

Session 4B: **Why are housing prices so high?**

“Policies for lower income earners and vulnerable groups ”

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Context

1. Structural changes over last few decades have put pressure on house prices and housing affordability
2. Contributed to decline in home ownership amongst younger FHBs
3. Put pressure on rental market
4. Projections suggest increased incidence of affordability problems in rental market to 2045



GENERATION **X**



GENERATION **Y**



GENERATION **R**

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Key messages

1. Structural demand pressures on housing remain
2. Shortage of housing is at low end of (sales and rental) markets in metropolitan regions
3. Current policies supporting home ownership do little to protect lower income groups and vulnerable households

Who is vulnerable?

Low-moderate income purchasers

- Increased difficulty of access
- Limited location choices for lower income households
- Increased affordability problems through interest rate and income risk

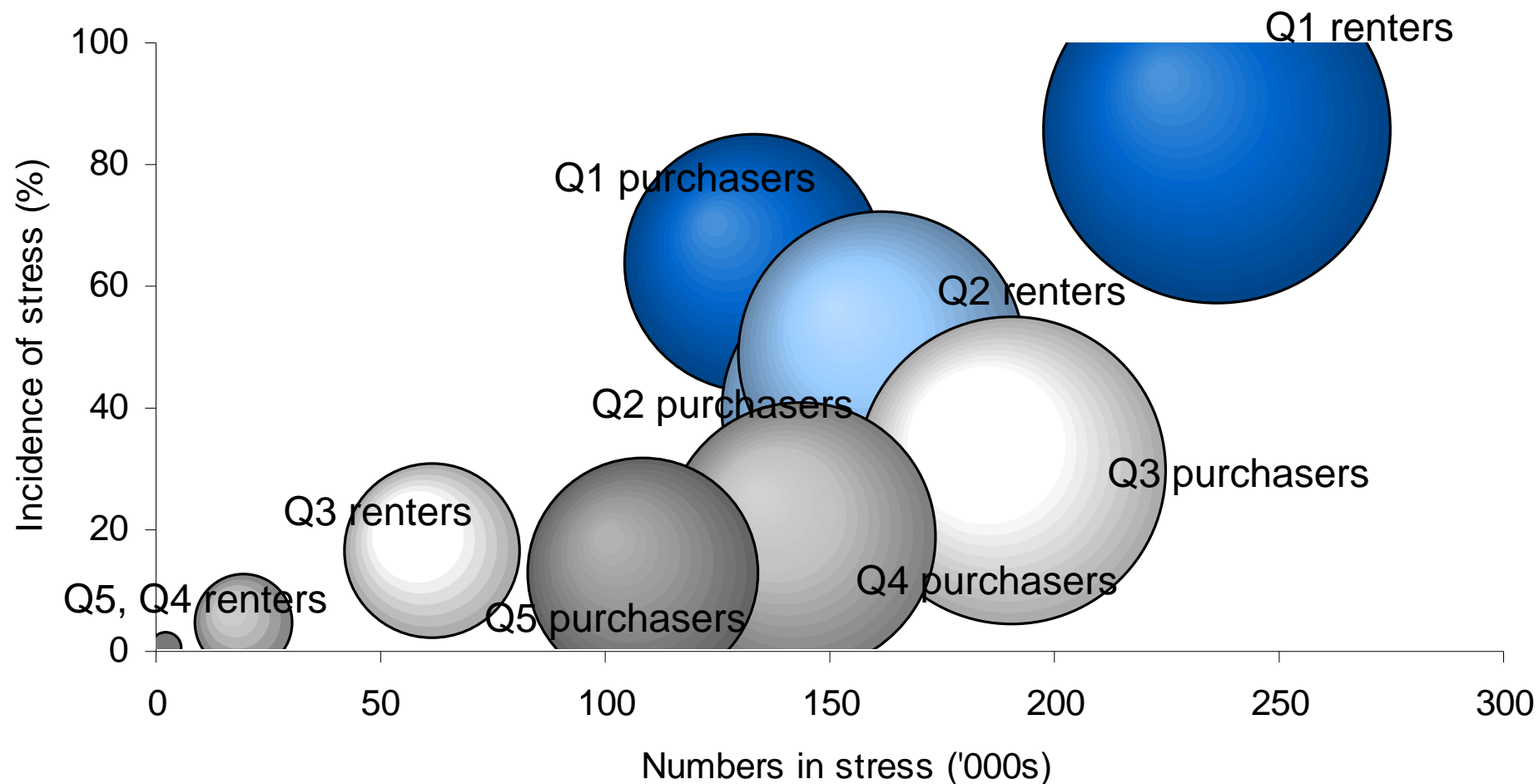
Lower income renters

- Shortage of affordable rental housing
- Competition from traditional FHBs
- Increased affordability problems through rent (and income) risk

Homeless

Who is vulnerable?

Housing stress by equivalent disposable income quintile:



Single person	Q1 < \$16K	Q2 < \$24K	Q3 < \$33K	Q4 < \$45K
Couple +2 children	Q1 < \$34K	Q2 < \$50K	Q3 < \$70K	Q4 < \$95K

Source: ABS Survey of Income and Housing, 2005-06, basic CURF data

HOW MUCH OF YOUR
INCOME GOES TO PAYING
OFF YOUR MORTGAGE?

