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Policy Intervention for Improving Housing Affordability and Reducing Housing Stress in Australia

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Introduction

Australian economic issues including housing affordability and stress worsen social inequality and threaten long-term stability. In this article, an economic analyst recommends a comprehensive fiscal strategy to directly address housing affordability difficulties while limiting potential economic harm. The economic effects of this strategy are examined using the AE model, money market, and exchange rate market.

1. Policy Intervention

When households in Australia spend more than 30% of their income on housing, it is considered housing stress (Yates & Milligan, 2021). This problem is made worse by rising housing costs, stagnating incomes, and rising demand for rentals, particularly in large cities (Productivity Commission, 2022). Government intervention must be targeted.

Nature of the Policy

The federal government, state governments, and private home developers would implement the rent-to-own subsidy program as a spending policy. The concept would subsidize qualifying households' monthly rental payments and apply some of the subsidy toward home ownership over a specified term. After 10 years, the household would have enough equity to get a mortgage and become full owners.

This is different from the First Home Loan Deposit Scheme, which reduces deposit requirements for first-time purchasers but does not address the affordability gap for renters. Rent-to-own reduces monthly housing costs and builds equity in the home, improving affordability and long-term housing security (Grattan Institute, 2023).

Spending Policy Details

The rent-to-own subsidy program would target low- and middle-income households—those earning $50,000 to $100,000 who rent and lack the resources for a mortgage deposit. The Australian Institute of Health and Welfare (2023) found that 30% of Australian renters experience housing stress. This program would reduce that number by offering a clear, structured path to homeownership.

The subsidy would be structured as follows:

- **Government Contribution**: The federal government would pay 20% of qualifying households' monthly rent. This amount would go toward the home purchase.
- **Tenant Contribution**: The tenant pays market rent but knows a portion of their payment (via government contribution) builds equity in the residence.
- **Developer/Private Sector Partnership**: Housing developers who build rent-to-own homes would receive tax incentives from the government to build affordable homes.

A “government housing authority” would work with private developers to find suitable dwellings and assure affordability while administering the subsidies. The authority would assess eligibility, supervise subsidy delivery, and ensure tenants satisfy their financial commitments throughout the arrangement.

Justification for the Targeted Groups

Housing stress is highest among low- to middle-income households, particularly in urban areas (Wilkinson, 2023). According to the Australian Bureau of Statistics (2022), young Australians are unable to save for a deposit because of high rent. By enabling equity-building without requiring a sizable initial investment, rent-to-own solves this issue.

The strategy aims to increase "housing affordability" and minimize "housing stress" by making rent payments non-consumptive. Their objective is to provide instant housing and build equity. The strategy protects low- and middle-income households from price fluctuation and evictions and simplifies long-term renting (Baker et al., 2021).

Expected Impact on Housing Affordability and Housing Stress

The "rent-to-own subsidy program" should improve housing affordability and stress. First, government subsidies lower rent immediately, relieving housing stress in households. This frees up discretionary income for other essentials, enhancing low- and middle-income renters' financial well-being.

Second, the initiative addresses housing instability by building property equity. Renters who are shut out of the housing market due to excessive deposit requirements will have a clear path to homeownership, reducing their ongoing financial risk. Rent-to-own programs in the US and UK have proved that they help stabilize the housing market and reduce economic inequality by turning low-income tenants into homeowners (Glaeser, 2017).

Finally, the program may increase affordable housing supply. The government encourages rent-to-own developers to build new, affordable housing stock by granting tax incentives (Productivity Commission, 2022). This can assist reduce supply-side limitations that have driven up housing prices. Thus, the policy addresses both demand and supply of housing affordability.

Australia's "rent-to-own subsidy program" is a promising idea to reduce housing stress and increase affordability. The programme targets low- and middle-income households to address housing stress's core cause: the inability to save for a mortgage deposit while paying exorbitant rents. By working with private developers and granting tax incentives, the strategy can boost affordable home building and alleviate supply bottlenecks. This complete strategy to short-term alleviation and long-term financial security may solve one of Australia's biggest economic problems.

