
Housing affordability in retirement: current and future issues

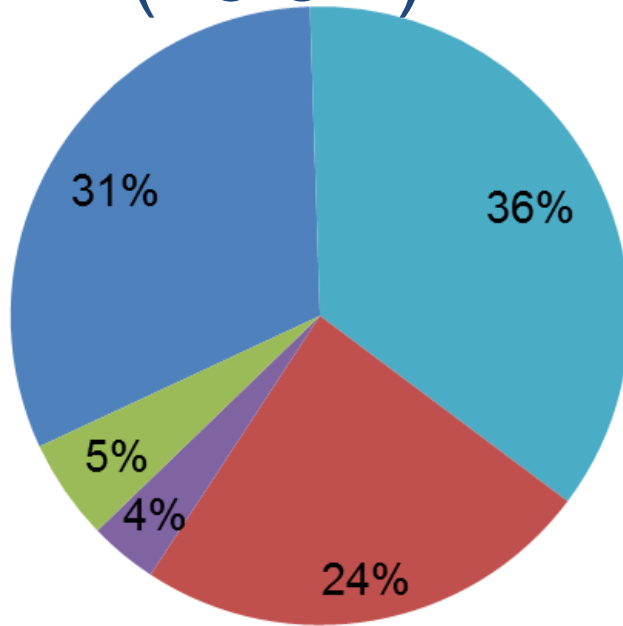
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Prepared for COTA National Policy Forum, 22 June 2017

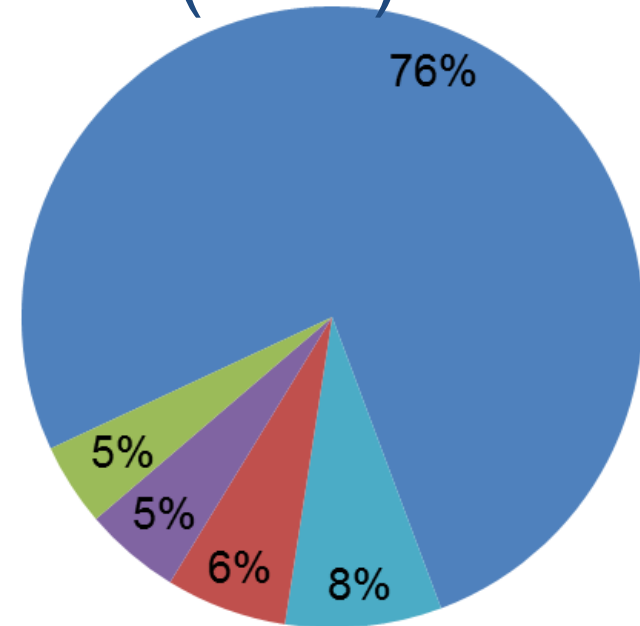
AAA Housing for Older Australians – Making it Affordable, Accessible and Appropriate

Disproportionate share of older households are home owners with no mortgage...

All households
(~8.8m)

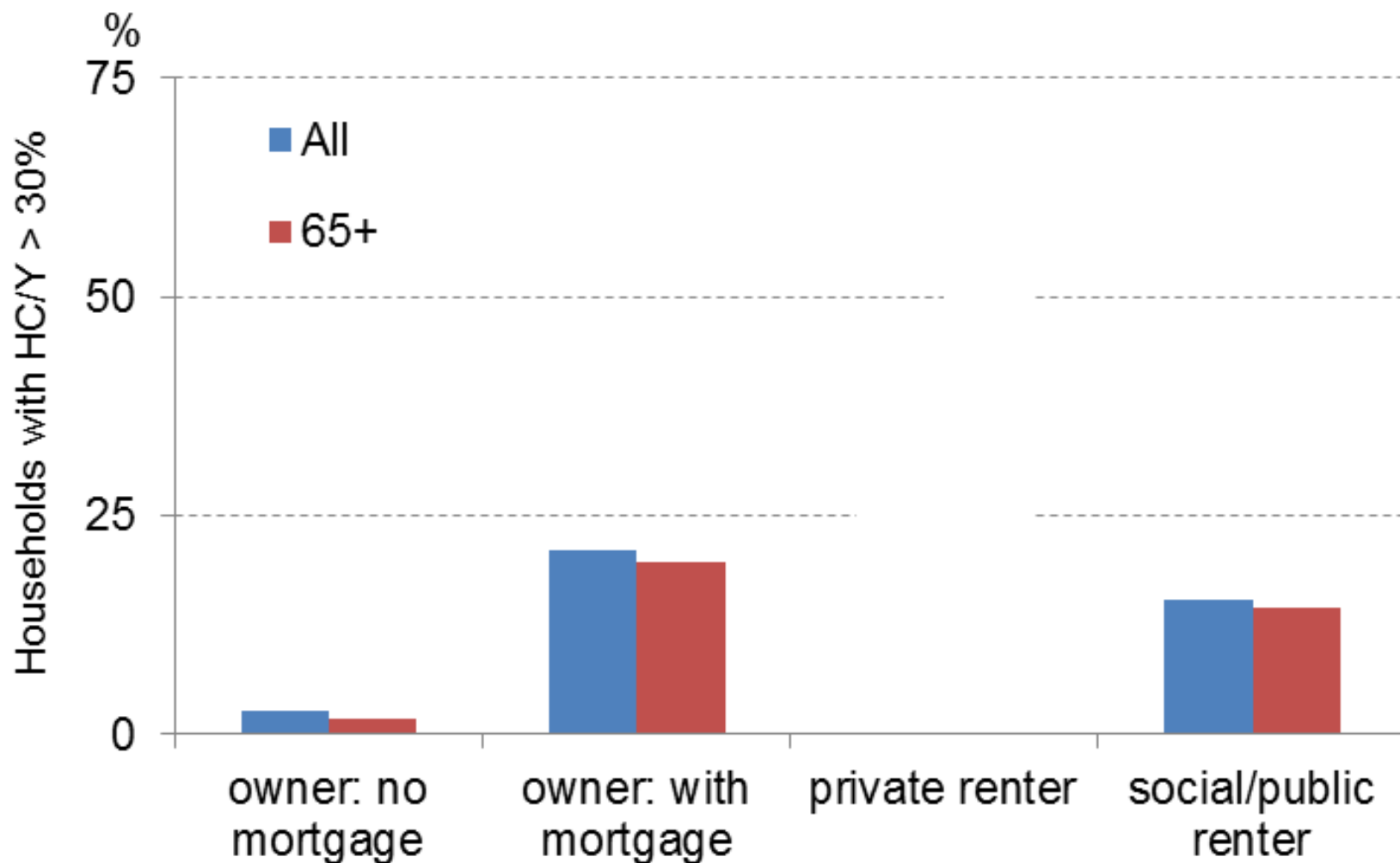


Households 65+ years
(~2m)

