

Research paper

Early release of
superannuation for home
purchase: why it would not
improve affordability

25 March 2024

**The Association of Superannuation
Funds of Australia Limited**
Level 11, 77 Castlereagh Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 2001

T +61 2 9264 9300
1800 812 798 (outside Sydney)

F 1300 926 484

W www.superannuation.asn.au

ABN 29 002 786 290 CAN 002 786 290

About ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

Introduction

The main forms of lifetime savings for Australians are superannuation and owner-occupied housing – both are widely recognised as crucial contributors to quality of life in retirement. As at September 2023 superannuation assets totalled \$3.6 trillion, while residential real estate totalled \$9.7 trillion.¹ However, worsening housing affordability presents a significant challenge for retirement outcomes.

Housing has become increasingly expensive – particularly over the past two decades. The ratio of the median house price to average annual full-time earnings has doubled over this period – from 3.7 to 7.4 times. International comparisons of the affordability of home purchase show that Australia is among the least affordable developed countries.²

For younger cohorts of Australians, rates of home ownership are declining. In 2019-20, just over one-third (36 per cent) of households under the age 35 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 quintile.³

Unaffordable housing and declining levels of home ownership cannot be solved by superannuation early release, and could be exacerbated by it.

To improve outcomes, housing affordability must be tackled more holistically. There is arguably insufficient agreement and cohesiveness across Federal, State and Local Government jurisdictions in addressing many of the substantive issues around affordability. A co-ordinated national approach 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.

Housing affordability has decreased

Housing has become increasingly expensive over the past two decades (Chart 1). From the start of the millennium, in average terms, house prices have risen at almost double the pace of wages. Since the start of 2000, the nominal median house price (weighted by capital city) has increased by around 7 per cent per annum compared with average growth in full-time employee earnings of just 3.8 per cent. An alternative presentation of the same data shows that in 2000 the median house price was equivalent to 3.7 times average annual full-time earnings, while by 2023 the median house price was equivalent to 7.4 times average annual full-time earnings.

- Note, throughout the paper, general references to 'house prices' encompass both stand-alone (or established) houses and units.

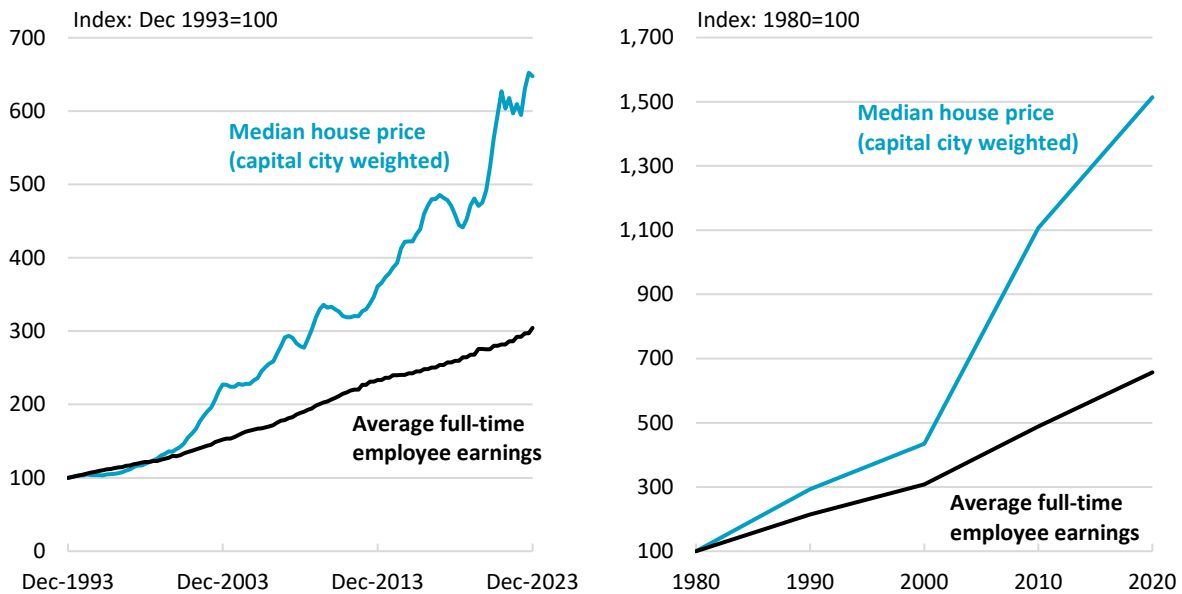
¹ APRA, *Quarterly Superannuation Performance Statistics*, September 2023; RBA, *Statistical Tables*, E1.

² Demographia, *Annual International Housing Affordability Survey 2023*.

³ ABS, *Housing Occupancy and Costs*, 2019-20.

The sharp dislocation between growth in house prices and wages began around the start of the millennium (Chart 2). Prior to this, the available data suggests that while house price growth exceeded wage growth (in trend terms), the difference in growth rates was far less pronounced compared with the post-2000 period.

Charts 1 and 2: Median house price relative to average full-time earnings⁴



Source: ABS and ASFA calculations.

Note: ABS house price indexes abstract from quality improvements to the stock of housing over time, such as increases in the size and numbers of rooms.

Of course, the data presented in Charts 1 and 2 does not tell the full story (which is always the case for average/aggregate metrics). It does not account for the distribution of wages and other income across the cohort of Australian workers, nor does it account for differences in house prices (at any point in time) across and within different parts of Australia. The distributional aspects of housing affordability are discussed later in this paper.

Home ownership rates are declining

Over successive generations, the proportion of adults who live in their own home – that is, the rate of homeownership – has been declining. That said, homeownership rates for older Australians remain at relatively high levels.

In Chart 3, each line shows the rate of homeownership for people who were born in a particular 5-year time period, and how this has changed over time. For example, the top line in Chart 3 (pink) shows the rate of homeownership for people who were born 1947-51. When this cohort was aged 25 to 29, their homeownership rate was around 55 per cent. When this cohort was aged 70 to 74, their homeownership rate was around 82 per cent.

