THERE IS NO SUCH THING AS AFFORDABLE HOUSING:
Opportunities for New Approaches to Housing Ownership, Tenure and Finance in the 21st Century

by
Michael E. Stone, Ph.D.
Professor of Community Planning & Public Policy, University of Massachusetts Boston, and Visiting Scholar, Institute for Social Research, Swinburne University, Melbourne

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AFFORDABILITY STANDARDS

Ratio:
Housing Cost/Income > specified %
Residual Income:
Income – Housing Cost < specified $
IMPLICATIONS and APPLICATIONS

- Housing Problems and Needs
- Housing Subsidy Policy
- Mortgage Underwriting Practice
STRUCTURAL ROOTS

• Wide and Widening Inequality of Income and Wealth
• Overdependence on Debt and the Capital Markets to Finance Housing
• Treating Housing Increasingly as a Speculative Commodity
• Public Policies that Exacerbate the Other Problems
PUBLIC POLICIES

- Direct Housing Subsidy Policies
- Tax Expenditures for Housing
- Weak Regulation of Private Rental Housing
- Financial Deregulation
- Expansive Monetary Policy
A DEBT-FREE ALTERNATIVE TO CONVENTIONAL HOME OWNERSHIP
INGREDIENTS OF THE MODEL:

- Resident Saver tenure
- Modified Mutual Housing Association ownership
- Capital Grant financing
MORTGAGED HOME PURCHASER VS. RESIDENT SAVER:

COMPARING NET WEALTH ACCUMULATION
HOME PURCHASER ASSUMPTIONS

- House acquired with initial deposit plus other initial costs (mortgage establishment, legal, stamp duty), and Mortgage loan with 25-year term
- Net gain realised tax-free, equal to sales price, minus real estate agent fee on sale, minus initial deposit and other initial costs, minus accumulated mortgage payments, minus remaining mortgage principal
RESIDENT SAVER ASSUMPTIONS

• Initial deposit equal to home purchaser total initial outlay, into term account, interest compounded annually and taxed annually; plus monthly deposit equal to home purchaser’s mortgage payment, deposited into tax-deferred account, compounded monthly

• Net gain equals after-tax interest accumulated on initial deposit; plus interest accumulated on monthly deposits, net of tax paid at time of withdrawal
ILLUSTRATION: General Parameters

- Home Purchaser: $300,000 purchase price: $30,000 deposit plus other initial costs of $9,550: $270,000 mortgage loan with 25-year term
- Resident Saver: $39,950 initial investment, earning 1 percentage point below mortgage rate; plus monthly investments equal to home purchaser’s monthly mortgage payments, earning 2 percentage points below mortgage rate
ILLUSTRATION: CASE A

CASE A Parameters

• Home Purchaser:
  > House prices increase at an average annual rate of 7%
  > Mortgage interest rate averages 9% per annum

• Resident Saver:
  > Initial investment earns average rate of 8% per
  > Monthly investments earn average rate of 7% per annum
ECONOMIC BENEFITS TO HOME PURCHASER VS. RESIDENT SAVER
CASE A: 7% PER YEAR VALUE INCREASE, 9% MORTGAGE INTEREST RATE

<table>
<thead>
<tr>
<th>Value</th>
<th>Net Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400,000</td>
<td>($200,000)</td>
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<tr>
<td>$600,000</td>
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<tr>
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<td>$200,000</td>
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<tr>
<td>$1,000,000</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

YEARS  5  10  15  20  25

HOME PURCHASER  RESIDENT SAVER
ILLUSTRATION: CASE B
Case B Parameters

- Home Purchaser:
  - House prices increase at an average annual rate of 7%
  - Mortgage interest rate averages 8% per annum
- Resident Saver:
  - Initial investment earns average rate of 7% per
  - Monthly investments earn average rate of 6% per annum
ECONOMIC BENEFITS TO HOME PURCHASER VS. RESIDENT SAVER
CASE B: 7% PER YEAR VALUE INCREASE, 8% MORTGAGE INTEREST RATE

<table>
<thead>
<tr>
<th>Initial Home Value</th>
<th>Net Gain After 25 Years</th>
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</thead>
<tbody>
<tr>
<td>$400,000</td>
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<tr>
<td>$600,000</td>
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<td>$200,000</td>
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<tr>
<td>$1,000,000</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

NET GAIN

YEARS

HOME PURCHASER
RESIDENT SAVER
ILLUSTRATION: CASE C
Case C Parameters

- Home Purchaser:
  > House prices increase at an average annual rate of 5%
  > Mortgage interest rate averages 8% per annum

- Resident Saver:
  > Initial investment earns average rate of 7% per
  > Monthly investments earn average rate of 6% per annum
ECONOMIC BENEFITS TO HOME PURCHASER VS. RESIDENT SAVER
CASE C: 5% PER YEAR VALUE INCREASE, 8% MORTGAGE INTEREST RATE

$400,000
$500,000
$600,000
$700,000
$800,000

YEARLY NET GAIN

$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000

YEARS

5 10 15 20 25

HOME PURCHASER
RESIDENT SAVER
In sum, what does the resident-saver model offer residents?

- control over their homes comparable to conventional homeownership;
- greater security of tenure because there's no risk of mortgage foreclosure;
- asset development comparable in magnitude, on average, to conventional homeownership;
- but superior in terms of security (vulnerability), stability (volatility) and liquidity.
FINANCING: CAPITAL GRANTS THROUGH HOUSING TRUST FUNDS

- Reform of Housing Tax Expenditures
- Tax on Capital Market Speculation
- Estate Tax