

Homeownership Affordability: An Analysis of Socioeconomic Factors

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Abstract

Homeownership affordability is frequently debated widely at the global stage. It is human survival needs to make homeownership affordability is the issue that are given a special focus of many countries. The basics need of the homeownership is the affordability because without the affordability, how a person will be able to own a home. This showed that when there is no affordability there is no homeownership. Homeownership affordability is determined by various factors that vary for each individual. In fact, household is not only affects by one factor in determining the affordability. Socioeconomic factors are among the most important factors in determining the affordability of homeownership. Between the socioeconomic factors is the household income, household expenditures, types of employment, level of education, and financial savings. The scrutiny of the socioeconomic factors is important because rationally, the development of the homeownership affordability issues impact the improvement in quality of life of mankind.

Keywords: homeownership, affordability, socioeconomic factor, quality of life

1. Introduction

The homeownership affordability is one of the public policy focused issues. The need of a house is not just refuge, but it is important to social and economic development of households. The house became a source of wealth and investment assets of the household (Turner & Luea, 2009). Not only that, homeownership is considered as a mechanism of long-term savings that benefit the owner. Homeownership is also beneficial to the development of the mind and the growth of the owner children (Atterhog & Song, 2009). Additionally, homeownership stimulates the formation of a healthier neighborhood relation in a community (De Groot, Manting, & Mulder, 2013). The diversity benefits of homeownership have prompted many countries to put homeownership as a national priority. Because homeownership becomes the priority of public policy, the issue of affordability also focuses to increase the homeownership rate in the country (Phang, 2010). This makes housing affordability issues and homeownership is discussed simultaneously. In understanding the affordability issues of homeownership, the socioeconomic factor is also a key factor in determining the affordability of the household ownership.

2. Household income

The main factor in determining the homeownership affordability is income. High monthly income increases the affordability in owning a home but on the other hand low income makes it difficult for access to the affordability to own a home. High income also gives more choices in homeownership versa low income cause option to homeownership is more limited. Income becomes important instruments in determining household eligibility for housing loans. Therefore, it is no surprise if affordability are characterized as the ability to obtain a loan (Gyourko, Linneman, & Wachter, 1999). Increase in affordability tend to occur when the occurrence of increased income through the increasing number of working household. This means that households with families where the husband and wife are working had higher income, but if only the husband's working, the total income is small (Arimah, 1992). Households that relies on a single income faced critical problem in owning a home in major cities. This is proven through the households who rely on a single income in the city of Adelaide and Melbourne has difficulties to homeownership (Kupke & Rossini, 2011).

The increase in income also spurred households to homeownership. This is because increased income will increase the homeownership affordability. Therefore, the national homeownership rate will also be increased (Gwin & Ong, 2008). In addition, the income also affects the ability of households to pay housing loans on a consistent basis. The increase in income has launched the repayment process of housing loan in 270 Denmark municipalities thus increasing the homeownership rate in the country (Lauridsen, Nannerup, & Skak, 2008). Yet different situations occurred in German where higher income, lower homeownership rates. This shows that there are other factors besides income affect homeownership affordability (Fisher & Jaffe, 2003) that should be given deeper attention in analyzing the issue of homeownership affordability. A small income also impacts the affordability of the lower income group. Small income resulting in the low income group exercises significant income to pay the housing costs (Winters & Elsinga, 2008). It is feared affect non housing consumption which is

also important component in survival.

3. Household expenditures

Non-housing expenses include food, clothing, health, education, human capital investment (Kutty, 2005), transportation cost (Kupke & Rossini, 2011) utilities payment (Bentzinger & Cook, 2012) between the expenses needed per day. The non-housing expenses associated with mutual income earned monthly of households. Households should be able to use one fourth of the income to pay the housing cost and the remaining three quarters are used for non housing cost (Hulchanski, 1995). The use of more than one fourth of the housing cost will impact to the non housing cost and it cannot be overlooked. The issue of neglected non housing cost can be seen clearly through the study Bentzien, Rottke, & Zietz (2012) in the 16 federal states of German found that the majority of households using largely non housing cost to ensure that they are able to own a home. Not only that, the excess housing cost of the prescribed breakdown can result the household to fall in the unaffordable category to homeownership and more critical when the group is in poverty.

The non-housing expenditure such as education is a form of investment in human capital which is essential to strengthening future economy. Expenditure on education to children is one of the method of removing households from poverty zone (Kutty, 2005). Neglecting the children's education will also cause an increase in social problems (Shlay, 2006). Therefore it is necessary to ensure the non housing cost not neglected by households. In addition, non housing cost was higher in urban areas. This is proved with an average expenditure of more than 15 per cent of earnings to the transportation costs in the city of Adelaide. High spending for transportation cost will affect the homeownership affordability (Kupke & Rossini, 2011). Non-housing expenses are also high to low income group that priorities expenses from income only devoted to meet basic needs such as food, clothes. The granting of subsidized low cost housing with low payment is still considered high by low income group (Luffman, 2006).

