

## Briefing note: Price impacts of withdrawing super for housing

This briefing note examines the impact on house prices from a scheme to allow first home buyers to access up to 40% of their superannuation or \$50,000 to purchase their first home. Numerous studies have found policies that increase demand when supply is price inelastic (for example due to physical constraints or regulatory barriers) mainly result in higher housing prices that make houses less rather than more affordable.<sup>1</sup>

We find that allowing first-home buyers to access super for a housing deposit could see median property prices in the five biggest capital cities to increase between 4 and 13 per cent. This comes as property prices continue to surge in 2023, with Australian homes values increasing by 8.1 per cent in the year to December 2023.<sup>2</sup> In Sydney, where the median dwelling price has risen by 11.1 per cent in 2023, we estimate that prices could rise by a further \$78,200 (around 7 per cent, as result of this policy), making the market even more expensive and out of reach for new entrants. As shown in Table 1, all capital cities could see five-figure increases in the median property price. Aside from Adelaide, in all other cities, the resulting price increases and extra property taxes could approach the amount of super withdrawn, which maxes out at \$100,000 per couple. First home buyers would lose most if not all of their super withdrawal through price hikes due to a surge in demand. This policy would add fuel on top of an already overheated housing market, locking even more first-home buyers out of homeownership.

The scheme also comes with considerable long-term costs in the form of higher Age Pension payments and lower superannuation tax receipts. SMC analysis finds that a 30-year old couple who withdraws \$35,000 each from their super, could retire with around \$195,000 less in today's dollars and have around \$125,000 less in disposable income during their retirement.

**Table 1: Estimated price impact from allowing first home buyers to withdraw \$50,000 from super**

City	Current median price*	Price increase	Median after price hike	Difference
<b>Sydney</b>	\$1,128,300	7%	\$1,206,500	\$78,200
<b>Melbourne</b>	\$780,500	9%	\$849,300	\$68,900
<b>Brisbane</b>	\$787,200	10%	\$865,100	\$77,900
<b>Adelaide</b>	\$711,600	4%	\$740,400	\$28,800
<b>Perth</b>	\$660,800	13%	\$746,800	\$86,100
<b>5 Capital cities</b>	\$859,700	9%	\$934,100	\$74,400

**Notes:** \*CoreLogic Hedonic Home Value Index as at 31 December 2023. Prices rounded to the nearest hundred. Property prices encompass both houses and units. First home buyers typically enter the housing market at more affordable price points. However, increased demand from first home buyers will flow through to median property prices as represented in the table.

**Source:** SMC analysis.

<sup>1</sup> See, for example, Carozzi, F., Hilber, C.A.L., & Yu, X., 2019, 'The Economic Impacts of Help to Buy', Working Paper.

<sup>2</sup> CoreLogic (2024), *Hedonic Home Value Index*, 2 January 2024. URL: [https://www.corelogic.com.au/data/assets/pdf\\_file/0013/20614/CoreLogic-HVI-Jan-2024-FINAL.pdf](https://www.corelogic.com.au/data/assets/pdf_file/0013/20614/CoreLogic-HVI-Jan-2024-FINAL.pdf)



## Appendix: Methodology

### Estimating demand for the scheme

We estimate take-up of the proposal to allow people to use super for housing by developing a micro-econometric model of first home buyer decisions using the 2019-20 ABS Survey of Income and Housing (SIH). The SIH contains detailed information on income, wealth, personal characteristics, and housing status of individuals, income units and households, including whether households are first home buyers.

We develop a Probit Model to estimate the likelihood that renter households will purchase a first home within the next 3-years based on the household's location (including whether in a capital city or regional centre), the age and marital status of the head of the income unit, the educational attainment of the adult members of the income unit, the number of dependent children and age of youngest child (decisions to buy a house are often linked with increases in family size), the number of times the household has moved in the last 5 years, the length of time they have been in their current dwelling, and the log of the income unit's disposable income and assets (including any amounts available for release from superannuation, subject to the scheme constraints).

We model the propensity of individuals to access their superannuation for a house deposit based on the KiwiSaver scheme. We estimate that over the last 3 years, around 87% of first home buyers in New Zealand accessed their KiwiSaver account to purchase their first house. We adopt this assumption for the Australian scheme.

We estimate the average deposit required for first home buyers by jurisdiction using ABS housing finance statistics for owner occupied first home buyers (ABS Cat. No. 5601.0, table 24) and an average loan-to-valuation ratio for first home buyers of 85%<sup>3</sup>. This gives a lower price-point for entering the housing market than median property prices.<sup>4</sup> We use current standard variable mortgage rates to assess whether income units can service the loan repayments without going into financial stress (ie mortgage repayments must be less than 30% of disposable income). Demand for the scheme is endogenous with price increases (see next section). We take this into account when estimating demand for the scheme.

We limit initial take-up of the scheme to those who are currently credit constrained, that is, income units with insufficient financial wealth outside of super to meet the required deposit but can do so with a release of superannuation. Excluding renter households who have sufficient means already to meet a deposit is a very conservative assumption that likely biases down the price impacts since it is likely that a number of these households would choose to take advantage of the scheme to purchase a more expensive dwelling or to meet increases in house prices. Estimating this impact is left to subsequent research.

### Methodology for the price impact estimates

We model the impact this increase in demand has on property prices via a reduced-form panel data model as outlined in Otto & Liu (2019)<sup>5</sup>. In this model, property prices  $p_{it}$  are modelled as a function of exogenous variables including population  $n_{it}$ <sup>6</sup>, income per person  $y_{it}$ <sup>7</sup>, interest rates  $r_t$ <sup>8</sup>, number of new loan commitments  $L_t$ <sup>9</sup>, a density ratio  $Dens_{it}$ <sup>10</sup>, a lump-sum grant dummy for first homeowners purchasing homes during and after the GFC  $Grant_t$ , and a vector of time-dummy variables and  $D_t'$ <sup>11</sup>. To model the overall property price for each capital city, we use fixed-effects panel data at the local government area (LGA) level to control for time-invariant effects  $\mu_i$  across LGAs within a capital city<sup>12</sup>.

Interpolation has been done for income and population, to have their time-series transformed from annual to quarterly frequency. New loan commitments have been proportioned from state to capital city level using sales transactions data in the last 12 months.

<sup>3</sup> See figure 2 of, Alfonzetti, M., 2022, 'Are First Home Buyer Loans More Risky?', RBA Bulletin - March 2022.

<sup>4</sup> However, as noted above, the increase in demand from first home buyers will flow to property prices more generally.

<sup>5</sup> Otto, G. & Liu, X., 2019, 'Structural Estimates of Supply and Demand Elasticities for Houses in Sydney', UNSW School of Economics, March 2019.

<sup>6</sup> Australian Bureau of Statistics 2023, *Regional Population - Population estimates by LGA, Significant Urban Area, Remoteness Area and electoral division, 2001 to 2022 - Revised*.

<sup>7</sup> Australian Bureau of Statistics 2022, *Personal Income in Australia (by Local Government Area)*, historical data (2001-02 to 2019-20).

<sup>8</sup> Reserve Bank of Australia 2023, *Cash Rate Target*.

<sup>9</sup> Australian Bureau of Statistics 2023, *Lending Indicators*, Cat. No. 5601.0.

<sup>10</sup> Density ratio is calculated by using data from CoreLogic 2023, *Market Trends - Local Government Area Data (National)*.

<sup>11</sup> The time-dummy variable seeks to control for any idiosyncratic effects on houses prices through time.

<sup>12</sup> Only greater capital city (metropolitan) LGAs are included in this analysis.