The Edges of Ownership
A Behavioural, Financial Paradox

Perspectives from Australia & the UK

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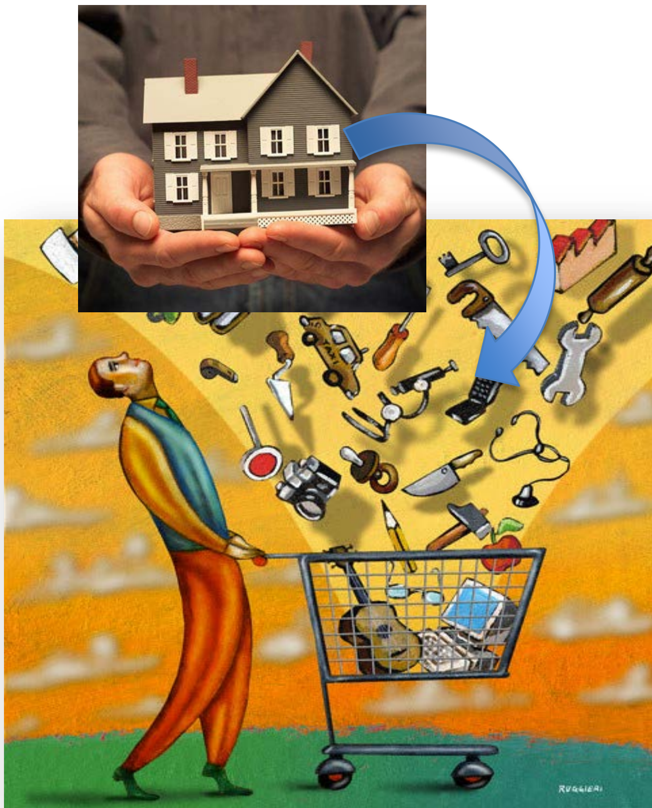
Owner occupation:
A curious centrepiece of modern housing systems



Smith, S. J. (2015) Owner occupation: at home in a spatial, financial paradox. *International Journal of Housing Policy* 15: 61-83

The (financial and ethical) normalisation of home ownership

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- Smith, S. J. (2008) Owner Occupation: Living with a Hybrid of Money and Materials. *Environment and Planning A* 40: 520-535

The (financial and ethical) normalisation of home ownership

- INCOME SMOOTHING across the life course (the social project of home ownership, and the rise of the housing consumer)

- INVESTMENT AND ASSET ACCUMULATION (the neo-liberalisation of the housing economy and the emergence of the investor figure)

- WELFARE SWITCHING (using equity extraction – especially in the form of equity borrowing - to position housing as an asset-based welfare; enter, the actuarial subject/self-insuring citizen)

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Observing the edges: Au; UK

- (Mortgage market) Similarities
  - Relatively complete, reasonably well regulated mortgage markets
  - No longer nationally circumscribed but with imited exposure to the extremes of subprime
  - Success in restoring ‘business as usual’ after the GFC
- (Institutional) Differences
  - Size and function of rented sectors
  - Variable systems of social security
- Some signals about the functioning of housing markets as a whole

Observing the edges: Au; UK

- A balanced panel from BHPS and HILDA to follow 5969 Australian and 5874 British individuals through one or more ownership spells across the decade 2001 – 2010
- Longitudinal data sets: a wealth of socio-economic and demographic variables; can link biographical shifts, life transitions and external shocks to changes in individuals' housing circumstances.
- Similar survey structure/ methods of data collection maximise comparability.