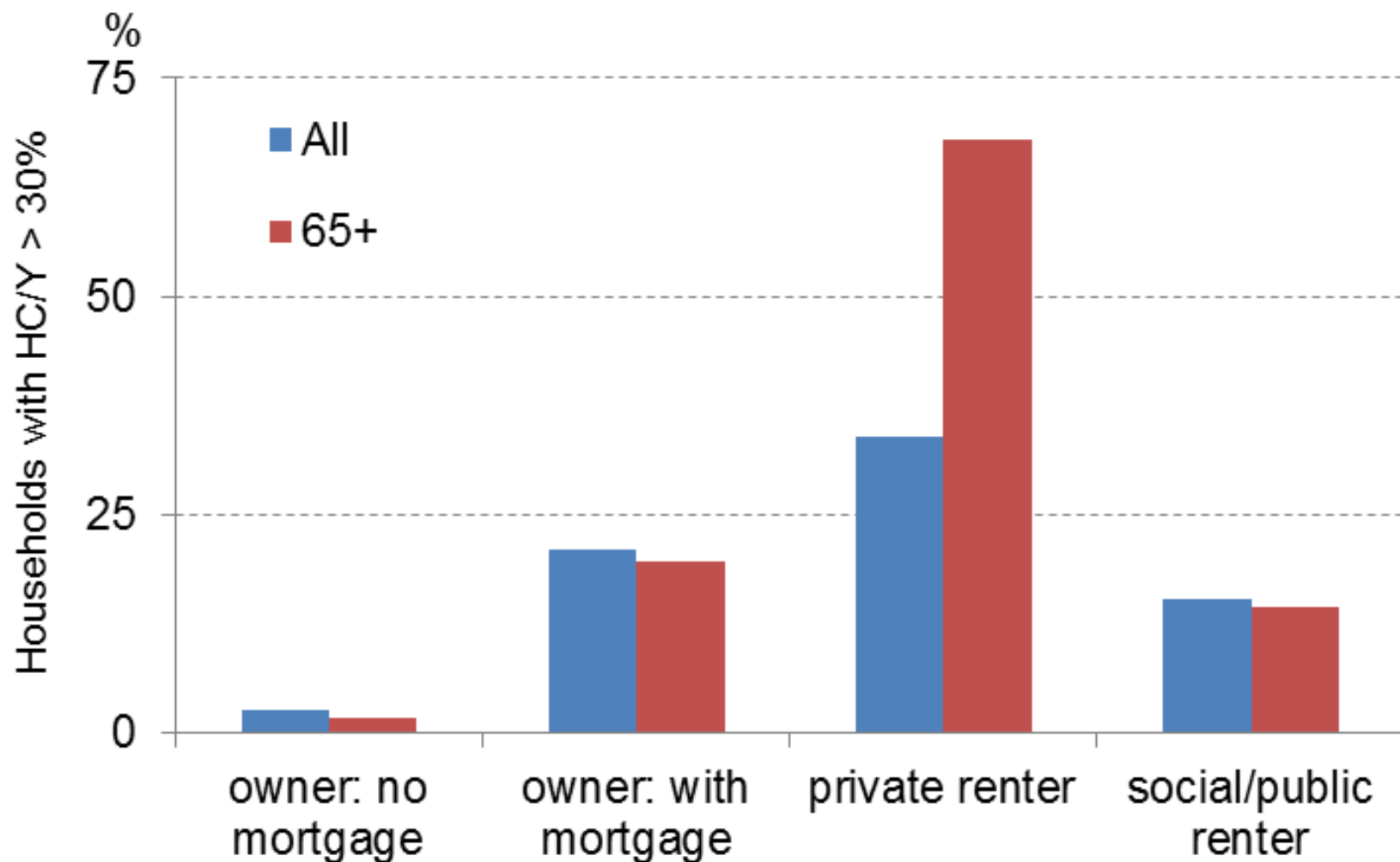


- owner: no mortgage
- owner: with mortgage
- private renter
- social/public renter
- other

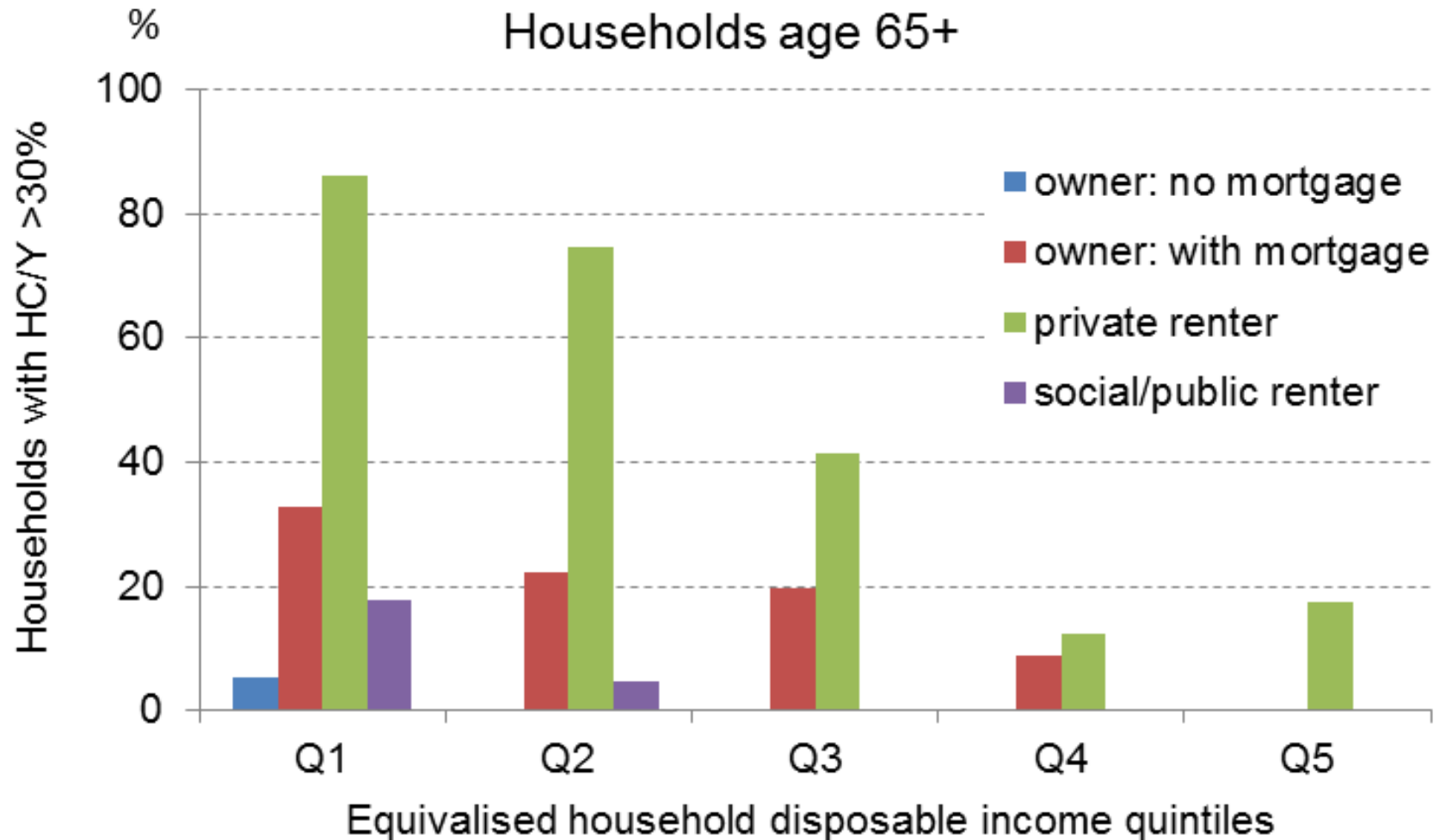
Most older households better protected from high housing cost ratios than others....



