

Affordable Housing

What is it and why does it matter?

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- Information is derived from outputs of national collaborative research program “**Housing affordability for lower income Australians**”
- Prepared by Mike Berry, Terry Burke, Michelle Gabriel, Keith Jacobs, Vivienne Milligan, Bill Randolph, Judy Yates
- Reports available on AHURI website
www.ahuri.edu.au

Outline

1. What is it?

- Definitions
- Issues

2. What is extent of need?

- Background data – overview only

3. What causes the problem?

- Drivers
- Trends

4. Why does it matter?

- Social
- Economic

1. What is it?

Affordable housing is housing that is

- adequate and appropriate for low and moderate income households and
- priced within their capacity to pay (so that they are not forced to go without other basic necessities)

1. What is it?

Affordable housing:

- Generic term to cover any low cost housing (irrespective of tenure).
- Defined without reference to dwelling occupants but intended to meet affordability benchmarks

Affordability:

- Usually denotes the maximum amount of income which households should be expected to pay for their housing

1. What is it?

Operationalising definitions is contentious

Affordable

- Dwelling based measures (eg rent 74.9% of market) do not take household capacity to pay into account
- Do not explicitly take adequacy and appropriateness of housing into account

1. What is it?

Operationalising definitions is contentious

Affordability

- Rules of thumb (eg 20%, 25% or 30% of income - **ratio measures**) don't recognise capacity to pay can vary by household type or level of income or trade-offs that can be made (eg size, location, tenure)
- More complex measures (eg adjusting for household type, adjusting for capacity to pay - **residual measures**) require assumptions to be made about non-housing needs

1. What is it?

Pragmatic compromise

1. For policy evaluation use simple affordability measure (eg rent no more than 30% income) as an indicator of extent of problem
2. Target only low and moderate income households
3. Take differences in capacity to pay into account only by using different income ranges for different household types
4. Take adequacy and appropriateness into account as constraints on allocation

1. What is it?

Defining affordable housing for planning purposes

Gross Income (\$pw)	Rent (\$pw)	Purchase (Dwelling price)*
\$400	\$120	\$ 80,000
\$600	\$200	\$120,000
\$800	\$240	\$160,000
\$1000	\$300	\$ 200,000

* Assuming 10% deposit, 25 year loan and 7% rate of interest

1. What is it?

Using median household income to target affordable housing for policy purposes

	Rent low income (80% median)	Purchase mod income (120% median)
all households	< \$750 pw	< \$1,100 pw

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Using median household income to target affordable housing for policy purposes

	Rent low income (80% median)	Purchase mod income (120% median)
all households	< \$750 pw	< \$1,100 pw
single	< \$300 pw	< \$400 pw
sole parent	< \$450 pw	< \$700 pw
couple	< \$700 pw	< \$1,050 pw
couple with children	< \$750 pw	< \$1,150 pw

2. What is extent of problem?

Over 1,000,000 households spend more than 30 per cent of their income on housing (**housing stress**)

- represents 1 in every 7 households
- represents approx 15 per cent of all households

Over 400,000 households spend more than 50 per cent (**housing crisis**)

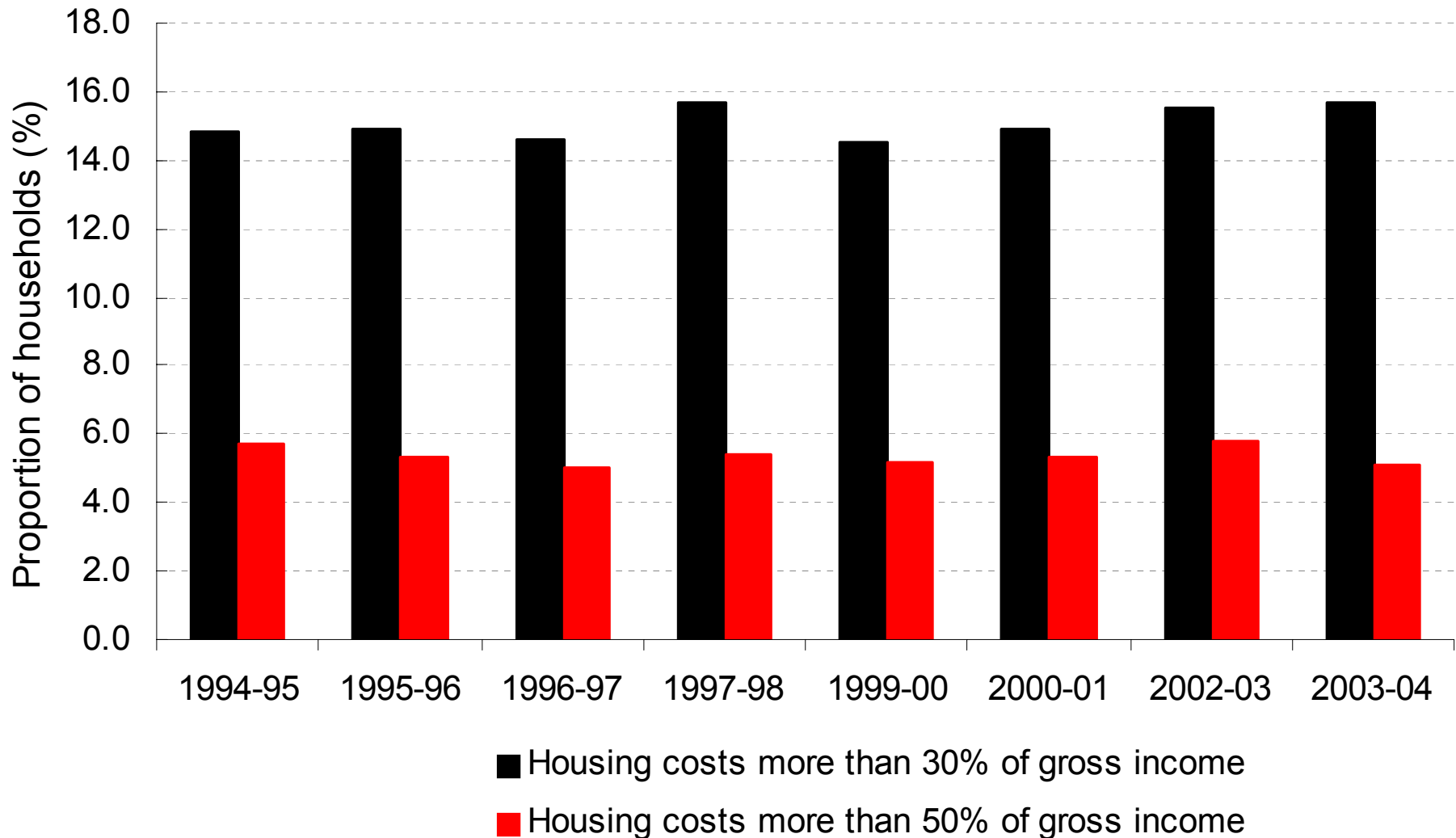
- represents 1 in every 20 households
- represents more than 5 per cent of all households

