Do Traditional Measures of Housing Stress Accurately Reflect Household Financial Wellbeing?
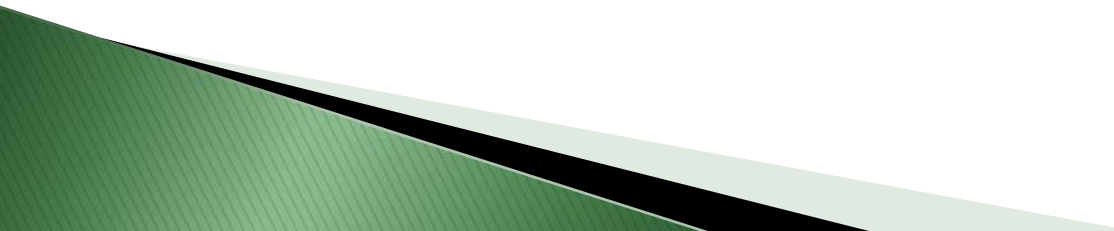
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Traditional Housing Stress Measures

- Based on housing cost to income ratios
- 30% rule
  - Often used by mortgage lenders when evaluating an applicant's ability to repay
- 30/40 rule
  - Attempts to exclude those who paying more than 30% of income on housing costs by choice
- Variants include 30/10-40 rule
- Median dwelling price to income ratios
  - Useful indicator of affordability for new buyers
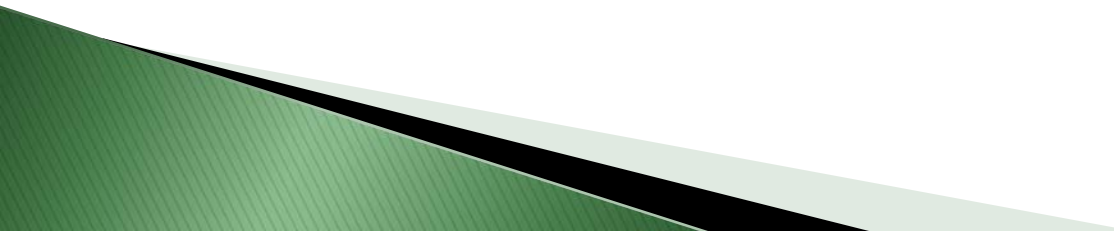 - Can be misleading e.g. mining towns in WA

Problems with Traditional Housing Stress Measures

- Ignores those who cannot afford to access housing

- Does not tell us the extent to which housing is appropriate

- Dimensions of wellbeing not captured

- Makes a broad assumption that all households in housing stress are suffering financial hardship

Data & Method

- Household, Income and Labour Dynamics in Australia (HILDA) Survey
- Focus on owner purchasers & private renters
- Calculation of traditional housing stress measures
  - Owner purchaser: mortgage repayments / disposable income
  - Private renter: rent / disposable income
  - Derive 30% rule, 50% rule, 30/40 rule, 30/20 rule

Data & Method

- Financial wellbeing variables
  - Based on 'experiences' of households
  - Perception of level of prosperity
  - Difficulty meeting food and shelter needs
  - Measures required to raise finances in an emergency
  - Difficulty raising $2,000 in an emergency

Trends: Housing Stress vs Financial Wellbeing

% in housing stress according to traditional housing stress measures

Housing stress measures	2001	2008
30/40 rule	16.8	18.8
30% rule	26.9	35.7
50% rule	8.9	11.2

Prosperity given current needs & financial responsibilities, % by column

Perception of prosperity	2001	2008
Prosperous / very comfortable	12.2	12.0
Reasonably comfortable	50.9	52.0
Just getting along	30.2	30.3
Poor / very poor	5.0	4.2

Prosperity Given Current Needs & Financial Responsibilities (% by column)

30% Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	15.0	10.0
Reasonably comfortable	54.9	45.7
Just getting along	27.7	35.9
Poor / very poor	2.2	8.5

50% Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	13.8	10.3
Reasonably comfortable	53.3	40.6
Just getting along	29.3	39.3
Poor / very poor	3.6	9.2