Comparing line to line, Chart 2 shows that rates homeownership during any particular ‘stage of life’ have tended to decline from generation to generation. For example, for people aged 25 to 29,

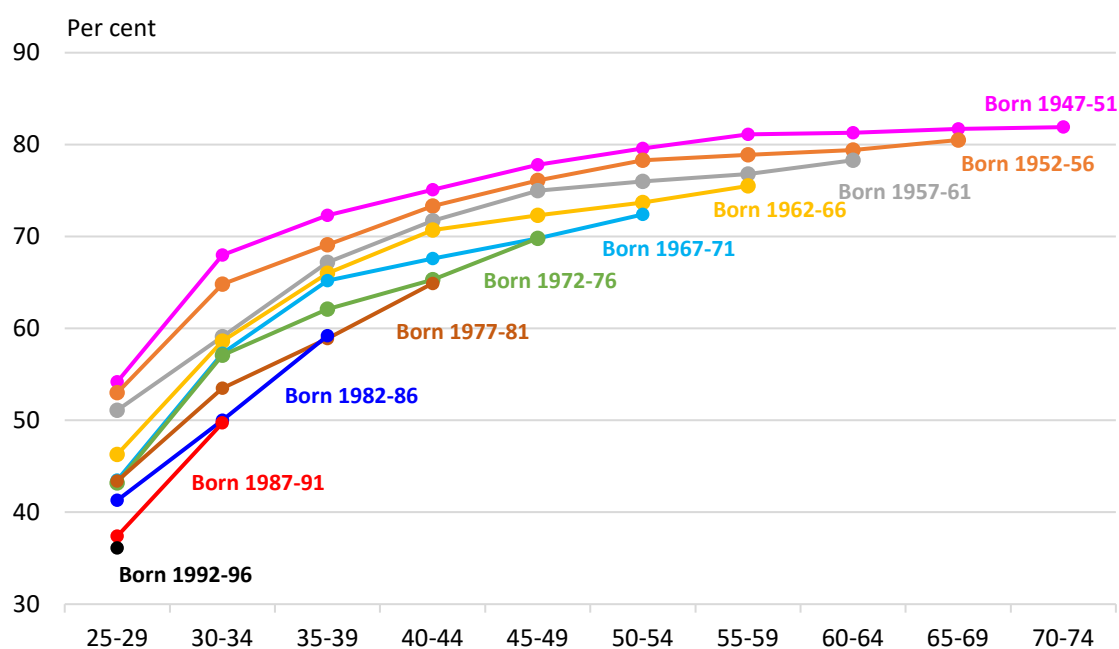
⁴ The charts are derived from ABS publications (*Total Value of Dwellings, Residential Property Price Indexes, Average Weekly Earnings*); and Abelson & Joyeux (1996), *Housing Prices and Rents in Australia 1980-2023: Facts, Explanations and Outcomes*, Crawford School of Public Policy (Tax and Transfer Policy Institute), TTPI Working Paper 14/2023.

homeownership was around 55 per cent for people born in 1947-51 (pink), but only around 35 per cent for people born in 1992-96 (black).

It would be a mistake to attribute this pattern solely to rising house prices and diminishing affordability. In particular, shifting social norms over successive generations have seen the age at which people enter into marriage, or cohabit generally, rise – although, there is certainly some feedback from diminishing housing affordability to delays in household formation (see next section).

In Chart 3, the specific generations that would be most affected by the sharp deterioration in affordability since 2000 would be those born in 1987-91 (red), and those born in 1992-96 (black). Particularly relevant is what diminishing affordability portends for future rates of homeownership: for an increasing proportion, rather than being delayed, homeownership may not occur.

Chart 3: Proportion of people who live in their own home, by generation and age



Source: Australian Institute of Health and Welfare.

Note: It should be noted that some people own a home but rent themselves. Around 4 per cent of individuals aged 30 to 39 are in that situation.

Drivers of house prices

In broad terms, the key factors that drive house prices relate to the underlying supply of, and demand for housing, and to various (largely demand-side) financial factors. Changing imbalances between demand and supply factors are reflected in house price movements (and rents).⁵ Whether particular factors are more important than others is an empirical question. However, it is certainly the case that the relative importance of demand/supply factors can, and have, changed over time.⁶

It is also the case that government policy settings and levers are crucial determinants of the relative importance of many of these factors over time.

⁵ Note that the broader supply-demand dynamics in the housing market relate to both owner-occupiers and investors (who rent out properties), and the interaction between these two segments, where for owner-occupiers, house prices reflect imputed rent.

⁶ For example, see Hsieh, Norman, & Orsmond (2012), *Supply-side Issues in the Housing Sector*, Reserve Bank of Australia Bulletin, September Quarter 2012.