2. What is extent of problem?

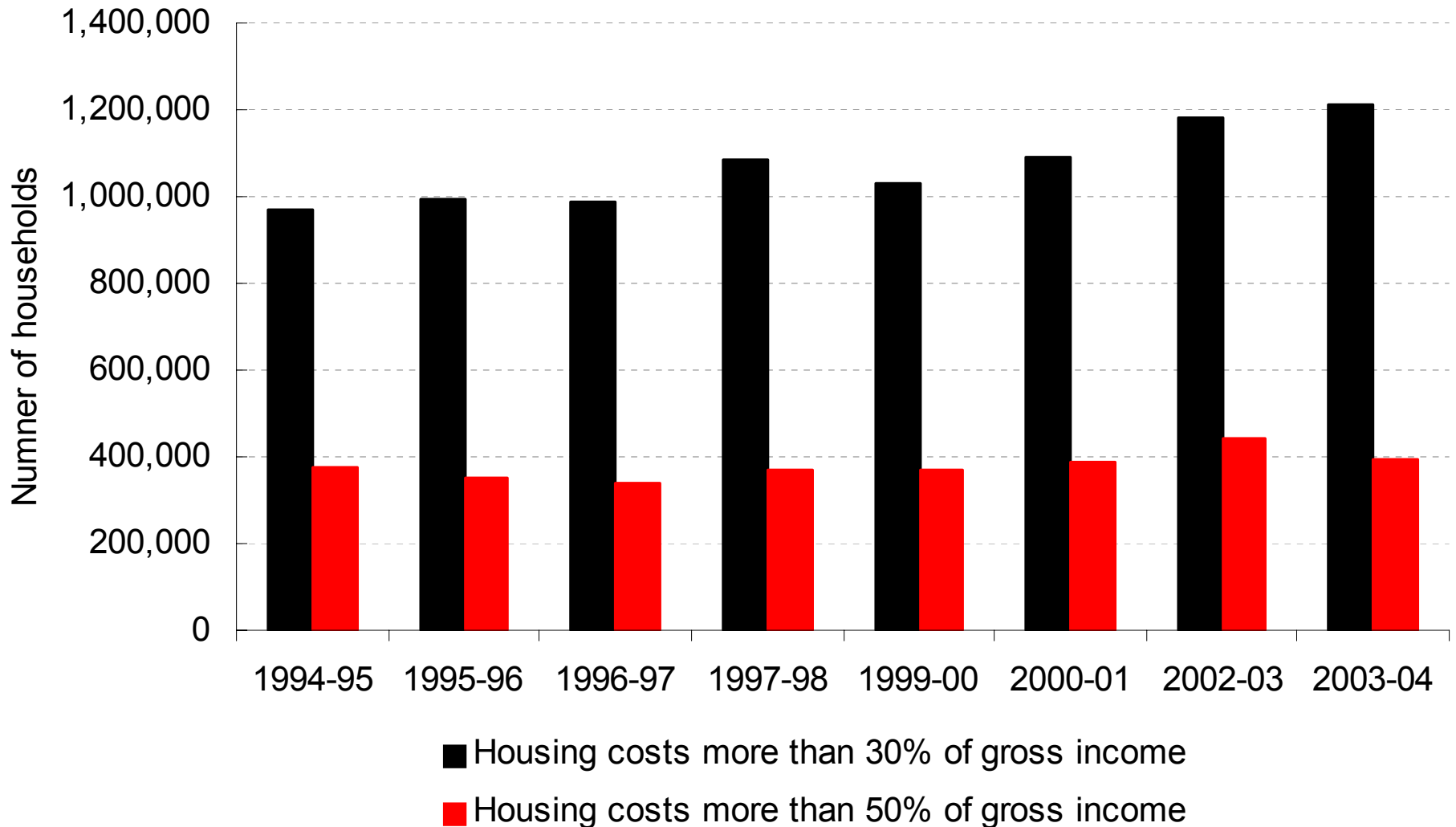
Proportions with high housing costs have been relatively stable for at least a decade

Total numbers have gradually increased

2. What is extent of problem?



2. What is extent of problem?



2. What is extent of problem?

The affordability problem is not one that is short-lived for those in stress

For persons living in a household in housing stress (paying more than 30 per cent) in 2001, the 3 waves of HILDA data show

- 50 per cent were still in stress in 2002 and
- 29 per cent were still in stress in 2003 (that is, for at least three years)

2. What is extent of problem?

The affordability problem is significant however affordability is measured. Housing stress affects

- 1,186,000 households in total
- 862,000 households on 30/40 ratio rule, gross income measure
- 862,000 households on 30/40 ratio rule, equivalised disposable income measure
- 1,359,000 households on residual measure, low income households and low cost budget standard
- 947,000 households on residual measure, low income households and poverty line standard

2. What is extent of problem?

More than half households in housing stress are households in the labour force

Almost half are working households

2. What is extent of problem?

Approximately 20 per cent of households in housing stress (however measured) live in Queensland

- 176,000/862,000 households on 30/40 ratio rule, gross income measure
- 265,000/1,359,000 households on LCBS residual measure
- 185,000/947,000 on PL residual measure

Marginally more in regional Qld than in Brisbane

Incidence of affordability problems in Qld in line with Australian average (only below Sydney and Melbourne)