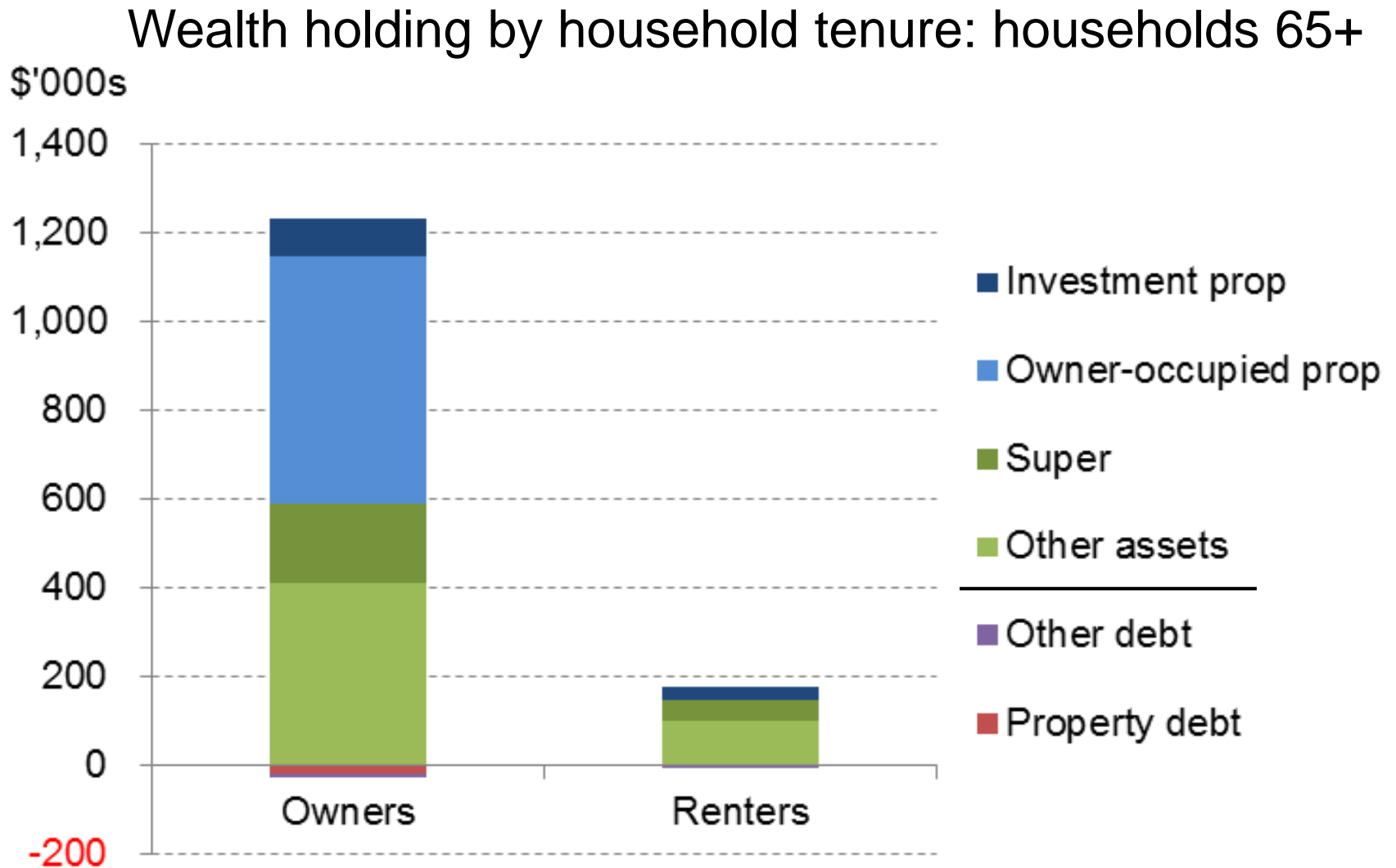
... except older households in private rental.



A disproportionate share of lower income older renters are in housing stress

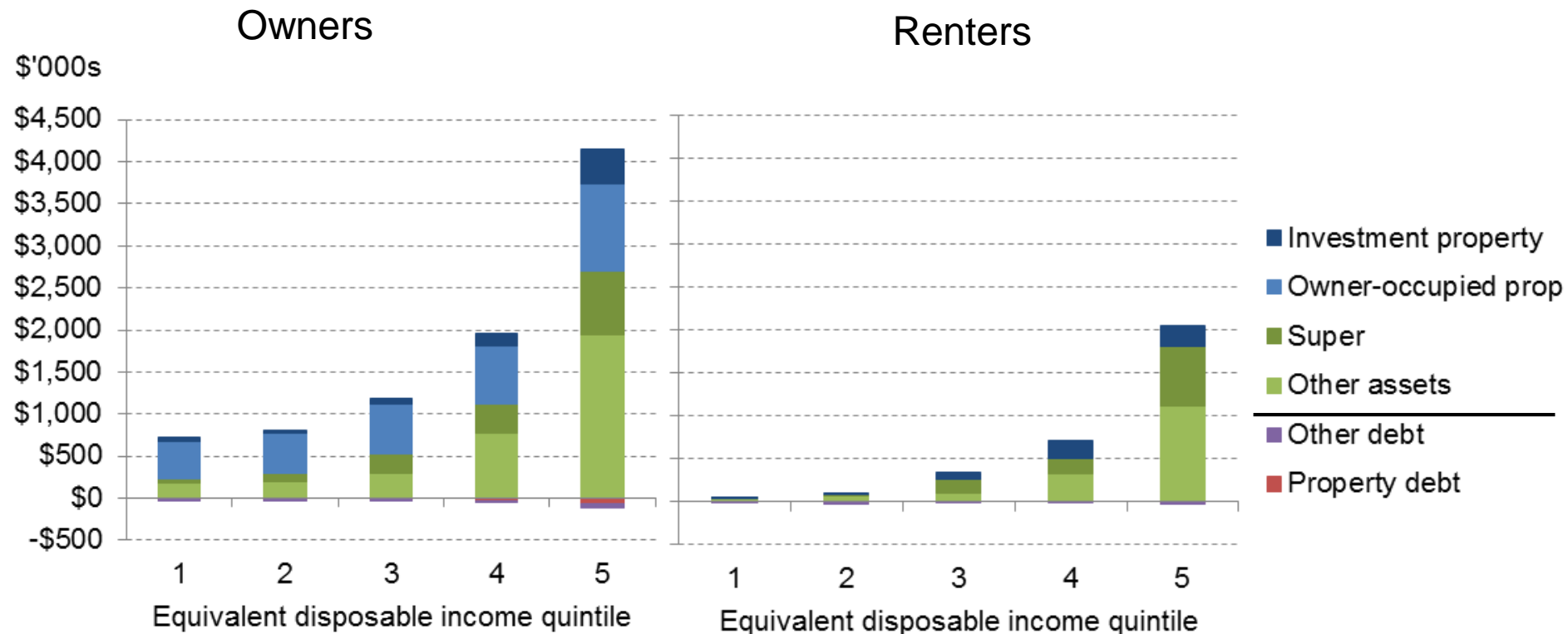


Older owners have considerably greater wealth than older renters...