2. SWOT Analysis

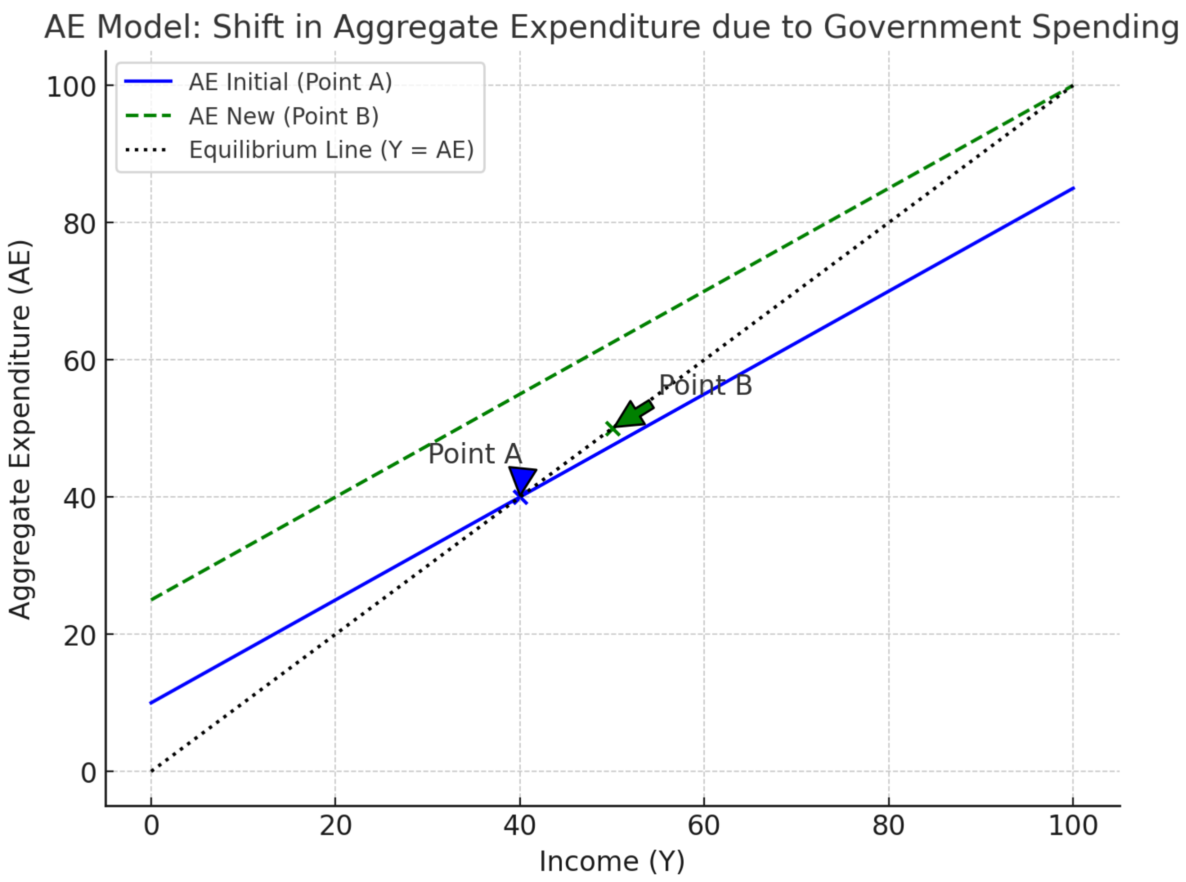
SWOT Analysis	Details
Strengths	- **Targeted Relief**: For low- to middle-class renters who find it difficult to accumulate money for a down payment while making their rent payments (Wilkinson, 2023). - **Pathway to Homeownership**: Offers a direct path to homeownership by establishing rent-to-own equity (Glaeser, 2017). - **Private Sector Collaboration**: Promotes the construction of affordable housing by offering developers tax breaks (Productivity Commission, 2022). - **Cost-Effective Over Time**: Allows for future homeownership, which lessens long-term dependency on government spending (Grattan Institute, 2023).
Weaknesses	- **High Administrative Costs**: Coordinating developers, keeping an eye on subsidies, and managing eligibility can be difficult and expensive (Grattan Institute, 2023). - **Market Distortions**: Rent limits may lessen the incentives for new rental property investment, which would impact the supply of housing (Glaeser, 2017). - **Eligibility and Equity Concerns**: Tenants in low-value neighborhoods would eventually accumulate less equity, and some low-income groups might be excluded (Wilkinson, 2023).
Opportunities	- **Favorable Economic Conditions**: Housing construction is aided by low interest rates and government infrastructure spending (Reserve Bank of Australia, 2023). - **Government Commitment**: Strong political support for the National Housing and Homelessness Agreement, which provides affordable housing (Australian Government, 2022). - **Technological Innovations**: Prefabricated building techniques can expedite development and lower housing expenses (Productivity

	Commission, 2022). - **Public Support**: Public support for government initiatives to increase housing affordability is widespread (Grattan Institute, 2023).
Threats	- **Macroeconomic Instability**: Growing interest rates and inflation may make subsidies less effective and raise borrowing costs (Reserve Bank of Australia, 2023). - **Political Risks**: Housing policy cuts or reversals could result from shifting governmental priorities (Australian Government, 2022). - **Supply Chain Disruptions**: Housing development may be delayed by labor and material shortages (Wilkinson, 2023). - **Housing Market Volatility**: Participants may experience negative equity as a result of a property market downturn, which would discourage uptake (Baker et al., 2021).

