Actuaries Institute Podcast
Title: Bubbles, birthrates and booms: a conversation about Australia's housing market

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Interviewer: Chris Davis
Guests: Richard Lyon, Hugh Miller, Anthony Asher
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Chris Davis: **Welcome to the Actuaries Institute Podcast. I'm Senior Content Specialist and your host, Chris Davis. At this year's All-Actuaries Summit speakers dived into the nuances and specifics around some of the biggest challenges we face as an industry and as a society.**

Chris Davis: **Housing affordability and the growing inequality around buying a home was one of those issues and a big topic for some of our speakers at this year's event. But as political decisions, volatile markets and changing social norms influence how we make decisions around housing affordability, the conversation can change dramatically.**

Chris Davis: **For this episode, we gathered some of the key Summit speakers who touched on this topic. My guests include Anthony Asher. Anthony's an actuary and Adjunct Associate Professor at the UNSW Business school. Anthony is currently a member of the Actuaries Institute Board and the Retirement Strategy Group and Convenor of the Retirement Incomes Working Group. Anthony spoke on a range of topics at the Summit, but had a focus on the societal impacts of high housing affordability in Australia.**

Chris Davis: **I also have Hugh Miller. Hugh is a principal at Taylor Fry, where he has worked for 15 years. Over the past five years, he has been working almost exclusively in government analytics, modeling in sectors such as welfare, housing, homelessness, disability, and suicide prevention.**

Chris Davis: **He holds PhD in statistics has a keen interest in actuarial research. Is part of the institute's Public Policy Council Committee, and is also Data Analytics Editor of the Institute's magazine, Actuaries Digital. Hugh spoke on the growing and significant issues of homelessness in Australia at the Summit.**

Chris Davis: **And finally rounding out the team for today's discussion is Richard Lyon. Richard is a recently retired actuary with more than 40 years actuarial practice under his belt, mostly in life insurance. He's co-editor and co-author of a textbook that teaches students about the actuarial approach to problems. Richard has served on Institute's council and on many of its committees, task forces and working groups.**

Chris Davis: Richard spoke on the great housing bubble, where he revisited his long-term predictor and tests his bubble theory, exploring those implications. We had a great conversation that touched on many issues, including the current housing situation affordability among younger generation, flow-on effects, such as lower fertility rates and homelessness, shifts and sentiment across industries, possible solutions to relieve affordability stress, and much, much more. And with that, I'll leave you to our conversation.

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Chris Davis: Thank you everyone for joining me today. So, as I mentioned, we've got three powerhouse guests today talking about housing affordability, generation inequity and a whole range of issues surrounding these big, big topics that's currently being discussed almost on a daily basis.

Chris Davis: So, before we get started, I just want to just go around the room, just so everyone introduces themselves and lets us know the sound of your voice. So, I might start with you Anthony.

Anthony Asher: Right. Okay. I'm Anthony Asher. I'm Adjunct Associate Professor at University of New South Wales. And so the various bits of research. And housing affordability and the House Means Test, has come up time and time again. Just recently I did a presentation to the Summit on modern monetary theory, where the theorists have some suggestions as how to manage inflation and house price inflation.

Chris Davis: Well, we'll go to Hugh there.

Hugh Miller: Hello Chris, thanks for having me. My name's Hugh Miller, I'm Principal at Taylor Fry. Working mainly in the government space. So I do a lot of analysis of data sets. And one of the things I worked on a couple years ago was the Intergenerational Equity Index.

Chris Davis: And lucky last, Richard.

Richard Lyon: Hi Chris. Yeah, Richard Lyon. I recently retired from 40 years, also mostly in life insurance, most recently with TAL. I'm busy forgetting how to spell AASB 17. And concentrating on other more interesting things, including housing, which I've written about on and off for a few years. And Intergenerational Equity, which I've also written about a little bit in the past.

Chris Davis: Excellent. So, as I mentioned at the top of the show, we're going to talk about a whole bunch of things, but we're going to really touch on some of the things that everyone here talked about at the All-Actuaries Summit. Not too long ago actually, a few weeks ago now.

Chris Davis: But I think this is a good opportunity for us to get a bit deeper and also maybe even explore some issues that you may or not have touched on during the Summit. But let's just jump right in. I'll start with you Richard. And I've written in

the question, it's a simple one. But I don't think it really is a simple question. But I would like to know your take on the current situation in the housing market at the moment? You had a great session on the great housing bubble at the Summit. Is it going to burst or are we going to boom? Is it a simple question or is it a complex question? Let just start there.