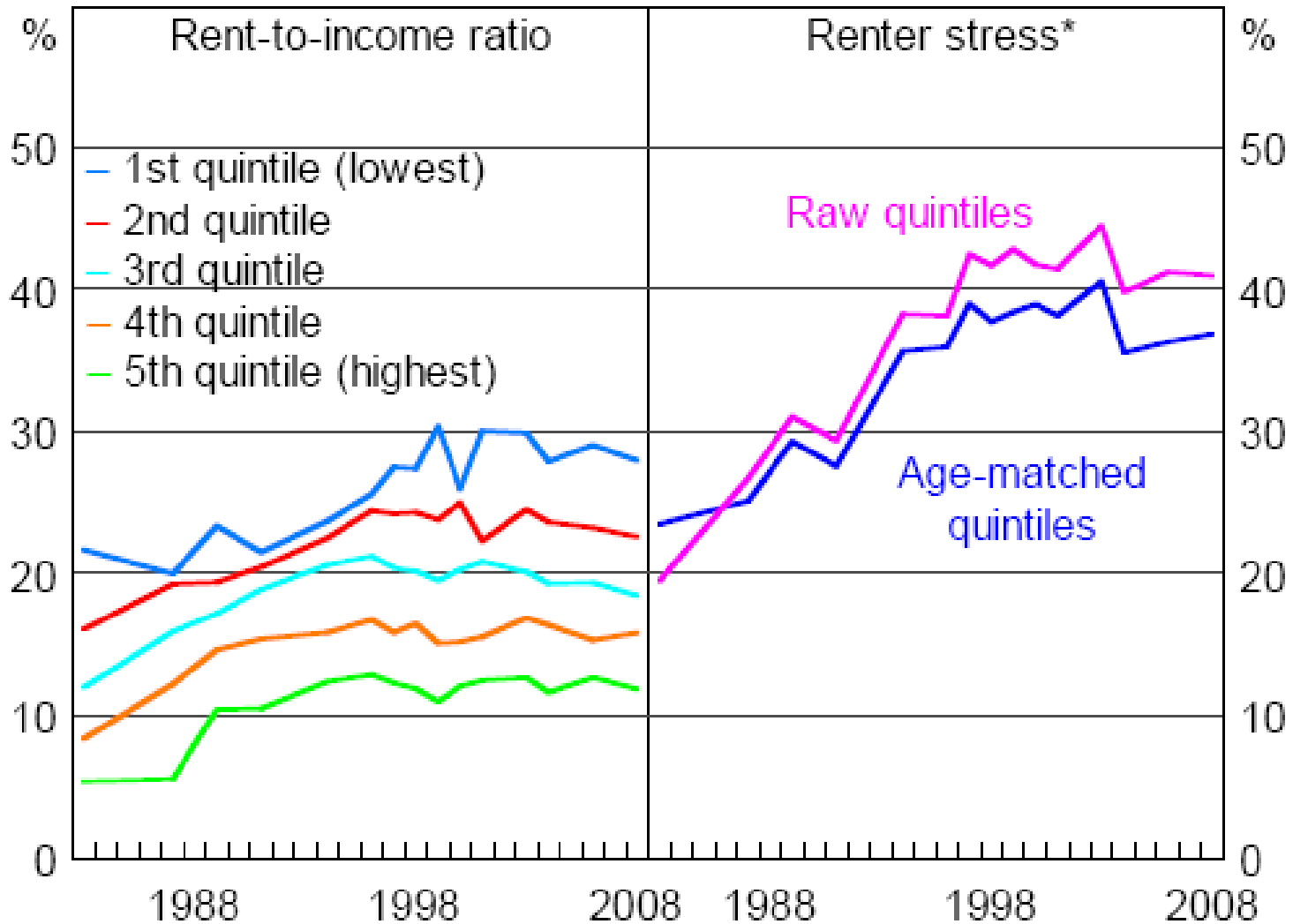


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Rental Affordability

By income quintile



* Proportion of households in the bottom two income quintiles, whose rental costs are more than 30 per cent of gross income

Sources: ABS; RBA

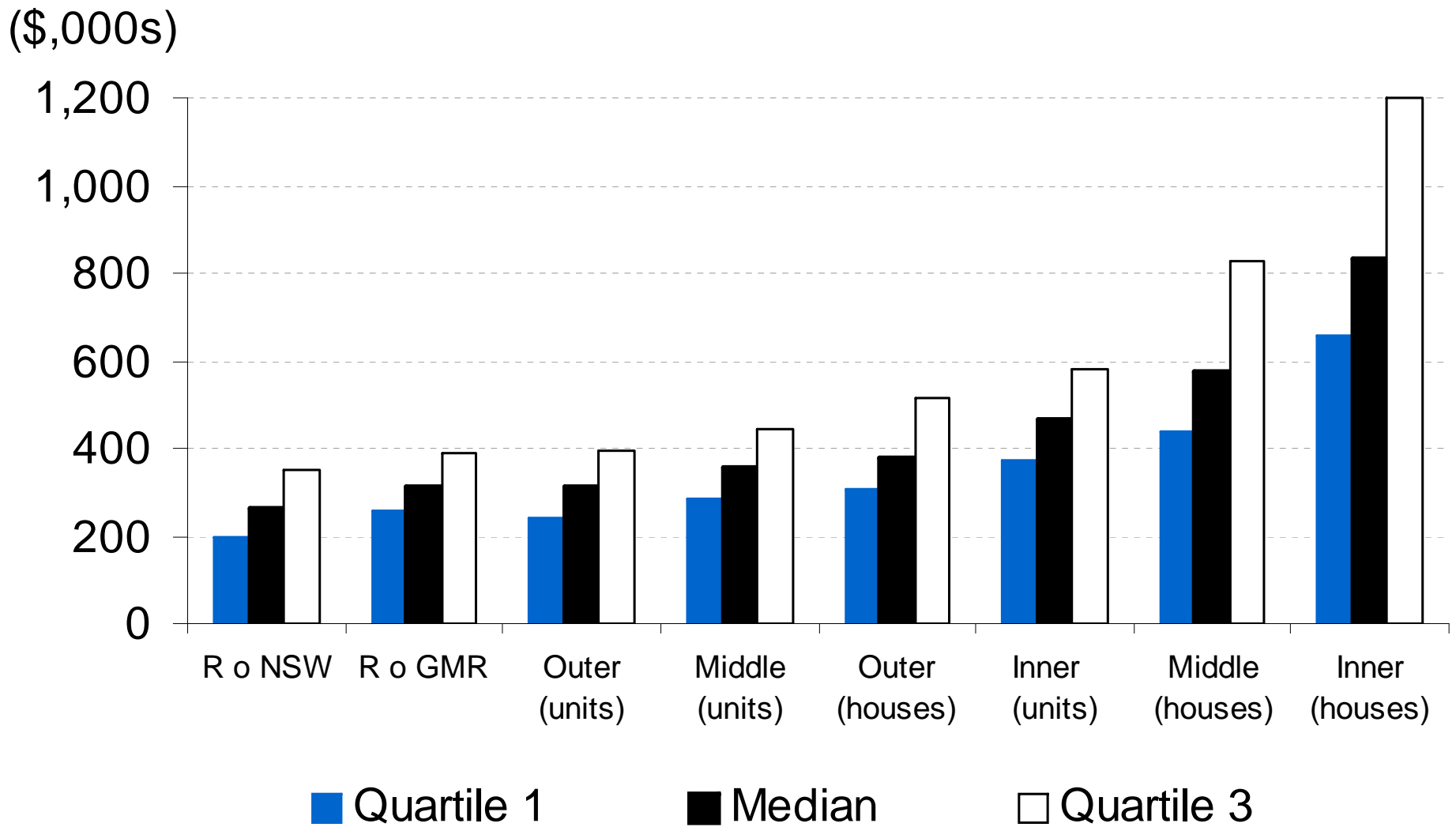
Affordable purchase price for lower income households