3. Economic Modeling of Consequences

Policy Type

Projected ‘rent-to-own subsidy program’ is ‘expansionary fiscal policy’. In times of economic slack, expansionary policies increase government spending or lower taxes to boost economic activity (Blanchard, 2022). By subsidizing renters to homeownership, the approach increases government spending. This program aims to enhance economic activity by putting more funds into the housing industry, targeting the housing market. Renters receive immediate assistance while the initiative encourages affordable housing construction, construction jobs, and housing development supplies and services.



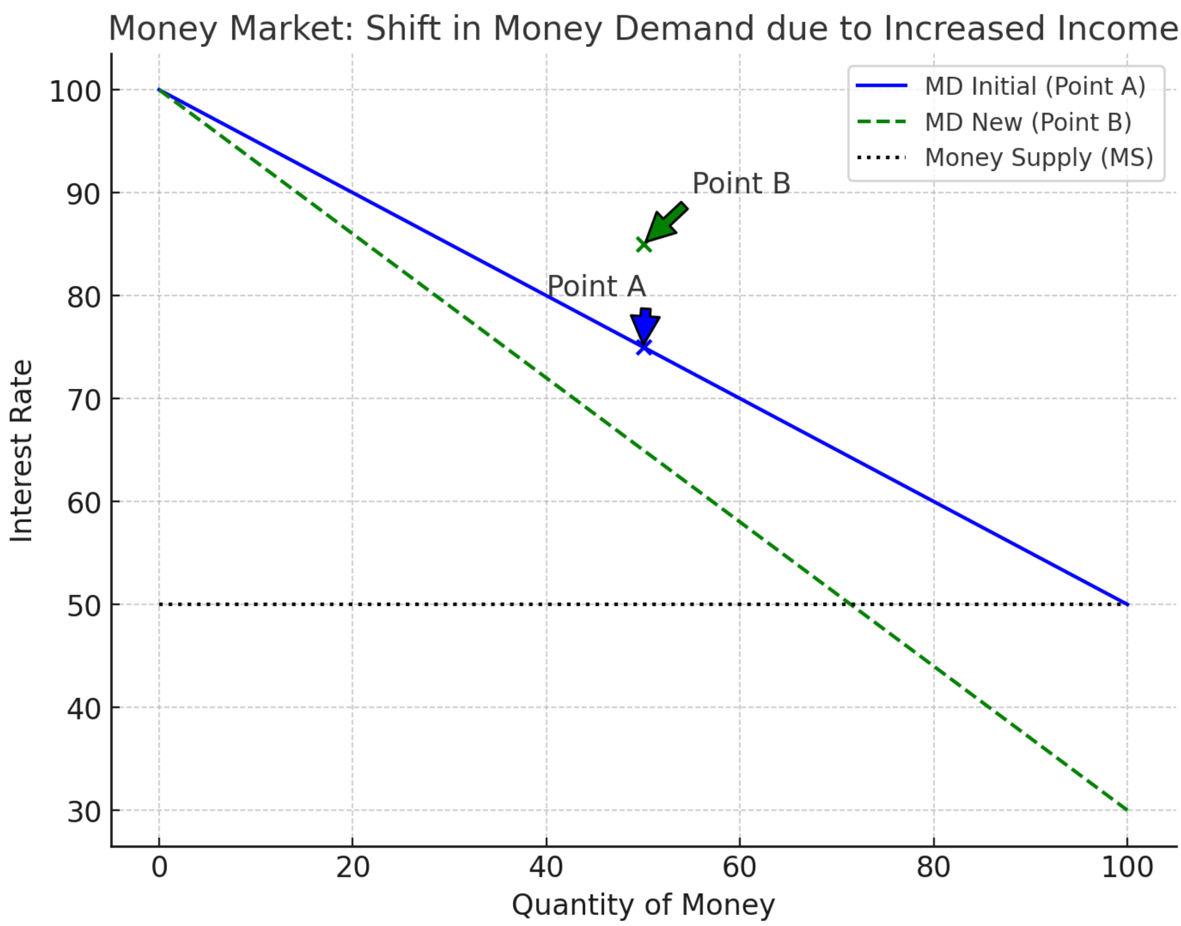
Notes:

