

## Housing affordability and private renting

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... a mismatch in the supply of  
and need for low rent  
dwellings in the private rental  
market

### Outline

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- New data on affordability outcomes for private renters
  - Overview of factors contributing to these outcomes
- Old data on mismatch
  - Comment on recent trends
- Why might we be concerned?
  - Implications of widespread affordability problems

### Affordability outcomes - issues

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- How should affordability be measured?
- Does it matter?

### Affordability outcomes - issues

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- How should affordability be measured?
  - 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)
  - More complex measures (eg adjusting for household type, adjusting for capacity to pay - **residual measures**) require assumptions to be made about non-housing needs and don't recognise trade-offs that can be made (eg size, location)

### Affordability outcomes - issues

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- Does it matter?
  - Call on evidence base
  - Start with ratio measures
  - Compare with residual measures

## Affordability outcomes

- 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

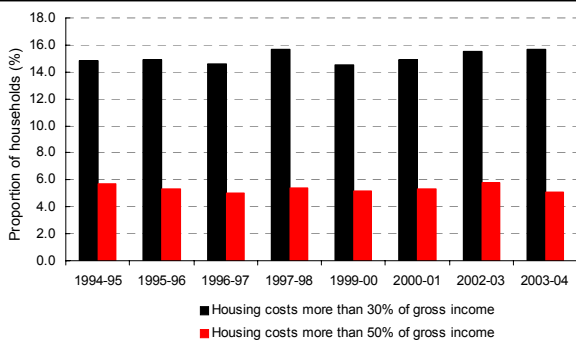
Source: Yates and Gabriel, CRV3 Background Report

## Affordability outcomes

- Proportions with high housing costs have been relatively stable for at least a decade
- Total numbers have gradually increased

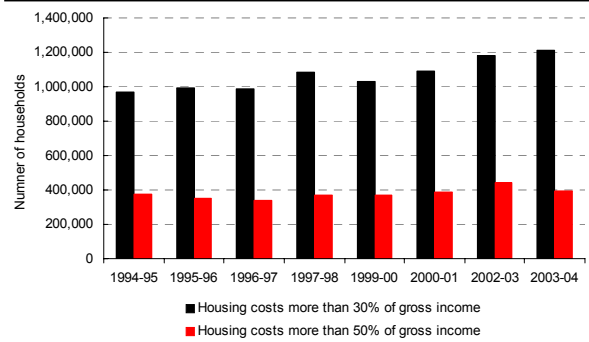
Source: Yates and Gabriel, CRV3 Background Report

## Affordability outcomes, 1994-95 – 2003-04



Source: Yates and Gabriel, Housing Affordability in Australia, updated with SIH 2003-04

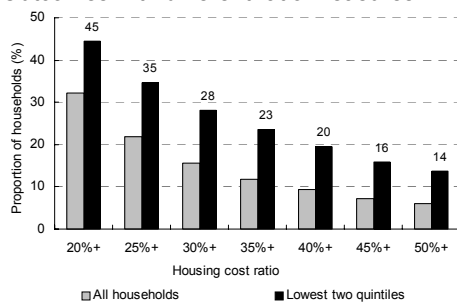
## Affordability outcomes, 1994-95 – 2003-04



Source: Yates and Gabriel, Housing Affordability in Australia, updated with SIH 2003-04

## Affordability outcomes, 2002-03

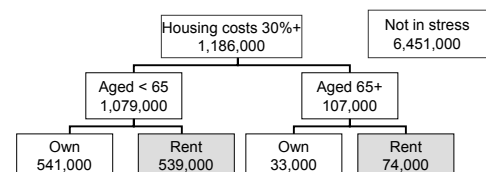
- Outcomes with different ratio measures



Source: Yates and Gabriel, CRV3 Background Report

## Affordability outcomes, 2002-03

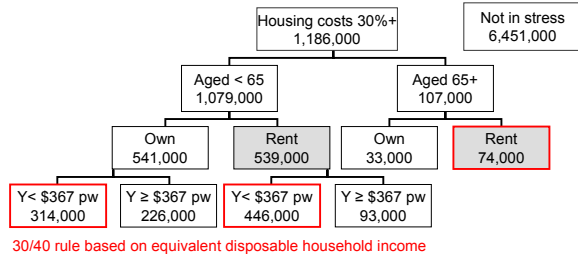
- Over half paying 30%+ are private renters



