to the extent that they would be able to increase the size of their (potential) mortgages.

The supply of housing responds only slowly to increased demand-side pressures. Aside from the time required for the typical approval and construction of new dwellings, there are particular constraints on the responsiveness of housing supply which are complex and regional in nature, but largely relate to the availability of land for new dwelling construction, bottle-necks in land identification and release, and complexity and delays in government planning and development processes.[31]

30 Wood, G. A. (2003), *First Home Owner Grants: What Are The Lessons For Policy Makers?* A Submission to the Productivity Commission Inquiry into First Home Ownership.

31 Hsieh, W., Norman, D. and Orsmond, D. (2012) *Supply-side Issues in the Housing Sector*, Reserve Bank of Australia Bulletin, September Quarter 2012.

To the extent that permanent increases in nominal purchasing power would lead to higher rates of household formation than otherwise would the case, some feedback to increased supply would be expected, and some offsetting reduction in price pressure. However, overall, it would be expected that increased nominal household purchasing power would be largely capitalised into house prices.

This is consistent with econometric models for the Australian housing market, which typically show a positive relationship between changes in nominal purchasing power and house prices – where purchasing power, depending on particular model specification, can reflect a combination of factors including changes in household income, changes in mortgage interest rates and changes in access to/availability of credit. Of course, as noted above, changes in purchasing power are only one determinant of house price changes in a typical supply-demand framework for the housing market.

For example, modelling undertaken by economists at the Reserve Bank of Australia suggest that a 1.0 per cent increase in aggregate housing leverage (the ratio of housing debt to household income) leads to a 0.9 per cent increase in average national house prices in the long run.[32] The RBA model takes account of both demand and supply-side drivers.

With respect to the specific impact of the measure, the most relevant circumstance is where the deposit is the binding constraint and additional funds allow for larger mortgages. In this regard, the RBA study suggests that a given percentage increase in mortgages will lead to a similar (albeit slightly lower) percentage increase in house prices in the long run (assuming all other determinants are constant).[33]

For the less relevant circumstance where income for debt servicing is the constraint, the aforementioned theory and results suggest a similarly high pass-through of higher nominal purchasing power to prices. Lack of relevant data makes quantifying this impact particularly challenging, however an estimate of the potential effect can be derived if it is assumed that households treat the additional funds the same as disposable household income. Under this assumption ASFA analysis, like the aforementioned RBA model, suggests an almost one-for-one pass through to prices.

The likely impacts are analogous to those resulting from other mechanisms that can boost income servicing – such as a reduction in the RBA's policy interest rates. As has been recently reported, confidential analysis undertaken by the RBA reports that a permanent cut in the overnight cash rate (assuming typical pass-through to mortgage interest rates), would lead to a permanent increase in the level of house prices.[34]

---

32 For example, Kohler, M. and Van der Merwe, M. (2015) *Long-run trends in housing price growth*, Reserve Bank of Australia Bulletin, September Quarter 2015.

33 Theoretically, the relationship between purchasing power and house prices runs in both directions. That is, an increase in prices would be expected to lead to an increase in required purchasing power, while an increase in purchasing power would be expected to lead to an increase in prices. However, where the binding constraint is purchasing power, the latter is more relevant.

34 Kehoe, J. (2021), "Low rates inflate asset prices: RBA", *Australian Financial Review*, 18 January (https://www.rba.gov.au/information/foi/disclosure-log/pdf/202124.pdf).

> It would be expected that increased nominal purchasing power for first-home buyers would be near fully capitalised into higher house prices.

Early release of superannuation for housing deposits would not address affordability

The specific effects of the measure on housing affordability for first-home buyers would be complex.

Very early-users of the measure, who are able to access additional funds before competitive market dynamics take hold, could benefit. However, as noted above, as access to the measure increased, additional nominal purchasing power available to prospective first-home buyers would be competitively bid into higher house prices. All other things being equal, higher house prices would mean larger required deposits for potential first-home buyers.

In this regard, the measure would risk exacerbating lack of access to, and the unaffordability of home ownership for some. People who have relatively low superannuation balances and thus have a relatively low amount of funds available for a housing deposit, could in effect be priced out of the market for a first-home – even with access to those additional funds.

Indeed, given that the measure would be likely to lead to higher house prices, and thus higher required deposits, the prospect of home ownership could become even more out-of-reach for those with low superannuation balances – a cohort which would largely comprise low-income earners.

This is underscored by HILDA data on mortgage levels and superannuation balances (note that mortgage levels in particular would have increased since this data was compiled, so the disparity would be even more stark currently).

