



# Housing Affordability in Australia

**A NUMBER OF MEASURES OF HOUSING AFFORDABILITY ARE IN USE. WHICHEVER IS USED, SIGNIFICANT NUMBERS OF AUSTRALIAN HOUSEHOLDS ARE FOUND TO HAVE HOUSING AFFORDABILITY PROBLEMS AND THESE ARE PERSISTING OVER TIME.**

## KEY POINTS

A number of measures of housing affordability are in use in Australia; each is valid but has a different purpose. The '30/40 rule of thumb' is a commonly used measure in housing research and policy: housing is 'affordable' when a low income household (defined below as one in the bottom 40% of the needs adjusted or equivalised disposable income distribution) pays no more than 30% of its gross household income on housing costs.

- Using the '30/40 rule', estimates for 2002-03 find 862,000 households experiencing housing affordability problems (are in 'housing stress') in Australia.
- Over a one to two year period many households will be able to improve either their income or housing cost circumstances to alleviate their 'housing stress'. However, a third of households experience 'housing stress' for more than two years.
- Private renters (460,000) and home purchasers (265,000) dominate the numbers of those experiencing 'housing stress'.
- Households headed by people aged-under 65 comprise the lion's share of those experiencing 'housing stress' (760,000).
- Singles aged under 65 comprise 261,000, and couples with children 221,000 of all those who experience 'housing stress'.
- Housing affordability is predominantly an urban problem (542,000 households), with 183,000 households in Sydney in 'housing stress' and 161,000 households in Melbourne.
- Contemporary housing affordability problems confronting Australians are not just the outcome of the recent housing boom. Since 1995 the number of all households paying more than 30% of their gross income in housing costs has barely dropped below 1 million.

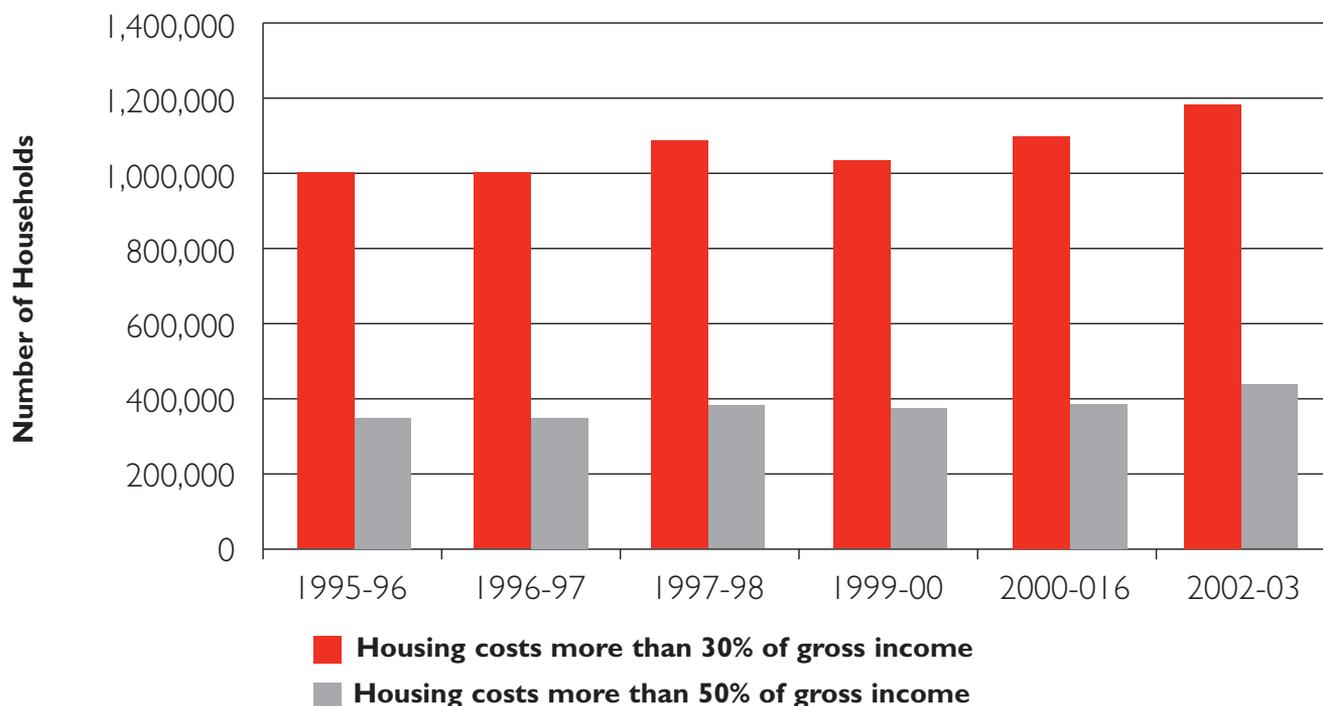
*This bulletin by **Peter Chapman** synthesises the evidence from a range of AHURI, and other research on housing affordability. It includes the latest estimates on housing affordability by Judith Yates and Michelle Gabriel from the AHURI Collaborative Research Venture Housing affordability for lower-income Australians.*

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**FIGURE 1: NUMBERS OF ALL HOUSEHOLDS WITH HOUSING COSTS IN EXCESS OF 30% AND 50% OF GROSS HOUSEHOLD INCOME**



Source: Survey of Income and Housing, 2002-03, Table 2 (ABS Cat. No. 4130.0.55.001); Figure 4.2 in (1).