Source: Yates and Gabriel, CRV3 Background Report

## Affordability outcomes, 2002-03

- Most paying 30%+ are low income households



30/40 rule based on equivalent disposable household income

Source: Yates and Gabriel, CRV3 Background Report

## Affordability outcomes

- Equivalent income is defined with single person income as benchmark; approx translation as below

	Equiv disp income (\$pw)	Disp income (\$pw)	Gross income* (\$pw)
Single	367	367	480
Sole parent (1 child)	367	477	612
Couple	367	551	673
Couple (2 children)	367	771	1058

\* 1 earner, excl family tax benefit

## Affordability outcomes, 2002-03

- 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

Source: Yates and Gabriel, Housing Affordability in Australia

## Affordability outcomes, 2002-03

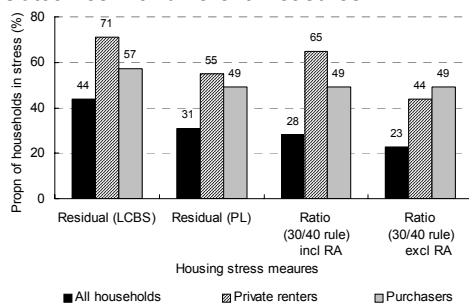
- The affordability problem is worse for private renters however affordability is measured. Housing stress affects

- 460,000 private renter households on 30/40 ratio rule, equivalised disposable income measure
- 500,000 private renter households on residual measure, low income households and low cost budget standard
- 398,000 private renter households on residual measure, low income households and poverty line standard
- Incidence of affordability problems greatest for private renters

Source: Yates and Gabriel, Housing Affordability in Australia

## Affordability outcomes, 2002-03

- Outcomes with different measures



Source: Yates and Gabriel, CRV3 Background Report

## Affordability outcomes, 2002-03

- Greatest numbers of low income renter households in housing stress are single person households (who also have the highest incidence of housing stress)

	No. in stress*	Propn in stress (%)	Incidence of stress (%)
couple	53,000	12	63
couple with children	66,000	14	41
single person	206,000	45	82
sole parent	93,000	20	62
group	30,000	6	77
other	12,000	3	62
<b>all private renters</b>	<b>460,000</b>	<b>100</b>	<b>65</b>

\* based on 30/40 rule based on equiv disp income

Source: SIH 2002-03 unit record file

## Affordability outcomes, 2002-03

- Greatest numbers of low income renter households in housing stress are single person households (who also have the highest incidence of housing stress)

	No. in stress*	Propn in stress (%)	Incidence of stress (%)
couple	53,000	11	63
couple with children	104,000	21	64
single person	225,000	45	89
sole parent	92,000	18	62
group	25,000	5	66
other	1,000	0	7
<b>all private renters</b>	<b>500,000</b>	<b>100</b>	<b>71</b>

\* based on LCBS, low income private renter households

Source: SIH 2002-03 unit record file

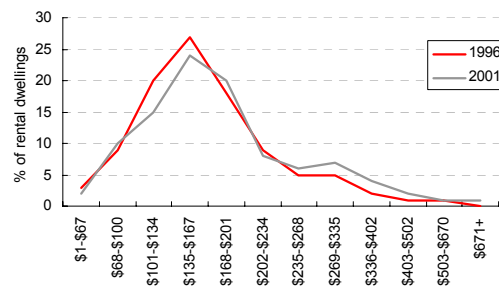
## Affordability outcomes

- Does it matter how affordability is measured?
  - Not in terms of assessing magnitude of problem
  - Marginally affects composition of households with greatest affordability problems but
    - incidence is highest for young, single households on both measures, relatively higher for households with children on LCBS
    - greatest numbers in stress are young singles on all measures
  - Implications for type of housing needed is same regardless of what measure is employed

## Mismatch

- Affordability problems for low income single person households exacerbated by
  - Loss of existing low rent stock
  - Inadequate supply of low rent dwellings
  - Occupation of existing low rent stock by higher income households
  - Location of low rent stock
- Get mismatch on several fronts
  - Types of dwellings available
  - Location of dwellings
  - Use of dwellings