Single person Q1	< \$ 65,000
Single person Q2	< \$ 105,000
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Couple, 2 children Q1	< \$ 150,000
Couple, 2 children Q2	< \$ 200,000

20% deposit

mortgage interest rates 7.5%

Sales prices: all dwellings, NSW June 2009



Source: Housing NSW Rent and Sales Report No. 88, June 2009



Affordable rents for lower income households

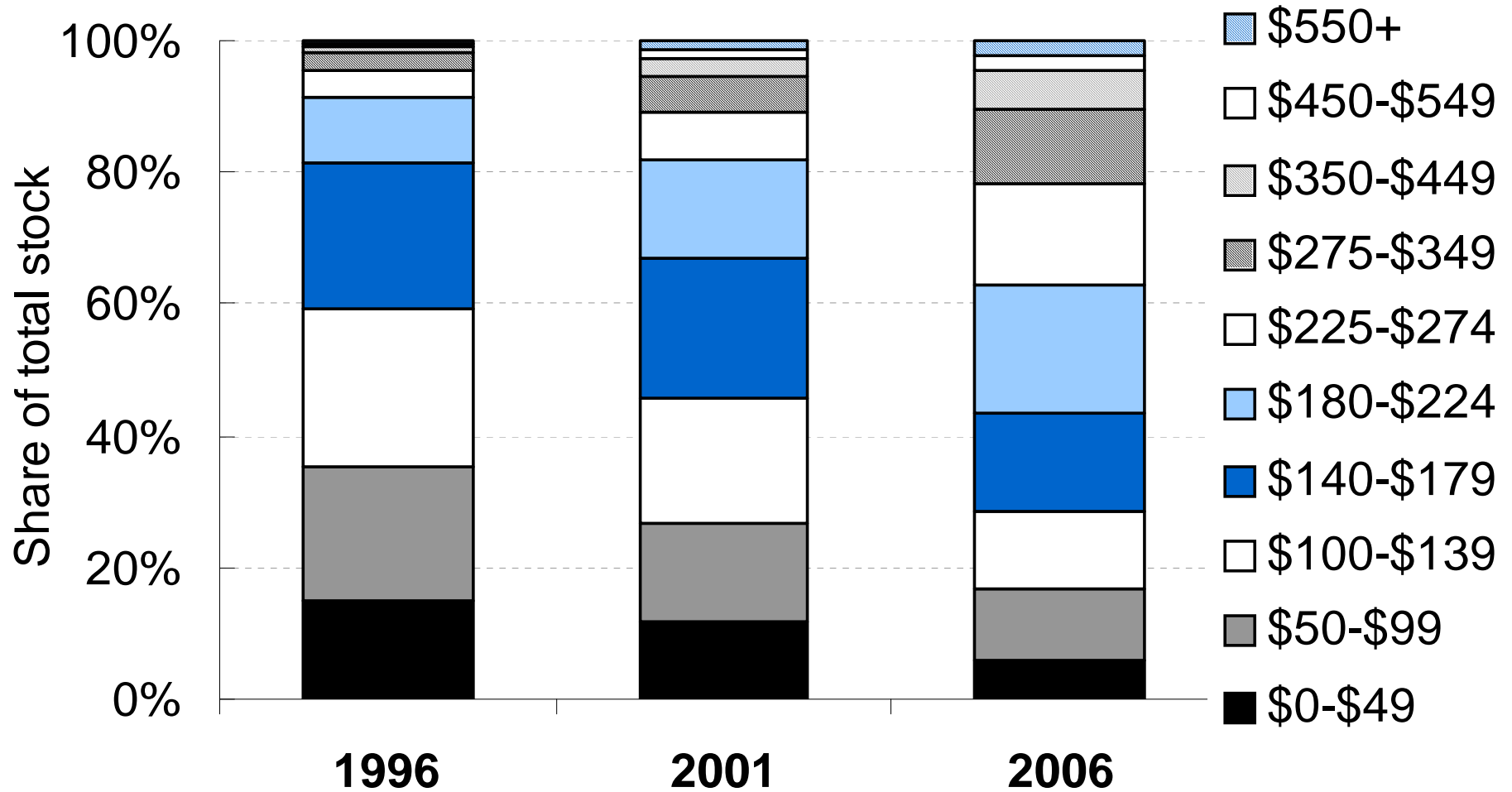
Single person Q1	< \$ 100 pw
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Single person Q2	< \$ 150 pw
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Couple, 2 children Q1	< \$ 200 pw
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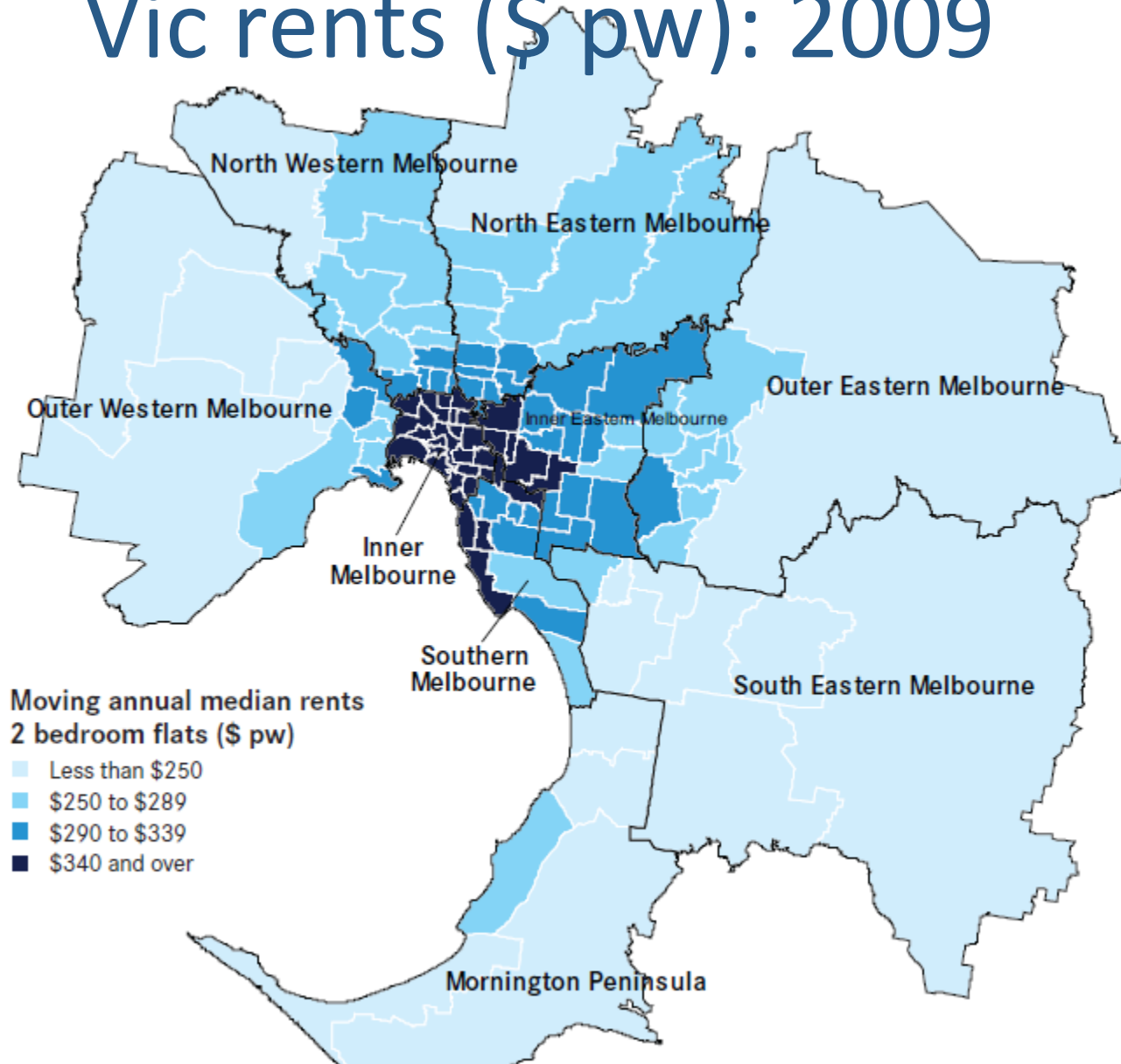
Couple, 2 children Q2	< \$ 300 pw
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Share of rental housing stock (\$2006)