# Prosperity Given Current Needs & Financial Responsibilities (% by column)

30/40 Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	14.8	6.5
Reasonably comfortable	55.6	33.3
Just getting along	27.3	45.9
Poor / very poor	2.4	14.3

30/20 Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	14.1	6.2
Reasonably comfortable	54.3	29.0
Just getting along	28.8	45.0
Poor / very poor	2.7	19.8
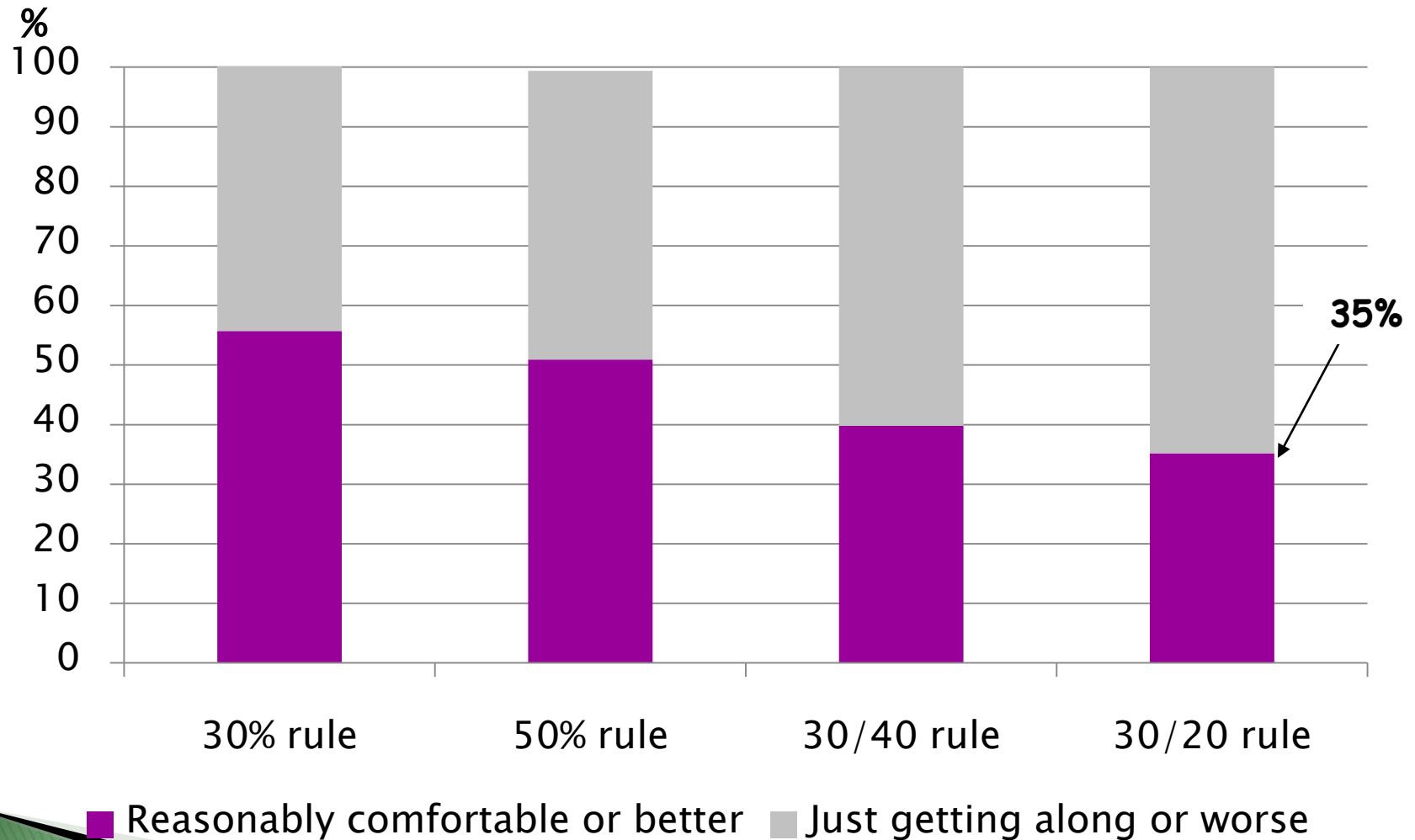
Difficulty Meeting Food & Shelter Needs by those in Housing Stress
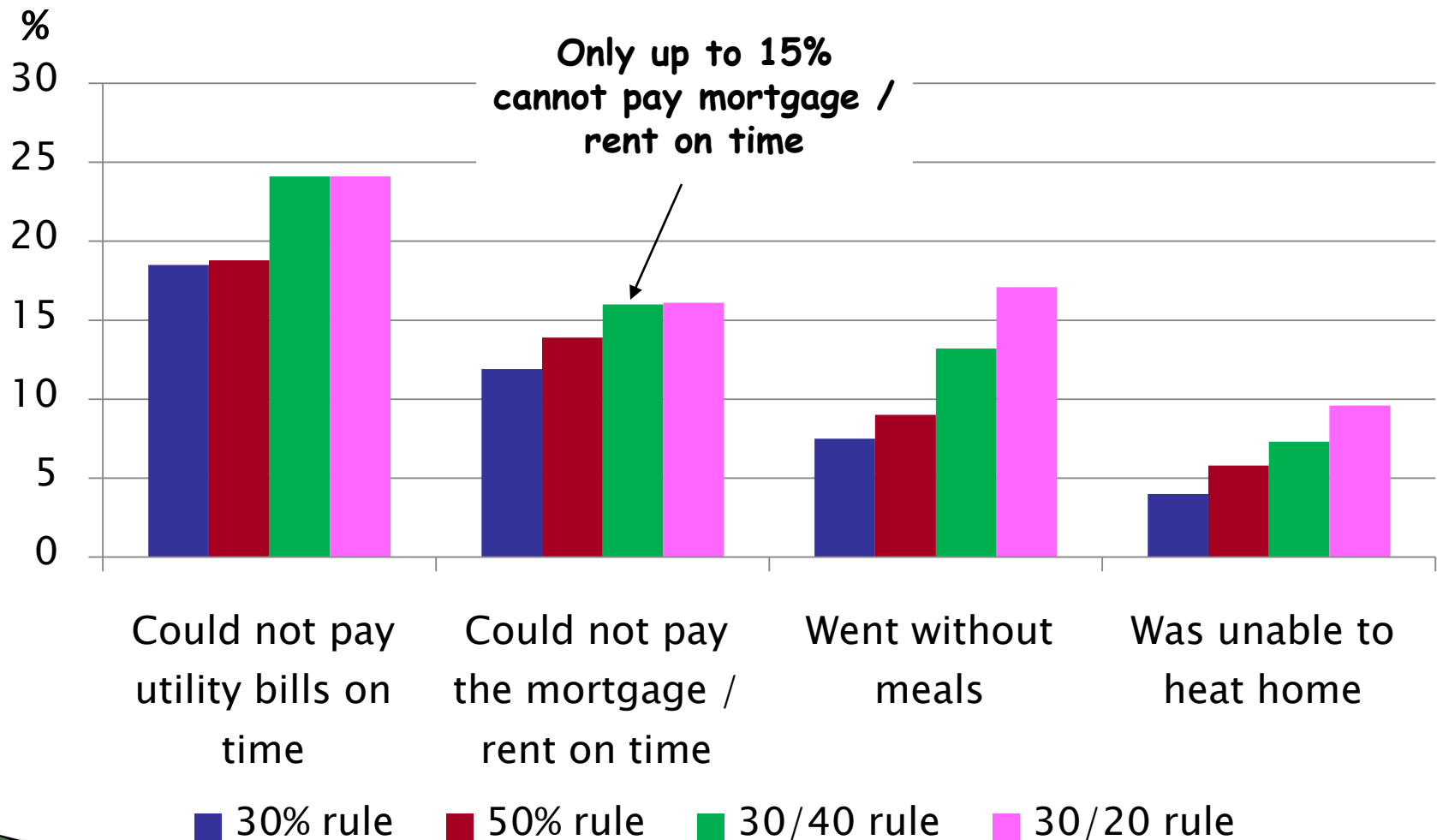
Difficulty Raising $2000 in an Emergency by those in Housing Stress
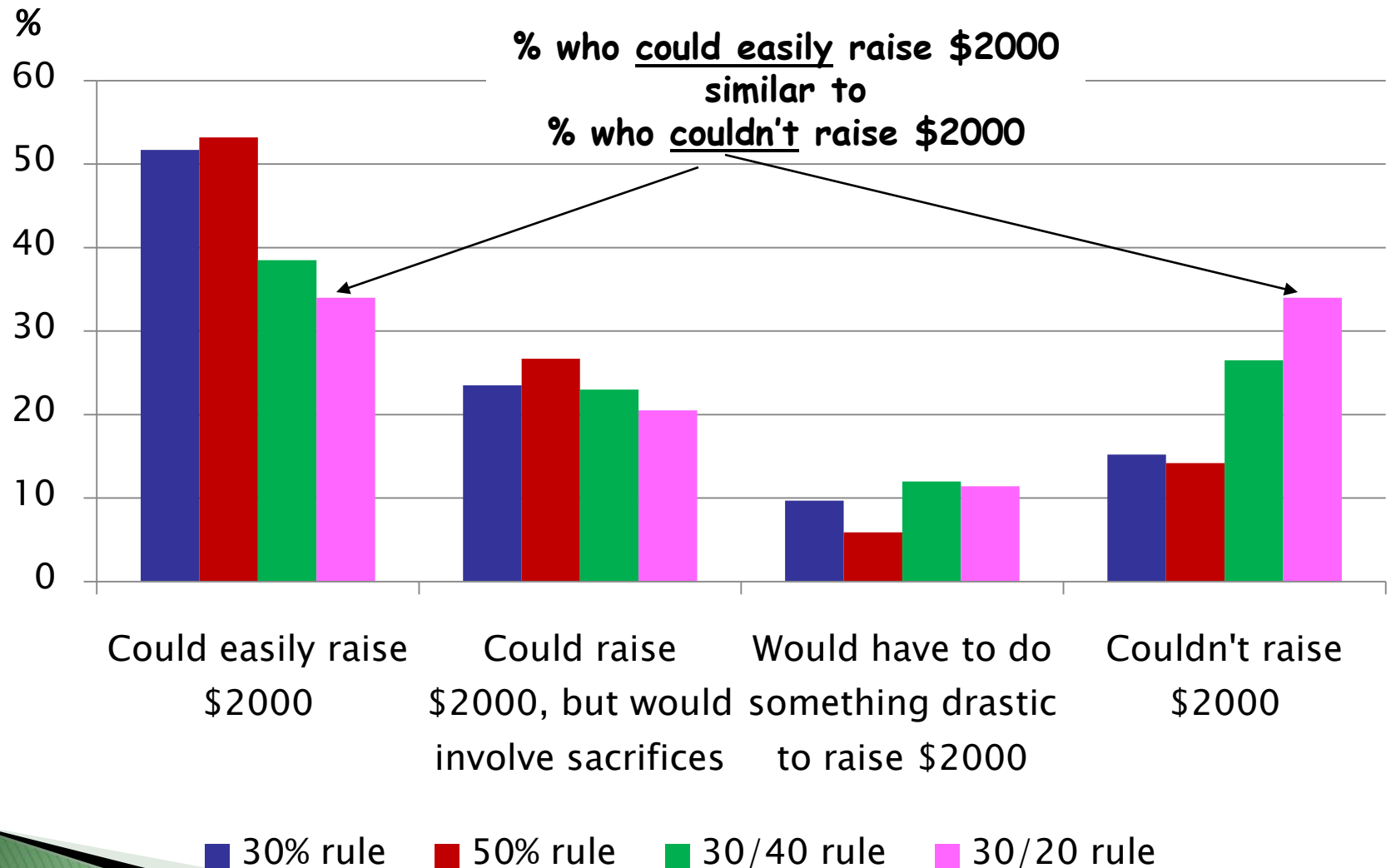
Summary

- Some correlation between traditional housing stress measures and financial wellbeing

- But traditional housing stress measures are not reliable indicators of financial wellbeing

  ◦ E.g. significant proportions of households considered to be in housing stress under the traditional rules actually rate their financial prosperity as 'reasonably comfortable' or better

- Need to generate new accurate measures that captures dimensions of wellbeing

  ◦ Financial, health, neighbourhood conditions etc.