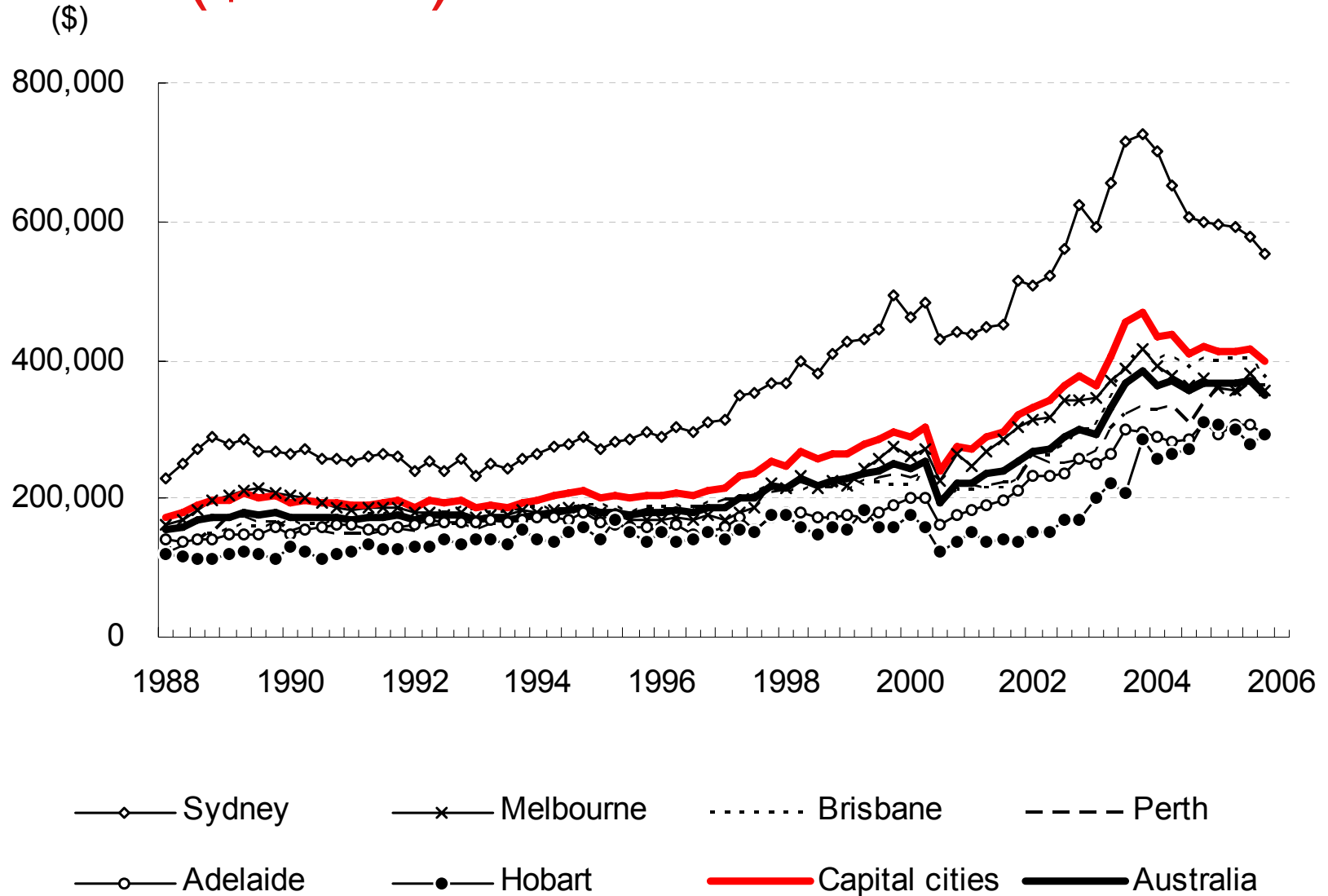
3. What causes affordability problems?

1. escalating house prices
2. labour market change,
 - uneven changes in real incomes
 - casualisation
3. demographic change
 - changing housing preferences placing pressure on the private rental market
4. a reduced supply of low rent dwellings
5. lack of innovation in the building industry
 - lack of acceptance of low-cost housing in the community.

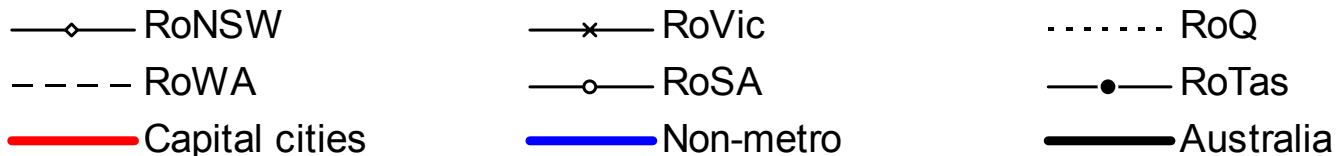
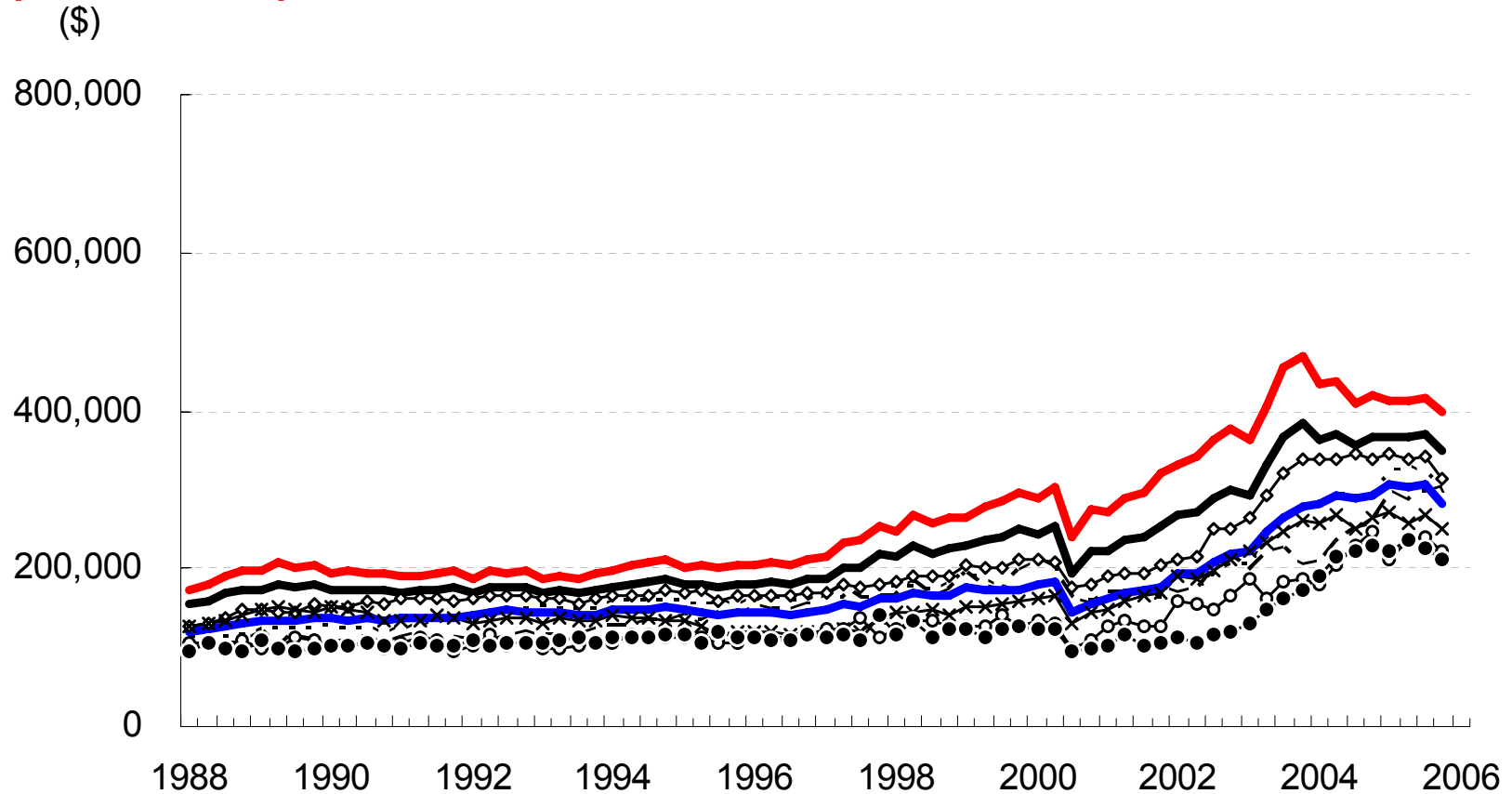
3. What causes affordability problems?