The first surprise…

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Life on the edge: a perspective on precarious home ownership in Australia and the UK

Gavin A. Wood, Susan J. Smith, Melek Cigdem & Rachel Ong

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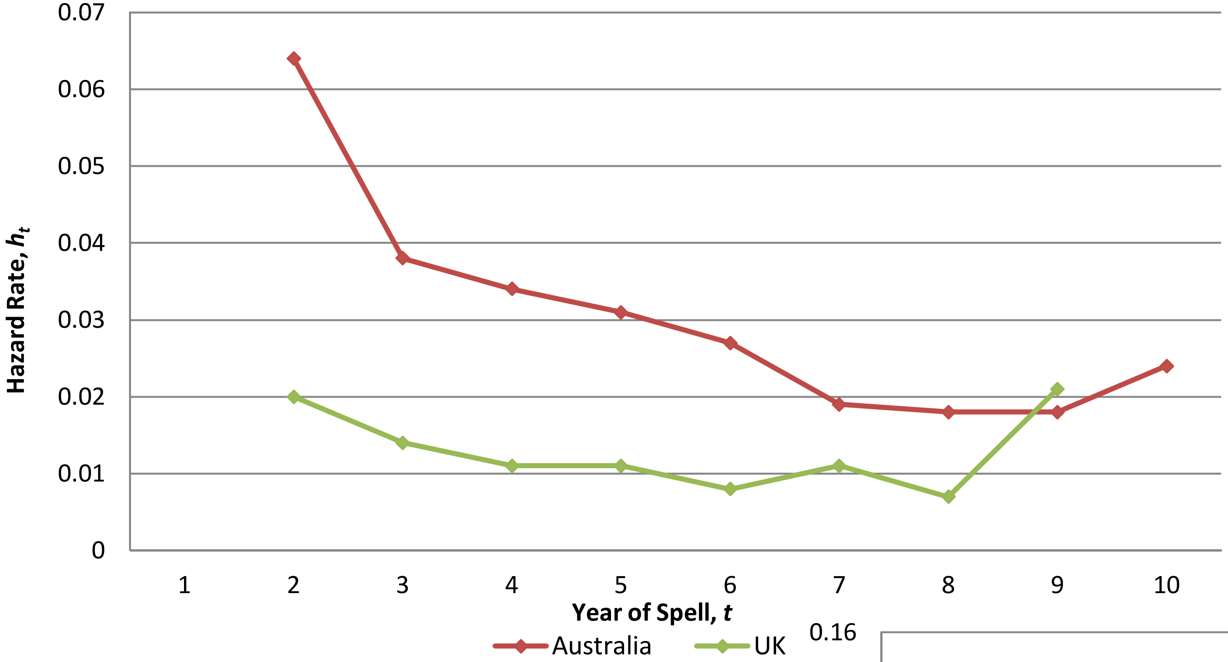
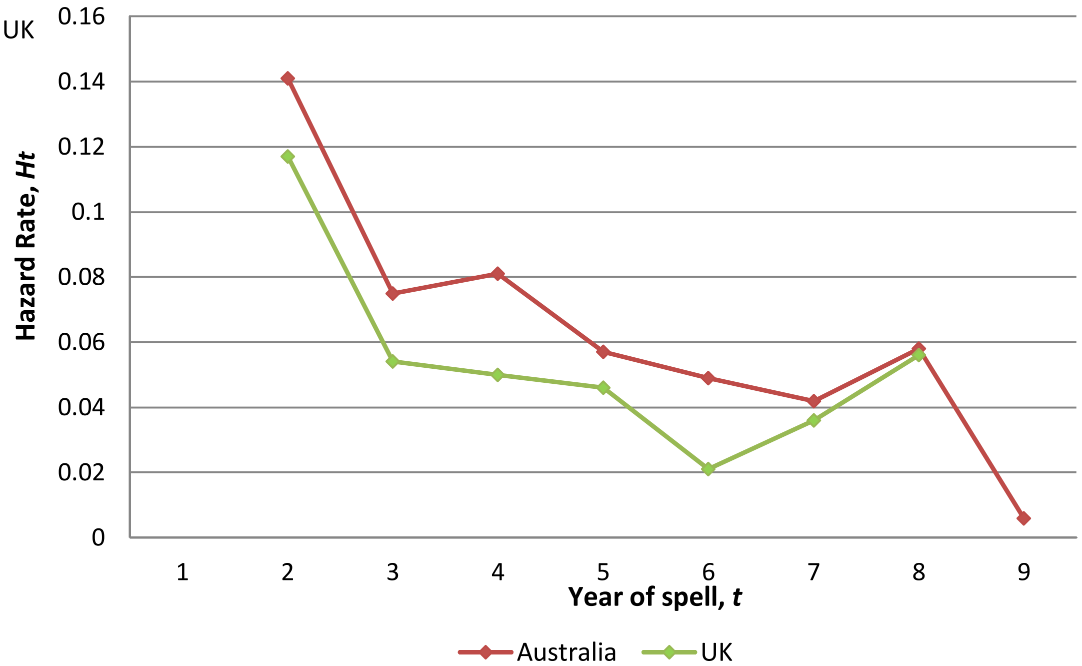
	Owners (to 2010)	Exit
UK	91%	9%
AU	79%	21%