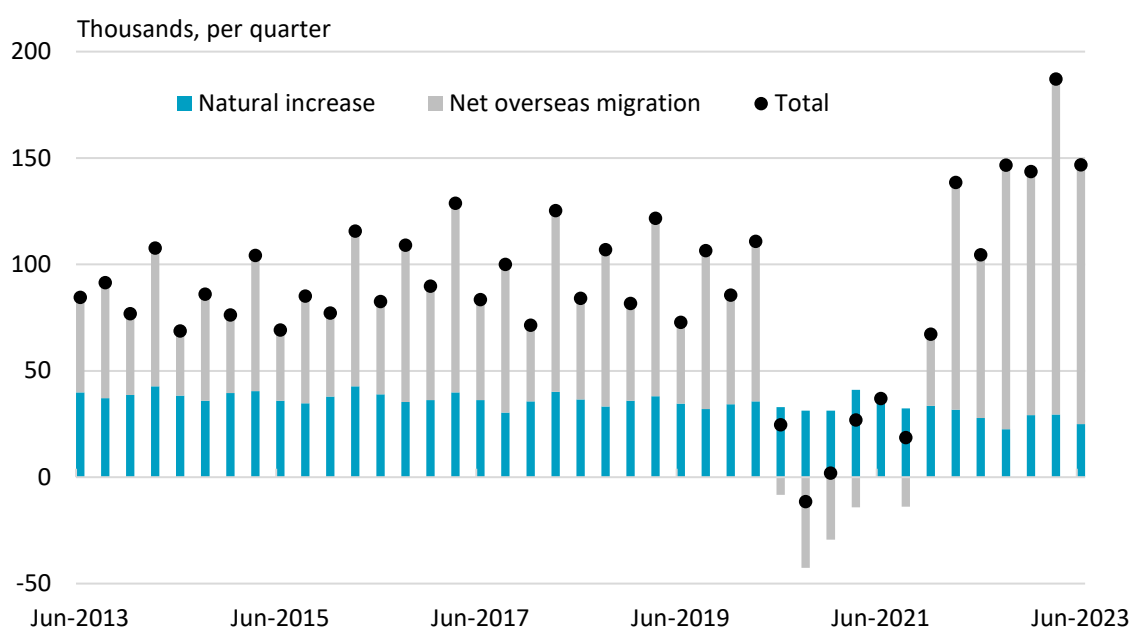
Underlying demand

The trajectory for the underlying demand for housing reflects population growth, shifts in age demographics and changes to the composition and size of households – which is, to some degree, affected by current and expected house prices (for example, adult children delaying moving out from their parents in order to save for a larger mortgage deposit).

Population growth comprises natural increases in the population base, plus net overseas migration. Prior to COVID-19, net overseas migration (NOM) had accounted for around 60 per cent of Australia’s annual increase in population (Chart 4) for an extended period. In the post-COVID period, NOM has accounted for around 80 per cent of Australia’s population increase. The (assumed) policy settings in the *2023 Intergenerational Report* suggest that the ratio will return to around 60 per cent over next few years, but slowly rise thereafter.

Important shorter-term (non-financial) drivers of demand include the strength of current/expected employment conditions. Until recently, the Australian labour market had experienced a strong and resilient expansionary phase following the COVID-19 shocks. Over the two years from November 2021, the number of employed people rose by 44,000 per month (on average), which is more than double the pace for the six years prior to the COVID-19 shocks (20,000 per month). Only recently has the RBA’s ongoing tightening of monetary policy been reflected in a softening of labour market conditions.

Chart 4: Quarterly change in Australia’s population



Source: Australian Government, Centre for Population.

Underlying supply

The trajectory for the underlying supply of housing largely reflects the pace at which newly constructed dwellings are added to the dwelling stock (net of demolitions). Secondary supply-side factors include the (changing) proportion of the housing stock that is not utilised as ‘primary dwellings’ – for example, stock that is utilised as second homes, rented as holiday accommodation, or left vacant.

The pace at which new housing supply is added to the housing stock depends on expectations for future demand, but also the responsiveness of supply to demand. There are considerable lags in the

responsiveness of new supply – including due to the time taken to ready land for housing construction, to provide the required infrastructure, to acquire project finance, and to construct dwellings.

In recent years, much media commentary on Australia’s housing market has focused on constraints in the construction and delivery of new housing. Particular focus has been on constraints in the processes for re-zoning and releasing new land for residential housing construction – which, depending on the location, can involve various levels of government. Arguably, there is insufficient agreement and cohesiveness across Federal, State and Local Government jurisdictions in addressing the substantive supply-related issues.

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

Financial drivers

Demand-side financial factors largely relate to household purchasing power – particularly household income (including wages) and mortgage interest rates. 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 would lead to an increase in the level of house prices (lower mortgage interest rates, absent other constraints, implies higher borrowing capacity).

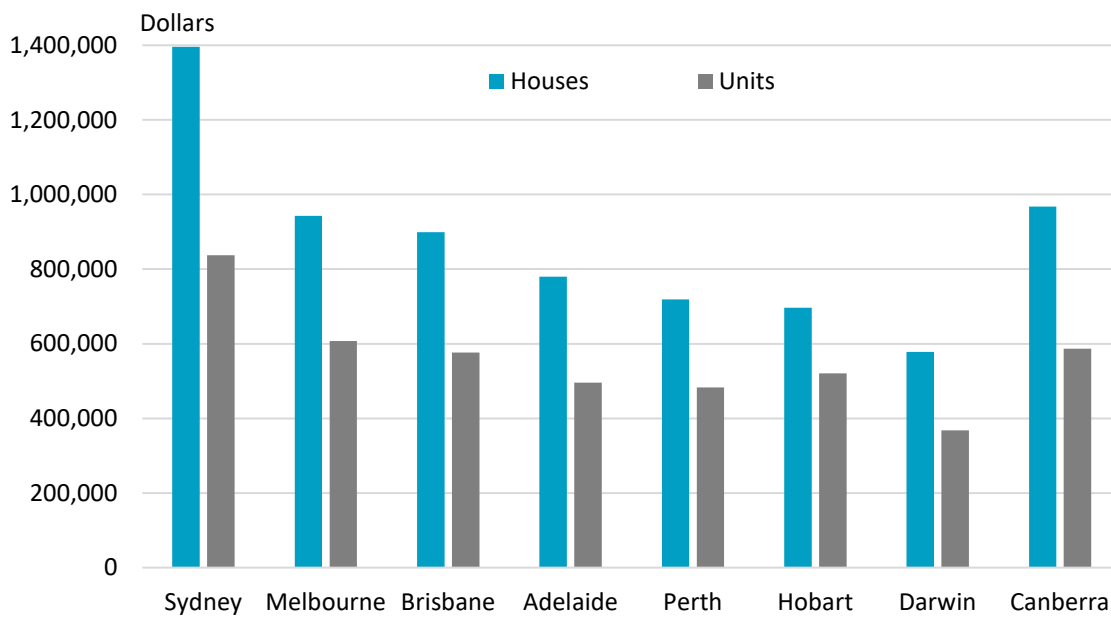
With respect to owner-occupiers, mortgage interest rates are higher now than at the start of the millennium (a standard variable rate of 8.8 per cent compared with 6.8 per cent). This implies, all else being equal, a reduction in household purchasing power. However, mortgage rates were significantly lower for an extended period during the last decade (troughing at 4.5 per cent), and prior to the RBA’s current policy-tightening cycle. This extended period of low rates supported purchasing power (and a rise in mortgage debt), and helped drive up house prices.