Focus on factors affecting housing markets and real house prices

Real house prices, capital cities (\$2005)



Real house prices, non-metro (\$2005)



Source: HIA/CBA Housing Reports

3. What causes affordability problems?

Focus on factors affecting housing markets and real house prices

1. Economic

- Real household incomes
- Real household wealth

2. Demographic

- Age structure
- Household growth

3. What causes affordability problems?

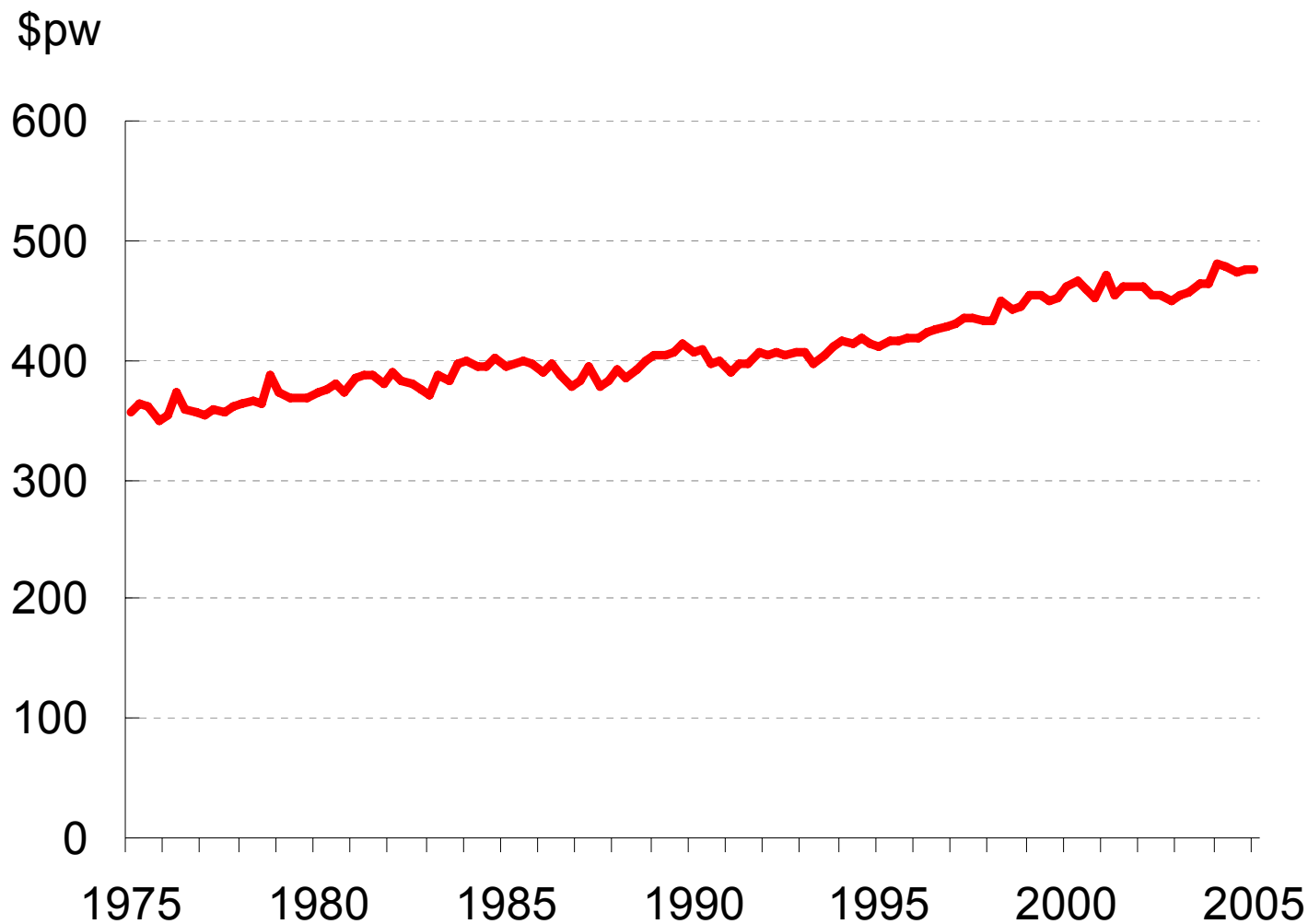
These factors compounded by

- Tax advantages to home ownership
- Exclusion of owner-occupied housing from assets test
- Highly urbanised population

3. What causes affordability problems?

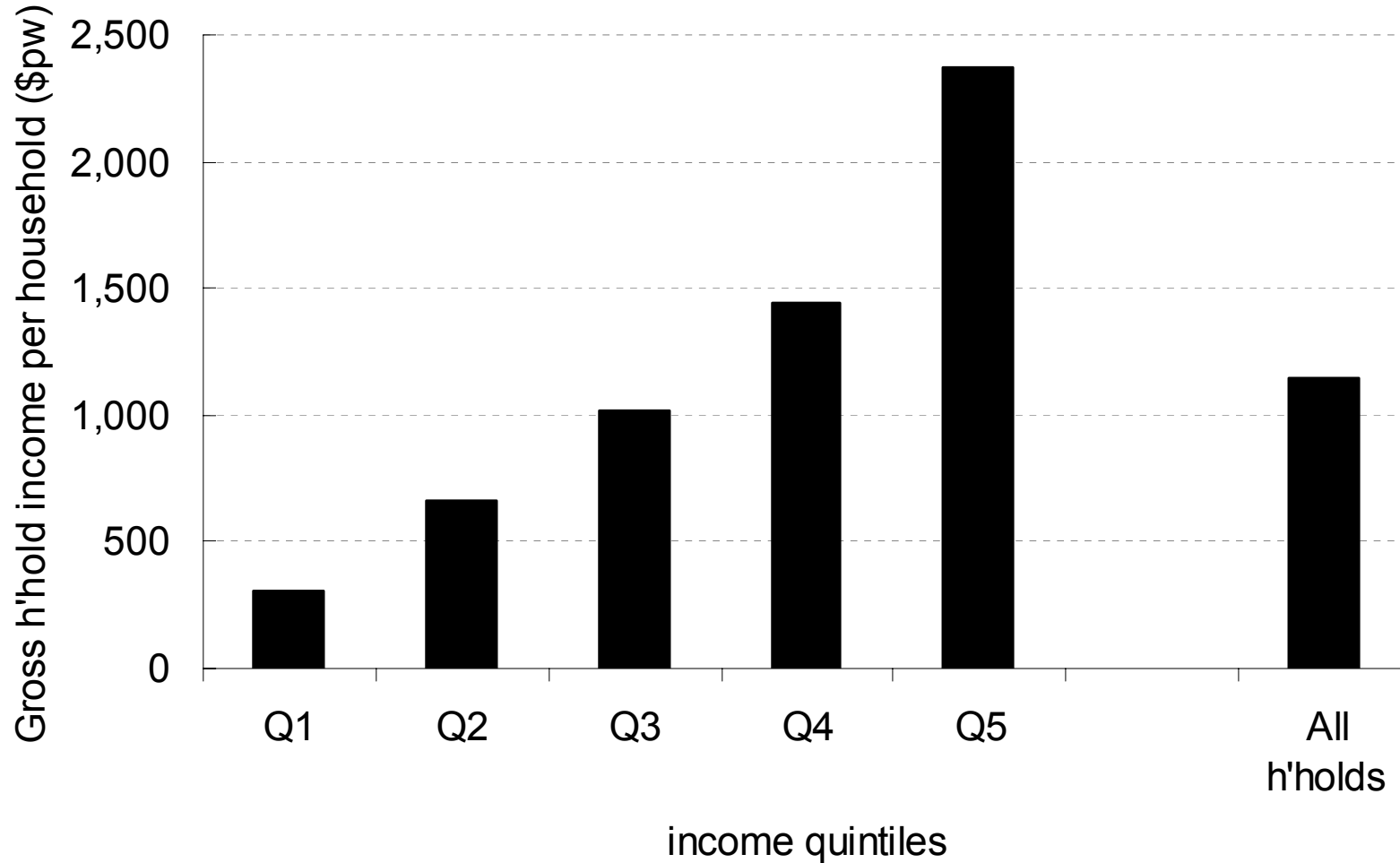
Increases in real household income per household