Over the edge…

- 1. The risks of exit (life tables and hazard rates)
- 2. The predictors of exit (discrete-time hazard regression model of the effects of Socio-economic characteristics, personal circumstances and financial behaviours)
- 3. The influence of institutions

Figure 1: Hazard rate, Australia and UK, 2001–10 and 2002-10





Predictors of exit from OO

Modelling exercise (good fit; explains over 2/3 variance in exit data)

- Financial stress: low incomes/ loss of employment
- GFC (calendar year)
- Biographical disruption: relationship breakdown; poor health (especially UK)
- Younger age groups
- Staying power: duration of ownership spell
- Complexities of debt (risks from debt accumulation/high LTV v. protective effects of financial buffering)

But, institutions also matter…

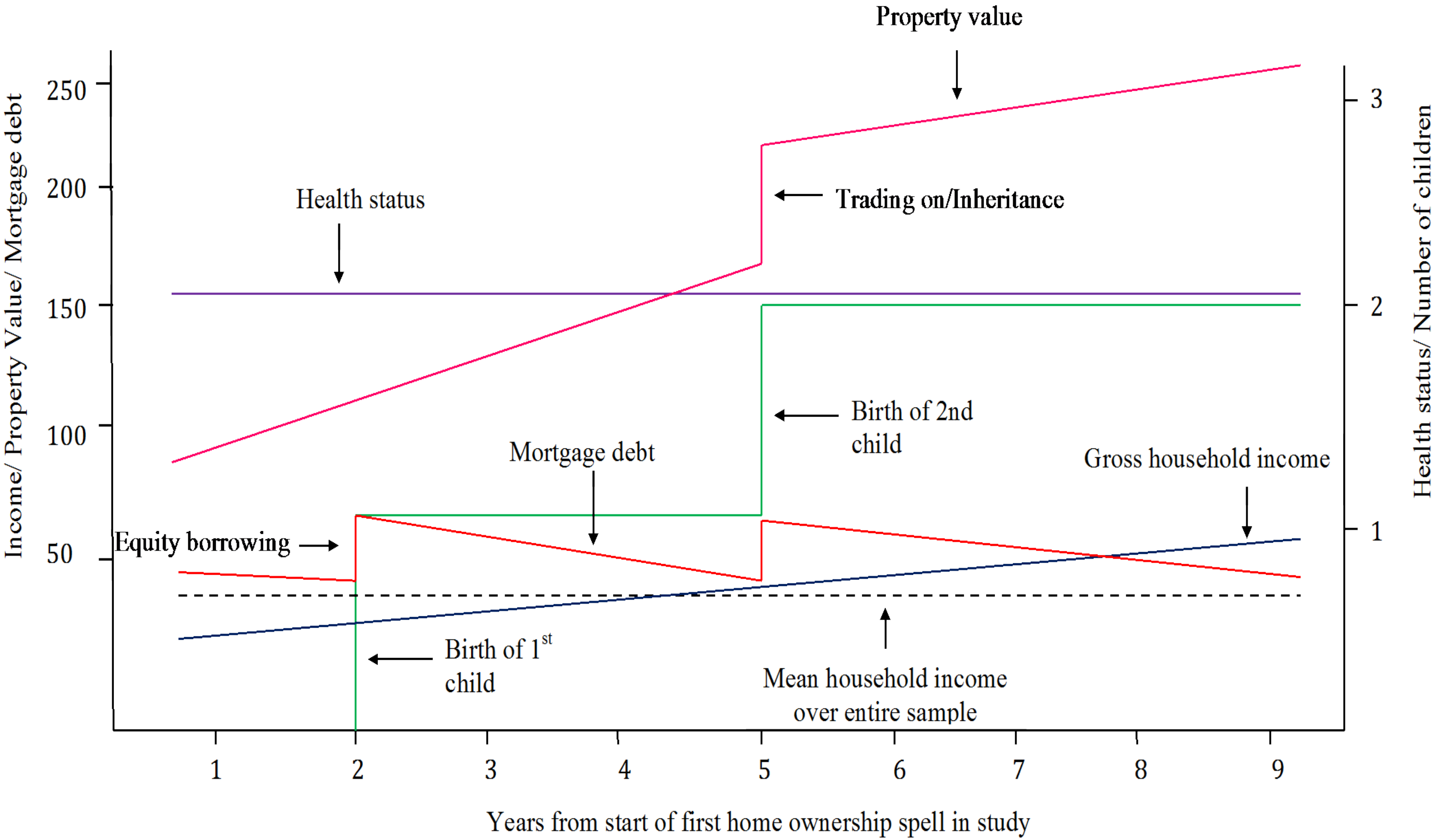
- Country-specific risks of exit are not explained by differences in personal attributes
- Characteristics of rental sector have an effect
  - UK private renting is small and not diverse
  - UK social renting selects for measurable needs (notably through ‘medical priority’)
  - Overall the UK rental sector is less effective than in Au at ‘oiling the wheels’ at the edges of ownership
- Safety nets for mortgagors and lender forebearance enabled UK households to ‘cling on’