- ***Point A** represents the initial equilibrium before the policy intervention.*
- ***Point B** represents the new equilibrium after the government spending increases, shifting the AE curve upward.*

Consequences Using the AE Model

The ‘AE (Aggregate Expenditure) Model’ lets us see how government spending, like subsidies, affects economic activity. Government rent-to-own subsidies will enhance ‘aggregate demand’ in the economy, shifting equilibrium from ‘point A’ to ‘point B’. At a certain income and output level, aggregate demand (AD) and aggregate supply (AS) balance at ‘Point A’, the economy's initial equilibrium. The subsidy raises disposable income, which increases spending and thus aggregate demand.The economic gains of the upward change in aggregate demand, which increases output and employment, are amplified by a multiplier effect (Mankiw, 2022; Blanchard, 2022).

Consequences for the Money Market



Notes:

- ***Point A*** *represents the initial equilibrium in the money market before the policy intervention.*
- ***Point B*** *shows the new equilibrium after the increase in income leads to a higher demand for money (the Money Demand curve shifts upward).*

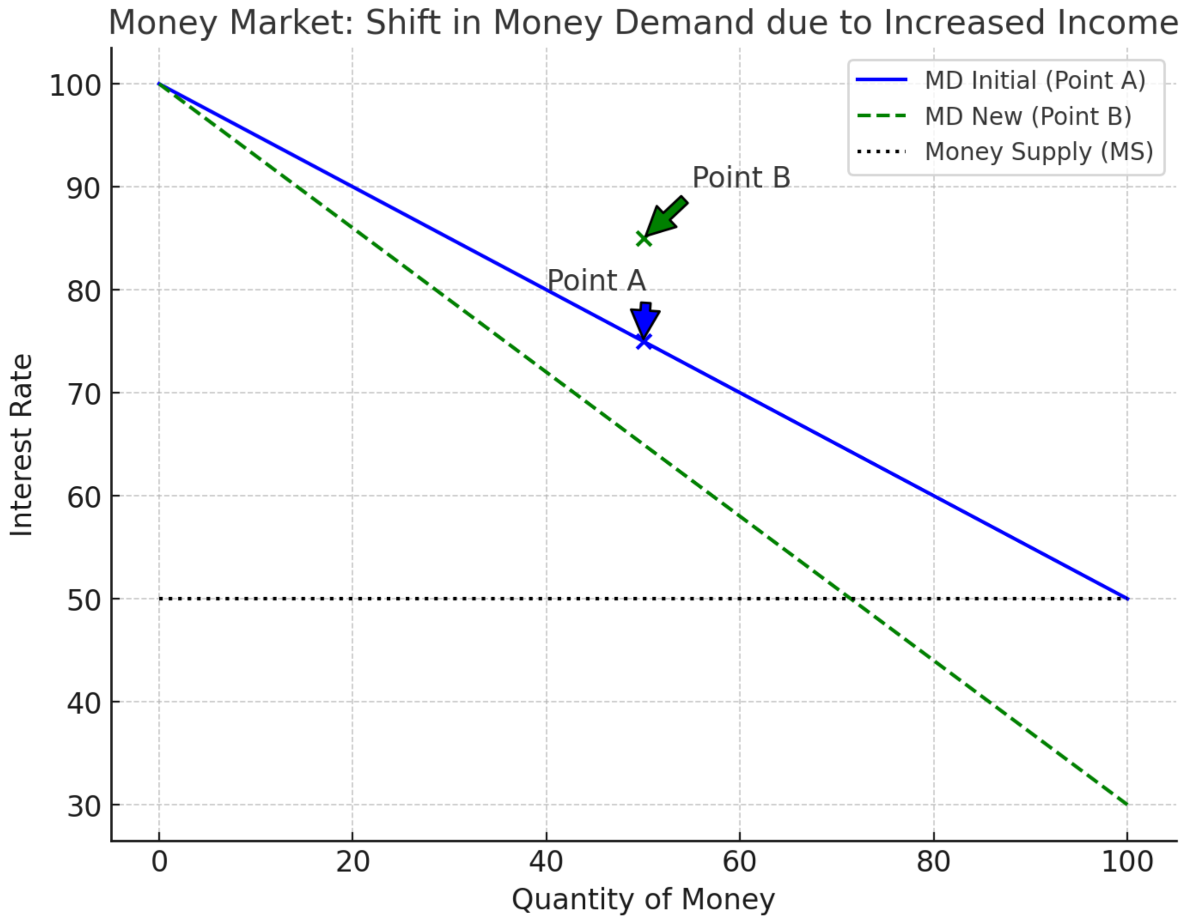
Money demand rises as economic activity rises from point A to point B in the AE model. With greater income to spend, individuals and companies will seek more liquidity for transactions, raising the ‘money demand curve’. The ‘money market model’ explains how money supply and demand are matched by the interest rate.