Real household income per capita (\$2005)



Source: ABS 5206.0, March 2005; ABS 3101.0, December 2004

Household income per h'hold (\$2005)

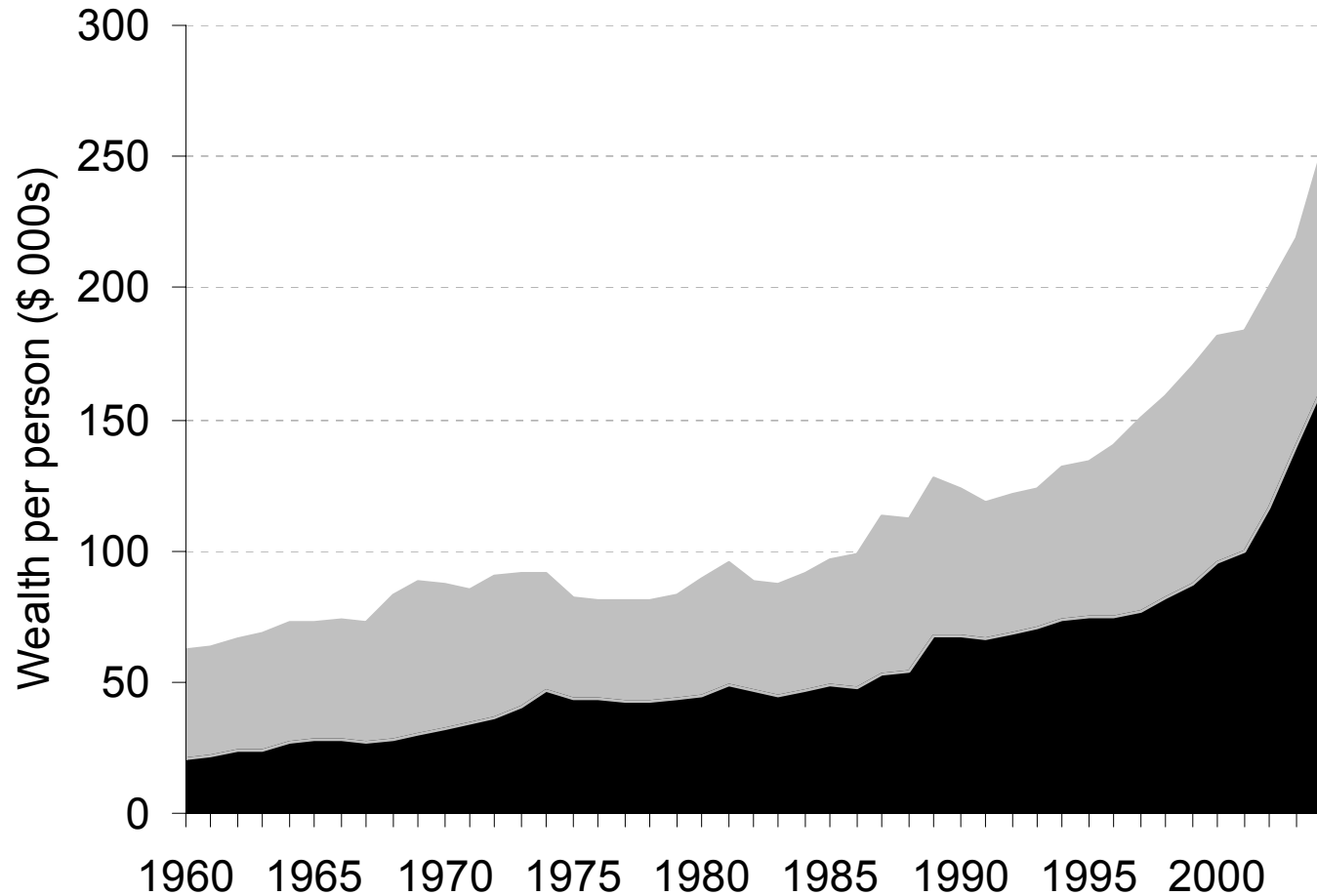


3. What causes affordability problems?

Increases in real household income per household

Increases in real household wealth