A second surprise…

What happens next?

- Among those who drop out of ownership, the majority return: 2/3 Australians, and 1/2 in UK re-enter ownership by 2010 (Churners)
- To identify the drivers of return : a mix of approaches
  - A qualitative impression
  - Another (discrete time hazard) modelling exercise

Ongoing Owner



Predictors of return to OO

- Ability to secure/sustain a mortgage
  - A GFC effect
  - Employment (AU) and Education (UK)
- A lump sum to roll in
  - Equity released on sale of previous property
  - Rent-free period (UK)
- A sustainable alternative (social housing, UK)
- Manageable non-housing costs costs
  - married (Au)/repartnered (UK) (scale economies)
  - dependent children (UK)
  - Better than fair health (Au)
  - Adding a child while renting
- Demographics
  - Older age

What does ‘churning’ achieve?

- On average: Churning is associated with a real increase in home values (median Au$92k; £54k) that exceeds the real change in mortgage debt (median Au$72k, £0)

- An impact on assets and debt relative to other ownership trajectories (Au data only)

What does ‘churning’ achieve?

Impact on assets and debt (AU)

AUSTRALIA	All churner		Leavers		Stayers	
Median Values Irrespective of ownership status	**Total Assets ($’000)**	**Total Debt ($’000)**	**Total Assets ($’000)**	**Total Debt ($’000)**	**Total Assets ($’000)**	**Total Debt ($’000)**
2002	365.8	68.7	270.1	11.2	528.1	11.2
2006	595.1	89.2	355.8	5.6	734.8	19.0
2010	745.5	152.1	178.0	0.0	822.1	19.2
No. of individuals	*776*		*515*		*4678*	

AUSTRALIA	All churner		Leavers		Stayers	
Median Values Conditional on Ownership	**Total Assets ($’000)**	**Total Debt ($’000)**	**Total Assets ($’000)**	**Total Debt ($’000)**	**Total Assets ($’000)**	**Total Debt ($’000)**
2002	443.0	112.5	364.8	59-1	594.1	23.9
2006	633.5	165.6	588.9	111.1	767.2	26.3
2010	812.1	196.3	-	-	822.1	19.2
No. of individuals	*2002, **534**; 2006, **499**; 2010, **649***		*2002, **358**; 2006, **268**; 2010, **0***		*2002, **4135**; 2006, **4439**; 2010, **4678***	

What does ‘churning’ achieve?