Richard Lyon: Okay. Chris, at heart it's simple. At heart it's simple. In the long run house prices are determined by what we can afford to spend on servicing a mortgage. So when average earnings increase, so do house prices. And when mortgage rates fall, that increases the amount that we can borrow for the same repayment. And so house prices go up.

Richard Lyon: And those are the two most powerful, long-term drivers of house prices. Although we've also seen a shift to using two incomes, we've seen persistent improvement in housing quality. And housing has for owner occupiers in particular, has major tax advantages.

Richard Lyon: When we adjust house prices for those major drivers, earnings and interest rates and we allow for a residual long-term trend, which is about 1.3% per annum, we can see that current prices are high, but they're not in bubble territory. We've had a bubble in the past, but this is not it. So they're not that much higher than can be explained by those long-term drivers and the trend. And all of that is simply around what you can buy with the money that you have.

Richard Lyon: Having said that, there are short-term deviations from the trend. And as I've said, we've had a bubble in the past. That means a bigger short-term deviation than we see at the moment. And that bubble, that big bubble, was in the 1980s. You can't see it in the nominal prices, because of other movements, but it was there. And there was also a smaller bubble around the GFC. And from city to city, other different peaks and bubbles.

Richard Lyon: Right now, we're a little bit high, but that's all at the moment, in terms of bubbles, booms and so on. You can't see that simple picture, partly because of how earnings have moved, partly because of how interest rates have moved. And also when you think about housing, you think about what something cost 10, 20, 50 years ago. What did my parents pay for the place that they bought, compared what they'd have to pay now?

Richard Lyon: And that's the power of compounding. It's very difficult to compare numbers when they're growing at a compound rate. But inflation and certainly wage inflation is a good deal higher historically than right now. And so the kind of percentages that you'd compare with are different. And low interest rates in recent times, not only have pushed house prices up, but they've also made it hard for non-owners to save a deposit. And so the affordability question is in sharper focus now than it might otherwise have been.

Richard Lyon: So pretty simple, that it's about what you can buy with the money that you've got. Pretty complex in that it's very hard to disentangle that picture with its short-term movements from all the noise that's around.

Chris Davis: Yeah. That's very key, isn't it? I think that phrase there tangled, I think it does get tangled up in a lot of other discussions. And particularly as I mentioned, generational inequality and Hugh, that was something that you were talking about at the Summit or touching on. What do you think, is there a real serious problem with housing affordability for young people? That might be an obvious question, but how do you see it?

Hugh Miller: When we were thinking about housing affordability, when we were building up the Intergenerational Equity Index, in some ways it is quite hard to define, and a lot of those reasons are the ones that we've articulated. So interest rates have moved. There are more people with dual incomes these days, are changes in housing quality and so forth.

Hugh Miller: But when it comes down to it, we thought that the simplest definition was basically looking at the rates of home ownership. So assuming people want to own a home at roughly the same rates that they used to, we can actually just track that trend over time and try and understand what that says. And when we look at that, we see something what I think is fairly remarkable, which is that the proportion of younger people and young, I'm talking about the age band, 25 to 34.

Hugh Miller: So, the proportion of those people who own a home has fallen from about half of them. So 51% to just over a third, 37%. And that's happened over a 20 year period. So that's a 14% or 15% point drop in a couple of decades, which I think is quite a big change. And that's something that's effectively then going to wash through to old age groups yet.

Hugh Miller: So, we haven't seen that fall for older age groups. So if you look at the people who are age 65 to 74, you still have very high rates of home ownership there. And that'll have quite profound implications, I think. And one of those reasons is that the way we have set up our economy and our tax systems, our welfare systems, it is definitely advantageous to own a house.

Hugh Miller: And when you think about poverty rates, for instance, poverty rates tend to be higher, quite high for those who are aged pensioners, who don't own a house. So if they're renting, a large portion of their income actually goes towards paying rent or board.

Hugh Miller: So, I think that there is an affordability problem there, because I do take the view that there would be more younger people in the housing bucket, could they afford it. And so then it becomes that question, how you untangle the factors and whether there are obvious solutions that you can attack, on at the end.

Chris Davis: And very much, there's a flow-on effects, right? Anthony, you touched on this at the Summit as well. Some of the societal impacts, particularly on fertility rates, right? There is a link there, higher house prices mean generally people put off having kids and also have at the moment climbing interest rates impacting those who already own. And then you have created a class of older landlords, that's right. Where does this all lead, do you think?