The initial equilibrium interest rate at ‘point A’ in the money market is based on money supply and demand before government intervention.

As rent-to-own subsidies enhance aggregate demand, economic agents need more money to complete transactions, changing the ‘demand for money curve’ from point A to ‘point B’.

This shift in money demand leads to ‘higher interest rates’ if the central bank keeps money supply fixed. Financial firms raise interest rates to meet rising money demand, making borrowing more expensive. As interest rates rise, some investment projects may lose appeal, especially in real estate development. This could reduce private house building investment, but the policy's fiscal stimulus would still boost aggregate demand and output (Mishkin, 2021).

Consequences for the Exchange Rate Market



Notes:

- ***Point A*** *represents the initial equilibrium before the rent-to-own subsidy intervention.*
- ***Point B*** *shows the new equilibrium after the government spending increases aggregate demand.*
- ***Point C*** *illustrates the effects of feedback from higher interest rates and exchange rate appreciation, slightly reducing the overall impact of the policy (as the AE curve shifts back down slightly).*

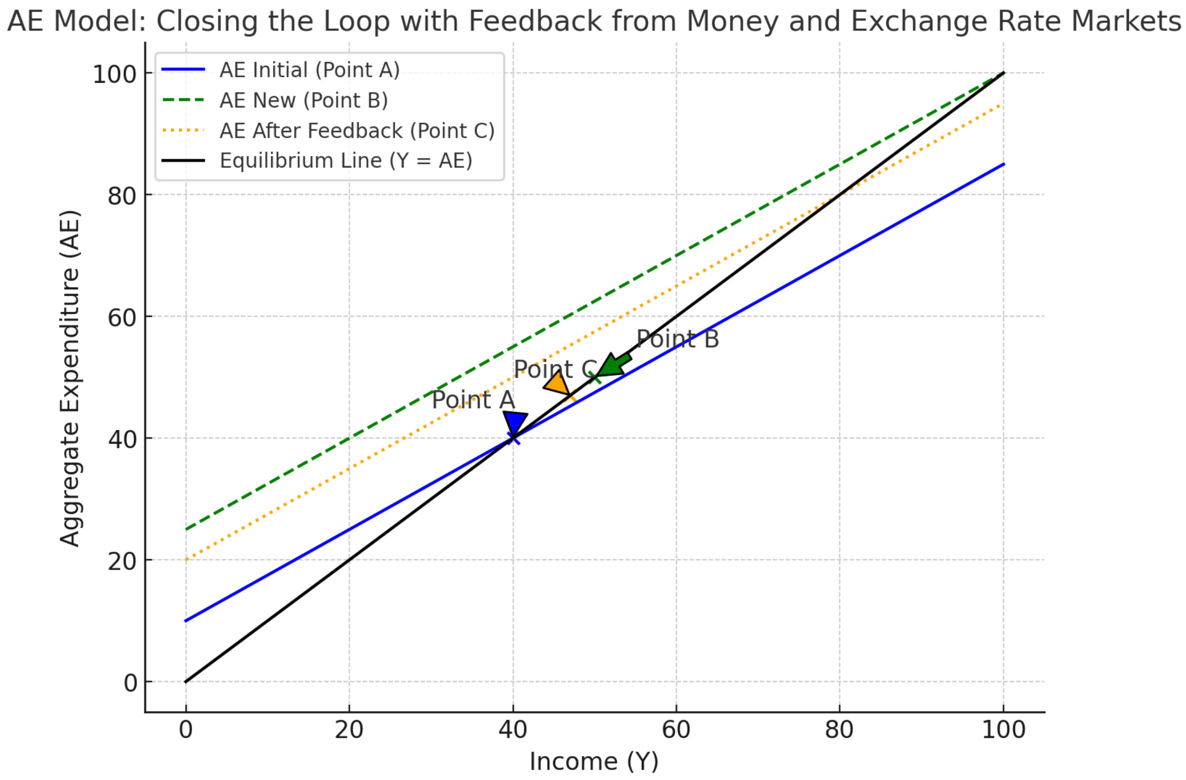
Increased money demand raises interest rates, affecting the 'exchange rate market'. The exchange rate model compares domestic and foreign currency demand to determine exchange rates.