- Australia panel shifts (median figures) at a glance:
  - Ongoing owners build assets and contain debt
  - Leavers lose both assets and debt
  - Churners build assets and grow debt
- In ‘fast facts’
  - The median value of Churners’ total assets increase from 1.4x to 4.2x times that of leavers; and from 70% to 90% of those of ongoing owners
  - The median value of Churners’ total debt overall grows from 6.1x to 7.9x that of ongoing owners (measured only when in ownership it grows from 4.7x to 10.2x)

What does ‘churning’ achieve?

- On average: a shift towards more rooms per dwelling (though with a significant proportion in both countries – 18%Au, 29%UK – downsize)
- But note here a Au/Uk divergence.
  - Downsizers Au, disproportionately older, separated, NILF, lower incomes, extracted most equity from previous sale
  - Downsizers, Uk, less obviously older, as well represented as upsizers among marrieds and employeds, have above average incomes, but extracted least equity from previous sale

What does ‘churning’ achieve?

- On average for Au (no UK comparator) a locational premium:
  - A net shift out of the lowest 20% SIEFA index neighbourhoods on all 4 measures of socio-economic disadvantage, economic resources and education/occupation
  - Though most (c. 40%) stay the same, and only a slightly higher proportion improve their position (28-32%) than lose ground (24%)
  - Those moving into higher decile neighbourhoods (measure 1) as likely to lose rooms as those moving to lower deciles