Anthony Asher: Who knows. Okay. I think the question is, what's a fair price? And how do we anchor it? Because it's really very difficult. So the one view, ancient view on what makes price fair, is that the free market, winning buyers and winning sellers, whatever the price is, is fair. Because you're not compelling anyone.

Anthony Asher: What that leaves unsaid, is that the markets... It's a free market, is a construct. We make a market free, or we make it not free. It's the rules of the road, rules of the game, when people interact with each other. So the question is, is the market for housing free or to what extent is it free? And clearly housing is very different from any other good, not at least the buyers have no choice. You've got to either buy a house or rent it, otherwise... Well, you've got to live somewhere and that's unique for any particular good.

Anthony Asher: And the other point, is supply's fixed. So those who own the houses can actually... Or own the land. And I think this is where perhaps we've discussed with Richard, the extent to which land prices should be trending upwards. And it's not the price of the houses so much as the price of the land that's gone up. So land now costs $2,000 on the square meter in parts of Sydney, which is more than the price of building a square meter property. It's gone up dramatically and unfortunately.

Anthony Asher: So where do you set it? So it seems to me that what you want is a situation where individuals can if they want, buy a house out of their earning income or buy the land and the house out of their earned income. So if you say, well, you're going to pay 25% of your income over 30 years, and that would give a ratio of about four and half times your annual income.

Anthony Asher: So if you say, well, okay, two earners. We're going to put two earners to work for 30 years and pay 25% of their income. That means that houses should not exceed nine times the average income. Well, the house should not exceed nine times the income. So the average house, the average income, the lowest house, the lowest income, so on.

Anthony Asher: And now that, the average income in Australia can be 60,000 a year, 80,000 a year, which would perhaps put prices between $500,000 and $700,000. And they currently price that. And then you've got to say for single people, it's only four and a half times the annual income. So you should be able to get into an apartment for half that price, $250,000 $300,000.

Anthony Asher: That's where it ought to be, if each generation can afford to purchase their house from the previous generation. Otherwise, you're only going to get into a home when you inherit it. And of course, what happens there is that the grandparents die at 90 and pass their house onto the 60 year olds who only 30 years later pass it on this year's 30 year olds where they're too old to really benefit.

Anthony Asher: So in fact what happens is that young families with children can't afford to have severely pressured house price, in terms of how much they got to spend on their homes. And that has an impact on fertility. It has huge stresses and divorce and family violence and all these other things also occur. And there's homelessness, which Hugh's been measuring. But fertility is a very objective measure, and that is highly correlated with these crisis.

Chris Davis: We're already just scratching the surface really 10 minutes in. But already there are so many nuances to this discussion. But you have... And I'm no expert by any means. I'm just here to facilitate. But doing a bit of my research around the topic, you do see very influential people. And I won't name names, but you do see gurus and people who are in that space saying doom and gloom things like the market and the crash and bubble burst. Richard, do you think there's a shift in the sentiment among industries and some of these people, that this is an inevitable thing happening?

Richard Lyon: Well, let me take you back to my view of how the price is sustained. So what happens to house prices in general depends on what happens to the underlying long-term trend. And I'll call that the trend value if you like. And it also depends on the short-term movement relative to that trend.

Richard Lyon: So increases in interest rates reduce the trend value, unless they're offset by growth in wages. And if the financial market is right about where interest rates are headed, interest rates will rise quite a lot and do so quite quickly. And what that will do if it happens, is it will depress the trend value, that long-term trend value, and might do so by the 20% plus that gets talked about around the rates.

Richard Lyon: Of course that might not happen, in that it's not an outcome I would've thought that the RBA actually wants. And the RBA sets interest rates. So the market might be talking interest rates moving at a certain speed to a certain level, that doesn't mean that's what they're going to do. But let's suppose that they do, do that. It is also a much higher fall in nominal house prices. So the dollar price for a house, it's a much higher fall than we've ever seen. We've seen 10% or just under 10%, is the most from high to low. We haven't seen that 20% type fall. Doesn't mean it can't happen It just means it's not something we've seen.

Richard Lyon: But even if we do get a large fall in the trend value, we still have to consider what happens to short-term movement relative to that trend value. So for example, to the extent that owners can afford their mortgage repayments, which means they don't actually have to sell the property. And when unemployment is low, that will generally be the case. Individual situations will vary, but generally across the market you would expect with low unemployment, that mortgage payments can be afforded even at the higher rate.