Favourable taxation and transfer policy also affects the price of residential housing. Policy settings such as negative gearing and Capital Gains Tax discounts make investments in rental residential property relatively more attractive than otherwise would be the case. This contributes to competition between (potential) investors and owner-occupiers in housing sub-markets – which adds to price pressures.

Current house prices

Prices differ markedly across Australia’s key housing markets – and indeed, within those key markets. In a large, diverse capital city, the broader housing market can be thought of as comprising numerous sub-markets that are stratified by location and price. For each Australian capital city, Chart 5 shows the median established house price and the median unit price as at the end of February 2024.

Chart 5: Current median price of houses and units, by capital city (end February 2024)



Source: CoreLogic Home Value Index, February 2024.

Early release of super for housing

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 release of superannuation for housing deposits, while several have made recommendations to the contrary.

Mechanisms put forward by proponents of superannuation for housing largely would involve an individual – typically a first-home buyer – withdrawing money from their superannuation account/s (up to a particular limit), and using those funds directly to boost the amount available for a home deposit. Variations on this include proposals for an individual to borrow, and later repay, money from their superannuation account.

Any policy proposal to allow people to access their superannuation for a deposit for a house purchase needs to be assessed from a broad economic perspective.

Potential impact on household purchasing power

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. Note that within this section, purchasing power is defined in terms of a ‘household’ – which for prospective first-home buyers includes couples who do not currently cohabitate (potential households).

For any household, the impact on nominal purchasing power would depend, in large part, on the nature of their financial constraints. Typically, household financial constraints relate to current and (expected) future household income – in particular, current working income from salary/wages – and accumulated savings including from past household income.

- Generally speaking, people with relatively low *current* working income from salary/wages tend to have relatively low superannuation balances. Particularly for younger people, current

superannuation balances largely reflect accumulated compulsory contributions – with the contribution rate current at 11 per cent of wages/salaries.

- While a person’s superannuation savings reflect past working income, people on lower working incomes also tend to experience greater persistence in their level working income (compared with people on higher incomes).⁷

For households for whom the 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. With respect to first-home buyers, higher-income households typically would be constrained by the deposit-to-valuation ratio (rather than by household income).

Of course, the actual multiplier effect would vary from case to case, depending on the particular lender’s requirements and the household’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.

For households for whom the binding constraint on a larger mortgage is expected (future) household income (for loan servicing), an increase in the funds available for a housing deposit would lead to a much smaller increase in nominal purchasing power. This is relevant for circumstances involving low-income households who might be able to access their superannuation, but for whom the binding constraint is household income. The following stylised example illustrates the impact of a larger deposit.

- 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 \$20,000 for a deposit would increase purchasing power by \$20,000 to \$1,020,000.
- In this case, nominal purchasing power would increase by 2 per cent. Even with an additional \$50,000 for a deposit, nominal purchasing power would increase by just 5 per cent.

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

⁷ Dollman et al (2015), *Transitory and Persistent Income Inequality*, Reserve Bank of Australia, RDP 2015-15. <https://www.rba.gov.au/publications/rdp/2015/2015-15/transitory-and-persistent-income-inequality.html>

Potential impact on affordability and access

Early release of superannuation for housing deposits would not address affordability for those most struggling with home ownership.

The specific effects of such a measure on housing affordability for first-home buyers would be complex. Early-users of such a measure, who also have *sufficient* additional funds in their superannuation (and thus likely to be higher-income earners), could benefit. However, as access to the measure increased, additional nominal purchasing power available to prospective first-home buyers (again, likely to be higher-income earners) would be competitively bid into higher house prices in relevant sub-markets (see Box 1). 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 lower 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 analysis set out in the next section on the distribution of superannuation balances for prospective first-home buyers.

With respect to first-home buyers, the 25-34 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. Table 1 provides details of housing tenure by the age of the household head.

Table 1: Home tenure by age, 2019-20

Proportion of households with characteristic	Age						
	15 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65+	All
Owners							
Owner without a mortgage	1.7	2.9	5.4	15.2	36.1	73.0	29.5
Owner with a mortgage	9.1	37.8	51.4	56.6	43.0	9.2	36.8
All owners	10.4	40.7	56.7	72.0	79.1	82.3	66.2
Renters							
State or territory housing authority	1.5	1.2	1.7	2.9	4.3	3.8	2.9
Private landlord	80.3	51.4	37.2	21.3	13.9	8.0	26.2
All renters	83.5	55.7	41.5	26.3	19.1	14.7	31.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ABS, *Housing Occupancy and Costs*, 2019-20.

Potential impact on affordability and access: capital city examples

For couples who are currently renting, the charts below show the combined superannuation balance by decile for the two key age cohorts for first-home purchase.⁸

The charts also show the deposit that would be required for a median-priced established house and unit (equivalent to 20 per cent of valuation). Charts 6 to 9 show the four largest housing markets: Sydney, Melbourne, Brisbane and Adelaide (charts for the remaining capital cities are in the Appendix).

There are significant differences across Australia's capital cities in terms of both the distribution of superannuation balances by age (for couples who rent), and the 20 per cent deposit requirement for a median-priced house or unit.

However, what is consistent across the capital cities is that for couples with a relatively low combined superannuation balance, the deposit requirement far exceeds the combined balance. Couples who are at the low end of the distribution of superannuation balances are also likely to be at the low end of the distribution for current incomes and accumulated savings outside of superannuation (a similar pattern applies to singles, however the gap between superannuation balance and median deposit is even greater).