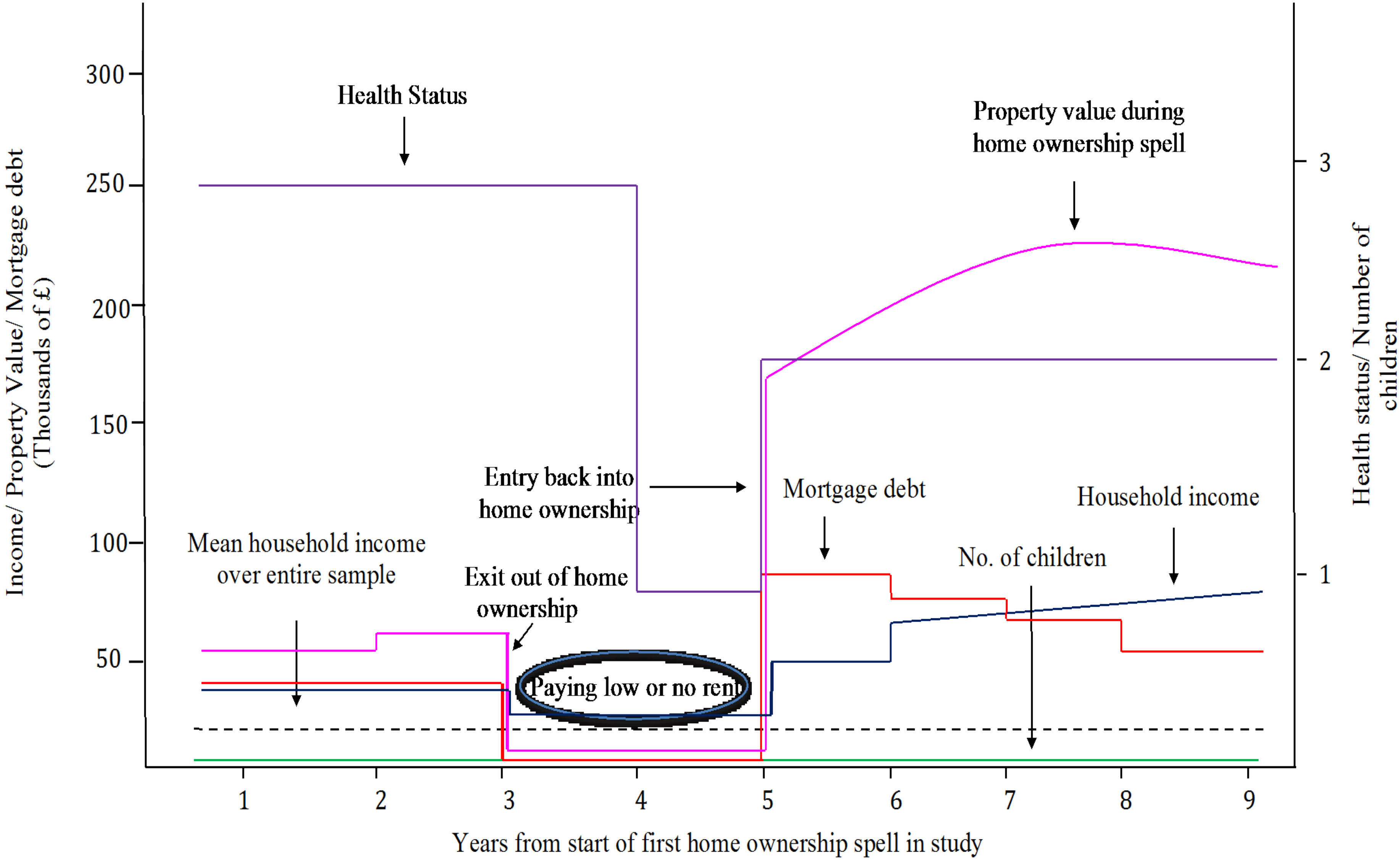
Churning in a nutshell

- Whereas exit was precipitated by financial stress and biographical disruption, re-entry depends on effective stewardship of assets and an appetite for debt
- Churners do better (except perhaps on wellbeing) than lasting leavers, but they do not, on the whole, do as well financially as ongoing owners
- Nor, despite paying more, do they necessarily improve their housing position
  - As many as two-thirds occupy dwellings of a similar or smaller size (number of rooms)
  - A similar proportion moves to a similar or less well-off neighbourhood when they regain owner occupation