Source: 2006 census tables (20680-t18), CPI adjusted

Vic rents (\$ pw): 2009




Source: (Victorian) Office of Housing Rental Report June 2009

Vic rents (\$ pw): 2009

Farms for Rent: McQuinn House

Home	<u>'McQuinn House' - \$1 per week</u>
What is Farm Rental	3 bedroom brick/weatherboard house with bathroom, laundry, kitchen/meals, walk-in-pantry, lounge with fireplace and large sunroom. Floorboards throughout. Large 6 car carport, mature trees, and house yard fenced on three sides. Needs painting, minor tiling, garden maintenance, minor guttering and general repair. Optional kitchen installation. Large shed with side opening onto concrete skirt available on negotiation with owners.
Contact Us	600 metres to bus stop, 8km to town
Application Form	
Links	
Media	
Other Properties for Rent	
The Stables	



Source: http://www.wycheproof.vic.au/Wycheproof_Farm_Rental/McQuinn_House.html

Vic rents (\$ pw): 2009

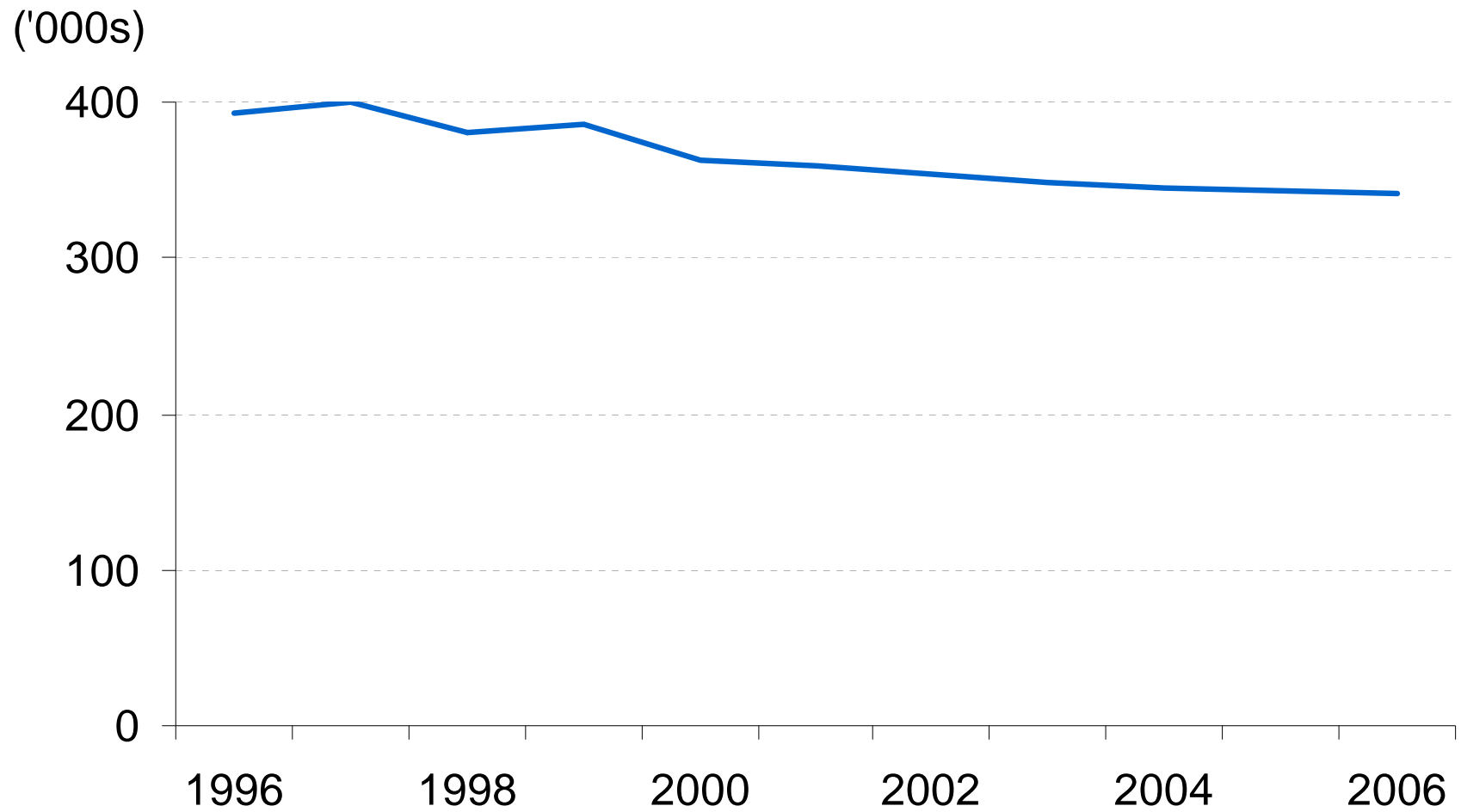


Source: http://www.wycheproof.vic.au/Wycheproof_Farm_Rental/McQuinn_House.html

Affordability for lower income renters

Income	Households	Affordable dwellings	Affordable & available	Shortage
Low (bottom 20%)	237,000	91,000	35,000	202,000
Lower (bottom 40%)	600,000	830,000	349,000	251,000

Social housing stock



Source: ABS Social Indicators 2007, cat no. 4102.0

What's the current problem?

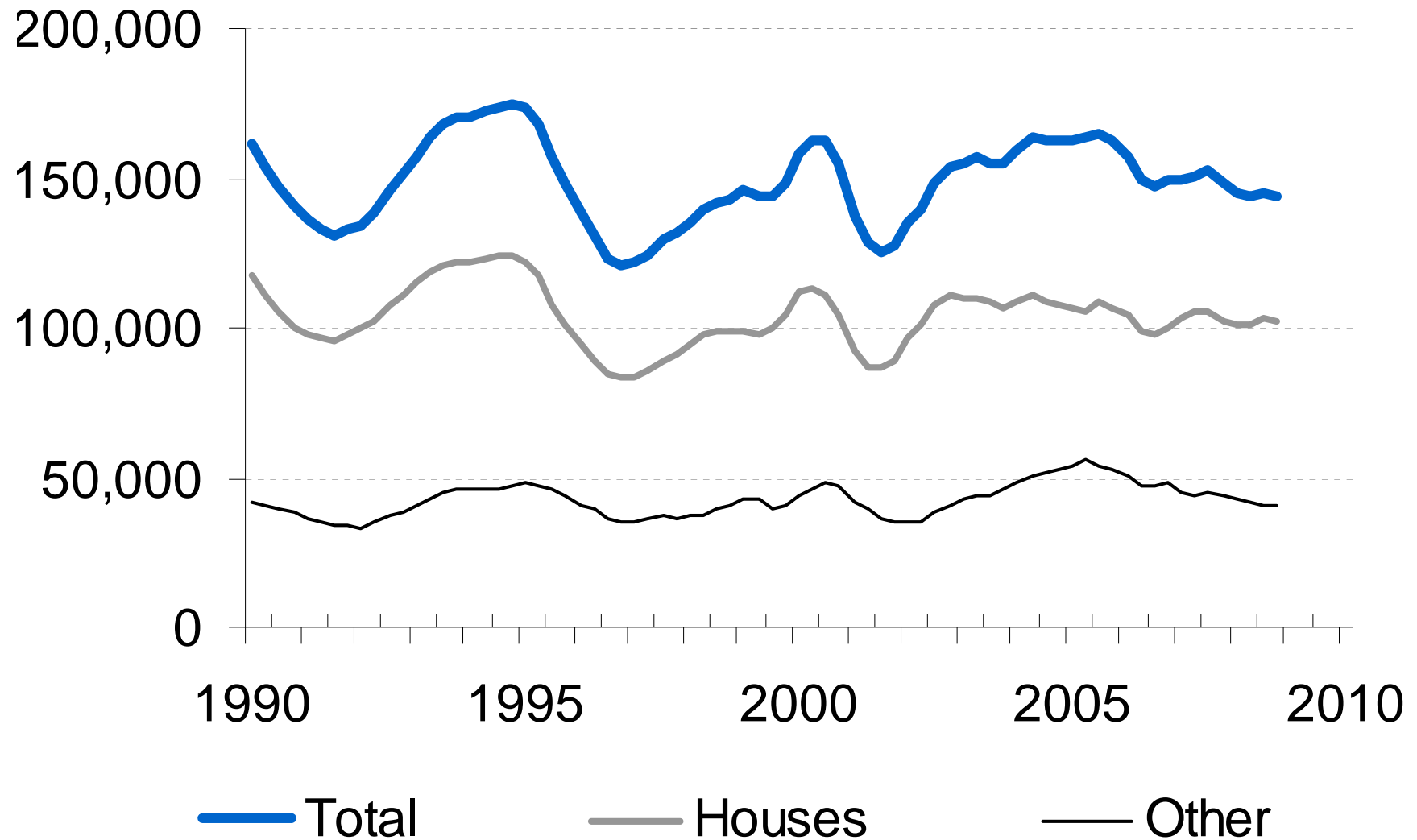
- Inadequate supply of affordable and accessible housing for lower income households and vulnerable groups

Projected additions to total underlying demand

Year	Recent average migration	Moderately high migration	High migration
2008	133,000	149,000	149,000
2009	136,000	152,000	171,000
2010	138,000	153,000	173,000
2011	140,000	155,000	175,000
2012	141,000	155,000	176,000
2013	143,000	156,000	176,000

