



Making better economic cases for housing

UNSW Sydney and NSW Federation of Housing Associations Inc

 @UNSWCityFutures #newhousingstories

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A Report to the New South Wales
Federation of Housing Associations

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**MAKING
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POLICIES**

Overview

1. Problems with prevailing '*Triumph of Cities*' & '*failure of housing systems*' narratives
2. Housing Sector: importance of better economic narratives
3. Policy Sector: importance of applied housing economics
4. Risks for Sydney
 - a) Productivity risks due to quality/accessibility of human capital (workforce)
 - b) Effects of price/rent rises on consumption, savings & investment
5. Key elements of 'new' economic housing story
6. Why does it matter?

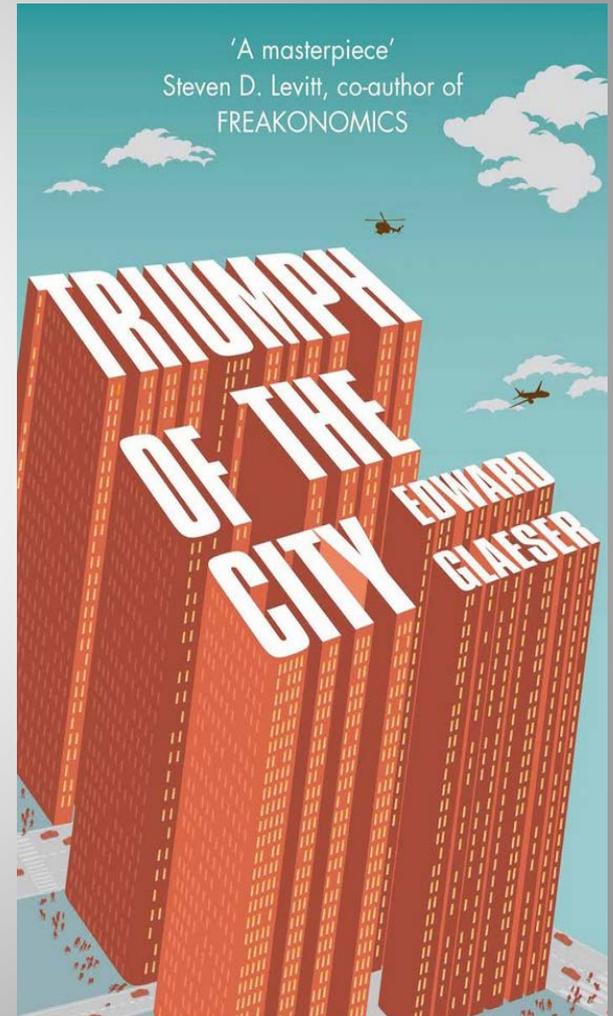
1.1 City 'Triumph'

Post-2000 positive view of city economies

- Central role of Glaeser's work on agglomeration economies as growth sources in reshaping city economic policy
- But growth brings 'congestion' costs to forestall/ offset agglomeration benefits: policies often fail to deal with them and planning/regulation to readily asserted as their source (RBA, Grattan)

Now Growing concerns about cities:

- Some, slowing **productivity** growth
- All, sharp **inequality** rises
- Some, lurking **instability/debt**



1.2 Metro housing 'failures'

- Policy/research often misreads housing impacts:
 - Suggests housing shortages = social consequence/redistribution issue
 - Suggests housing market = well functioning (assumes that technically no major **market failure**) ('merit good' perspective)
- Policy significance downgraded, system perspective lost
 - Finance ministries take minor economic role (except cyclical stabilisation)
 - Limited role for affordable housing providers
 - Rising house prices drive unearned wealth & reduce early ownership
- As a result:
 - Consumption and saving effects go unrecognised
 - Amidst 'triumph' narratives, housing outcomes raise inequality & reduce productivity growth
 - Market and policy failures, infrastructure shortages and key aspects of developer behaviour ignored and 'blame' placed squarely on regulation.

2. More than 'merit goods' cases

Policy focus at all scales on housing needs rather than wider impacts - 'merit good'/'input'

- Ignores housing's weighty economic role:
 - Macro: 20-25% consumption: major household asset & debt type
 - Micro: add also location, neighbourhood context & capabilities
 - Metro: concentrated localities of impact, labour market mismatch
- Wider inequality effects (Piketty; Maclennan and Miao, 2017)
- Productivity effects
 - human capital
 - business capital/innovation
 - spending/saving effects

3. A Relevant Applied Economics for Real Metro Market research

- a) Housing not just a verb (planning, designing, building, renewing, selling) with significant employment effects
- b) Definition of 'housing' must also recognise multiple attributes of housing connect to a wide range of economic (and other) outcomes (Maclennan, Ong and Wood, 2015)
- c) View housing as spatially-fixed asset (metropolitan market structures, complex spatial connections and behaviours)
- d) Housing also a durable asset (investment, speculation, expectation)
- e) Urban housing supply inelasticity a fundamental, reflects product, complex process, nature of provision industry and planning
- f) Housing markets are not simple, competitive, fast equilibrating
 - connected mosaic of sub-markets
 - complex dynamics; esp. with financial deregulation
 - prone to phase changes (upswings/downswings)

