Australia’s Housing Affordability Crisis

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Key messages

Housing affordability problems:

1. cyclically are currently high
2. are structural as well as cyclical
3. do not apply to all in housing stress and are greater for renters than for purchasers
4. are serious and will get worse if structural problems are not addressed
5. arise because of the actions of those who do NOT have an affordability problem.
Trends

1. House prices rising faster than household incomes
2. Home ownership rates falling
3. Average housing cost ratios increasing
4. Proportion in housing stress has increased
5. Problem is projected to get worse
House prices have increased faster than household incomes for past ~40 years.

Source: NRV3, FR
Deposit gap index has increased more than house price to income index for past ~30 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Median House Price</th>
<th>Interest Rate</th>
<th>Male AWE</th>
<th>.30 Repay Ratio</th>
<th>Deposit Gap</th>
<th>Deposit Gap Index</th>
<th>House Price to Income</th>
<th>House Price to Income Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>$7,000</td>
<td>5.00</td>
<td>$2,000</td>
<td>$9,000</td>
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<td>7.25</td>
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<td>0</td>
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<td>$50,000</td>
<td>$69,000</td>
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<td>7.80</td>
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<td>$179,000</td>
<td>$224,700</td>
<td>400</td>
<td>700</td>
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</tr>
</tbody>
</table>

Source: NRV3, RP 11
Deposit gap index has increased more than house price to income index for past ~30 years.
Age specific HO rates have declined for young over past ~30 years

Source: NRV3, RP11
Average housing cost ratios have increased by ~40% over past ~30 years

Source: NRV3, RP3
No. of households with housing cost ratios >30% increased rapidly over past ~30 years

Source: HES and NRV3, RP11
No. households with housing cost ratios >30% projected to increased over next ~40 years
Outcomes and projected outcomes worse for lower income renters

All households

Lower income households

Source: NRV3 RP11
Outcomes worse for lower income renters

Source: NRV3, FR
Housing affordability problems

- arise when housing stress forces households into decisions that adversely affect them.
  - Experience high levels financial stress (credit card debt; regular use of pawn shops)
  - Have trouble meeting rent payments, unanticipated costs
  - Inadequate resources to meet basic non-housing needs
  - Enforced mobility
  - Poor location choices, inappropriate dwellings

- affect ~25% households in housing stress
  - Most intense (and often long term) for lower income renters
How did it come about?

From demand pressures

- increasing number of households (population growth + decreasing household size)
- increasing incomes
- increased availability of mortgage finance
- increasing wealth assisted by lack of capital gains taxes on owner-occupied housing
- spatial concentration of demand (in urban and coastal regions)

Predominantly caused by households who do NOT have an affordability problem
How did it come about?

On supply side

- increasing cost of land
- time taken for release of new land
- increasing scarcity value well located land
- move to user pays for infrastructure financing
- displacement of FHBs by rental investors (encouraged by taxation incentives)
- reduced supply of affordable private rental housing
- declining supply of social housing
System failures

1. Limited land supply in accessible locations

2. New construction being driven by demand from established households

3. Households no longer following a well established “housing career

4. Demand pressures in rental market displacing low rent stock; low rent supply not forthcoming
Increasing dwelling price gradients in metro areas

Sydney

Melbourne

Dwelling stock increasing in size

Source: 2001,06 census tables (20680-x49, i20)
Low rent stock occupied by high income households

Supply of low rent stock falling

Source: 2006 census tables (20680-t18), CPI adjusted
What can we do about it?

1. Recognise that housing outcomes go well outside range of housing policy
   → Eg introduce housing impact statement

2. Reduce scarcity of desirable land
   → Increase supply desirable land (eg infrastructure, transport)
   → Reduce desirability of scarce land (decrease tax incentives for owning land; increase density)

3. Increase housing available for shelter for low to moderate income households
   → Increase supply affordable rental housing
   → Help marginal purchasers stay in their homes
Material drawn largely from NRV3 Final Report

_Housing Affordability: A 21st Century Problem_

Judith Yates and Vivienne Milligan  
with  
Mike Berry, Terry Burke, Michelle Gabriel,  
Peter Phibbs, Simon Pinnegar and Bill Randolph

Report and background research papers available at  
http://www.ahuri.edu.au/nrv/nrv3/NRV3_Assoc_docs.html
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What’s the problem?

At individual/household level
- increasing costs of access to home ownership
- declining home ownership rates amongst young
- large numbers in mortgage stress
- large numbers in housing stress in private rental

At economy wide level
- intra and intergenerational inequities
- labour market inefficiencies
- potential macroeconomic instability
Inequality

Owner-occupiers

Others

Source: NRV3, RP10
Inefficiency

Source: NRV3, RP5
Instability

Source: NRV3, RP4