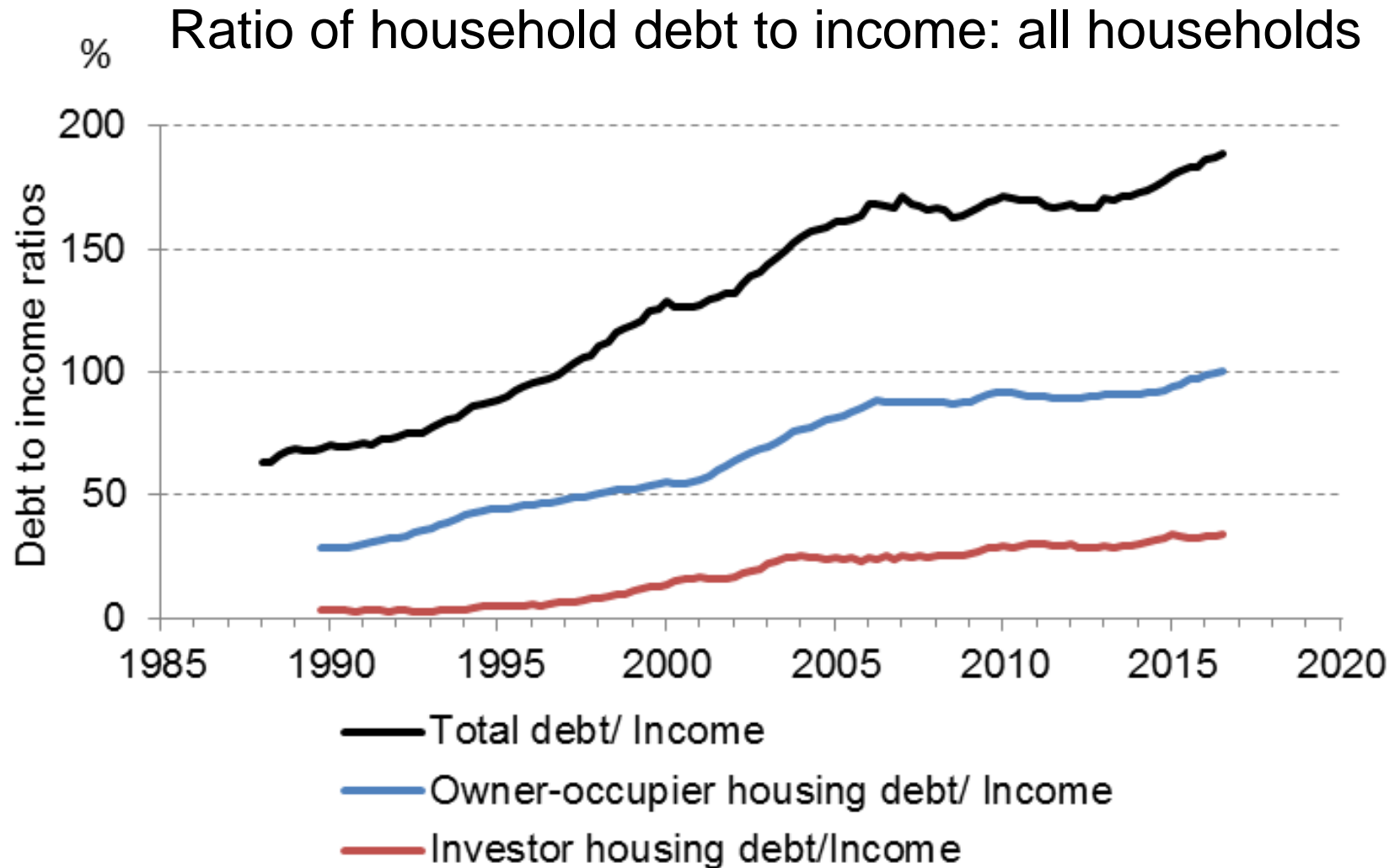


..and lower income owners have disproportionately more than lower income renters

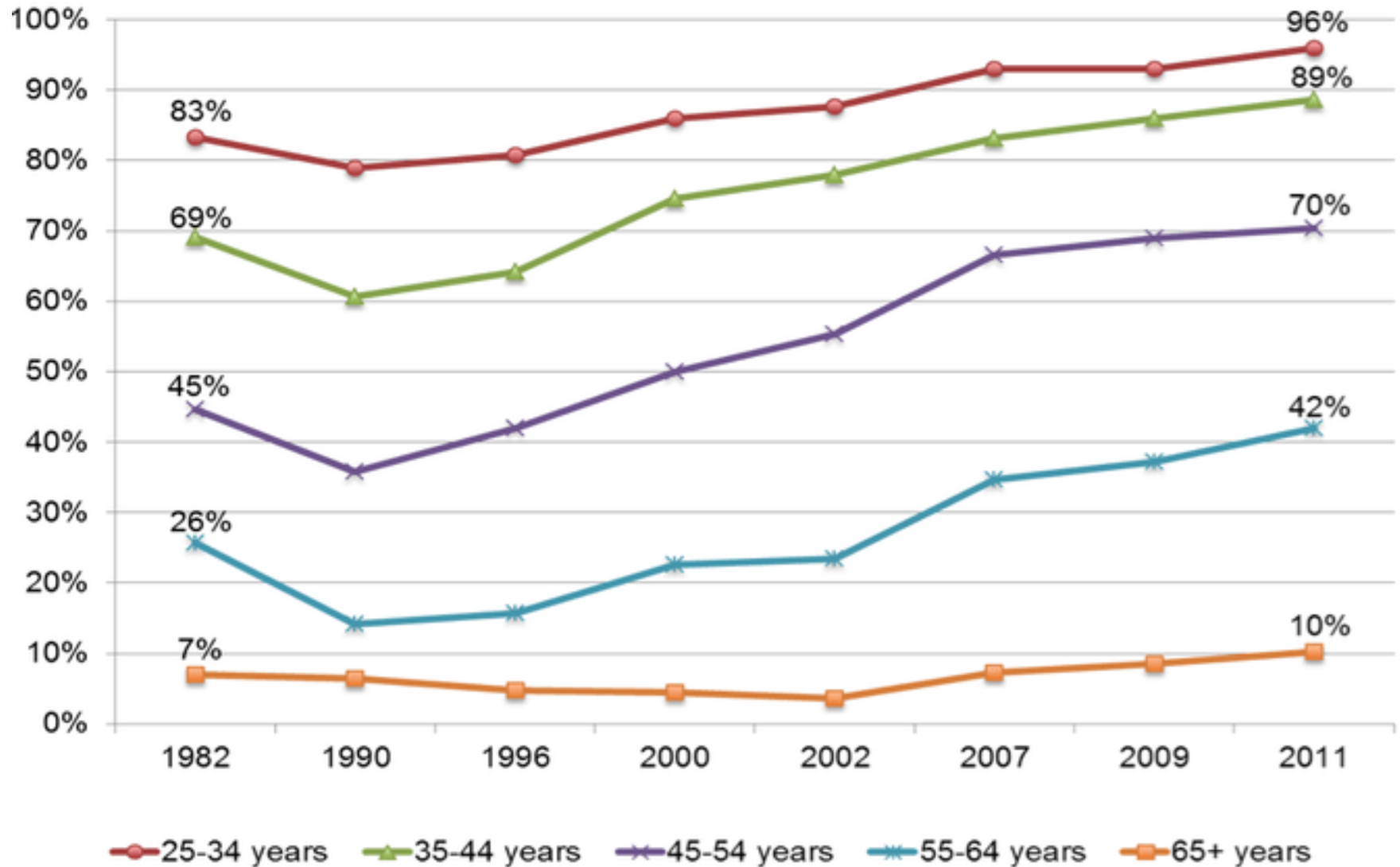
Wealth holding by household tenure: households 65+



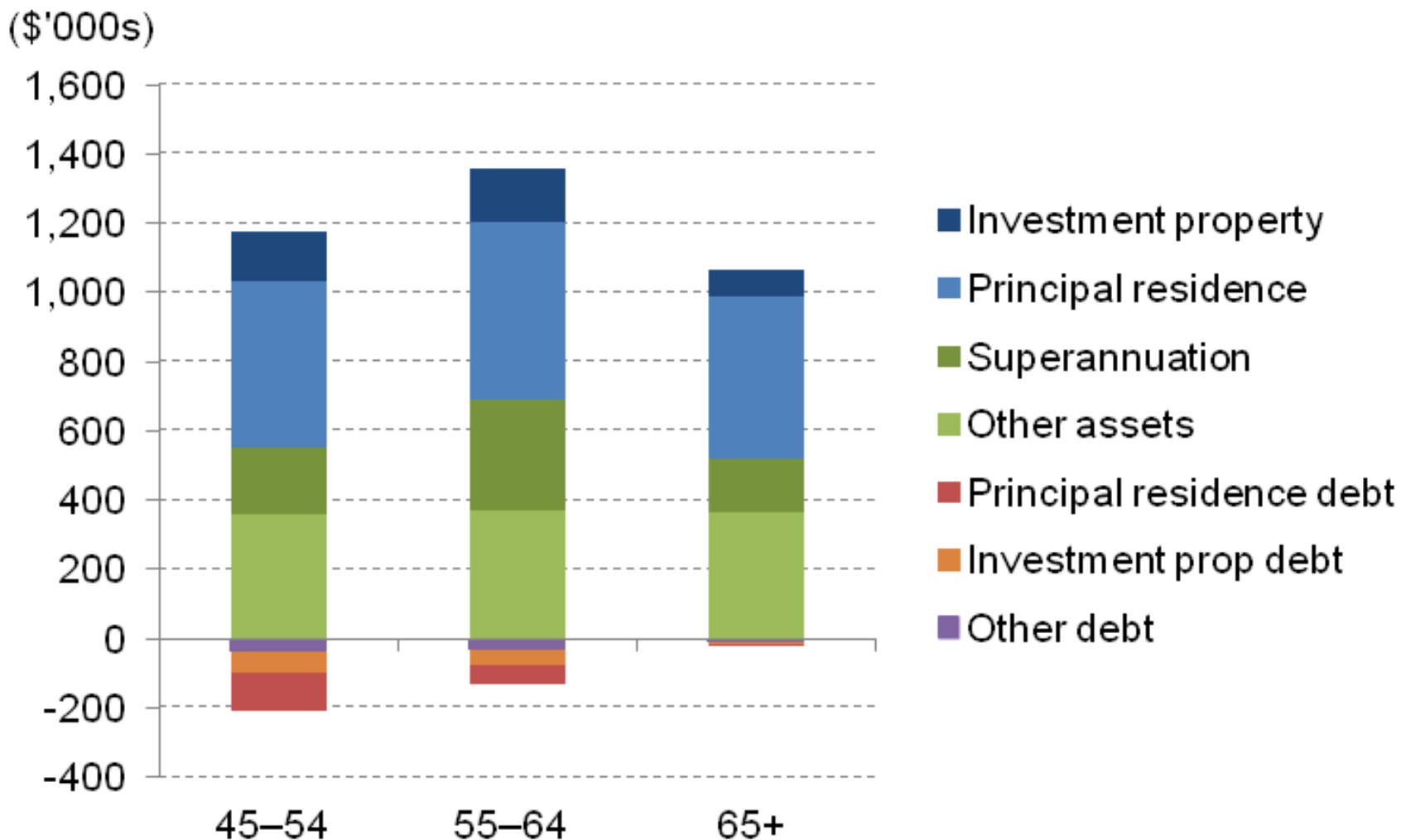
Rising household debt may create a future problem for older households...