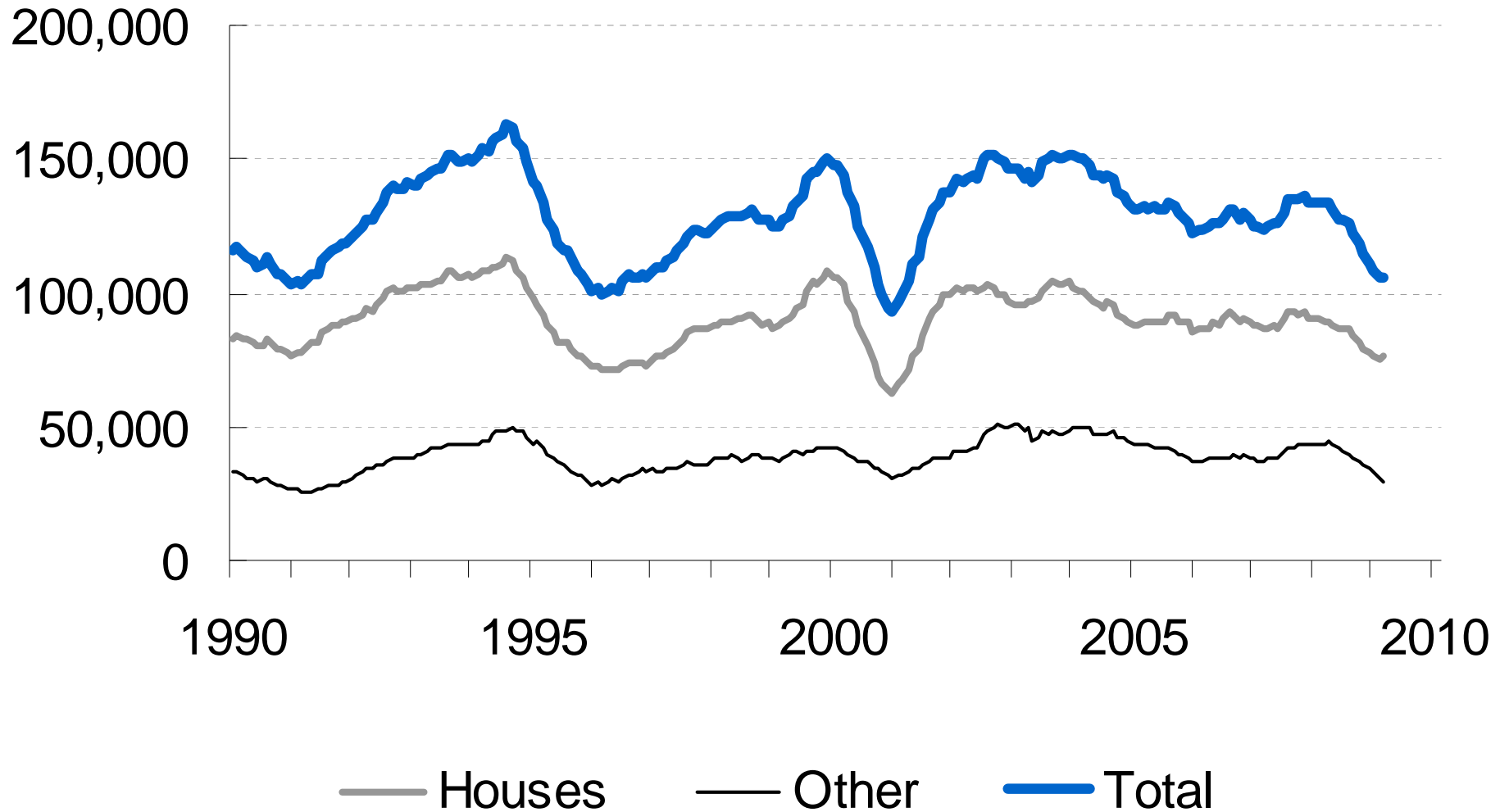
Source: National Housing Supply Council, 2008 Report

New building completions (pa)



Source: ABS Cat. No. cat no 8752.0

New building approvals (pa)



Source: ABS Cat. No. cat no 8731.0

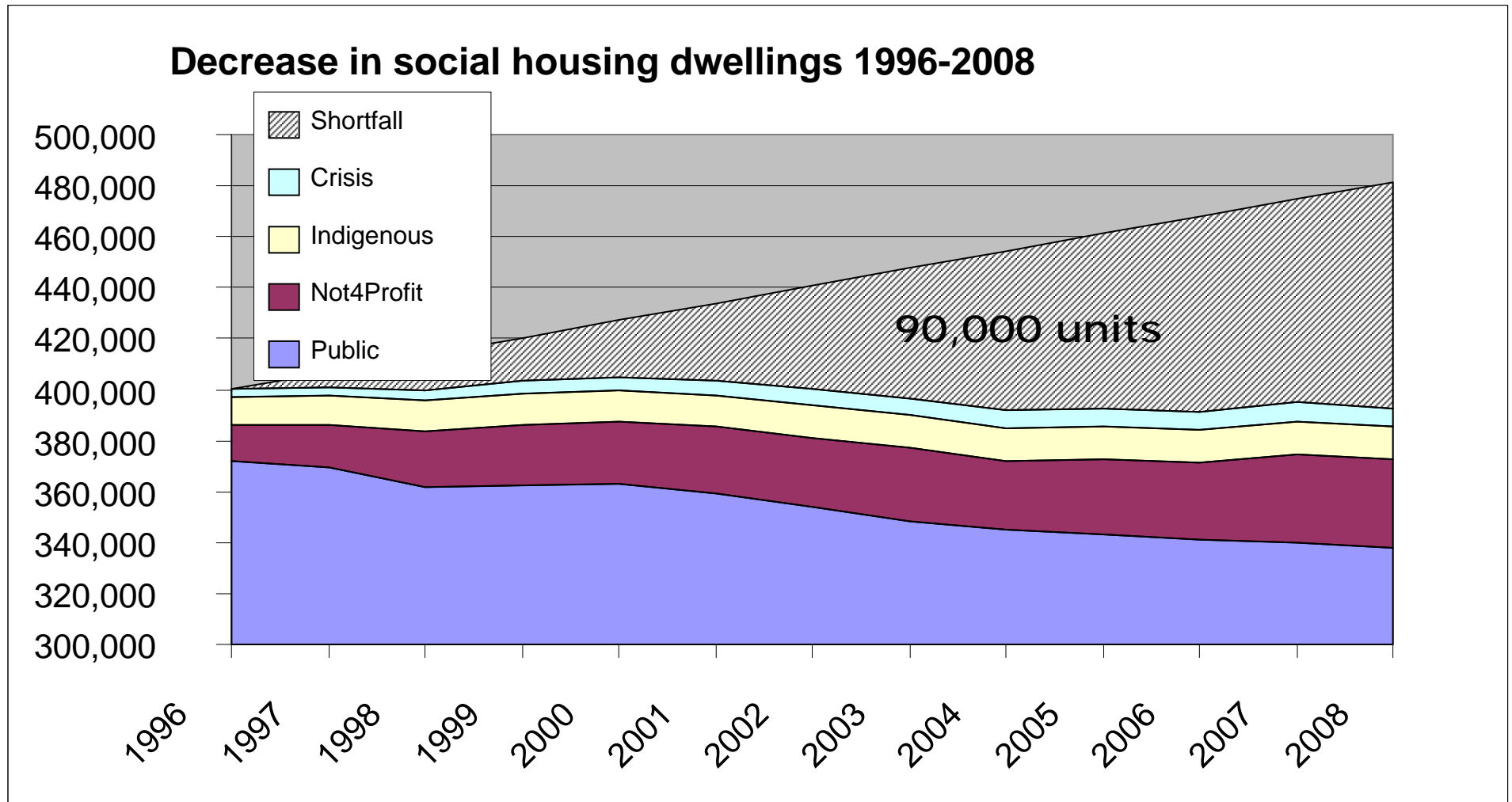
Current new solutions

- First Home Owners Grant/Boost
- First Home Saver accounts
- National Rental Affordability Scheme
 - 50,000 additional units over 5 years
 - 50,000 more if successful
- Housing Affordability Fund
- Nation Building and Economic Stimulus Plan
 - 20,000 additional units over 2 years Review of taxation/Review of social security
- National Affordable Housing Agreement