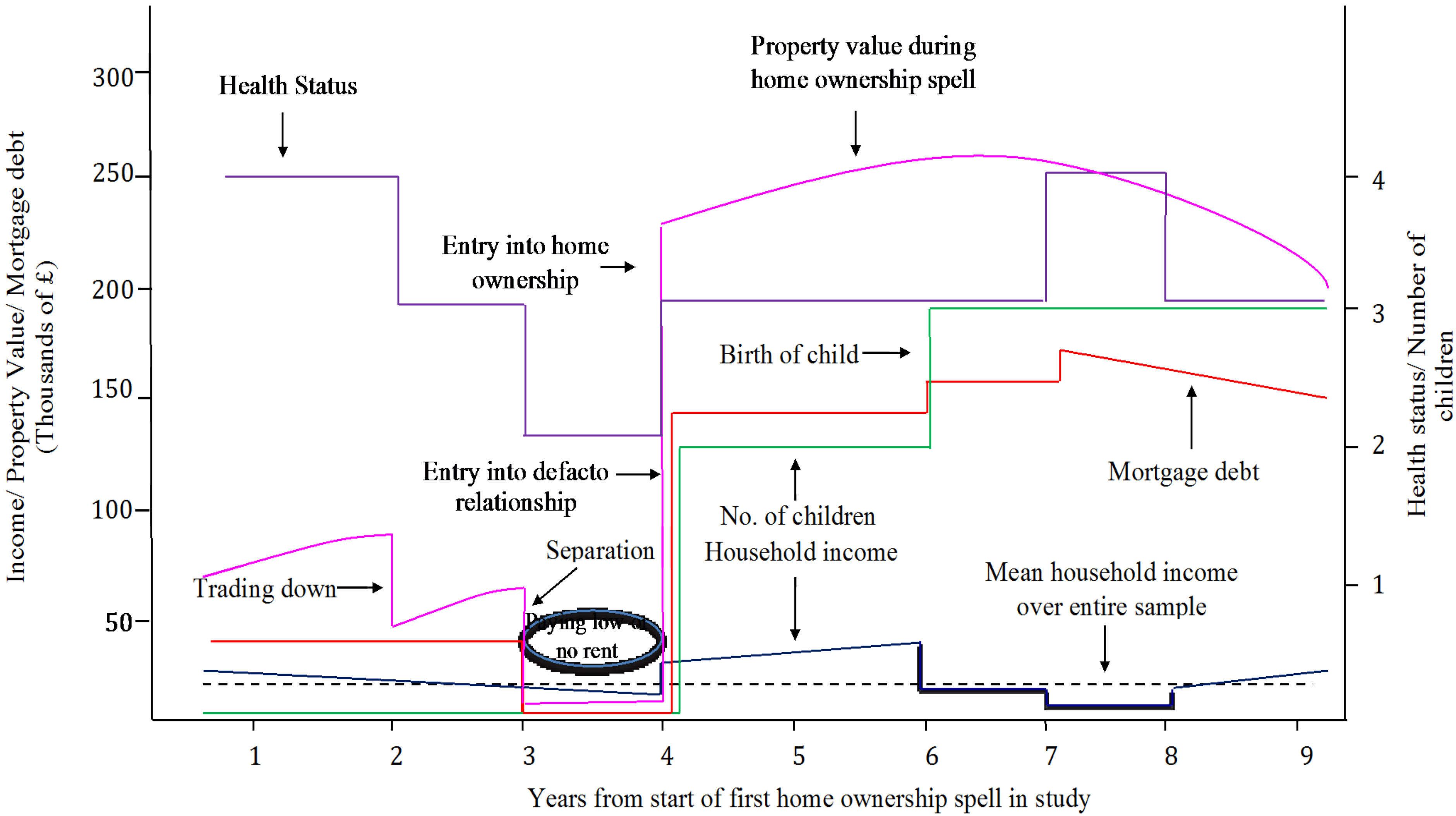
Churning in a nutshell

- Mixed fortunes (at least two Churner types?)
- Geography matters: UK and Australian churners have different characteristics, different equity exchange behaviours, and possibly different housing pathways

Churner Type 1: Possibly transitioning to the mainstream



Churner Type 2: Precarious housing position



Churning: problem or solution?

- Various factors explain why households dip into/out of ownership [pace of market, relocation, financial stress]
- ‘Churn’ offers flexibility to sellers (except in extreme financial stress), buys time for house search, and enable households in temporary financial stress to swap the costs of owning/renting
- Churn might be well suited to housing systems with a large, diverse, well-regulated rental sector; it could be the sign of a well-oiled market
- But transactions costs and other risks (being priced out of market) are high and the gains are uncertain

Some problems at the margins

- Equity borrowing – important for retaining owner occupation, but highly risky way of dipping into housing wealth
- Churning – a way to adjust housing costs to incomes and expenditures, but costly and awkward

Beyond the binary

- Pragmatically, address a gap in the market for personal financial products enabling home occupiers to:
  - Swap the costs of owning and renting without moving
  - Extract housing equity without adding to debt
- This would imply interest in equity finance for housing which would also enable households to
  - Choose ‘less than whole-home’ ownership (more properly invest in less than the whole asset value of one’s home)
  - hold housing wealth indirectly
- It might signal a new style of home occupation
  - In a tenure neutral housing system

Some other reasons for a change

- Housing markets are a source of macro-economic instability; debt financing is implicated in this
- Debt finance is still uncertain
- House prices are likely to rise
  - Affordability will remain an issue
  - it is essential to reduce incentives to excess leverage
- Investment risks in housing markets require better recognition and management (esp. for older people)
- There has been little real innovation in housing finance, including mortgage contract design, over the years

