



Housing affordability of university graduates in Guangzhou



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ABSTRACT

Housing affordability is an important policy and academic research agenda in almost all societies. This paper attempts to focus on a specific group of the population, namely recent university graduates, in order to understand how the macro economy, especially the labour market may impact housing affordability. By applying Residual Income Affordability model (RIA) supplemented by Housing Affordability Time (HAT) analysis, we find that housing affordability among young university graduates in Guangzhou is largely dependent on salary growth in the labour market. Labour market structure, especially income adjustment propensity, largely determines housing affordability in a market with constantly high housing demand such as Guangzhou. We find that housing affordability among young university graduates improves with work experience longevity and the corresponding salary increase. Hence, for the younger generation with a good educational background, initial government support in the housing market is more important than long term permanent housing subsidy. In addition, we also examine how graduates from different tiers of universities may differ in their housing affordability at various stages of their life trajectory, *ceteris paribus*. We find that graduates from higher-ranked universities tend to have higher housing affordability in the long run. This echoes our major conclusion that encouraging the labour market to reward employees with better educational background and more extensive professional experience will help alleviate housing affordability problems in the city. To this end, we provide a number of policy recommendations in both the housing market and other sectors, such as mortgage loans and the labour market to address housing affordability for the younger generation.

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1. Housing affordability –young person's perspective

Housing affordability is a general analysis of the relationship between household income and housing price levels. Most studies on housing affordability revolve around such issues as tenure choice (Lee, Ho, & Chiu, 2016) or housing opportunity for lower-income groups (Whitehead, 1991). In any case, housing affordability is most likely hampered by substantial rise in housing price due to either sustained increase in demand or other speculative activities in the market. The fallout of low housing affordability gives rise to various social problems, both in emerging as well as mature economies. Therefore, housing affordability is increasingly becoming a political problem, one that authorities cannot afford to ignore and leave to market solutions.

Housing affordability is not exclusively a problem for lower-

income families. Many young people, including recent university graduates, face a similar problem when, despite the potential future increase of income, the price of entry level housing is unaffordable. Most research views housing affordability as a simple “black and white” issue, namely housing is either affordable or not, based on the measurement threshold as indicated by various models. A more in-depth analysis of housing affordability looks at how households behave when faced with an unaffordable housing market. Consequently, there is also a growing interest in examining trade-off behaviour among households facing unaffordable housing (Cai & Lu, 2015; Pickvance & Pickvance, 1994). The most common and direct trade-off is location. As such, in the discourse of housing affordability location becomes one of the core underpinning elements, especially in the case of young university graduates. Housing affordability has been found to be a significant factor in determining the mobility of young university graduates after graduating from the city where they went to school (Cui, Geertman, & Hooimeijer, 2016). This may eventually affect both labour market

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mobility as well as the social network of university graduates in a large nation such as China. This paper also intends to contribute to this aspect of literature by examining the impact of housing affordability on intra-city location choice among young university graduates in Guangzhou in the second part of the analysis below.

The reasons to examine the housing affordability among young university graduates are twofold. First of all, recent university graduates are the group with the highest expectation to become homeowners as their life trajectory changes substantially upon leaving the university. Young people in most societies usually have the desire to be independent, and homeownership represents an important and significant step to achieve such independence. It further represents their newly-gained economic capability as active members of the labour force, as well as productive citizens in society. Affordability therefore determines to a large extent the pattern of homeownership as well as tenure choice (Bentzien, Rottke, & Zietz, 2012; Lee et al., 2016). Despite the fact that housing affordability among younger generation can be altered by non-housing market factors such as financial support from parents (Sage, Evandrou, & Falkingham, 2013), the fact remains that most of these starters in the workforce lack adequate capital resources, personal and professional networks as well as high credit rating that facilitate the resources for their home-purchase decision. A better understanding of housing affordability among the young generation would provide the government with policy options to promote homeownership in general, and to target the welfare of this demographic in particular (Edwards, 2009). On the other hand, gentrification has been regarded as a major factor exacerbating housing affordability among young people (Hochstenbach & Boterman, 2015; Van Gent, 2013). Hence, study on housing affordability also provides insight for urban planning and regeneration policies.