For such couples – for whom the binding constraint on a larger mortgage is the housing deposit – the additional funds from their superannuation account would be unlikely to be sufficient to reach the 20 per cent deposit thresholds. Conversely, at the top end of the distribution for combined superannuation balances, access to superannuation for a housing deposit – for those for whom the binding constraint on a larger mortgage is the housing deposit – could well facilitate the purchase of a first-home. However, it is also likely to be the case that those same couples would have purchased a (potentially cheaper) home in any case.

Overall, the data suggests that an early release of superannuation measure would largely be used by the minority with higher superannuation balances, a group who often achieve home ownership in any event.

Such a measure 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 (which are larger for high-income individuals) and by out-bidding lower superannuation balance individuals and households. Lower-income purchasers would be less able or unable to take advantage of early release, with amounts released having little impact on housing affordability.

This analysis takes account of the distribution of superannuation balances for couples (and the implications), but only in an average sense within the super-balance deciles. As such, it obscures the additional constraints faced by particular cohorts of the Australian population. This includes, for example, single parents – for whom the challenges of housing affordability are particularly severe.

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. 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.

⁸ The distribution of superannuation balance by age and city is derived from ATO data (2 per cent individual sample file, for 2020-21). Differences in the distribution of superannuation balances by living arrangement (for example, couple who renting relative to couple who are not renting), as well as the incidence of living arrangements are derived from the sample file for the ABS Survey of Income and Housing (2019-20) and applied to the ATO-derived distributions.