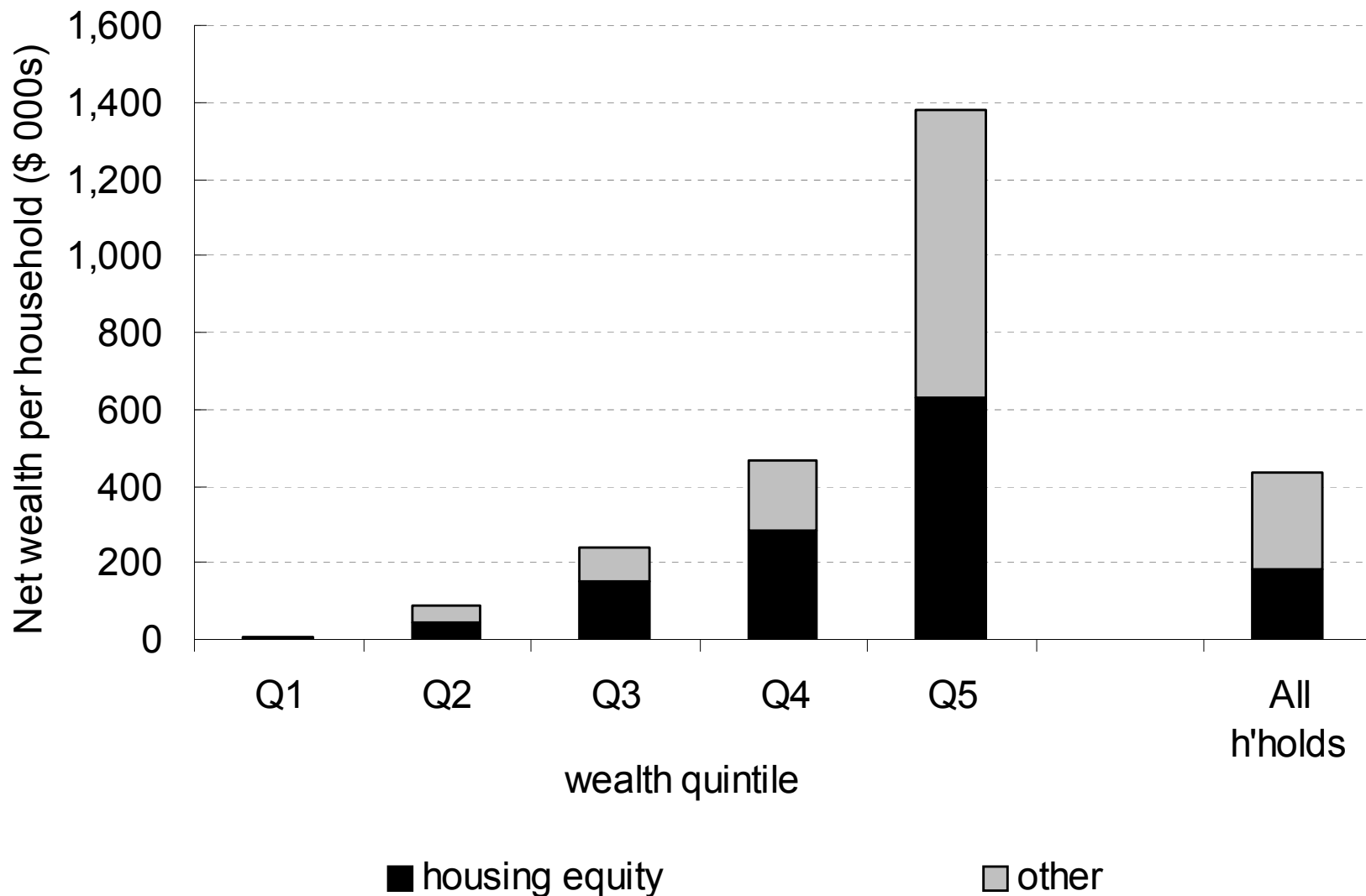
Average per capita wealth (\$2005)



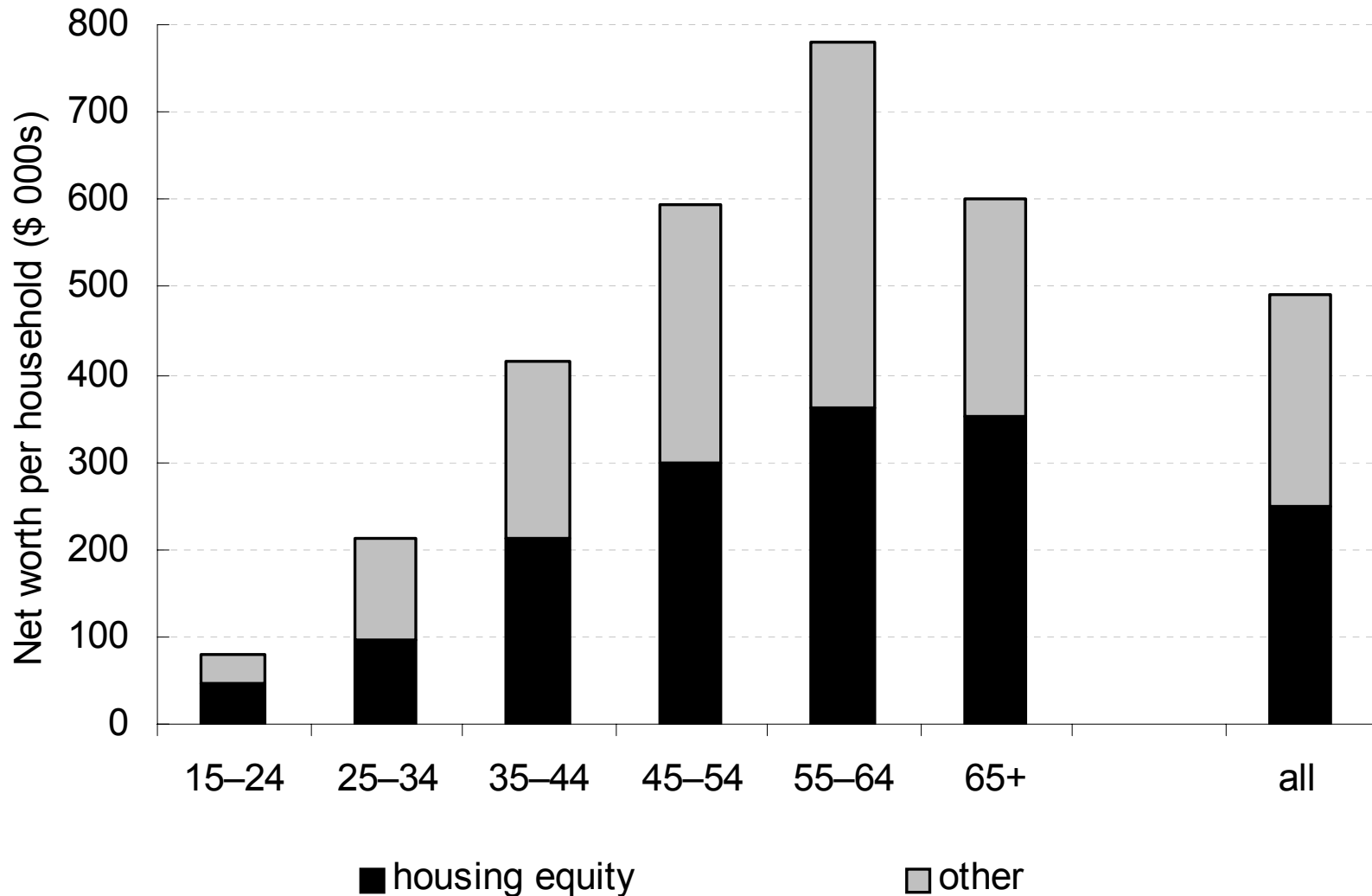
■ dwelling assets per person ■ other wealth per person

Source: Treasury Roundup Summer 2004-05

Average net household wealth (\$2005)



Average net household wealth (\$2005)