Richard Lyon: Then if that's the case, then there's no pressure to sell. And if there's no pressure to sell, then some of the supply that would normally be there will be withdrawn from the market. People will say, I'm not selling at this price. And as listings dry up competition among those who still need to buy for whatever reason, will provide a measure of support for prices. So, that's a natural thing that happens. But it doesn't mean it will happen this time. It's just one of those things that can happen.

Richard Lyon: So yes, interest rates are rising, prices will fall unless we get a real breakout in earnings or a major short-term movement against that. It seems unlikely, seems likely that prices will fall. In fact, it's already happening. Today's news says that. And in fact, it's happening sooner than it should be for the long-term trend, because there should be a time lag. So the interest rate rises that have happened recently, shouldn't yet be in the price that they're coming through, because of sentiment and people's awareness of where things are headed. And that's just an example of how the short-term moves slightly differently from the long-term.

Richard Lyon: So, yes, interest rates are rising, prices will fall. It's not clear how far they'll fall. I'm not in a position where I have to sell my property. So if it fell by 20%, it wouldn't hurt me. And it would mean my children could buy at a lower price. So I'd probably be quite happy from that point of view. But it wouldn't be a comfortable environment to live in. So I suppose my summary would be, that it's not clear that this what I would call a not yet bubble will actually burst rather than deflate a bit.

Hugh Miller: Just building on what Richard said, I think that the interest rate cycle that we're seeing now with increases, will be quite interesting to see where it lands. One thing that I think is there, there's some evidence that the neutral interest rate has been falling over time. Which basically means there are structural reasons why interest rates won't go as high as they have in the past.

Hugh Miller: And one of the consequences of that is that it ratchets up the average housing price to a level that would be higher than if interest rates return back to levels that we used to see. And so there's a few factors driving that, but certainly one of this is that the reserve bank is presumably a lot less tolerant of a 20% decrease in housing prices compared to a 20% increase.

Chris Davis: Absolutely. And I guess in this environment where there's like so much uncertainty, there are a few things that we are certain of, and that is that widening gap particularly between buyers, young people who want to get into the market. And then majority of those product providers, owners, who aren't in that same demographic. And this is something, again, you touched on Anthony. That probably leads to not only a generational gap in terms of demographics,

but also it leads to owners or product providers not understanding the drivers or some of the younger people who are wanting to get into the market.

Chris Davis: So why do you think this is an issue, along with the baggage that comes with that generational gap?

Anthony Asher: So Chris, sorry, can I just slightly backtrack and then come forward over. I bought a house in Johannesburg five kilometers from the CBD, half an acre, build brick, tennis court, swimming pool, for $200,000 in 1990, and sold it for $70,000 in 2002. So it was cheap in 1990. It was ridiculously cheap in 2002. So prices can come down. And they can come down dramatically.

Anthony Asher: But closest equivalent that we've got to consider, I think, is Finland in the early '90s, where after the collapse of the economy in the Soviet Union, Finland was a neighbor to the Soviet Union, prices dropped by half. And we are actually not in a vastly different position relative to China. So China takes all our iron and half our coal and whatnot, but if the Chinese economy drops and our economy gets into trouble the RBA's ability to monitor, keep things stable, may disappear. So things could really get bad.

Anthony Asher: Now, I don't want to say, well, they might. But just to be aware that these things cannot be controlled. And Richard has been very clear that in fact you can't control them. And there is a tendency to overshoot. So we've got an issue. It seems to me that we have an issue of inflation. And in fact, it arises, not just house price inflation, but across the board. But it's particularly manifest in house prices and cost of construction.

Anthony Asher: And they come from two... Well, the inflation comes from two particular issues, COVID related issues, lower interest rates, very low interest rates, and priming. So the government put a whole lot of money in concessions and all sorts of stuff into house construction. Housing approvals doubled in 2021, I think, '22, '21. Huge amount of money there. So the builders are totally busy. And unfortunately they then get fixed prices and they're getting bankrupt, because they can't work because of the rain and all sorts of problems.

Anthony Asher: Anyway, that's all interesting, but now we've got the situation, we've got inflation and the causes of inflation are low interest rates and excessive government spending in a particular area. So it seems to me that we've got two options really to address this. The one is to raise interest rates. And the other one is to reduce the priming, the extra government spending in these areas. Now, what I got from a monetary theorists, was the suggestion that you actually could tax unrealised capital gains and that was a way of reducing demand in particular areas.

