Housing affordability in Australia
Evidence, implications, approaches

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Key message

- Analysis and understanding of affordable home ownership strengthened by situating within broader housing system.
- Responses to the problems of home ownership affordability lie across the housing system—mezzanine arrangements in affordable rental and affordable home ownership.
Structure

Evidence, policy implications and policy approaches

1. Housing affordability a widespread problem
2. Multiple causes
3. Structural not cyclical
4. Projected to worsen
5. Private rental biggest issue
6. Not just household but macro consequences
Housing affordability
A widespread problem

Housing cost outcomes for home buyers, 2009–10

Housing cost outcomes for renters, 2009–10

Source: National Housing Supply Council 2012
Capital city house prices

* Excluding apartments; measured as areas outside of capital cities in mainland states

Source: RBA, RP Data-Rismark
Multiple causes of housing affordability problems

- Population and household growth including high immigration, demographic ageing and growth of single person households
- Rising real incomes
- Lower real interest rates
- Introduction of the GST
- The changes to capital gains tax
- Land supply and infrastructure charging (Sydney) and more generally financial de-regulation.
House prices have risen faster than incomes

Source: PC, ABS, RBA, from Yates 2011
Household finances
per cent of household disposable income

* Household sector excludes unincorporated enterprises; disposable income is after tax and before the deduction of interest rate payments.

Source: ABS, RBA
Landlords, capital gains tax and negative gearing

Source: Saul Eslake, ANZ Bank presentation to Australian Financial Review 2007 Housing Congress
Quantity of housing consumed rising

- Average household size fell throughout 20th century from 4.5 to 3.0 persons, and down to 2.5 persons in 2006
- 1994 to 2009, the average size of a new house in Australia increased by 30% from 189 to 245 square metres
- Median price of housing in Australia rose in the same 15 year period by 240% from $125 000 to $425 000
- Real expenditure on each new dwelling built was 60% higher in 2008 than it was in 1992
- 2006 there were 108 dwellings for every 100 households
- 25% households single people yet 8% stock one bed.
Home ownership rates for young have declined

Source: Yates et al. 2008
Percentage of houses sold
Affordable to low-moderate income earners

1981

2006

Source: Hulse et al. 2010
Over 50 and falling out of home ownership

- 11% of a longitudinal sample of over 50s lost home ownership between 2002–06.
- 36% of these moved onto housing assistance programs.
- Owner occupiers who exit home ownership after 50 years of age are significantly (29%) more likely than longer term renters to make transitions onto housing assistance.
- Once older Australians enter housing assistance programs they are unlikely to leave them.
Structural not cyclical

- Long run data on house prices and incomes
- Demography shifts, population growth yet limited supply response
- Sustained falls in home ownership across cohorts
Housing stress by tenure
Projections 2025 and 2045

Source: Yates et al. NRV 3, Research Paper 11
Housing affordability is a private rental problem

- Data from NHSC on numbers and percentages of renters and owners in stress. Bottom 40% paying more than 30%
Shortage and availability
Low-income households: state capital cities

- Number of Q1 private renter households
- Number of affordable (R1) dwellings
- Number of Q1 households actually in affordable stock
Macro consequences

- Labour supply – economic productivity
- Social cohesion
- Access to adequate housing affects all Australians and is integral to a decent life. It is part of what enables full participation in society. However, the ability of many Australians to purchase or rent affordable housing has fallen over the past decade, and housing supply and allocation suffer from market inefficiencies and distortions’

Source: Commonwealth Treasury, Red Book 2010, p.16
Policy implications

1. Existing policies and outlays insufficient
2. Causes not preserve of housing policy
3. Short term demand side subsidies won’t address causes
4. Sustained action and expenditure required
5. Private rental needs attention
6. Do nothing and you compromise other government objectives
Solutions - approaches

- Affordable rental
- Affordable home ownership
Private rental failure

- AHURI research on private rental failure
Affordable rental

- National Rental Affordability Scheme
  - $6000 + $2000 annually for 10 years, tax credit, cash, in kind
  - New build or refurbishment
  - 20% below market rent of that dwelling
  - Specified income eligibility target groups

- Affordable housing associations
  - Growth of preferred providers
  - Limited asset transfer
  - Not highest needs
Affordable home ownership

- First Home Saver Accounts
  - Deposit savings assistance
  - Taxed at lower rate

- Housing Affordability Fund
  - $512 million for infrastructure
  - To reduce cost of houses to purchasers
  - Local governments and developers and/or state governments
Affordable home ownership

- Government land audit and sales for supply of affordable housing

- Land use planning
  - Include affordable housing in local plans
  - Inclusionary zoning, South Australia 15%
  - Urban consolidation, growth boundaries
Planning for more affordable housing

- Increase housing supply
- Reduce barriers to affordable housing development
- Preserve and offset the loss of low-cost housing
- Encourage new affordable housing
- Secure a dedicated affordable housing supply in new developments
Encourage new affordable housing supply

- Graduated planning standards relating to building use and context (e.g. boarding houses near transport require less parking)
- Planning bonuses/concessions on development standards for designated affordable housing contributions
- Fast track approvals for affordable housing meeting defined criteria
- Fee discounts for affordable housing meeting defined criteria
Secure new dedicated affordable housing

- Inclusionary zoning to provide mandatory contributions by all
- Identified developments in the zone to contribute to affordable housing fund/supply
- Impact fees—mandatory contribution to offset impact of development on affordable housing needs
References


## Tax expenditure by tax base and household income quintile, 2005–06

### Gross household income quintile

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<th>3</th>
<th>4</th>
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Source: Yates 2009
Wealth distribution by tenure and age ($’000s)

Source: Yates 2011
Escaping housing stress

Source: Yates 2011

- Hazard rate vs. Year for Owner purchaser and Private renter.
- Hazard rate vs. Year for Couples with dependents and Couples without dependents.
Causes impact different places differently

- 2001-10, Perth house prices rose 222%
- 2001-10, Darwin house prices rose 186%
- 2001-10, Melbourne house prices rose 144%
- 2001-10, Sydney house prices rose 83%
Policy response
Stimulate low-cost supply using tax credits—eventuated in National Rental Affordability Scheme.

2008
Australia’s private rental market: changes (2001–2006) in the supply of, and demand for, low rent dwellings

2005
Motivations of investors in the private rental market

2003
A review of private rental support programs and their effectiveness in assisting tenants on low incomes

2003
Changes in the supply of and need for low rent dwellings in the private rental market

2001
Demand subsidies for private renters: a comparative review

Policy issue
Shortage of low-cost rental stock especially for low-income households—failure of private rental market.
Policy issue
Need to attract institutional investment in affordable rental housing supply.

Policy response
Exploration of alternate funding mechanisms drawing on successful international practices.

2012
Housing Supply Bonds: a suitable instrument to channel investment towards affordable housing in Australia?

2010
International measures to channel investment towards affordable rental housing and their adaptation to Australian conditions

2002
A private investment vehicle for the community housing sector

2002
Financing affordable housing: a critical comparative review of the United Kingdom and Australia

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New approaches to expanding the supply of affordable housing in Australia: an increasing role for the private sector