With respect to first-home buyers, the 30-to-39 age group is particularly relevant given that many individuals of that age will have started to form a family with a spouse and/or children at that stage of life. Nationally, around half of those aged 30 to 39 in 2014 were homeowners.

As at 2014, around 80 per cent of mortgages associated with those aged 30 to 39 are in excess of $200,000 (Table 1).

Table 1: Size of outstanding mortgage, homeowners aged 30-39

	Per cent of cohort
Nil	8.4
less than $100,000	7.2
$100,000-$199,999	12.6
$200,000-$299,000	20.5
$300,000-$399,000	21.5
$400,000-$499,000	13.6
$500,000-$599,000	5.3
$600,000-$699,000	2.8
$700,000 or over	3.6
Don’t know	4.5

Source: HILDA survey wave 14 (2014).

In contrast, typical superannuation balances for those aged 30 to 39 were relatively small in absolute terms and relative to typical mortgage liabilities. Further, nearly 50 per cent of non-homeowners had a superannuation account balance less than $20,000 (Table 2).

Table 2: Superannuation balances by home ownership status: Individuals aged 30-39

	Per cent of cohort	
	Non-homeowners	Homeowners
Nil	12.3	6.2
Less than $5,000	11.3	4.5
$5,000 to $19,999	23.4	13.1
$20,00 to $49,999	29.8	28.9
$50,000 to $99,999	17.1	29.5
$100,000 to $199,9999	4.5	13.1
$200,000 to $499,9999	1.5	4.2
$500,000 to $999,9999	0.1	0.3
$1000,000 to $1,999,999	0.0	0.2

Source: HILDA survey wave 14 (2014).

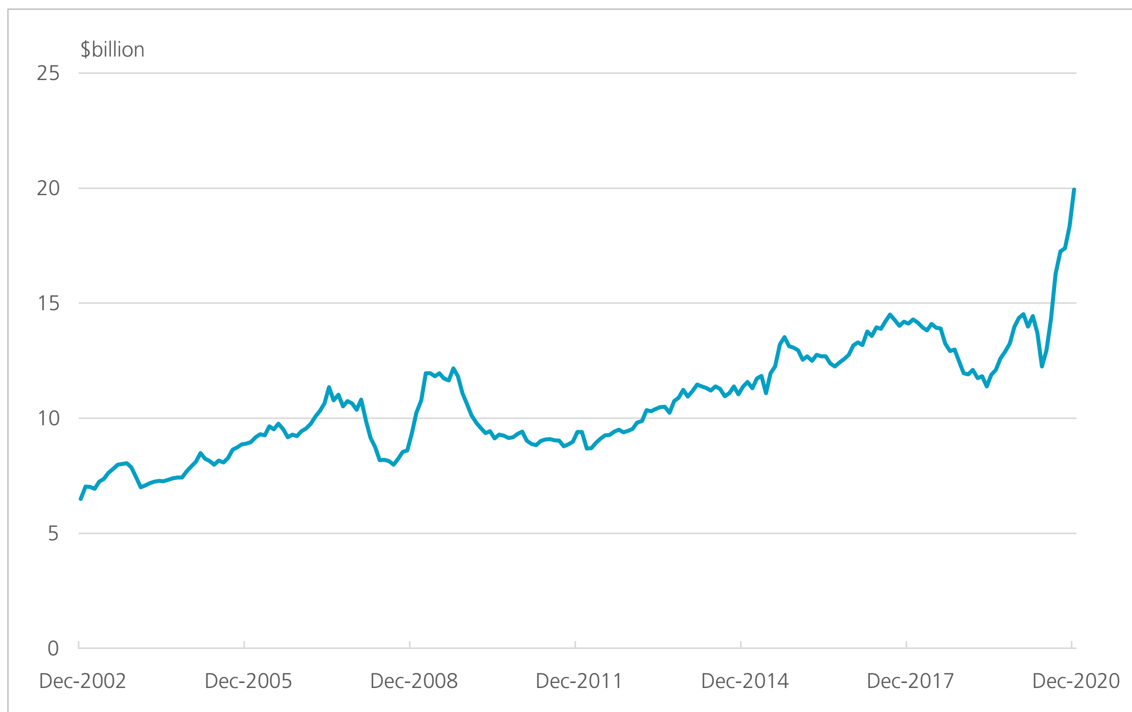
This suggests that the measure would tend to be used by individuals who would achieve home ownership in any event. It would also tend to increase inequity in that higher-income home purchasers would be able to gain home ownership by taking advantage of superannuation tax benefits, whereas lower income purchasers will be less able or unable to take advantage of these benefits.

> Ultimately, the measure would be expected to have a limited impact on barriers to home ownership, for potential first-home buyers, that relate to insufficient housing deposits.