Anthony Asher: And it seems to me that those are the issues, the possibilities we face. Currently what's happening is the Reserve Bank is going to raise interest rates, that has a really negative impact on those poor sods who've borrowed a lot of money in the last five years. They're going to not only have negative... They're going to have to pay much more in terms of their mortgages. They're going to have a good chance that they lose their jobs. They'll lose their house and lose a huge amount of money.

Anthony Asher: And we say to them, oh, they shouldn't have borrowed as much. Yah, yah. We encourage them to borrow. We wanted them to borrow to keep the economy up and now they're going to be punished and we'll say, it's your fault. So those are the folks that I think we've got to be really sensitive about. So we have two options, push the interest rates up or tax the capital gains. If we tax the capital gains... I'm thinking particularly the landlords. I don't think we have to go to taxing the capital gains of owner occupiers.

Anthony Asher: I think there's probably a trillion or more dollars out there of unrealised capital gain that investors have. They're going to have to pay 15% tax on it, capital gains tax, between 15% and 22% and a half or whatever it is, at some point. Government could bring forward some of that tax. If they make a loss for the future, you can just deduct the tax they've paid from the loss.

Anthony Asher: But basically it seems to me that would force some of them to sell and bring the prices down. So reduce the inflationary pressures in this area. And we could do that and not have to increase interest rates so much. So, although it would cost the people that have bought recently, they would lose money in terms of lower house prices. At least they wouldn't be paying excessive mortgage payments. It seems to me a no-brainer, actually. It's the way to go. And we could balance the budget this way. 2% or 3% would raise enough money to balance the budget in a year or two.

Chris Davis: Mm-hmm. I know I'm probably going into speculation, but do you have any ideas about why we haven't pursued that idea or why government hasn't really brought that up? I've might have missed that actually, but is that something that someone's investigating or...

Richard Lyon: The sort of thing that Humphrey would've called brave.

Anthony Asher: I think that's right. The modern monetary theorists have been painted as extremists, mavericks, radicals, and they are to the extent. To those who said, look, government deficits don't matter, you can just spend what you like. I think clearly are mavericks. And the general response to them is look, that's true, but not in the long-run.

Anthony Asher: But the more sensible ones, that's basically said, look prime when you can and target your priming. But when you have to withdraw money, tax what you have to tax and target your taxing, so that it keeps the prices down in areas where there are demand pressures. So I don't think it's been really considered, I haven't seen it debated anywhere in the newspapers or not even much in the literature, academic literature.

Chris Davis: Is that an opportunity for actuaries and other people in this industry? Is that something we can push more?

Anthony Asher: I'm wanting to, that's why I'm in this interview.

Chris Davis: Oh. There you go. I'll cut this as a great clip. I went to your session at the Summit and again, not an expert, but you sound very compelling. That does seem like something that we should be investigating, particularly actuaries.

Chris Davis: Great. So I just back to the younger generation, because again that's something that is wrapped up pretty intrinsically in this discussion, right? And it's definitely a topic that you're very passionate about Hugh, and particularly around the homelessness situation. But I think you were telling me, I think you were looking at researchers, I think two out of three Australians believe the younger generation have a tough time saving and buying for a home.

Chris Davis: And so with these kind of debates in the public sphere, everyone agrees that there's a problem, more so than things like climate change. We do have some sort of agreement here. But surely if we've got agreement, we can solve it, right? It's there, we're all on the same page. Why aren't we doing something about it?

Hugh Miller: Yeah. Unfortunately, a lot of the solutions are either expensive or painful, is the short answer. And I guess that's one reason why we've seen similar problems in other countries as well.

Hugh Miller: So if you go across to New Zealand, Auckland has very high house prices and a lot of banks about that. A lot of Canadian cities and some US cities similarly have very high prices. And they're struggling to think about right ways of doing that. In addition to the types of solutions Anthony's talked about, there are various other tools or ideas out there that have been floating about for a while.

Hugh Miller: The most obvious one is just increasing the supply of housing. And that's a very tough one because the place where people want to live isn't necessarily the place where existing residents want to have lots of apartments go up or more dense housing. And so getting that right is tough work. But there's certainly been some effort to do that over time.

Hugh Miller: Something like swapping stamp duty out for land tax tends to be a favor among economist, as being more efficient. But one thing it should do as well, is it should mean that there's less of a tax on moving. So if older people are in a bigger house and are genuinely happy to move to a new, smaller luxury accommodation somewhere, that ability to right size is less costly for them. And so that's one thing that can sometimes help.