as the proportion of middle-older age home owners with mortgage debt is rising.



However, average debt (and gearing) is still relatively low for 45-65+ yr olds (as at 2013-14)



Questions arising for owners from current wealth portfolios...

- Has accumulation of super by middle age households increased appetite for debt?
 - Some evidence to suggest 'yes'
- Will mortgaged home owners use accumulated superannuation to pay down debt on retirement?
 - Evidence equivocal

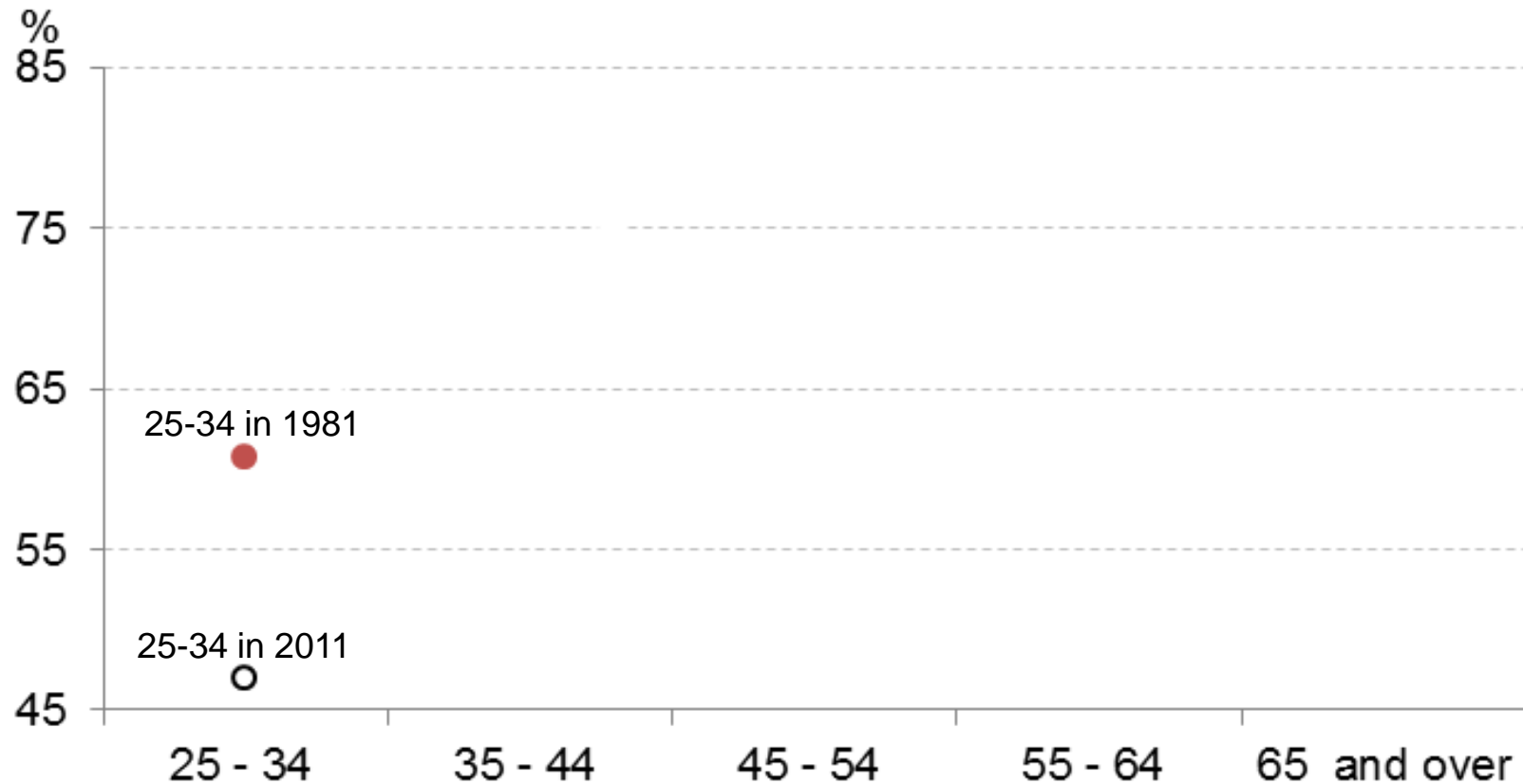
Bigger problems arise for LER private renters

- Low economic resource older private renters
 - Have highest incidence of housing stress
 - Have before-housing poverty rate 2x that of owners
 - Have after-housing poverty rate 4x that of owners
- Numbers of older households in private rental are relative small
 - Currently only 126,000 (6% of 2m older households)
- Numbers likely to increase because of
 - Ageing of population
 - Underlying housing market trends