REAL RAIL JOURNEYS ARE NOT MADE IN MODEL TRAINS

4. Key Risks of Current Approach in Sydney

(a) Productivity risks due to constrained human capital

- Mismatch between housing & jobs → thins labour market
- Skilled (i.e. most mobile) workers → underperform/leave
- Poor access to 24hr jobs via 18hr transit → tourism & health
- long commutes vs caring obligations → labour participation
- Lower living standards for children → learning, human capital
- Concentrated/remote poverty → teen education/work entry
- Poor quality housing → worker health & absenteeism

4. Key risks of current approach in Sydney

(b) Price/rent rises affect consumption, savings & investment

- Housing boom → investment in lower productivity industries
- Housing as preferred investment asset → supply inelasticities
- Lock up investment capital → no growth/productivity benefits
- Rising housing consumption → increased instability
- Rising costs for less wealthy → consumption & productivity
- Housing size/amenity → home-based business formation
- Net housing wealth → expansion of existing small businesses
- **But:** home-buyers work past retirement → productivity gain

GAINS OF THE LONG BOOM OFTEN FLOWED INTO RAISING THE PRICE OF PROPERTY AND INVESTMENT DRIVING PRODUCTIVITY

5. A new economic housing narrative

- a) Refreshed definitions, more evidence (especially supply side)
- b) Emphasis on housing as KEY ECONOMIC infrastructure
- c) Joint housing/transport/place modelling + decision-making, with clear productivity aims (e.g. housing in City Deals)
- d) Focus on system-wide, long-term effects
- e) Make different scale impacts & origins explicit

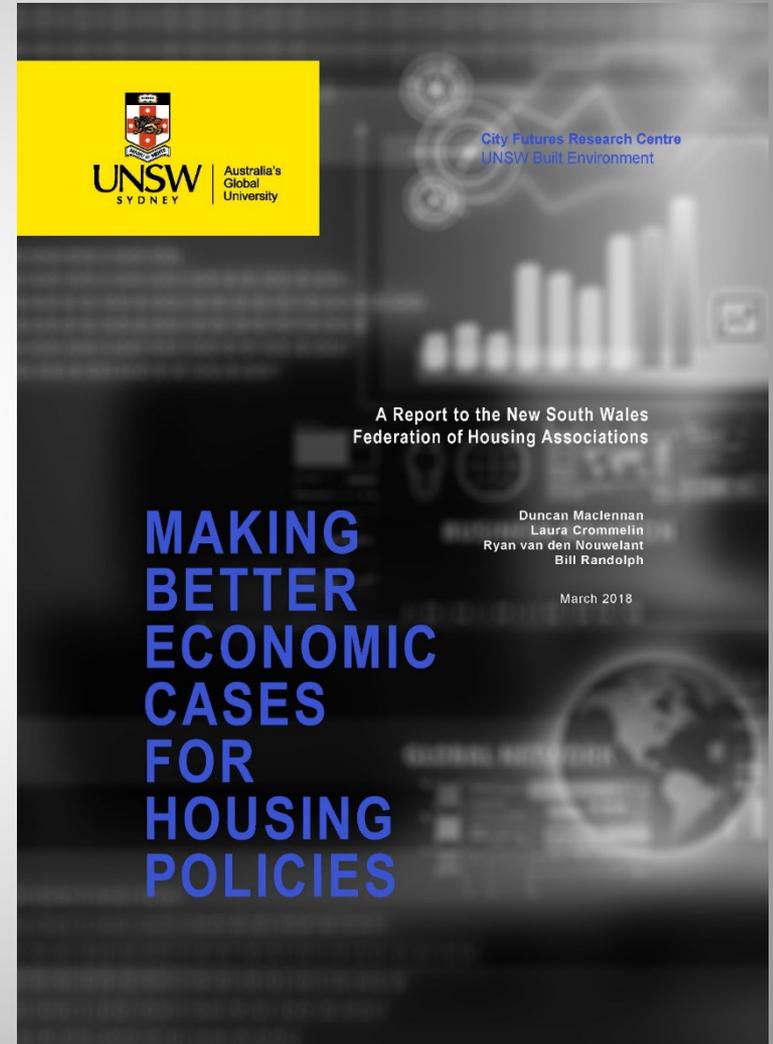
6. *Why does it matter?*

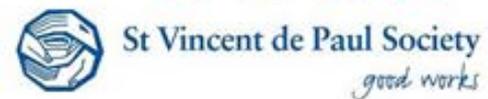
- Economic considerations powerful in policymaking, at least when
 - Seen as technical issues
 - Complex and multi-portfolio
- Change needed in both sectors
 - Housing sector must present more than 'merit' effects
 - Housing & economic policy-makers must look beyond 'Economics 101'

HOUSING IS BACK IN REAL POLITICS



IT SHOULD BE BACK IN REAL
ECONOMICS TOO!





Thank you