Hugh Miller: On the social support side. I think what we have seen in social housing is that, that used to be the safety net in housing. And what we've seen in Australia is that the supply of social housing has not kept track with the population growth. So most of our stock was built in the '50s and '60s, and that really hasn't really been expanded upon or redeveloped in a big way over time.

Hugh Miller: And so that means that social housing doesn't quite have that same safety net feature and waiting very long, particularly for people with moderate needs as opposed to urgent needs. And developing out that stock these days is very expensive. And finally rent assistance is another one where that tends to get indexed to CPI. And so over time, Commonwealth Rent Assistance has not actually kept pace with what rent had done.

Hugh Miller: Which means that for people who are on lower incomes or on income support, the fraction of market rent that, that rent assistance actually covers has shrunk a fair bit over time. So solving all of those things, as you might guess, is actually either painful for a lot of people or quite expensive for the budget. And that's one of the reasons why, I guess, that we haven't really been able to nail it down to date.

Chris Davis: Yeah, it's very complex. This is very much a joke question, but I got to ask it, do we all just have to live in Airbnbs, owned by Russian oligarchs? Is that a solution?

Hugh Miller: If the market is correct, I'd say, it is.

Anthony Asher: I was talking to Tan Suee Chieh from Singapore this morning and asked about what the Singaporeans have done, and the two things that Hugh mentioned, one is they put a lot of money into social housing. And it's high quality stuff. He says, the social housing flats are already good. They've got nice... Putting money into new lifts and keeping them well painted, et cetera.

Anthony Asher: So there's that, and then huge sales tax on investment properties, 40%. So you just push the tax up until the prices come down. That's the way to do it. So, I think they're interested because they've really got a land shortage. Prices in Singapore should be short, not in Australia where we've got so much land, we don't know what to do with it.

Anthony Asher: I think in Canada they've also taken, they've put quite a high land tax on. So they've also addressed the issue. We haven't. One of the reasons they say is that too many of our politicians have investment properties, which I think should shame them. And hopefully... I think that's part of the issue, is to reframe the debate, to say in fact, to actually point out two out of three people actually think it's a good idea. For the politicians to think of themselves is a shameful thing. It's putting a huge burden on the really poor, the homeless and the young children. Let's do something. Let's be proactive, take control of our destiny, instead of making it appear that nothing can happen.

Chris Davis: That segue is nice into the next question about, do we have to change our attitudes towards home ownership? And it's probably a question or even an ideal that young people probably get prickly about, because it's going... Well, we just have to rethink about how we want to own a home in the future.

Chris Davis: **Richard, I might get you on this one. Do you think we just have to get real? Is this something that is outdated now, owning a home? Is that going to be an outdated concept?**

Richard Lyon: I don't know. I don't know what people are going to think next week, let alone next year, next century. One of the things that has struck me around all of this discussion is that in the end, the solutions are around making home ownership, whether it be your first, your primary residents or second homes that are investment properties, doesn't really matter. Making that less attractive, because basically that's what reduces the demand to spend so much on them.

Richard Lyon: And the sad thing is that in itself feels like beating up the younger generation yet again. When they finally do get to buy it's not going to earn the returns that their parents and grandparents got. And it's unfortunate, but it's true. If you just think about my long-term model, if interest rates have really got nowhere to go but up, even if there's a relatively low neutral rate in the short-term, that may well not be the neutral rate going forward. And the only reason why it would be the neutral rate, would be because wage inflation is not higher.

Richard Lyon: So that's going to mean that prices, even if they don't come back too far, they're not going to go up very much in future, not at the rates that history has seen. And that's what might otherwise be a sensible idea from a point of view of housing, might be not a sensible idea for other reasons, but what might be a sensible idea from point of view of getting people into housing, namely, use your super there first and then put it back in later when your house has gained lots of value.

Richard Lyon: That's not necessarily such a good idea if house prices don't have such a good runway going forward. And we just don't know what that would be. So it's very easy to see that these proposals tip people into worse situations. I think what Anthony talked about, we've persuaded people to buy houses at very low interest rates. And now we're going to pull the rug out from under them by raising those rates, which we knew was going to happen. But they were doing their bit for the economy, when we needed money being spent.

Richard Lyon: This is just part of the cycle that happens. What we don't know is where normal sits. And we don't know where we are in that cycle, how long it'll take to get back to whatever normal is. And anyway, by the time we get there, what's a typical person's life going to look like? Are they actually going... Is it going to be appropriate for them to live in the same place in the same city? Or are they going to need to be able to move every few years, just work from home, make owning a house an easier burden, because you can move jobs without moving house, or does it make it somehow harder or are there other things that make that harder?