The second reason is that housing affordability does not just impact on providing shelter to the needy, it also impacts on how lower-income households balance housing expenditure and other daily necessities such as food (Kirkpatrick & Tarasuk, 2011). Hence, a better understanding of housing affordability in the society allows further examination of poverty issues (Bramley, 2012).

Examination of the housing affordability level also allows researchers, the society and the government to better understand the role of housing expenditure in the overall spending/consumption portfolio in the general population or even among specific household groups. From this analysis, researchers can extend their studies into related issues such as mobility of families in search of more affordable housing (Strassmann, 2000); affordable housing for younger generation (Bujang, Jiram, Zarin, & Anuar, 2015; McDonald & Baxter, 2005); housing finance and subsidy policy (Radzinski, 2014), or home-ownership rate (Bentzien et al., 2012). In addition, there is also a growing interest that housing affordability should also form part of the sustainable development agenda in order for such housing policy to be socially and economically acceptable. This makes affordable housing projects provided by the public sector subject to a larger set of development constraints including construction technology and choice of building material (Dave, Watson, & Prasad, 2017); the overall land use plan (Oyebanji, Liyanage, & Akintoye, 2017), and hence, affordable housing needs to be planned carefully with respect to the whole eco system and be responsive to the issue of sustainability (Arman, Zuo, Wilson, Zillante, & Pullen, 2009; Li et al., 2016).

Housing affordability therefore accounts for a very important role in the formulation of good public policy for any responsible government, especially in the consideration of relying on the market as a solution under the neoliberal ideology (Nicholls, 2014). If young university graduates cannot see any hope of being able to afford a decent house, the housing market is fundamentally in need

of imminent government intervention. As stated above, housing affordability can be a general analysis of the overall society, or can be analysed from a micro level by examining a specific group of households, which is the objective of this paper.

2. Housing affordability – measurement

Housing affordability is a quantitative scale of measurement for comparative analysis, so that one knows where one stands compared to other societies. However, there is no standardized measurement of housing affordability, and broadly speaking, it can be divided in two categories: direct and indirect comparison. For direct comparison, the most common ones are House Price Income Ratio and Housing Affordability Index. For the indirect measurement, the most common one is residual income method. These three methods will be briefly explained below:

2.1. House price income ratio (PIR)

House Price to Income Ratio generally refers to the ratio of median house price and median annual household income in the society, which is the most common measurement of housing affordability. In essence, it measures the number of years that a household needs to accumulate their wealth from their disposable annual incomes in order to purchase an average housing unit:

$$\text{PIR} = (\text{average unit price of housing} \times \text{house size}) \div (\text{per capita annual disposable income per household} \times \text{population per household}).$$

As pointed out by Lau and Li (2006), PIR was put forward as the standard for measuring the real estate market price trend in the Housing Index Project (HIP) proposed by the World Bank and the United Nations Human Settlements in 1988. Although PIR seems to be a relatively simple measurement without complicated theoretical underpinnings, Mostafa, Wong, and Chi (2006) state that PIR has become the most widely and frequently adopted index to measure housing affordability. However, due to the discrepancies of factors such as consumer preferences and social traditions, PIR is not a suitable approach for this research. For example, in China, if university graduates want to purchase a house for marriage purposes, according to the official income level of the graduates at the time of their graduation, the PIR will be far beyond their reach. But when these graduates have become more experienced, their income can increase significantly, which then changes the PIR at the later stage. Hence, the measurement of PIR is too static to capture future changes in income.

2.2. Housing affordability index (HAI)

$$\text{HAI} = (\text{monthly family income} \times \text{maximum proportion of total income on housing consumption}) \div (\text{equal monthly loan payments}).$$

When the index is equal to 1, it indicates that the maximum monthly disposable income available for housing just meets monthly mortgage payments; when it is less than 1, it means housing is less affordable as monthly mortgage repayment exceeds that maximum housing expenditure available; and vice versa.

HAI is based on the premise that the household will borrow from a bank to finance their home-purchase. This is much closer to reality in most cases. The basis of measurement is often set at

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