Before the policy, trade and capital flows balance at 'point A' in the exchange rate market. Initial interest rates and a steady Australian dollar are in place.

Australian financial assets attract overseas investors seeking bigger returns as interest rates rise from point A to point B due to increased money demand.

Demand for Australian assets increases demand for Australian dollars, making the currency 'appreciate'. As the Australian currency strengthens, importers gain from cheaper overseas goods, but exporters face higher international prices (Krugman, 2020). The gains of fiscal stimulus may be offset by a minor drop in Australian export demand.

Closing the Loop - Back to the AE Model



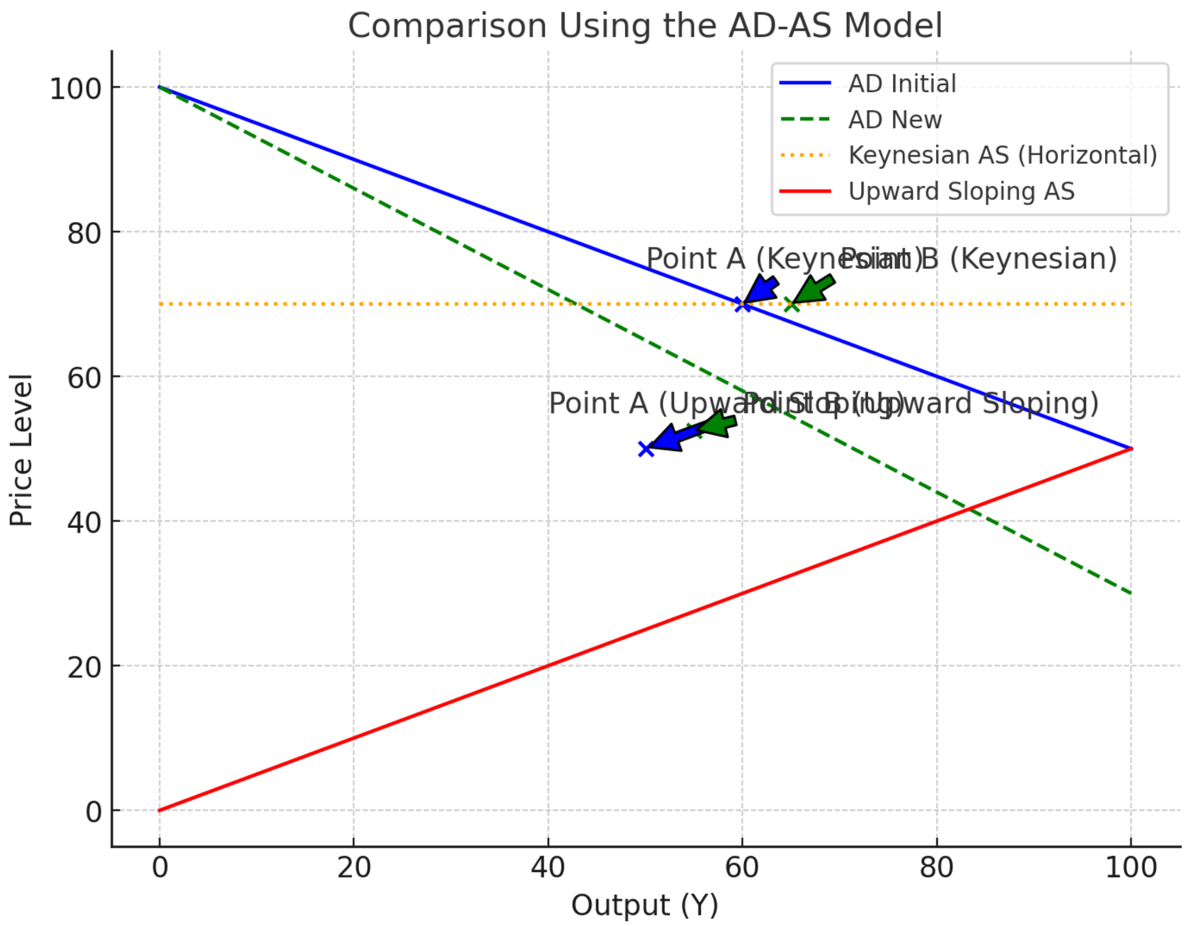
- ***Point A*** *represents the initial equilibrium before the rent-to-own subsidy intervention.*
- ***Point B*** *shows the new equilibrium after the government spending increases aggregate demand.*
- ***Point C*** *illustrates the effects of feedback from higher interest rates and exchange rate appreciation, slightly reducing the overall impact of the policy (as the AE curve shifts back down slightly).*

As shown by the 'AE model', the 'money market' and 'exchange rate market' will affect the economy. Higher interest rates due to money demand may reduce private investment, especially in housing. Directly affecting the housing market and disposable income, the rent-to-own subsidy scheme would likely drive robust aggregate demand and keep output high at point B.