3. What causes affordability problems?

Increases in real household income per household

Increases in real household wealth

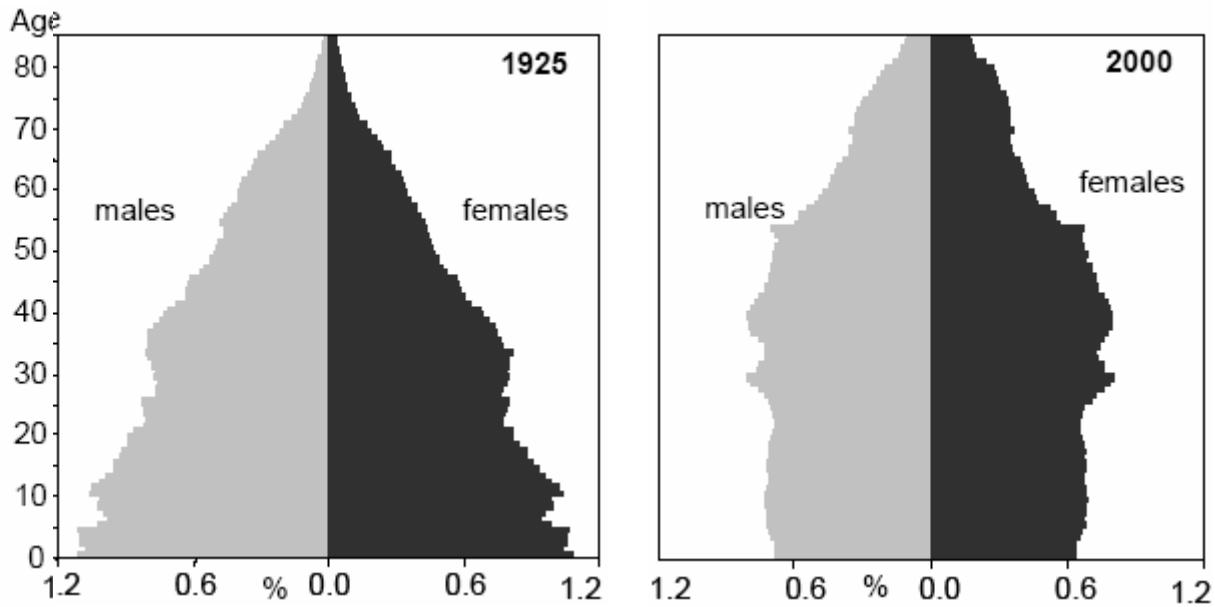
Changing demographics

3. What causes affordability problems?

Changing demographics

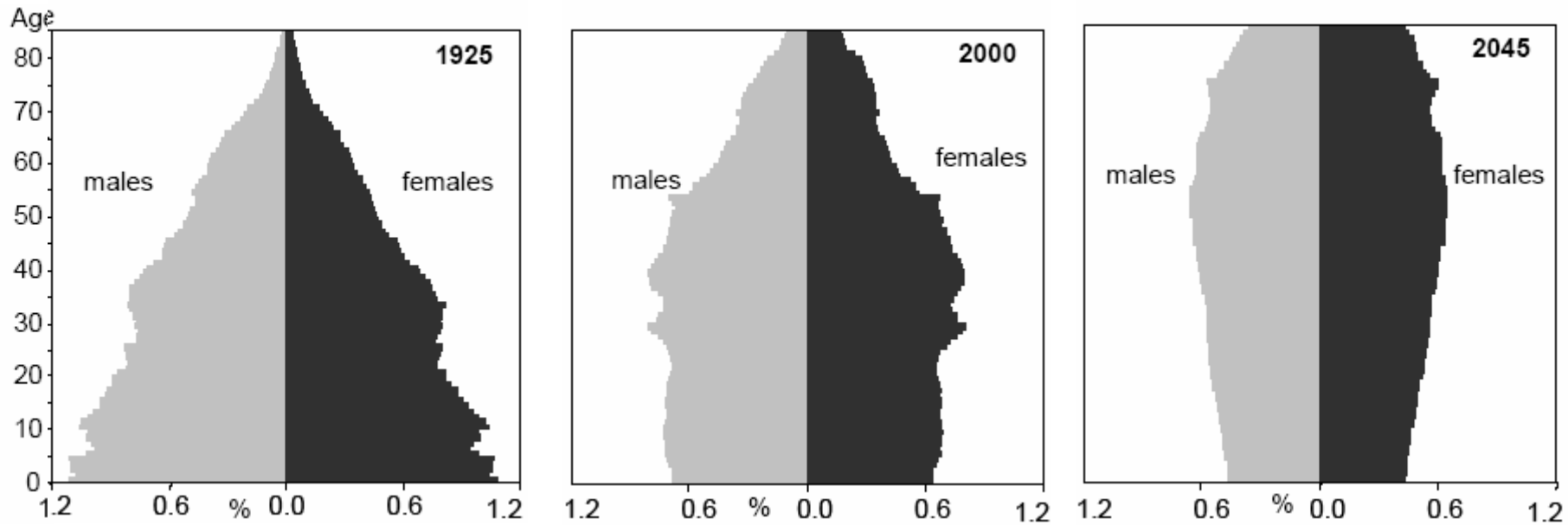
- Ageing of population

From Pyramid



Source: Productivity Commission report on Economic Implications of an Ageing Australia

From Pyramid To Coffin



Source: Productivity Commission report on Economic Implications of an Ageing Australia