Chart 6: Couples who are currently renting, Sydney

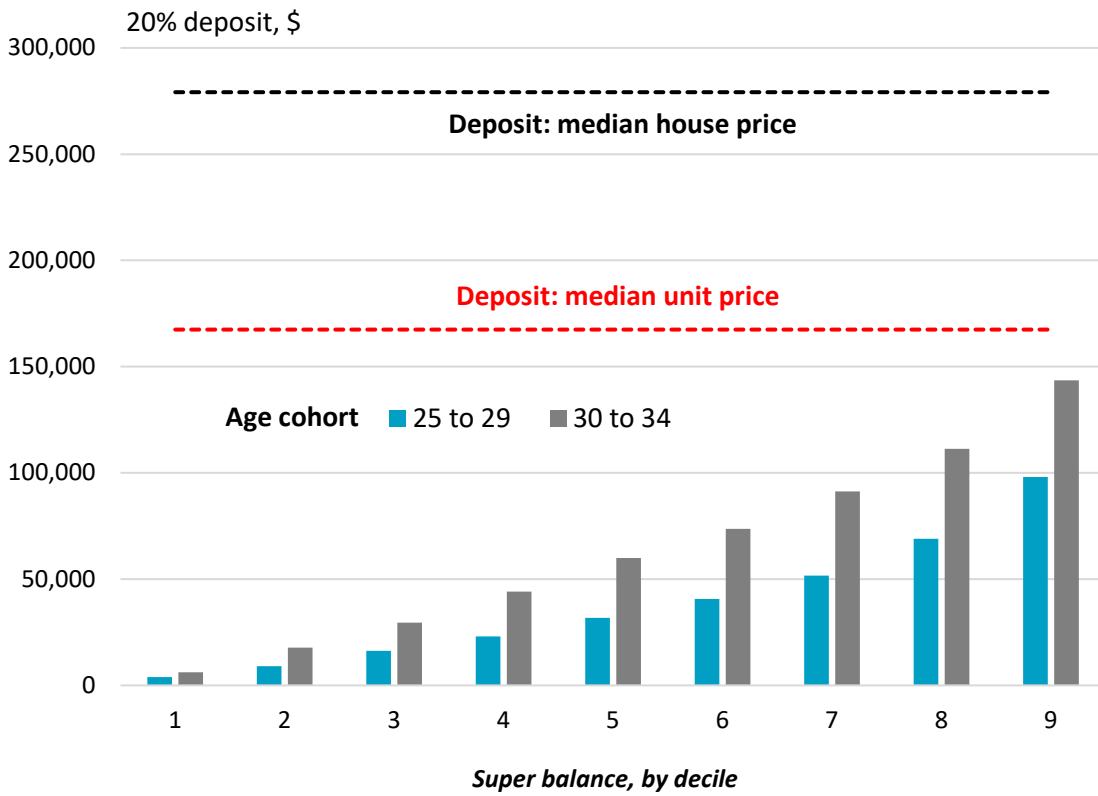


Chart 7: Couples who are currently renting, Melbourne

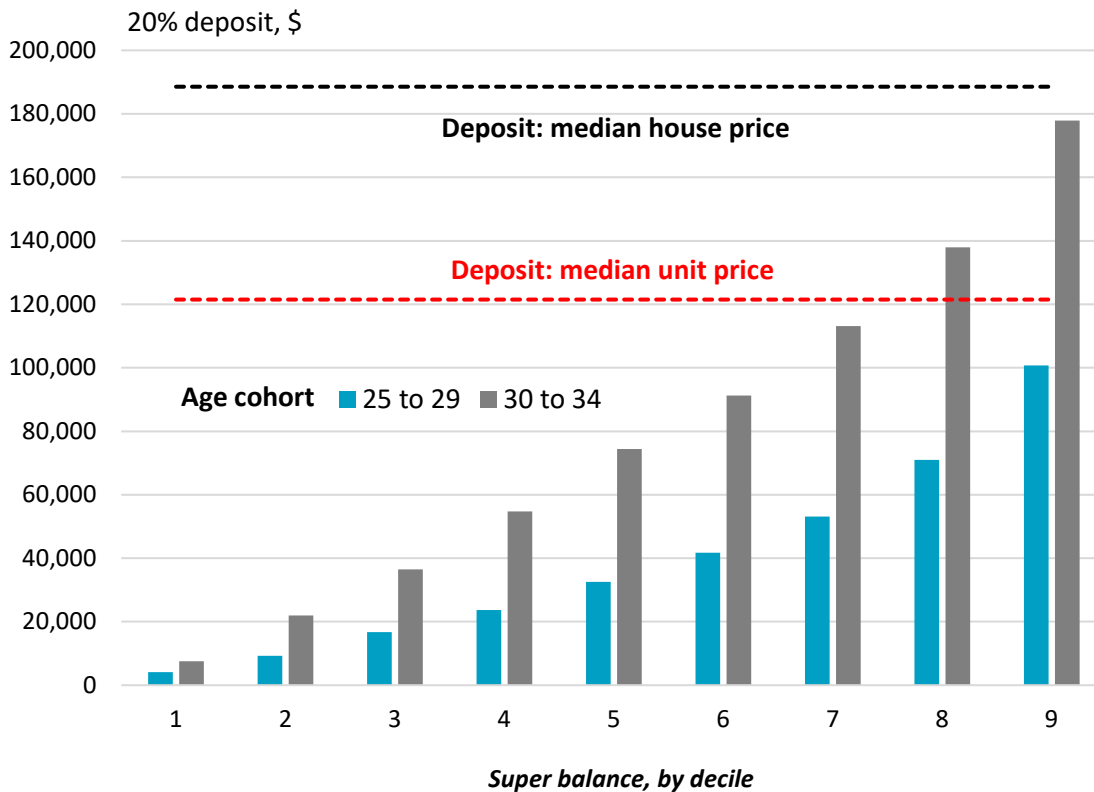


Chart 8: Couples who are currently renting, Brisbane

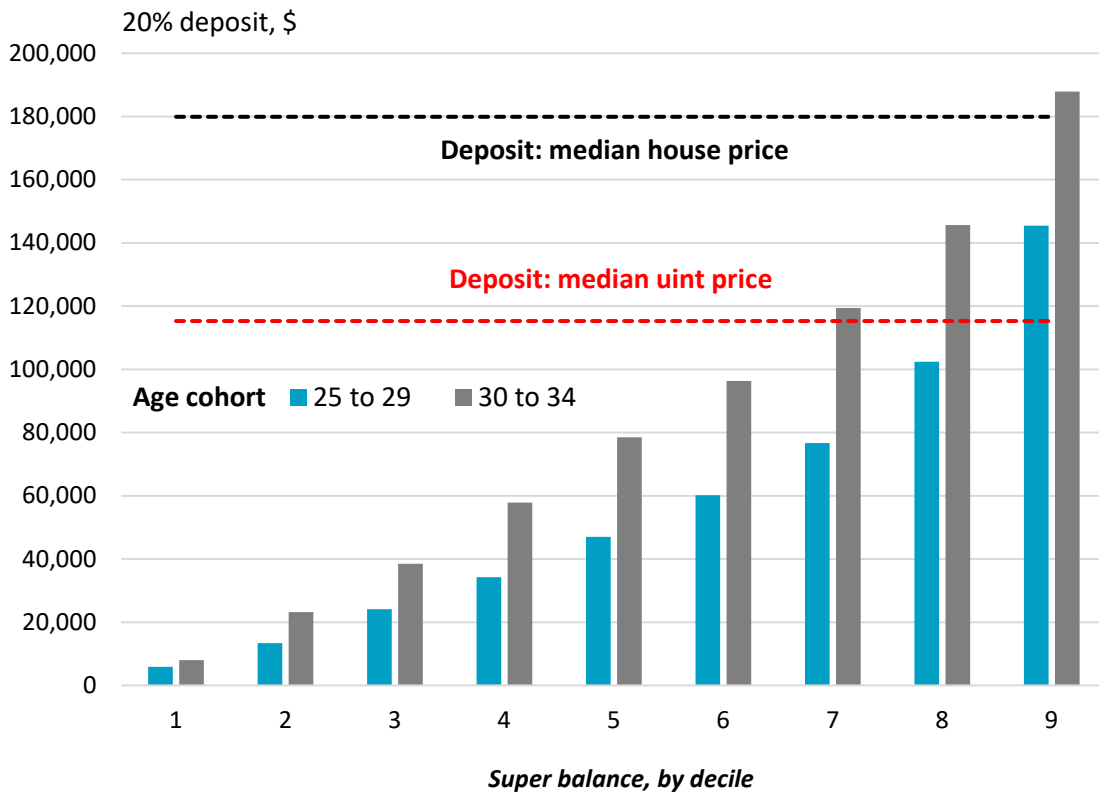
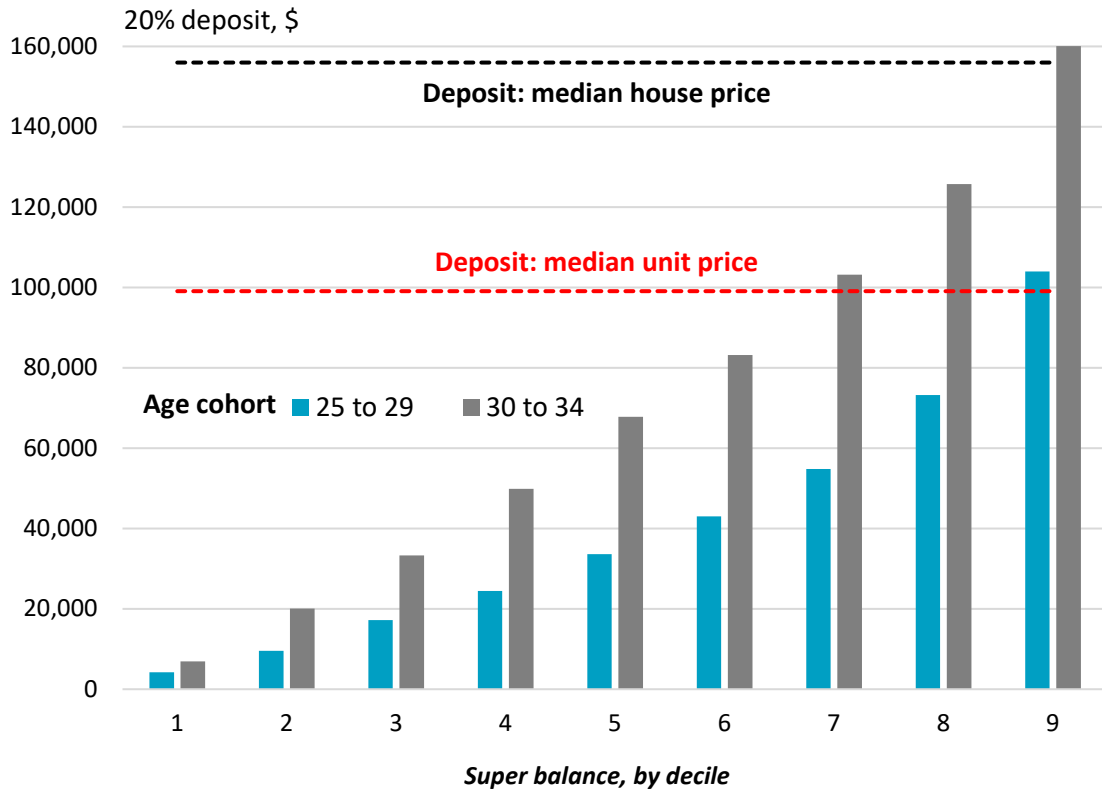