Richard Lyon: Certainly as population increases, if all the houses or the homes that we release, whether that's houses or apartments, if they're mostly in the cities, it doesn't feel like that's going to make things better. Doesn't really matter, we've got a huge country, if we're only using a tiny part of it to live in. So how do you encourage people to move to regional centers in a world in which you know, that the only real prospect you have of decent house price inflation is buying a house in a city.

Chris Davis: There's obviously a lot of emotions that surround it as well. And, same question to Hugh. You are looking at it from the different lens, but particularly from the homeless and younger generational lens. The people who are doing it the toughest, it's hard to go, this is going to be a pipe dream. That's not something that you can probably aspire to. What do you think about that?

Hugh Miller: Yeah. It's interesting, because if we say we need to unhook ourselves from the Australian dream of owning a home, being a default, in some ways that's fine, because there are lots of other countries where renting is much more normal for long patches of life.

Hugh Miller: But if you are going to go down that path, you can't just tell young people that and leave it there. There actually needs to be a whole bunch of things you need to change. And one of those things is better protections for tenants in rental properties. And so longer term tendencies and protections around that to make the experience of renting a more joyful experience. It's not always the most joyful and similarly, the way we treat rules around home ownership.

Hugh Miller: So, that idea of allowing people to be capital gains tax-free on their primary residence. That is something that obviously advantages homeowners, disadvantages people who are putting savings in other vehicles. And so thinking about how to make that a little bit fairer, I assume would be important. And when we get up to something like the age pension, you are probably better off on the assets test, if you own a home, than if you don't. And so there are lots of things in the way we've set up the rules, that we would have to change if we were actually going to, I guess try and encourage people away from home ownership.

Hugh Miller: But that said, there's a lot we can do on the home ownership side too. And certainly I agree with Richard's comments, that we live in a country that has a huge amount of land and somehow we've managed to have two thirds of our population live in eight capital cities. So, there must be something we can do around that question of how we encourage regional expansion development as well.

Chris Davis: Again, there's so many nuances to this discussion. We've jumped around, but I feel you probably can't talk about one thing without mentioning something else. And just a couple more questions to round off this discussion.

Chris Davis: And I did touch on this earlier, around one particular point, but I think overall, and this is a question for everybody, but I'll start with Anthony. Do actuaries play a critical role in solving some of these issues that we've discussed today?

Anthony Asher: No. I think [inaudible 00:44:21].

Chris Davis: That's not the answer I'm looking for.

Anthony Asher: It's not our central job, but where we do make an input, we have been saying things. So for instance, in the super space, the retirement space, we've been saying for some time, quite strongly, that the houses should be included in the asset test, which would make it less attractive for our 90 year olds to be living in the bottom, in the one bedroom downstairs and the top stairs rotting around them.

Anthony Asher: And that's quite common. And we're quite strong about that. It really unfair for a lady, a pensioner in a $5 million house to be drawing the full pension when their neighbors with five children in an apartment are paying her tax. So we've been saying that, and we're saying it a lot. We've also been saying as Hugh, that the rental assistance needs to go up, because there's poverty there. So, I think that's really important.

Anthony Asher: Hugh's work on both homelessness and on the Intergenerational Report is to say, look, these are problems. It's really good that we're doing the analysis around that. I think also in terms of financial planning, Richard has alluded to that. It does make sense if house price, it houses are a reasonable investment, to take the money out of your super initially and get in there, because it's so much better off. And actuaries do have a role there as well.

Anthony Asher: So a number of different places, I think we have already influenced the debate. But we're not economists. And we're not... We are operating on the periphery of this argument. But I think if we, as a profession are more conscious of the fact that this really is a major social issue. And when we are dealing with home and contents insurance, or life insurance and looking after debt or super planning, et cetera, if we can say, oh, this is an issue. And really we would be better off if we had better policy settings. I think we could make a contribution bigger than we have. But we are doing some stuff.

Chris Davis: Absolutely. And Richard, you tackled this issue quite full-on at the Summit. What do you think, is there more that we could do in this space?

Richard Lyon: Yeah. Your question, should we play a critical role? I don't think we can, because we're not decision makers, we're advisors. But what we can do is to bring clarity to the issue, to highlight the connections between issues, that these things can't be solved on their own.