Erasing the Edges of Ownership Resolving a Behavioural, Financial Paradox

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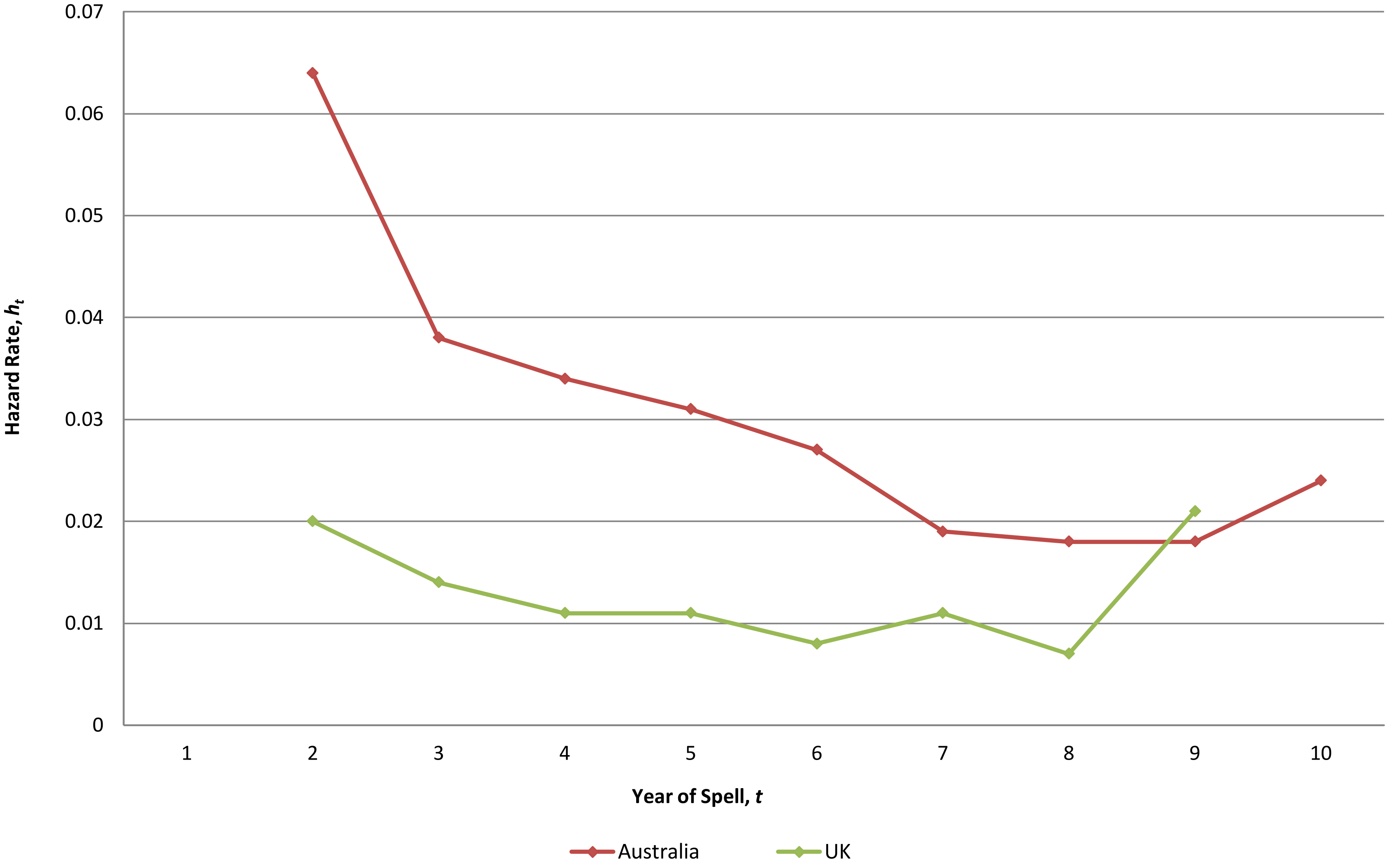

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