3. What causes affordability problems?

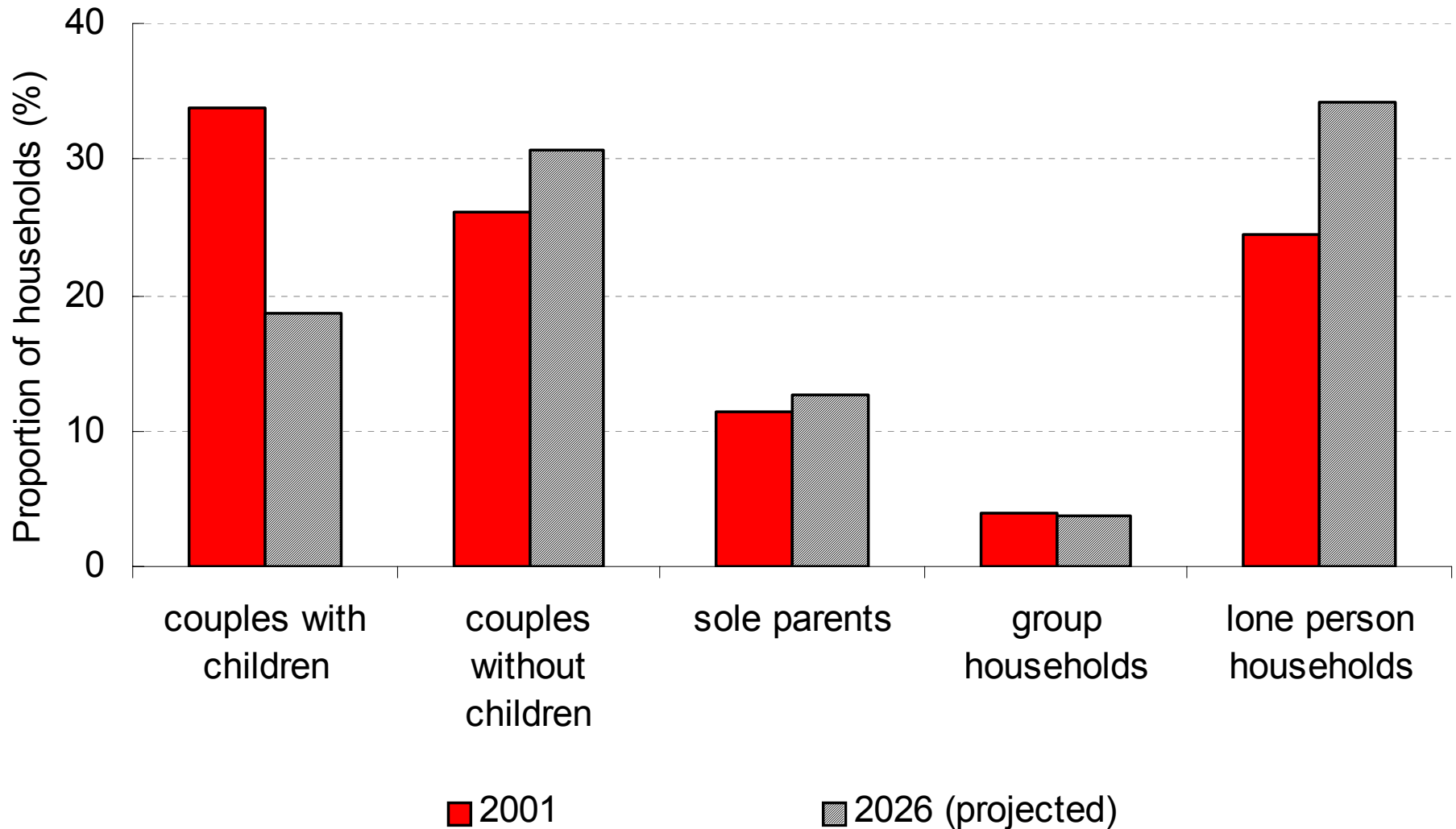
Changing demographics

1. Ageing of population

2. Changing demographic structure

- More single person households
 - Primarily due to ageing, delayed marriage
- Increasing numbers of couple families without children
 - Primarily due to ageing and declining fertility
- Increasing number of single parent families
 - Primarily due to increased marital break up

Household numbers: 2001 and 2026



3. What causes affordability problems?

Changing demographic structure implies decreasing household size BUT.....

Decreasing household size means household growth exceeds population growth which is projected to increase for as far out as ABS prepares projections (until 2101)

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Decreasing household size means household growth exceeds population growth which is projected to increase for as far out as ABS prepares projections (until 2101)

Total number of households likely to continue to increase for at least next 100 years

3. What causes affordability problems?

1. Household growth puts pressure on housing prices

3. What causes affordability problems?

1. Household growth puts pressure on housing prices
2. Greatest pressure will come from the effects of older home owning Australians remaining in their homes for longer periods of time

3. What causes affordability problems?

1. Household growth puts pressure on housing prices
2. Greatest pressure will come from the effects of older home owning Australians remaining in their homes for longer periods of time
3. These pressures will be greater, the wealthier are older home owners and the greater their capacity to extract their housing wealth while remaining in their home

4. Why does this matter?

Two main reasons

- Social
- Economic

4. Why does this matter?

Most of older home owners do not face affordability problems

- Less than 10% of households in housing stress are 65 years or older
- Only 6% of older households are in housing stress

4. Why does it matter?

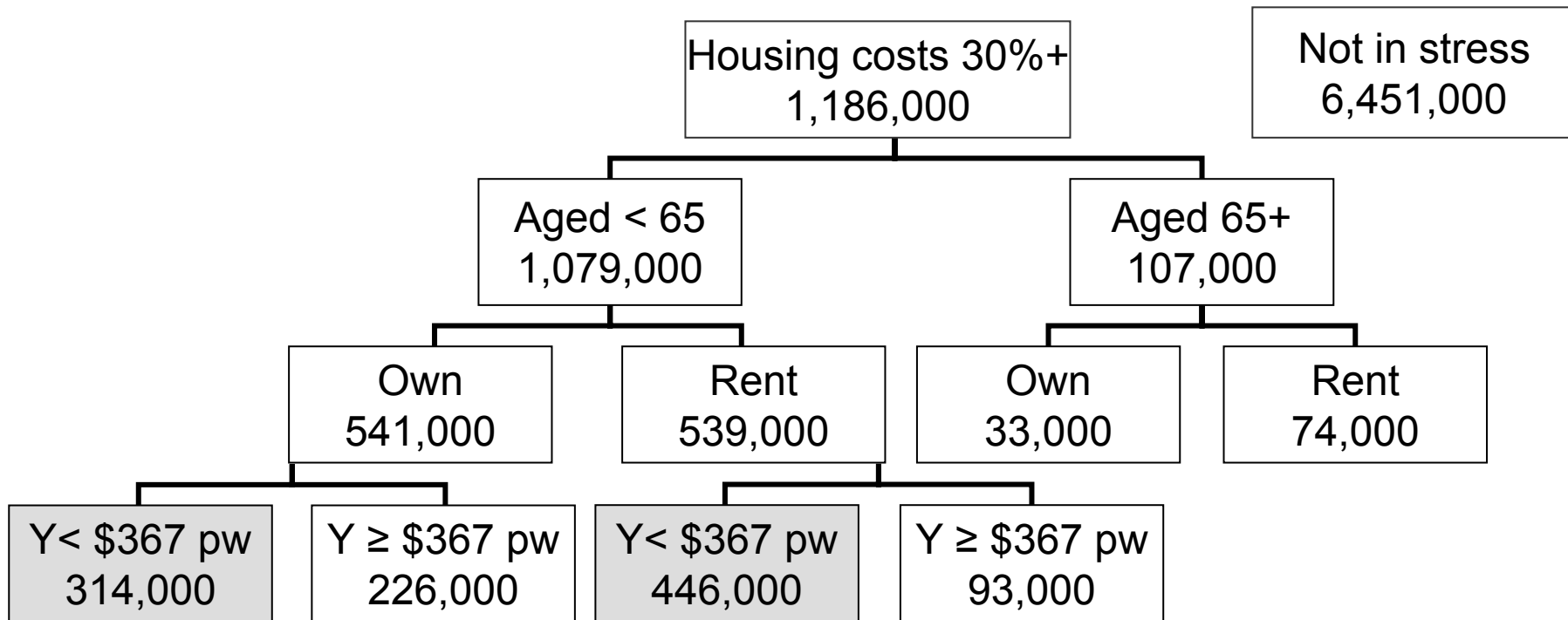
Most of these home owners do not face affordability problems

- Less than 10% of households in housing stress are 65 years or older
- Only 6% of older households are in housing stress

Impact is felt by

- Young renter households
- Young home buyers

Affordability outcomes, 2002-03



30/40 rule based on equivalent disposable household income

4. Why does it matter?

1. Young renters are deferring home ownership
 - Raises uncertainties about capacity to fund old age
 - Also deferring having children
2. Marginal young purchasers are forced to outer fringes of urban regions
 - Contributes to long commutes to work
3. Many lower paid workers are being displaced from high cost regions
 - Implies potential for exclusion from benefits of economic growth

4. Why does it matter?

1. Potentially adds to labour market shortages in high cost areas
 - Affordability problems are greatest where primary income earner is employed in high cost region in an occupation likely to be low skilled, casualised and part-time
2. Rising house prices and increasing debt burdens amongst households with a mortgage
 - Increasing (housing) wealth adds to household consumption
 - Increasing debt adds to interest rate sensitivity
 - Both potentially add to economic volatility and greater risk of boom-bust cycles

Affordable housing

What is it?

- One answer to affordability problems

Why does it matter?

- Reduces social costs
- Reduces economic costs