Chart 9: Couples who are currently renting, Adelaide



Source: ATO, ABS and ASFA calculations (see footnote 7).

Box 1: Impact on house prices

Given the nature of the demand-side pressures in the housing market, standard economic theory suggests that the impact of additional nominal purchasing power – where available – would be an increase in the level of house prices.

The broader housing market can be thought of as comprising numerous sub-markets that are stratified by location and price. In housing sub-markets in which there is a relatively large presence of prospective first-home buyers who would have *sufficient* additional funds from superannuation (largely higher-income earners), additional nominal purchasing power would be competitively bid into higher house prices.

It should be noted that competitive dynamics would not be confined to just prospective first-home buyers in such sub-markets. An increase in the competitive pressure from prospective first-home buyers (with sufficient 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, bottlenecks in land identification and release, and complexity government planning and development processes.⁹

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, purchasing power is only one determinant of house price changes in a typical supply-demand framework.

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.¹⁰ The RBA model takes account of both demand and supply-side drivers.

With respect to the specific impact of the measure, the one 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)

⁹ Hsieh, Norman, & Orsmond (2012), *Supply-side Issues in the Housing Sector*, Reserve Bank of Australia Bulletin, September Quarter 2012.

¹⁰ For example, Kohler & Van der Merwe (2015), *Long-run Trends in Housing Price Growth*, Reserve Bank of Australia Bulletin, September Quarter 2015.

percentage increase in house prices in relevant sub-markets in the long run (assuming other determinants are constant).¹¹

For the other 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 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. This assumption, 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. 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.¹²

¹¹ 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.

¹² 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>).