The strength of the Australian dollar may diminish export demand, although this may be negligible compared to the policy's boost to domestic spending. The 'multiplier effect' from government expenditure may balance these negative effects, especially if the central bank maintains steady interest rates (Blanchard, 2022).

The policy may be hampered by rising interest rates and a rising currency without central bank action. Since the rent-to-own program focuses on domestic consumption, these external influences do not nullify its benefits.

Comparison Using the AD-AS Model



Keynesian Model: Short-term, the 'AS curve is horizontal' (sticky pricing), so boosting aggregate demand (from AD Initial to AD New) raises output without raising prices. The Keynesian AS curve shows 'Point A' and 'Point B'.

Upward Sloping AS Model: In the long run, prices become flexible and the 'AS curve' rises. From AD Initial to AD New, aggregate demand increases output and prices, as represented by 'Point A' and 'Point B' on the upward-sloping AS curve.

Based on supply-side assumptions, the "AD-AS (Aggregate Demand-Aggregate Supply) model" would yield different results for this strategy. The AE model assumes sticky short-term prices, allowing output to rise without inflation. The AD-AS model shows how prices and output interact by including demand and supply.

The ‘aggregate supply (AS)’ curve is flat in the ‘short run’, indicating that output can rise without inflation. Like the AE model, rent-to-own would increase output and decrease unemployment.

The AS curve rises in the ‘long run’ due to economic capacity limits. As output rises and the economy near full employment, inflationary pressures may raise prices rather than output. As inflation devalues subsidies and lowers their influence on housing affordability, the program may lose effectiveness (Mankiw, 2022).

In contrast to the AE model's ‘Keynesian assumptions’ of sticky prices, the AD-AS model suggests long-term inflationary pressures. Thus, while the rent-to-own subsidy would initially raise output and reduce unemployment, rising prices could diminish its long-term advantages unless supply-side policies like housing supply are enacted.

The ‘rent-to-own subsidy program’ is an expansionary fiscal strategy to increase home affordability and reduce housing stress. The ‘AE model’ shows how the policy would boost aggregate demand, lift output, and cut unemployment. The ‘money market’ and ‘exchange rate market’ may counter these benefits with higher interest rates and a stronger currency. The ‘AD-AS model’ warns of inflationary pressures that could weaken the policy over time. However, with the right monetary and supply-side policies, rent-to-own might boost housing affordability and economic growth.

Conclusion

The 'rent-to-own subsidy program' increases homeownership, builds relationships with developers, and stimulates economic activity to provide a focused solution to Australia's housing issue.

The policy may distort markets, complicate administration, and cause macroeconomic instability. The economic modeling reveals that while the policy is expansionary and raises aggregate demand, money and exchange rate market feedbacks like rising interest rates and currency appreciation may negate some of the initial benefits. Comparing the ‘AE model’ and the ‘AD-AS model’ shows that supply-side restrictions could lead to long-term inflationary pressures.

The rent-to-own subsidy scheme in Australia seems promising for lowering housing stress and increasing affordability. With thorough economic analysis and supportive supply-side measures, this strategy can help people most affected by Australia's housing problem while simultaneously improving the economy.

Appendix

The rent-to-own subsidy scheme to relieve housing stress and affordability has many aspects that will determine its success. We can analyze the policy's probable success in the Australian housing market using a **SWOT analysis.**

Strengths

The rent-to-own subsidy program offers several key strengths that position it as a viable solution to Australia's housing affordability crisis.

1. **Targeted Relief for Housing Stress**: A key aspect of this policy is its "targeted approach". The strategy targets low- to middle-income renters who struggle to save for a deposit while meeting their rental responsibilities (Wilkinson, 2023). Instead of targeting higher-income households, this initiative targets the population locked out of homeownership due to high housing costs (Australian Institute of Health and Welfare, 2023).
2. **Long-Term Homeownership Pathway**: The rent-to-own concept offers a "clear and structured pathway to homeownership" unlike rental assistance programs that provide short-term help without long-term security. The strategy gives immediate financial relief and long-term financial stability by allowing renters to build equity in their homes (Glaeser, 2017). This design feature targets housing affordability and raising Australian homeownership rates.
3. **Partnerships with Private Developers**: Incentives for private developers to engage in the initiative through 'tax benefits' encourage public-private collaboration. In an undersupplied market, this collaboration boosts affordable home supply (Productivity Commission, 2022). Supply-side issues are addressed by private sector integration, which speeds up affordable home building.
4. **Reduced Government Expenditure on Traditional Housing Assistance**: Another policy strength is 'cost-effectiveness over time'. Traditional housing support, such rental subsidies or public housing, requires continual government spending without durable solutions. Instead, the rent-to-own subsidy gradually diminishes government support when households become homeowners (Grattan Institute, 2023). This technique reduces public spending and provides sustainable housing.

