Affordable Housing

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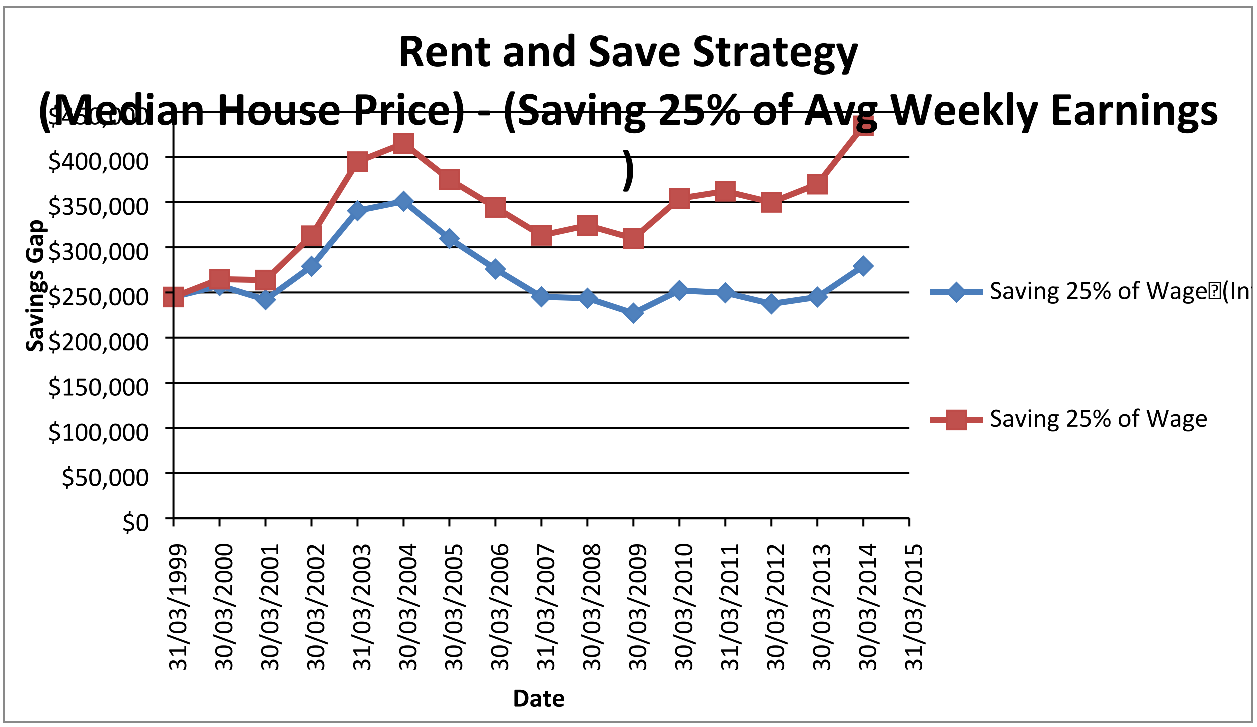
Rent and Save Strategy

For those who take the alternative strategy to rent and save for as long as possible, the following analysis provides a realistic look at what has happened over the previous 15 years.

The analysis looks at a single person on average weekly earnings (ABS data) who saves 25% of their wage and earns 3% interest. Median House price data for a Western Sydney suburb LGA (NSW Housing data) is used to calculate the savings gap over time.

For the year ended 31 March 2014, a 15% increase in House price is assumed (referenced from a number of news articles), 4% increase in wages, and 3% increase in inflation.

Figure 1 - Rent and Save for 15 years (1999 – 2014)



The analysis reveals that over the past 15 years, a rent and save strategy has not reduced the loan size required. In 1999 the savings gap started at $245,000. The figure for 2014 is $434,000, but is shown as $279,000 (deflated to 1999 dollars).

This suggests that the savings gap is not being eroded. After saving for 15 years, a 30 year loan is still required, making it 45 years to own the home. If the rent and save strategy were to continue, the trend from this data set suggests the savings gap would never reduce. It's a treadmill.

The best strategy appears to have been to buy as early as possible.