Chart 10: Couples who are currently renting, Perth

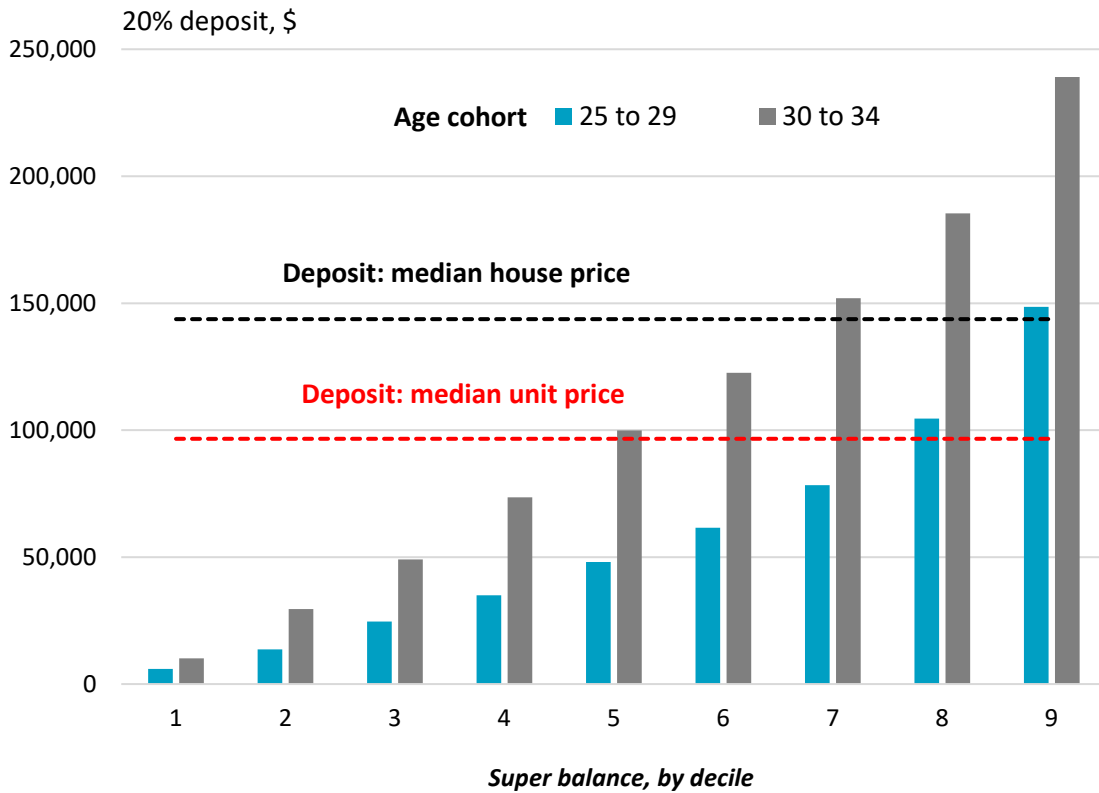


Chart 11: Couples who are currently renting, Hobart

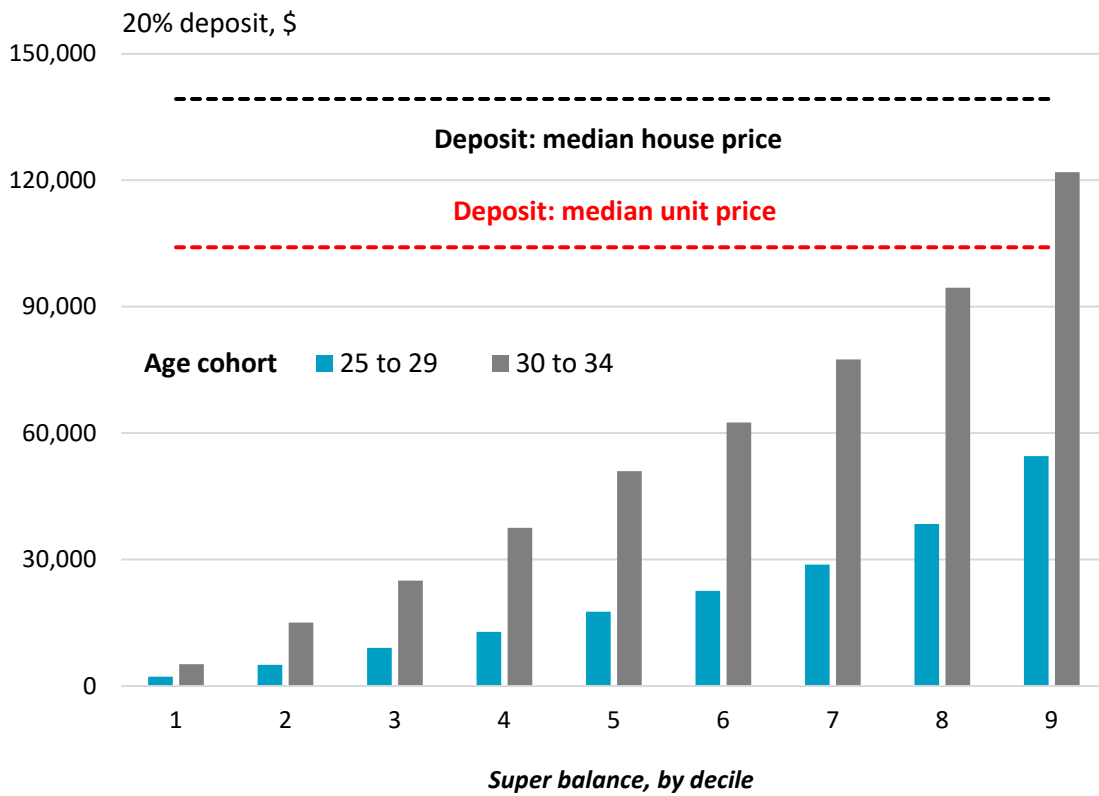


Chart 12: Couples who are currently renting, Darwin

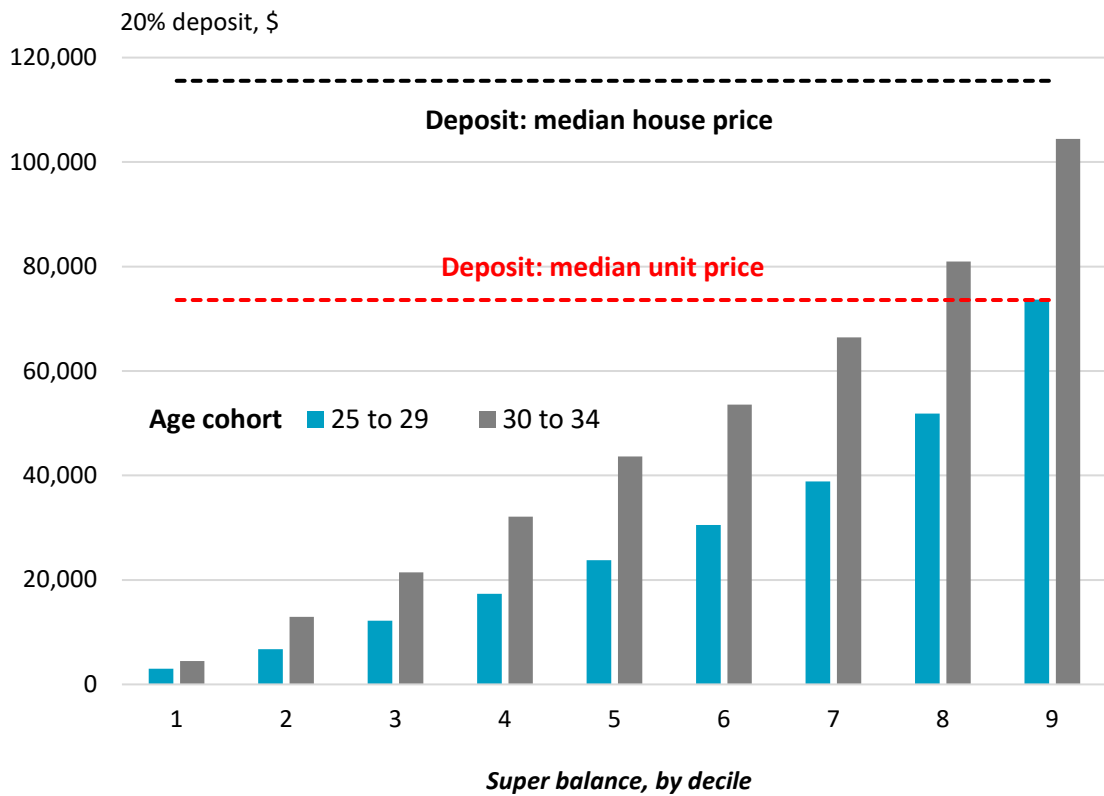


Chart 13: Couples who are currently renting, ACT