Overview of current solutions

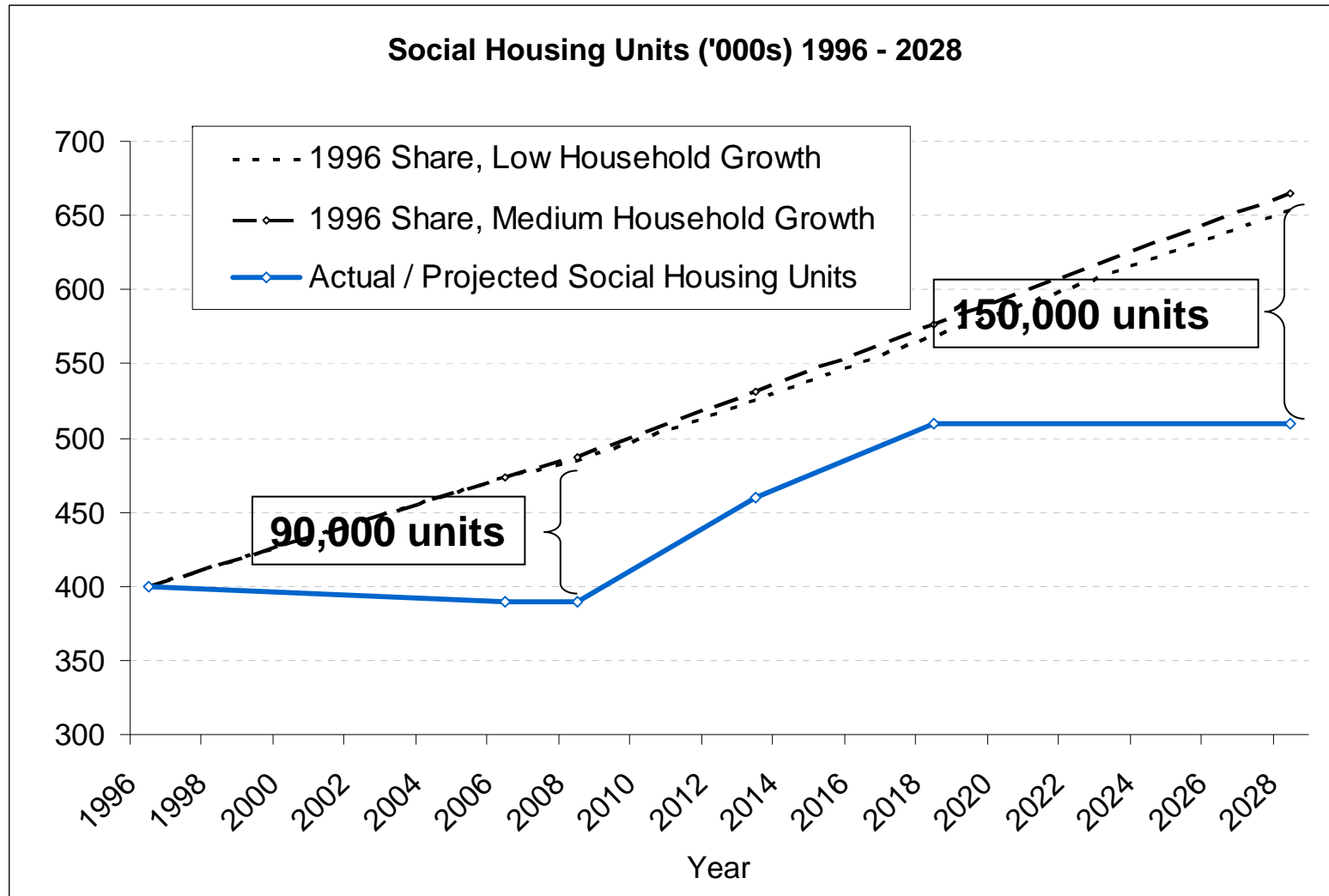
- Support for home owners dominated by demand side policies
- Supply side initiatives excellent but inadequate