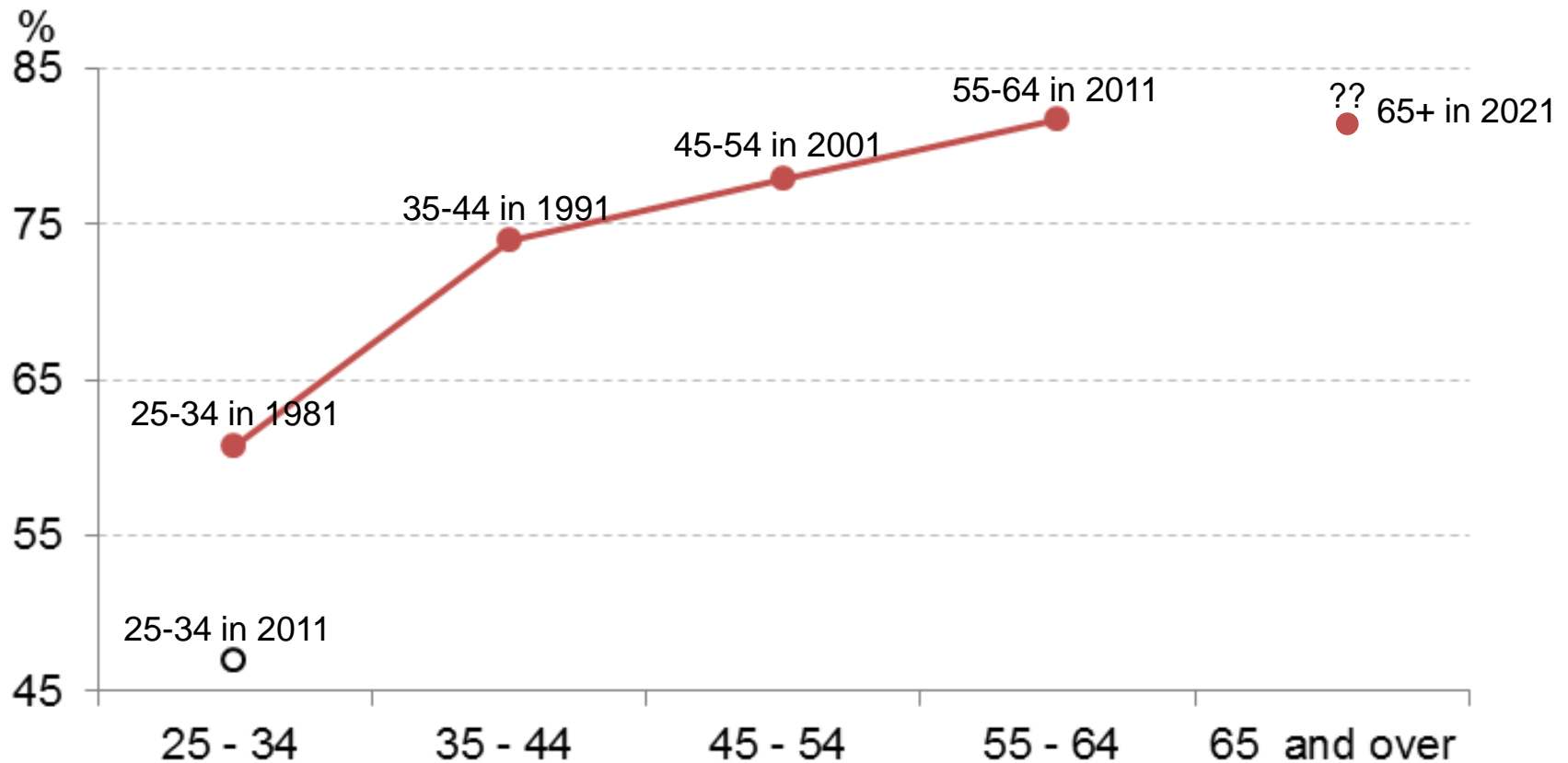
Housing market trends likely to create future affordability problems for older households...

- Declining home ownership among younger households
- Declining role of social rental housing
- Increasing shortage of affordable private rental dwellings available for lower income households
- All imply increasing proportion of older households paying unaffordable rent in the private rental market in the period covered by the intergenerational reports

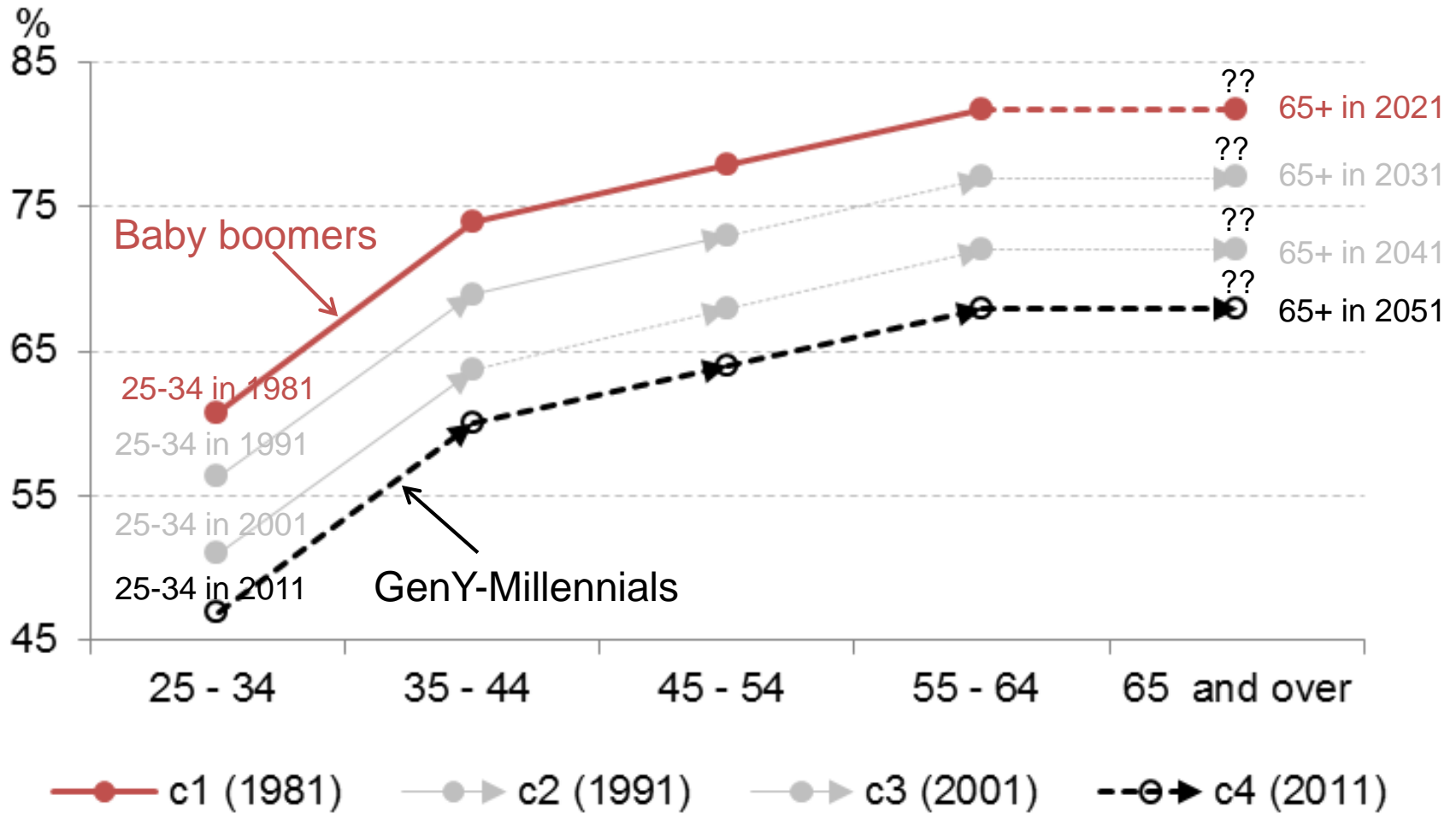
HO has strong life-cycle effect but cohort trends show declining age specific HO rates....