4. Types of Employment

The affordability is also affect by the types of household jobs. Different employment categories provide different amounts of income. Skilled workers earn more lucrative than semi-skilled workers, while semi-skilled workers earn more than unskilled workers (Economic Planning Unit, 2010). Type of employment is also a measure of eligibility for housing loans. Households from the professionals are more easily in obtaining housing loans. This is due to the stability of employment as a form of assurance required by the bank for managing housing loans repayments (Lauridsen et al., 2008). Therefore, it is possible that higher homeownership is among households from professional workers. This statement is in line with findings Gan, Hu, Gao, Kao, & Cohen (2014) who found a high homeownership rates by those professionals in major cities of China. For households that do not have a stable job, the homeownership affordability is also unstable and cause homeownership made during their old age.

In addition, unstable employment are also due to the unstable labor market that is exposed to the risk of unemployment. This is indirectly affecting the affordability especially to households that do not have permanent job. Low income group exposed to unstable jobs tend to continue to rent because of the possibility of getting a job with sufficient income to homeownership is low (Yates et al., 2007). For homeowners, the extra work and over time work are between the steps taken to ensure the homeownership affordability is not threatened. This matter is also due to the inability of households to reduce spending of non-housing expenditure thus the households taking steps to increase income (Luffman, 2006). However, employment pressure and over time can affect the relationship in the family (Yates et al., 2007). This is because households allocate more time to the work and ignored family members especially children who need attention from parents.

5. Level of Education

Next is the educational level as the factor in determining the homeownership affordability. High level of education led to more households own homes and stimulate the increases in homeownership rates in the country (Robinson, Scobie, & Hallinan, 2006). Low level of education makes it difficult for homeownership. The decline homeownership rates in the United States during the era of the 90's due to the low income group who have low education level suppress the access to homeownership (Gyourko et al., 1999). Furthermore, the education level is relevant in the homeownership affordability studies in Malaysia. This is because high level of education reflects the high level of income. On the other hand, with low education levels, household income is low due to low-wage jobs (Mohit & Nazyddah, 2011). This statement is also in line with the findings Norazmawati Md. Sani (2012) who found the lower income group in Kuala Lumpur have low education level which is more than 40 percent of the respondents have low education level appropriate to the low-skilled jobs.

The shifting of education level also plays an important catalyst in pushing homeownership in the lower income group. Higher homeownership rates for well-educated household compared to low educated households among the sample in the lower income groups in Norway. This shows the importance shift of the education level

to improve the affordability of the lower income group to homeownership. Not only that, high education level in low income group increase the probability of housing loans approved (Aarland & Nordvik, 2009). In addition, through the high income of the high education level allows higher amount of housing loan approved. This gives more options regarding the type of house to well-educated households. Thus, the educated households are more likely to own a quality house (Ibem, 2012). In this regard, it is the part of the government policy to emphasis on the education sector because the higher level of education becomes important instruments to increase homeownership rate for low income group (Aarland & Nordvik, 2009).

6. Savings

Saving factors act as important contributors to improve the affordability of homeownership. Savings can help to solve the problem of household finance to purchase a house. This is in line with the encouragement of savings programs for young people to homeownership in Canada. In addition to Canada, most European countries promote household savings to help them paying the down payment. Savings program that been carried out by formal financial institutions is the purpose for homeownership (Atterhog & Song, 2009). However it is different of saving concept in Nigeria where household savings carried out as informal basis to enable them to build their own home. Own funds are the major financial sources of homeownership in Nigeria. This is because of limited formal financing sector. Due to the homeownership entirely dependent on the household financial condition, the construction processes are uncertain. Construction period depends on the savings amount and household income (Nwuba, Kalu, & Umeh, 2015).

Savings result affects the homeownership affordability and indirectly help households owning assets. Consistent savings can be used when the occurrence of unexpected situations for example when households are facing health problems which affect the working ability. The available funds can be used to pay the housing costs and non-housing costs temporarily (Bramley, 2011). However, the amount of savings depends on demographic factors, namely, household status, whether married or single, employment stability which affect the household savings ability (Turner & Luea, 2009). Savings will not only help households to pay upfront money to buy the home, but large funds allow household to repair or upgrade their existing home in order to be more comfortable to be occupied (Porteous, 2011). In addition, savings also helps households as preparation for old days. This is because pension money that they earned is not necessarily enough to cover daily expenses (Decker & Dewilde, 2010).

7. Conclusion

The all five socio-economic factors discussed are some of the main factors that often apply in determining the homeownership affordability. Each factor plays a role of its own in the affordability of homeownership. Encouragement from the government to improve the nation's homeownership rate should move in tandem with the idea of planning and long term and short-term programmes to tackle affordability issue. The scrutiny of the socio-economic factors allow the government intervention to improve the affordability of homeownership, especially the lower income group. However it should be emphasized that the increase in income is not a guarantee of an increase in the homeownership affordability because of the characteristics of a household are different. However, the issue of ownership should be continuously debated because homeownership will not only benefit the households, but also benefit the social environment of the community as a whole.

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