## Distribution of private rents, 1996 and 2001 (\$2001)



Source: Yates and Wulff, Census 1996, 2001

## Distribution and shortage of affordable rental stock:1996-2001

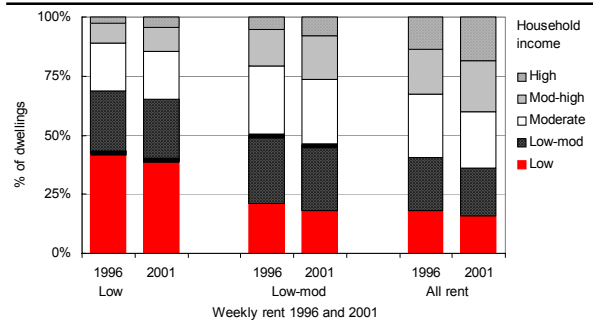
Household Income	Renter 1996			Renter 2001		
	H'holds cum. %	Affordable Stock 1996 cum. %	Shortage 1996 cum. total	H'holds cum. %	Affordable Stock 2001 cum. %	Shortage 2001 cum. total
Low	19	12	-76,000	16	12	-59,000
Low-moderate	41	59	219,000	36	50	184,000
Moderate	60	86	319,000	53	78	340,000
Moderate-high	79	96	215,000	71	92	279,000
High	100	100	0	100	100	0
<b>Totals</b>	<b>1,234,000</b>	<b>1,234,000</b>	<b>0</b>	<b>1,328,000</b>	<b>1,328,000</b>	<b>0</b>

Low rent < \$100 pw, low income < \$335 pw (in \$2001)

Low-mod rent < \$167 pw, low-mod income < \$558 pw (in \$2001)

Source: Yates, Wulff and Reynolds (2004) AHURI report on Low Rent Supply

## Distribution of household income by rent paid, 1996 and 2001



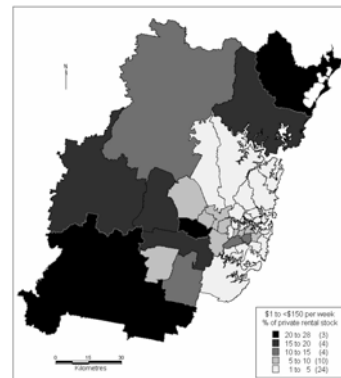
Source: Yates, Wulff and Reynolds (2004) AHURI report on Low Rent Supply

## Mismatch

- Occupation of affordable stock by higher income households
  - 59,000 shortage for low income households increases to 153,000 shortage (represented 12 per cent stock in 2001)
  - 184,000 surplus for lowest 2 quintiles converted to 138,000 shortage

Source: Yates, Wulff and Reynolds (2004) AHURI report on Low Rent Supply

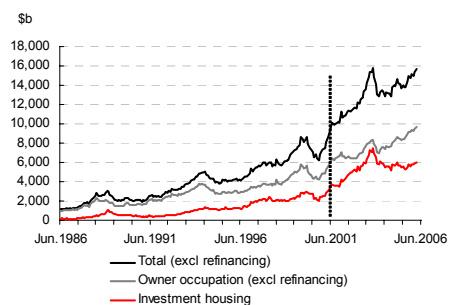
## Proportion of low rent dwellings in each LGA: Sydney 2001



## Mismatch

- Recent trends
  - Since 2001, boom in investment in rental housing peaked in 2003
  - Interest rate increase in 2006 likely to constrain investment
  - Slow down in new house construction likely to add to pressures on demand
  - Vacancy rates low
  - Housing affordability for home purchasers still poor
  - Increased tax incentives in 2006 to save for retirement via superannuation rather than rental investment
- All likely to add to pressures on private rental market (and particularly lower end of market)

## Lending for housing



## Why might we be concerned?

- Inadequate supply of low rent dwellings
  - Contributes to affordability crisis for lower income households
  - Many households are paying very high proportions of income in meeting housing costs
- Location of low rent dwellings adds to processes of social and spatial polarisation
  - Increasing concentration of affordable housing can result in geographic isolation of lower income households
  - Can affect capacity to participate in economic growth

## Why might we be concerned?

- Many lower paid workers are being displaced from high cost regions
  - Potentially adds to labour shortages in high cost regions
  - 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