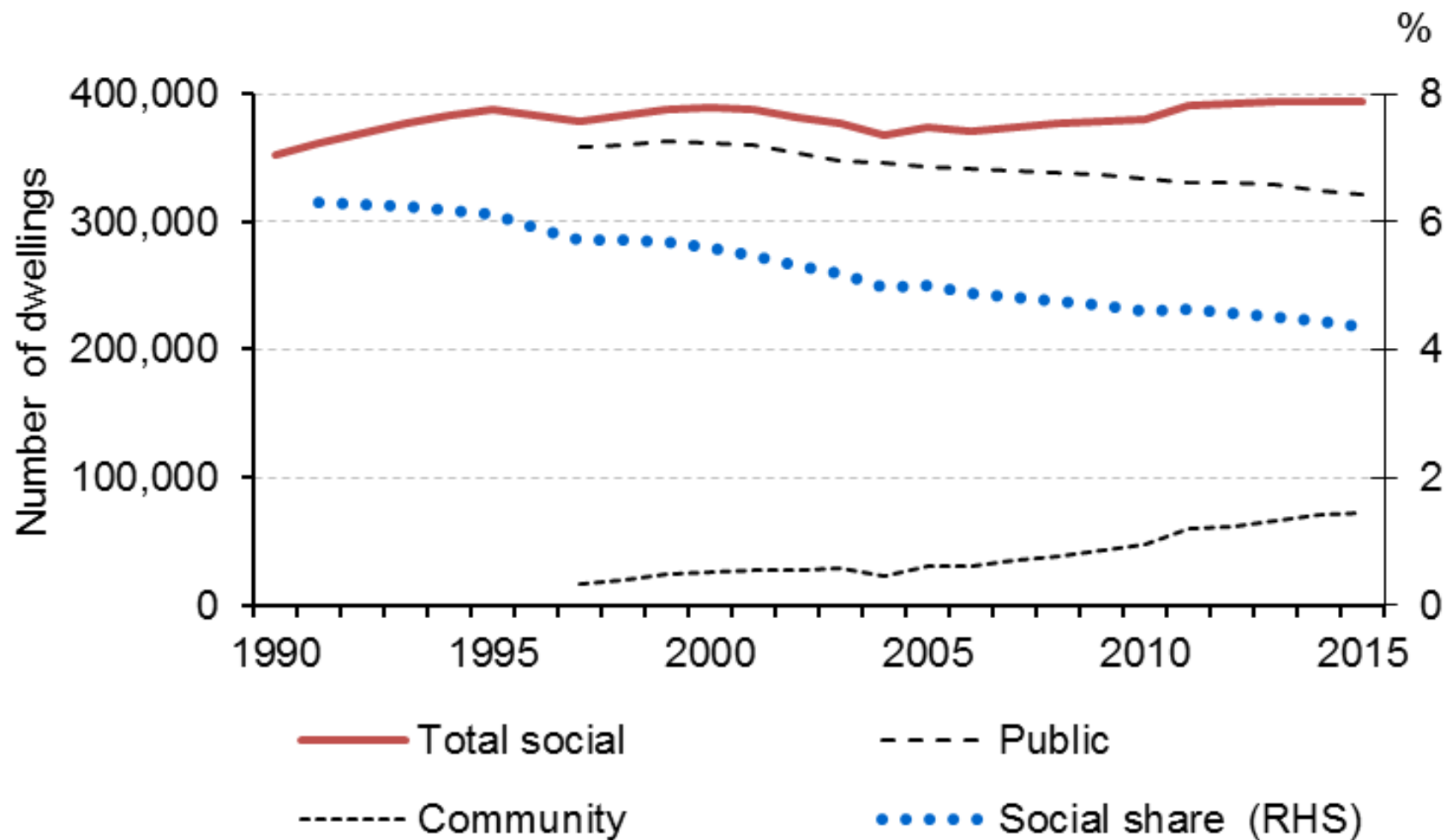
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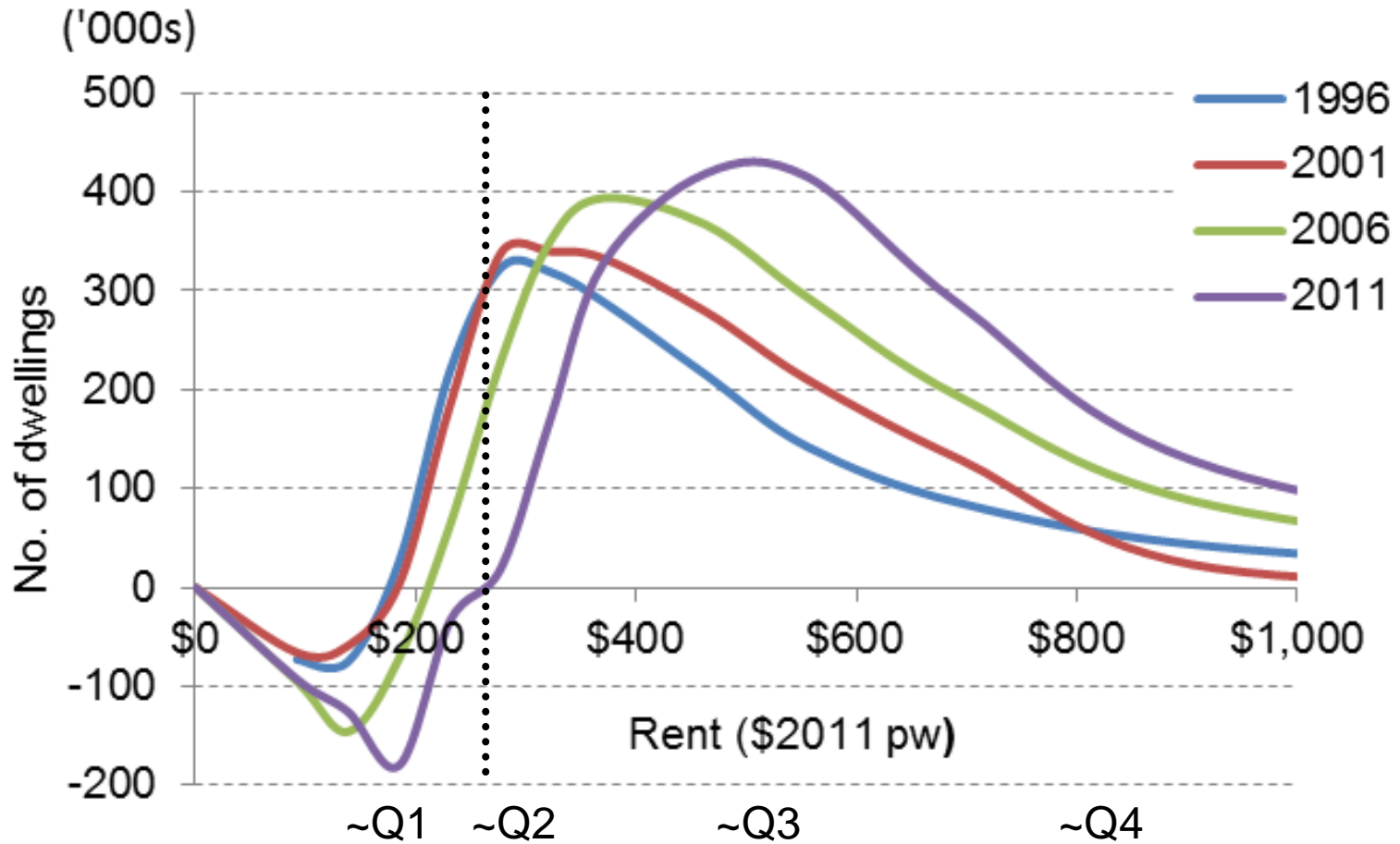
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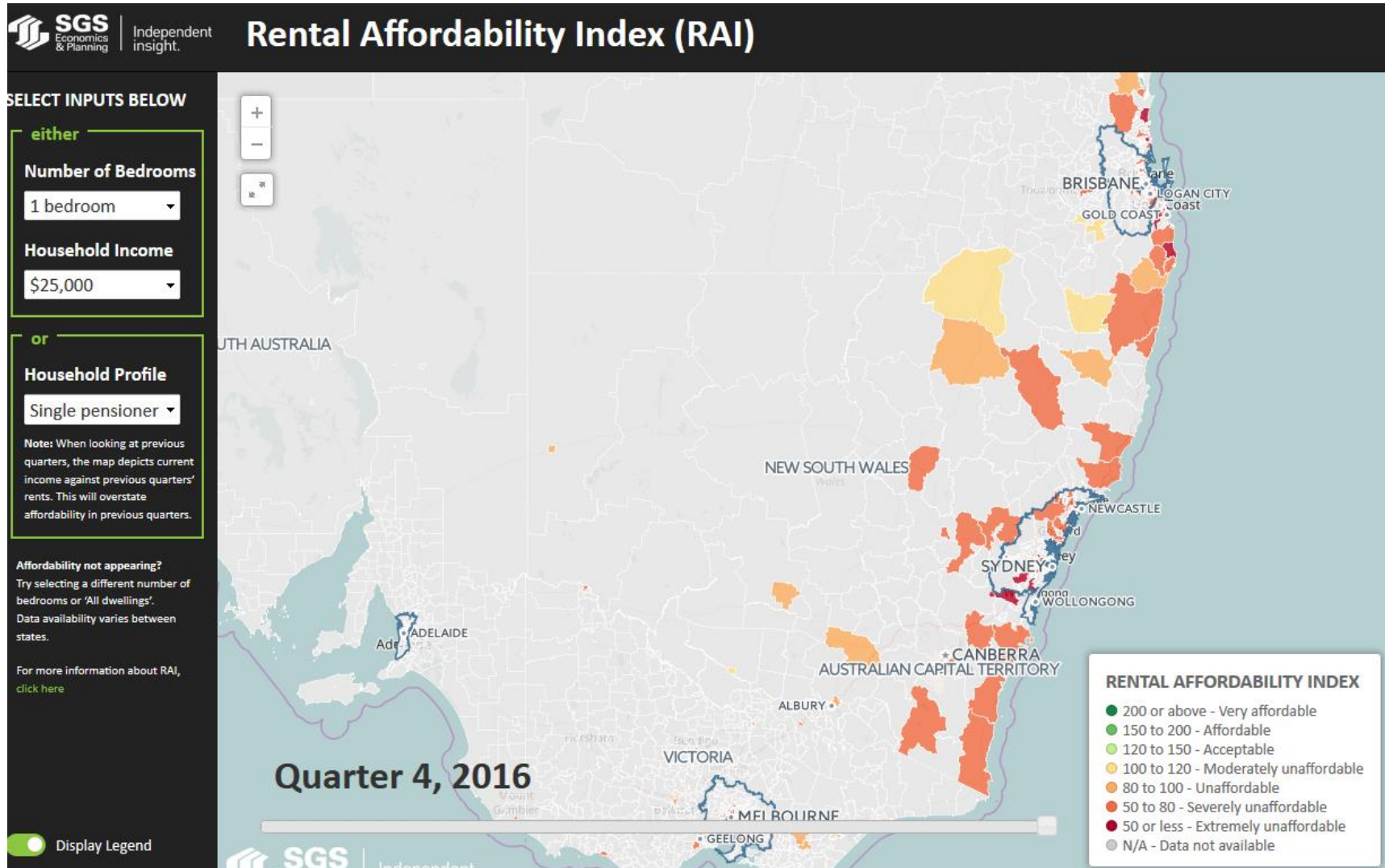
Share of social housing dwellings is declining