Weaknesses

Despite its strengths, the rent-to-own subsidy program has certain weaknesses that may hinder its effectiveness.

1. **High Administrative Costs**: Another policy strength is ‘cost-effectiveness over time’. Traditional housing support, such rental subsidies or public housing, requires continual government spending without durable solutions. Instead, the rent-to-own subsidy gradually diminishes government support when households become homeowners (Grattan Institute, 2023). This technique reduces public spending and provides sustainable housing.
2. **Potential for Market Distortions**: The initiative may cause ‘market distortions’ if rent caps are implemented. The policy prioritizes affordability, yet capping rental costs may discourage investment in new rental buildings, reducing housing supply (Glaeser, 2017). Developers may invest in less-regulated markets, worsening urban housing shortages.
3. **Eligibility Limitations and Equity Concerns**: Eligibility requirements for the policy may accidentally "exclude some groups" in need. Low-income jobless or part-time workers with housing stress may not match the program's income requirements. In addition, tenants in low-value areas may acquire less equity over time, resulting in geographic inequality (Wilkinson, 2023).

Opportunities

The policy’s design creates numerous external opportunities that could enhance its success.

1. **Favorable Economic Conditions for Housing Construction**: Australia's ‘low interest rates’ and government infrastructure expenditure make it a good time to build homes. Low borrowing costs may encourage private developers to build affordable homes (Reserve Bank of Australia, 2023). This presents a chance to rapidly increase housing supply and address long-standing shortages, particularly in cities.
2. **Government Commitment to Affordable Housing**: Recent political moves show a stronger Australian government commitment to ‘address housing affordability’. The National Housing and Homelessness Agreement (NHHA) has enabled aggressive government housing market intervention (Australian Government, 2022). The rent-to-own subsidy could benefit from political momentum and affordable housing financing as part of this policy framework.

3. **Technological Innovations in Construction**: Modular and prefabricated houses can lower the cost of building new dwellings thanks to 'construction technology' (Productivity Commission, 2022). These technologies would allow developers to create more affordable homes faster and cheaper, making the rent-to-own scheme more scalable.
4. **Rising Public Support for Affordable Housing Initiatives**: Australians are increasingly in support of government home affordability interventions. According to a 2021 Grattan Institute survey, '75% of Australians support policies' that make housing more accessible, even if they increase government spending (Grattan Institute, 2023). This overwhelming public support could help implement the legislation and lessen criticism from property developers and real estate investors.

Threats

Many external circumstances could threaten the program's success.

1. **Macroeconomic Instability**: Immediate threats include 'macroeconomic instability'. Inflation and interest rates could undercut the policy by raising household and developer borrowing costs (Reserve Bank of Australia, 2023). Inflation might reduce the purchasing power of rent-to-own subsidies, making it harder for renters to become homeowners.
2. **Political Opposition and Policy Reversals**: Political support for home affordability initiatives is high, but government changes could lead to 'policy reversals' or lower financing. The rent-to-own subsidy may be decreased or eliminated if political objectives change, especially if it is a budget priority (Australian Government, 2022).
3. **Supply Chain Disruptions**: Another major issue is global supply chain interruptions, especially in construction. Supply shortages, labor shortages, and increased construction prices could postpone affordable housing initiatives (Wilkinson, 2023). Delays in rent-to-own unit deployment would impair program efficacy.
4. **Real Estate Market Dynamics**: Final threat: 'housing market volatility'. The rent-to-own program could leave households with negative equity and financial suffering if the housing market crashes (Baker et al., 2021). This could deter participants and hurt the policy.

The SWOT analysis shows that the rent-to-own subsidy program is a focused and novel solution to housing affordability and stress, but it has drawbacks. Its targeted strategy and engagement with commercial developers make the policy promising. Managing vulnerabilities like excessive administrative expenses and market distortions is crucial. Seizing external chances like strong economic conditions and popular support while reducing macroeconomic instability, political opposition, and supply chain disruptions will be crucial to the policy's success.

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