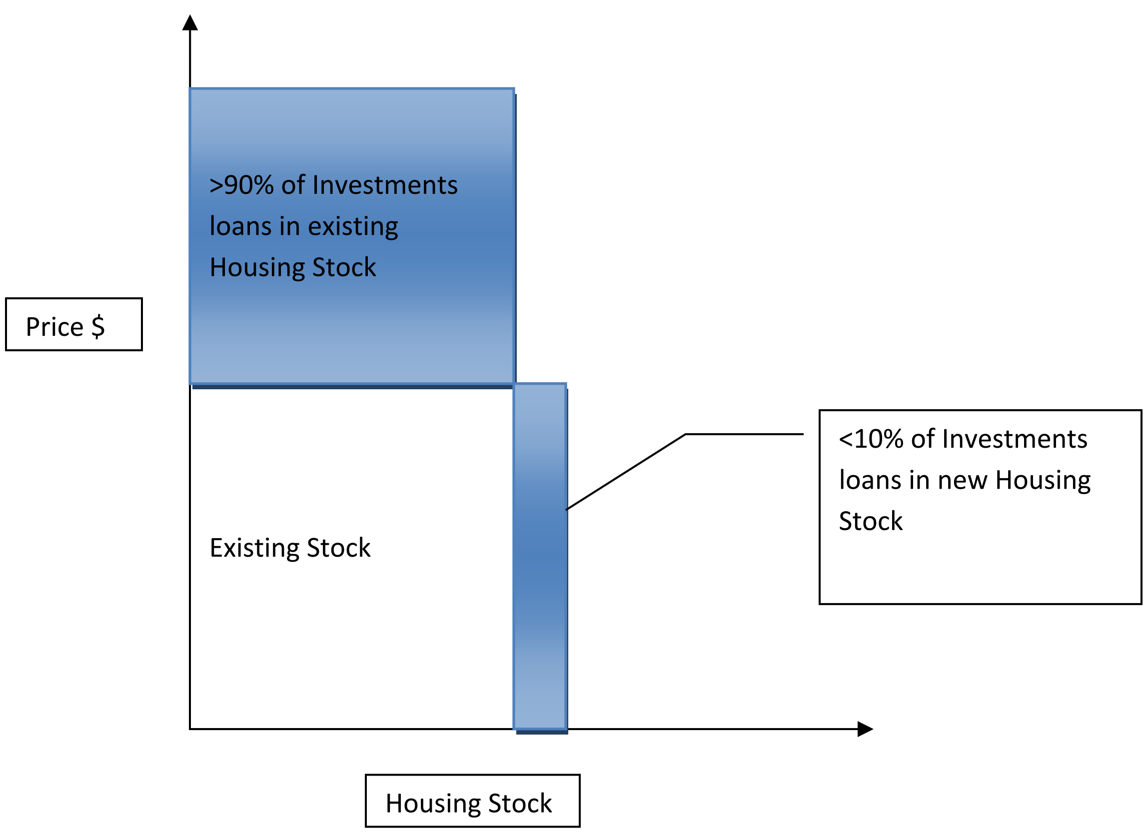
The largest savings gap occurs in 2002 and 2003. This aligns with a sharp increase in investment loans chasing existing housing stock. This is quite evident, as rents flat lined or decreased during this period. Hence it's quite evident that new money chasing existing houses causes affordability problems. When this occurs, it can take many years for this surge to revert to its norm.

Investment Loans

Figure 2 highlights a conceptual diagram how most investment loans chasing existing housing inflate house prices (RBA data).

Where new investment loans create new housing, this increases housing stock. Currently the majority of investment loans are directed towards existing housing. Hence for every new rental property created, the number of owner occupied housing is reduced.

Figure 2 – Conceptual Diagram of Price and Housing Stock



Recommendations

- Henry Review recommendations on negative gearing
- Equilibrium Mechanism where investment loans on existing housing subsidise new housing.
- Reduce competing demands on existing housing stock. This includes investment loans chasing existing housing, such as 2002/2003, SMSF, and overseas buyers.
- Include existing house prices included in Inflation - Although they are classified as an investment, they're not treated as investments. i.e. not taxed or age pension assessed.
- Fractional Property Investing – investigate ways how this could be integrated into affordable housing, or savings accounts for building a deposit.