Social housing



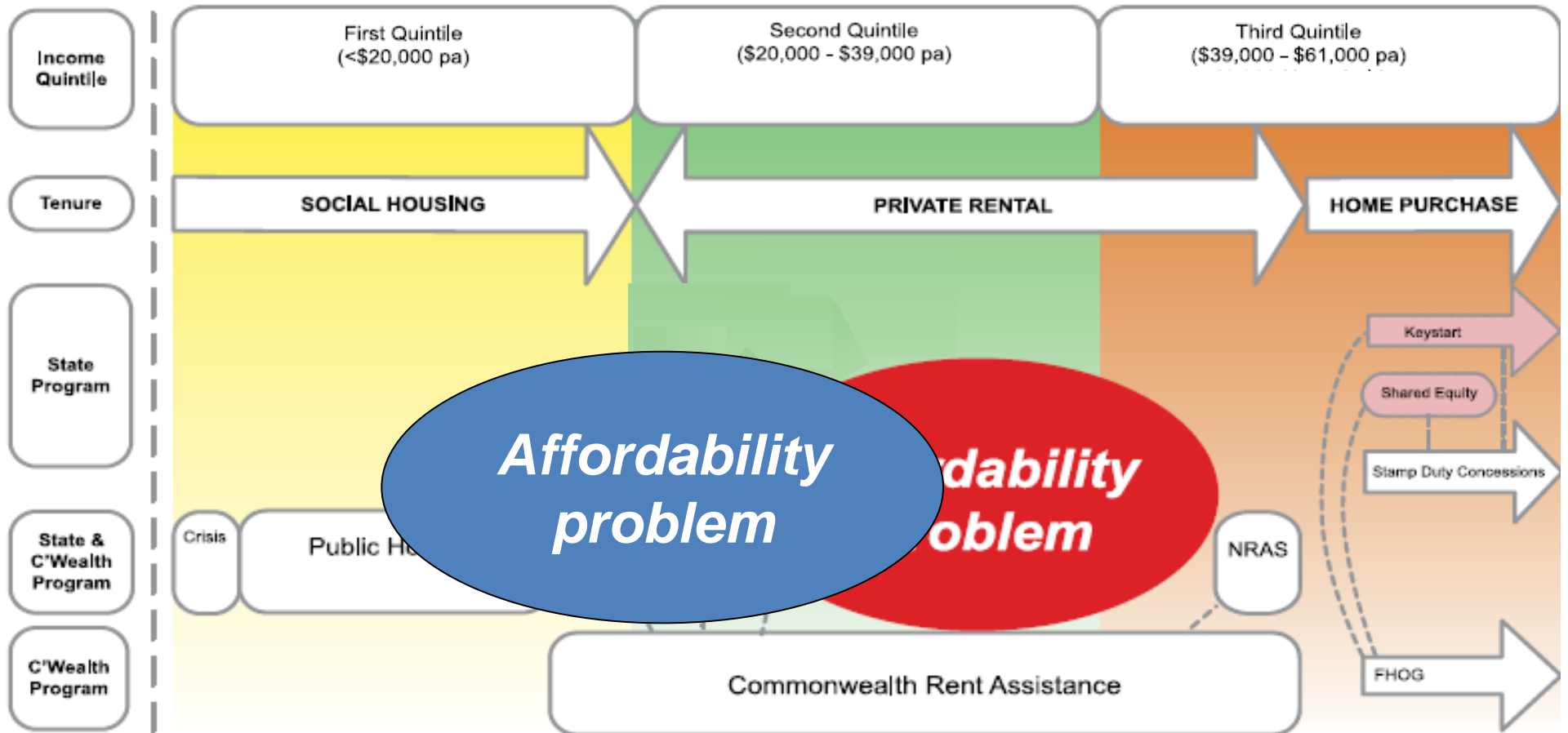
Source: derived from National Housing Supply Council (2009)

Social Housing Projections



Source: derived from National Housing Supply Council (2009)

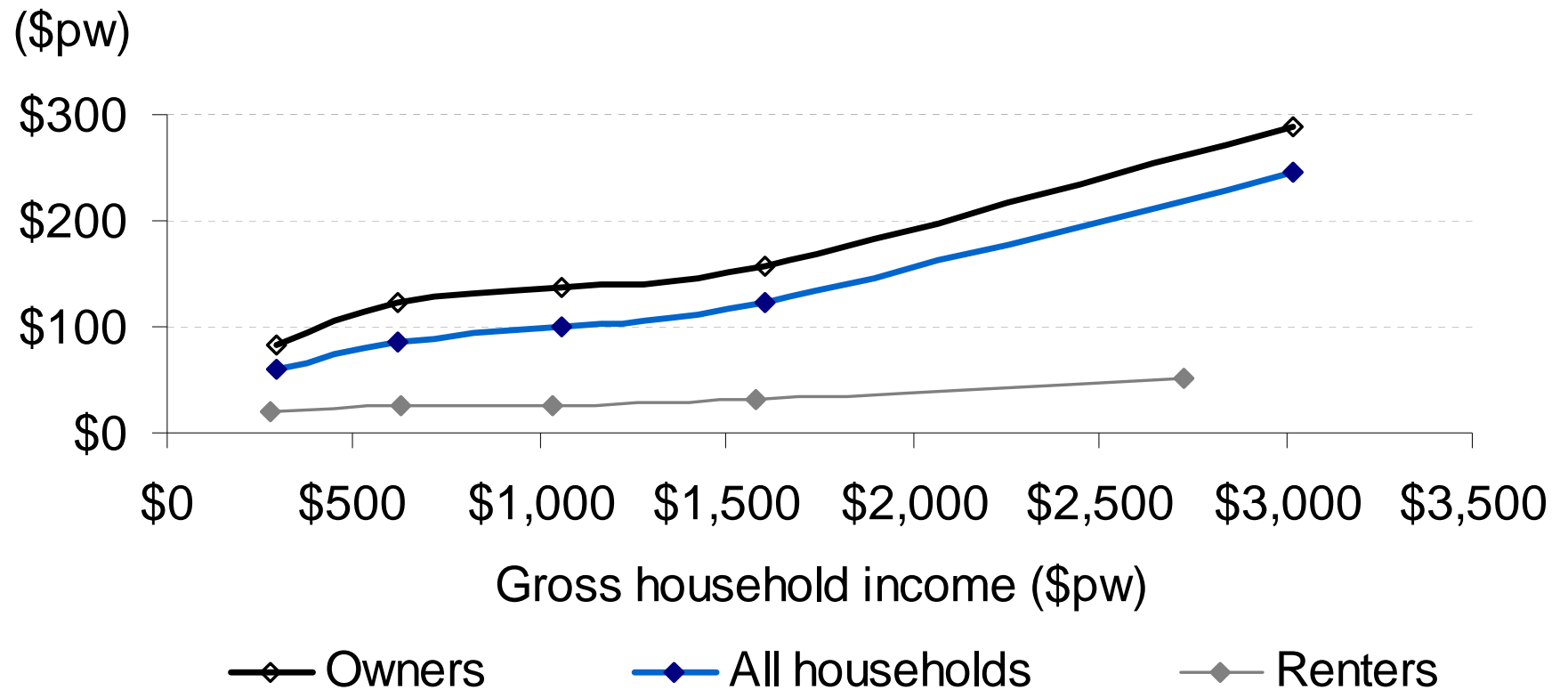
Structure of current housing policies



What still needs to be done?

- Address underlying structural problems
 - On supply side
 - Inadequate supply of affordable housing
 - Funding of affordable housing
 - Location (and access) of affordable housing
 - On demand side
 - Reduce subsidies that add to demand

Tax expenditures for housing



What still need to be done?

- Redistribute existing support
 - ~ \$1.0b pa through FHOG
 - +~\$1.5b since October 2008 through FHOB
 - ~\$0.1b pa for 5 years for HAF
 - ~\$0.1b pa for 3.5 years for NRAS
 - ~\$0.1b pa for 5 years for homeless under NAHA
 - ~\$0.2b pa for 2 years for social housing under NAHA
 - \$45b pa in tax expenditures for owner-occupation

