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Policy Platform Background Paper

Housing as Infrastructure

Linked to Economic Productivity

Among Australia's leading economists and housing experts, the overwhelming majority (85% in our survey) back the contention that policymakers should pay greater attention to the economic productivity effects of housing market outcomes.[1]

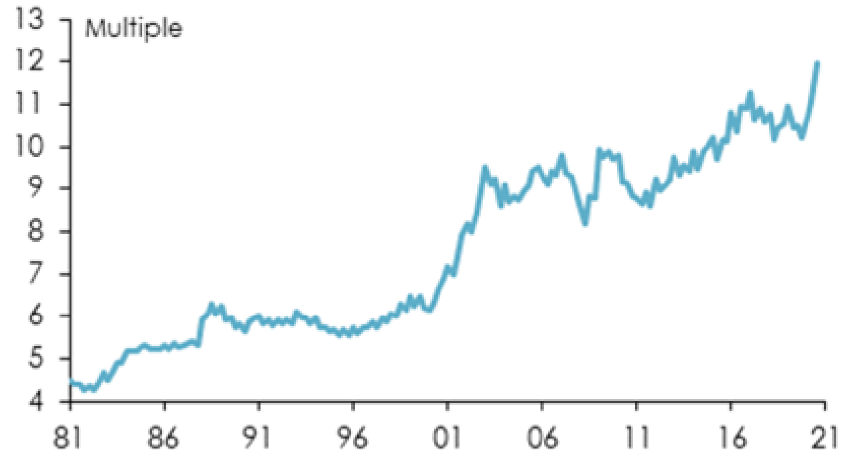
National Shelter has been calling for a National Housing Strategy, a Cabinet-level Minister linked to the range of portfolios (Treasury, Infrastructure, Social Services, Planning, Indigenous Affairs and others) that impact on housing.

While our primary concern is how low and moderate-income households fare within our housing system, this issue requires an understanding of how our housing system impacts low-income households and therefore an understanding of the housing system as a whole, rather than just a focus on the 5% of households in social housing and a welfare paradigm.

Housing affordability, quality, amenity, accessibility and security affects the health, economic, social and cultural participation of the population and the productivity of the nation. Consider the additional money we now have tied up in housing that is not being invested in other productive industries.

Forty years ago an average family on average incomes would need to spend approx. 4.5 times their annual income to own a modest property. The latest data shows that ratio to now be at an all-time high of 12. This ratio, based on Core Logic data, rose from 4.5 to 6 through the 1980s, was fairly steady at around 6 through the 1990s, rose rapidly to about 9 between 2000 and 2003, fluctuated around 9 between 2003 and 2011 (some of the big moves during this period were more the result of big swings in disposable income than in house prices), climbed again to around 11 by 2017, levelled out after that until the past 12 months when it has shot up to an all-time high of 12.[2]

RATIO OF CAPITAL CITY HOUSE PRICES TO HOUSEHOLD DISPOSABLE INCOME PER PERSON AGED 15 OR OVER[3]



1 Housing: Taming the Elephant I the Economy Duncan Maclennan, Jinqiao Long (University of Glasgow), Hal Pawson, Bill Randolph, Fatemeh Aminpour (City Futures Research Centre, UNSW) Chris Leishman (University of South Australia) 2021
2 Saul Eslake 2021
3 Saul Eslake 2021

Successive governments have argued that rising house prices are a good thing, "Overall, it's a good thing for the economy when house prices go up as opposed to going down," Treasurer Josh Frydenberg said on June 18.[4] However, most economists and housing experts have come to the realisation that over-investment in housing has profound effects on economics, as well as wellbeing and social cohesion.

"For the economy, these trends reflect a triple crisis where housing price outcomes have exacerbated income and wealth inequalities, contributed to economic and financial instability and, often unrecognised, diminished productivity and growth." [5]

"Rising residential housing markets can support positive impacts on productivity, for example when increased housing wealth is used as collateral to borrow to fund non-housing investments. At the same time residential investment can 'crowd out' investment in more productive activities and lead banks to prioritise lending to housing consumption and 'rent seeking' investment with no positive feedback into economic productivity. Australian evidence on the balance of these effects is missing." [6]

Recently, Infrastructure Australia has recognised the need to consider housing as infrastructure and social housing as essential infrastructure by including housing in its social infrastructure planning.[7] National Shelter argues that social and affordable housing investment saves money in other areas (e.g. health) and offset the cost of provision.

"Parsell et al (2016) estimate that over a 12-month period the reduction in health, criminal justice and housing services of providing housing amounted to some $13,100 per person. Thorpe (2019) based on PwC work shows that the per person saving from moving a person from extremely high disadvantage to very high disadvantage, and from moving an individual from very high disadvantage to high disadvantage is $11,800 and $2,830 per annum."

Overall, Australia needs to adjust its policy settings to rebalance our housing system. We need to have long term house price stability to allow wages to catch up to house price growth, we need to rebalance investment, unlocking over-investment in housing to more productive areas and recognise the importance of providing social and affordable housing as essential infrastructure to save or offset spending in other areas and improve productivity outcomes.

This may be achieved by supporting a national housing strategy, backed by a powerful Cabinet-level Minister able to link the various portfolios impacting housing supply and cost and build on the progress of Infrastructure Australia and recognise the benefits of seeing social and affordable housing as infrastructure.

Read Housing: Taming the Elephant in the Economy Summary and Full Report

4 https://www.smh.com.au/politics/federal/the-market-is-insane-many-voters-fear-home-ownership-is-out-of-reach-for-young-australians-20210722-p58c57.html
5 'Housing: Taming the Elephant in the Economy' by Professor Duncan Maclennan and colleagues City Futures NSW 2021
6 Ibid
7 https://www.infrastructureaustralia.gov.au/sites/default/files/2019-08/Australian%20Infrastructure%20Audit%202019%20-%206.%20Social%20Infrastructure.pdf

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