Macro-economic risks

In the first instance, the early release of superannuation for housing deposits would risk exacerbating the upswing of the current house price-credit cycle (Chart 4). As noted above, the measure would be associated with higher mortgages – not only for first-home buyers, but also other buyers such as established owners looking to upgrade.

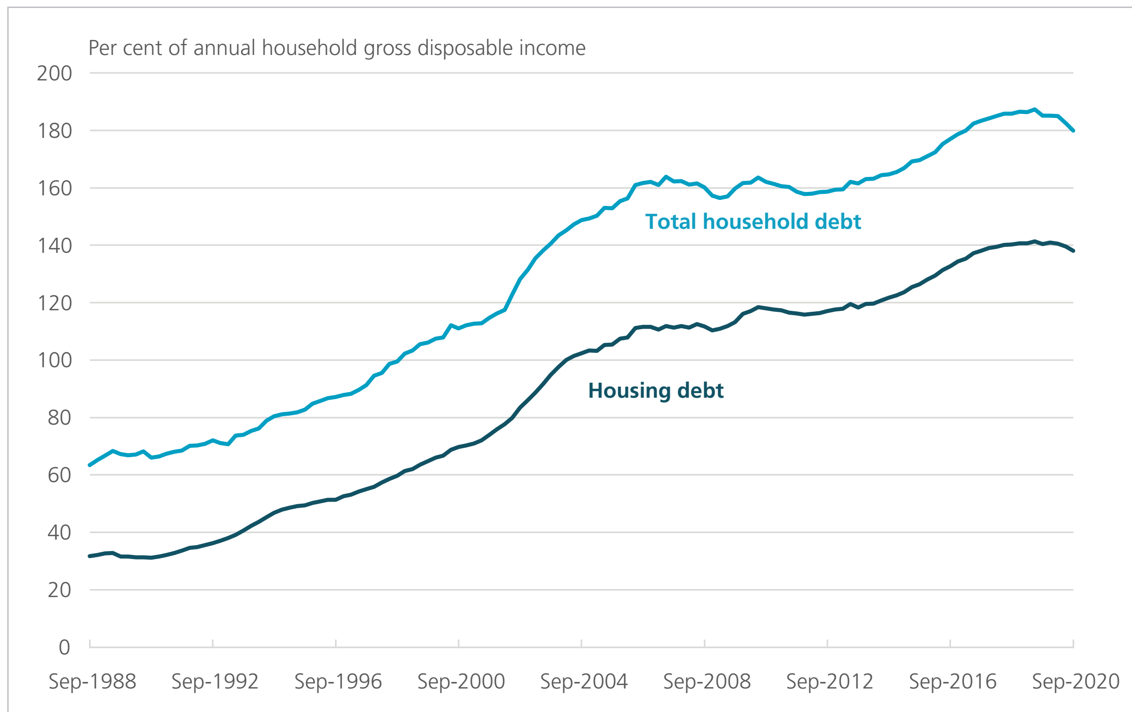
Chart 4: New monthly loan commitments for owner-occupied housing, ex. re-financing



Source: ABS, Lending indicators.

Aggregate housing leverage in Australia is already high by historic and international standards, and additional, widespread increases in mortgage borrowing would drive leverage higher. Households' leverage for housing was 138 per cent of annual (gross disposable) household income in the September quarter 2020, up from 112 per cent at the onset of the GFC (Chart 5), and housing leverage is by far the largest component of total household leverage. Compared with other OECD countries, Australian households, on average, are among the most highly leveraged (Chart 6).