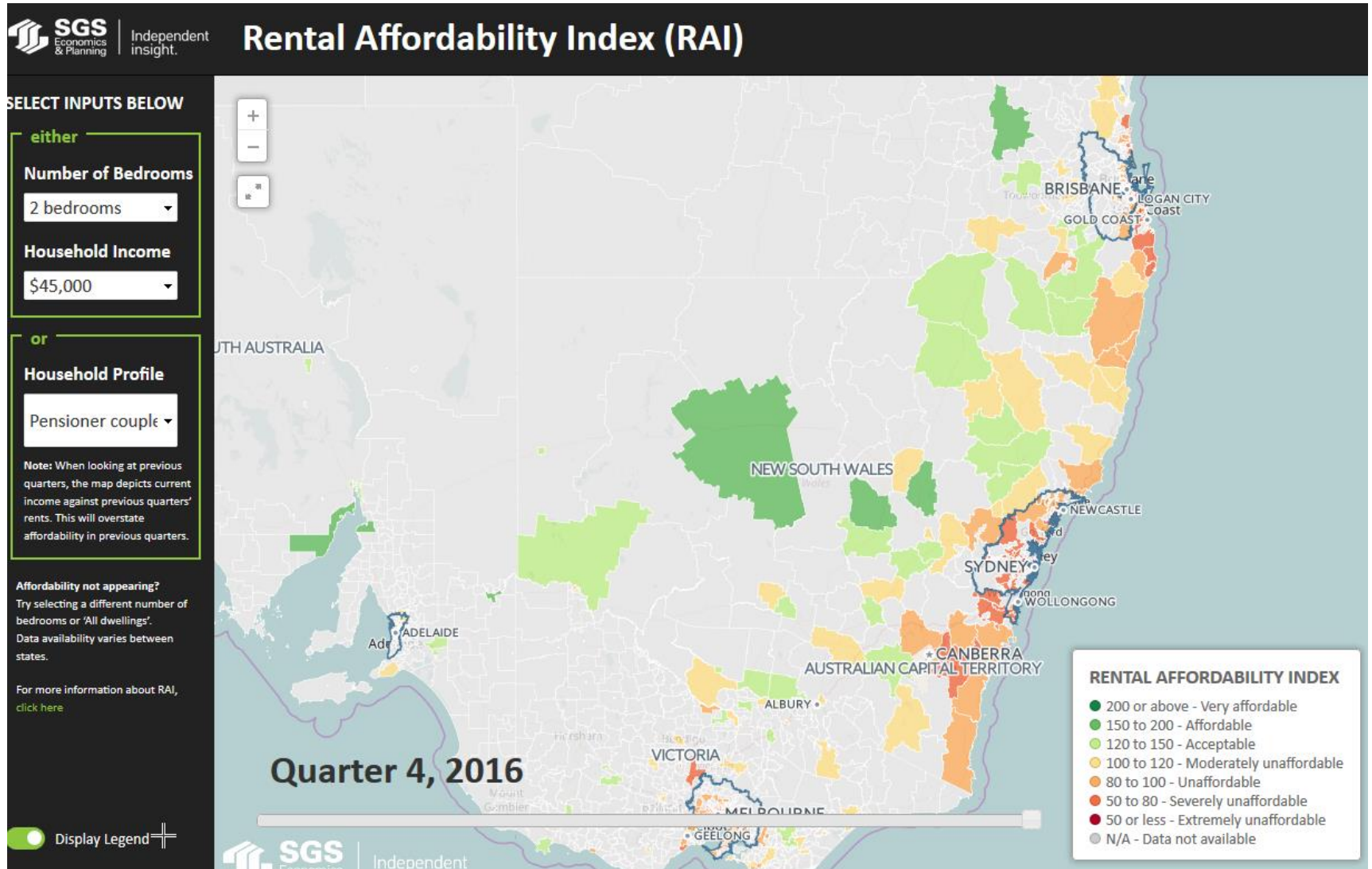
Private rental sector not filling affordable gap...



Affordable 1BR options for single pensioners in private rental are non-existent in SE Australia...



... as they are for couple pensioners in metro/coastal regions if 2 bedrooms allowed.



Back of envelope estimates of future demand for private rental from older households

- Decline in HO for 65+ year olds (84% to 70%) + no growth in social rental share = all non home-owning older go to private rental
 - Implies share in PR increases from 6% to 20%
 - All likely to be LER households
- Population projections suggest
 - Number of older persons increases from current 3.2m (2m households) to 8m (= ? 5m households)
- Possible demand for PR in 40 years is 1m older LER households
 - = 20% of 5 million older households

Policy priorities

If housing policy is to ensure adequate standard of living for older households in retirement, priority ranking is:

1. Low income, low wealth renters
2. Modest income, modest wealth households
3. Adequate income, adequate wealth households

1. Low income, low wealth renters

- Increase supply of affordable social rental housing
 - Direct government borrowing to fund social housing
 - Facilitate use of private sector finance (set up specialist financial intermediary; provide credit enhancements to financial instruments)
- Increase supply of affordable private rental housing
 - Target existing tax concessions to investors in affordable dwellings
 - Regulate allocation to ensure target group housed
- Increase rent assistance
 - ? additional supplements for high needs households
 - ? spatial variation for long term renters priced out of their community

2. Modest income, modest wealth households

- Downsizing
 - Constrained by availability of suitable dwelling stock; emotional attachment to current dwelling
 - Constrained by tax-transfer system (stamp duties, asset test)
- Equity release
 - Debt (reverse mortgage) or equity (home reversion) based schemes
 - Market small
 - Older households reluctant to tap into housing wealth
 - Scope for role as part of tax/transfer reform

3. Adequate income, adequate wealth h'holds

- Include family home in assets test
 - Remove concessional treatment or deem income
 - Need complementary policies to deal with resultant hardship
- Reform of whole tax/transfer system
 - Impose broad based wealth tax
 - Could replace existing capital income taxes or rebate could be given for these
 - Remove capital gains tax concession
 - Politically sensitive
 - Remove land tax concessions
 - Efficient and equitable

Thank you