Richard Lyon: And I think building on the works that we've done in relation to COVID, for example. Also, just highlighting the inertia that's there. So the problem doesn't stand still. If you don't do anything about it, it gets worse and you can see how it's going to get worse. You can project those trends. And okay, you can project different trends. If the trends like this, then this is what happens. If it's like that, then that's what happens. But you do actually need to look at what will happen if nothing is done. And so even a little bit being done now saves more later.

Chris Davis: I really like that. And Hugh, same question. What's our role? What can we do more? Can we do more?

Hugh Miller: Yeah. Ultimately house prices is typically something everyone has an opinion on, especially if you live in Sydney. So us actually having opinions, it's good. And we won't be the only ones. So we'll be one voice among many.

Hugh Miller: But I do think that the way we can bring data and as Anthony and Richard are saying, working in the spaces where we have expertise, as well as making sure we've shine a light and actually trying to put our view forward, that we do think this is a large societal issue, that can only help. So to the extent that we can contribute. It's worthwhile.

Chris Davis: Great. And one final question. I know an hour almost has flown by, but I want to ask this as well. What are we not talking about when it comes to this issue? Hugh, you are talking about issues that probably not a lot of people are talking about in regards to homelessness around housing. But are there other things that we need to talk about?

Hugh Miller: Yeah. Well, I haven't talked too much about homelessness in this podcast, but it is a growing issue. And homelessness rates are hard to measure. But certainly there are strong links between affordability and homelessness, but when it comes to specifically homelessness, that's where you do see a lot of other vulnerabilities and issues start to intersect.

Hugh Miller: So whether that's domestic violence rates and how that interplays with their housing market. Because if women want to escape violence, ultimately they'll need somewhere to live. So that is a challenge in the homelessness space, as well as things like mental health issues.

Hugh Miller: And so a lot of people who present to specialist homelessness services do have mental health issues. And that can often be one of the reasons why they can struggle to maintain employment to pay for a house, or even maintain a stable accommodation as well. So certainly at that very vulnerable ends, there are a lot of intersections with other aspects and having a handle on those is quite important. Because you won't be able to solve one without looking at the others.

Chris Davis: Anthony, anything we should be talking about more.

Anthony Asher: No. I think that captures it. I said before, there's a straight line between higher house prices, financial stress, financial stress, mental health, family breakdown. It makes life painful for other people. And the fact that some people feel better because their house... Well, some people feel better because their house prices are higher.

Anthony Asher: But as Richard says, it makes no difference. What can you do? You can't leave. You sell your house, you go buy another one. So actually having a more valuable house is almost... It's funny money, we could put monopoly money and that'd make people feel rich. So it doesn't really help, but push the prices up. But it does harm. So, we really do need to address it.

Chris Davis: **Sure. And Richard, I'll leave it with you. Anything, we've covered a lot, but what aren't we talking about?**

Richard Lyon: I think one of the things about all of this is that... Certainly my analysis has all been about averages. Very, very few people are average. So what Hugh and Anthony talked about has been more at the individual level, and that's much more important around social issues, that the average can be time. And we still have a lot of problems at one edge or another.

Richard Lyon: And that brings me to a couple of things. One of which is the disconnect often between decision makers and those for whom decisions are being made. And Anthony has talked about that in a different forum, around the fact that if people making decisions do not understand the circumstances of the people for whom those decisions are being made, it is only going to be by potluck that they'll make the right decisions.

Richard Lyon: And the second one was something that Hugh said, which again is really important. And that is the difference between CPI and the actual cost of things. So CPI again, is an average, and if you need your rent to go up or your rental assistance to go up at a different rate than CPI, then that's what you need. And CPI just makes it look as though you are greedy wanting more.

Richard Lyon: So back to the individual really. We're not very good at individuals as a profession, we deal with the averages, we deal with... We don't know which person's going to claim on that life insurance policy. We just know somebody will. It's that same thing.

Chris Davis: **Look, I'll leave it there. This has been an awesome discussion. We'd probably do another hour, two, three hours, this whole series on this topic alone, exploring other things. I know we didn't get to homelessness too much, but again, that's something we can explore. But look, I just want to thank everyone who came on today and had a chat about this. Thank you.**

Anthony Asher: Thank you, Chris. That's great. Thanks Hugh, Richard.

Hugh Miller: Thanks Chris, it's been a pleasure.

Richard Lyon: Yeah. Thanks everyone.

Chris Davis: **And to all our listeners, thank you for listening and checking out the podcast. I encourage everyone to have a listen to our other podcast. And also subscribe on your favorite podcasting apps, so you don't miss out on our new episodes. Thanks again. And we'll see you next time.**

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