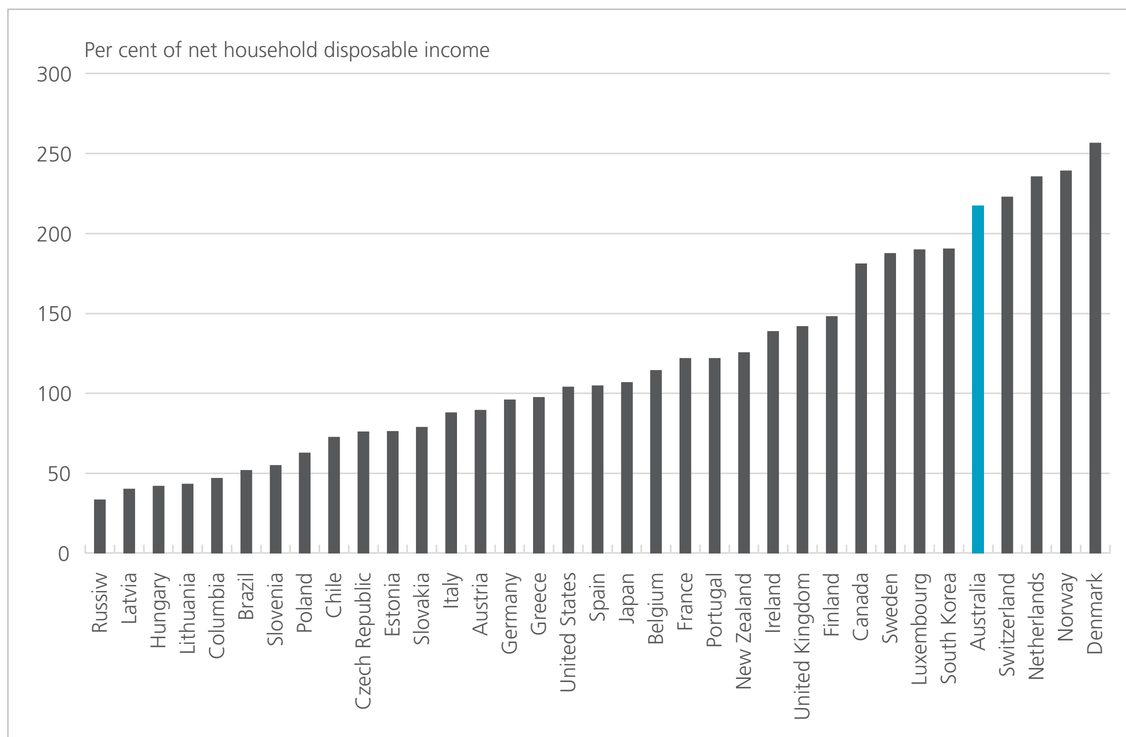
Chart 5: Australian housing and household debt, as per cent of gross disposable income



Source: RBA, Statistical Tables: Household Finances – selected ratios (E2).

Chart 6: Household debt, as per cent of net disposable income[35]

Average for 2019[36]



Source: OECD, Statistical Database: National Accounts at a Glance.

Broadly speaking, higher leverage increases the vulnerability of households—and the broader economy—to negative shocks. Such shocks could include a sharp reduction in global growth (that, for example, reduces demand for Australian exports), or a sharp deterioration in global financial market conditions (that, for example, tighten Australian banks' offshore funding conditions) that would materially impact economic activity, employment and asset prices.

A fall in house prices would see household wealth contract – a large enough price fall would push the most highly-geared households into negative equity. This would likely prompt households to deleverage, which would weigh on consumption spending, broader economic growth and employment. Any increase in unemployment would lead to an increase in mortgage stress – with the most highly-leveraged households (such as new market entrants) the most vulnerable.

A fall in house prices and an increase in impaired loans would affect the quality of banks' balance sheets and their willingness and/or capacity to extend credit. Banks' loan books have significant exposure to the housing market (as do other lending institutions). For banks (and non-bank financial institutions), 62 per cent of the total stock of credit is to persons for housing (around two-thirds to owner-occupiers and one-third to investors).

---

35 Net disposable income is gross disposable income less depreciation.
36 For 2019, or latest data point.

With weaker balance sheets, banks could face some deterioration in funding conditions – with funding more costly to secure. For the broader economy, banks would likely tighten lending conditions—both the cost and availability—including to small business. Weaker economic outcomes could lead to a further deterioration of bank balance sheets, which would exacerbate already impaired bank lending conditions.

Of course, the effects of such a shock also would depend on the capacity of official policy to boost demand and provide required support (including access to liquidity facilities) to the financial system. Also, even a large decline in prices is unlikely to impact the broader stability of the banking system. In particular, stronger capital requirements now in place mean that bank capital is likely to remain above regulatory minimum levels even following a severe and unprecedented house price shock.[37]

A house price shock would hit superannuation balances. Superannuation funds have an indirect exposure to the housing market largely via their shareholdings of banks (and other lending institutions). Australia's four major banks comprise 18 per cent of the market capitalisation of the ASX200,[38] and institutional super funds have a 21 per cent allocation to domestically-listed equities.[39] The people most adversely affected by a fall in superannuation balances would be those about to retire that decide to take a lump sum or annuitise.

> To the extent that the measure would lead to higher houses prices, it also risks exacerbating vulnerabilities in the economy and financial system related to household and housing debt.

37 Philp Lowe (2019), 'The Housing Market and the Economy', *Address to the AFR Business Summit,* Sydney, 6 March 2019.
38 As at 12 January 2021.
39 APRA, *Quarterly Superannuation Performance Statistics,* September 2020.

asfa

the voice of super