## WHAT IS HOUSING AFFORDABILITY?

'Housing affordability' measures the financial outcome for a household of renting or purchasing the dwelling they need or wish to occupy. That financial outcome can be expressed as the percentage of household income required to obtain a dwelling, or the amount of household income left after paying for housing costs. There are different measures for different purposes (see reference 1 for more detail). Some focus on whether households have sufficient incomes to save to enter home purchase; others focus on whether households have sufficient income to sustain their housing payments; still others focus on whether households have sufficient income after paying for their housing to buy the basic necessities of life.

These different measures set different standards of housing affordability. The 'budget standards' approach sets the highest benchmark. Using this measure, in 2002-03 1,359,000 households were in housing stress. Using an after housing income poverty line measure, 947,000 households were in housing stress. The '30/40 rule', as stated above, finds 862,000 households in housing stress in 2002-03. These are significant numbers whichever measure is used.

As well there is evidence that the scale of contemporary housing affordability problems in Australia is not just a symptom of the recent housing boom. Figure 1 shows that

since 1995 the total number of households (i.e. not just low-income households but all households) paying more than 30% of household income in housing costs has barely dropped below 1 million households, and has in fact been steadily rising.

## HOUSING AFFORDABILITY IN AUSTRALIA

The AHURI Collaborative Research Venture 3 *Housing affordability for lower-income Australians* provides the most recent estimates of housing affordability in Australia in a paper by Yates and Gabriel *Housing affordability in Australia*.<sup>1</sup>

In 2002-03 over 11% of all Australian households and 28% of all lower-income (bottom 40% of the equivalised disposable income distribution) households were experiencing housing affordability problems. This amounts to 862,000 households, with 354,000 (41%) of these households including children.

Analysis by Yates and Gabriel has also provided the first estimates of how long households are likely to experience 'housing stress'. After one year, approximately half remain in 'housing stress', whilst the other half have managed to improve either income, their housing cost, or their household circumstances. After two years, one third remain in housing stress, whilst two thirds have managed an improvement in their circumstances. Of the 862,000 households in 'housing stress' in 2002-03, this suggests

some 280,000 have endured those circumstances for more than two years.

### **Employment**

Having a job does not insure against housing affordability problems. Yates and Gabriel find that more than 40% (almost 400,000 households) of all lower income households experiencing 'housing stress' are working households.

### **Tenure**

Over half (54%, 460,000 households) of all those experiencing problems with housing affordability are found in the private rental market. The next largest group (31%, 265,000) is found amongst home purchasers. The rise in housing costs for first home purchasers (from 30% of disposable income in 1998 to 39% in 2004) underscores that a considerable number of these are likely to be first home purchasers. Few outright owners and public renters are estimated to be experiencing housing affordability problems.

### **Age**

With regard to the age of the family head, households aged-under 65 years old are most likely to experience 'housing stress' (760,000 households), comprising 88% of the total. Older household heads (65+ years) are less likely to experience housing affordability problems (12%, 102,000 households), as they are more likely to be outright owners, amongst whom the rate of 'housing stress' is low.

### **Household type**

The Yates and Gabriel estimates find that 38%, 326,000 households of all households with housing affordability problems are singles, reflecting the high level of this group in private rental. The majority of these singles in 'housing stress' are aged under 65 (261,000). Over a quarter of households experiencing 'housing stress' are couples with children (221,000 households), and 16% (134,000 households) are sole parents.

### **Location**

Considering the location of households experiencing housing affordability problems, Yates and Gabriel estimate that over one third (35%, 301,000 households) live in New South Wales, nearly one quarter live in Victoria (24%, 211,000 households), and a fifth live in Queensland (20%, 176,000 households). The cities, unsurprisingly, are the key locations for households experiencing 'housing stress' problems. For example, in Sydney there are 183,000 households and in Melbourne 161,000 households in 'housing stress'. However, in Queensland, the number of households with housing affordability problems is lower in

Brisbane (79,000 households) than it is for the rest of Queensland (97,000 households) – reflecting the greater distribution of households across regional centres in that State.

Analysis by AHURI of sub-markets in Sydney, Melbourne and Adelaide to 2000 showed that no low income household could afford to buy an average three bedroom home anywhere in the three cities. An average one-bedroom unit was unaffordable for low-income buyers anywhere in Sydney, and unaffordable in inner Melbourne and Adelaide. Low income couples with children could afford to rent an average 2 or 3 bedroom house in 40% of LGAs in Melbourne, and in just 2% of LGAs in Sydney.<sup>2</sup>

### **Indigenous housing affordability**

A publication of the Housing Ministers' Advisory Committee (3) found 44,072 Indigenous households are in the bottom 40% of gross household income distribution. Of these 15,013 (43%) are paying more than 25% of their income in rent. This is lower than the 61% figure for non-Indigenous households by the same measure and probably reflects the factors of masking due to overcrowding and low rents in social housing.<sup>3</sup>

The highest **proportions** of Indigenous households experiencing housing affordability problems are found in the Australian Capital Territory (58%), Victoria (53%) and Queensland (47%).<sup>3</sup>

The highest **numbers** of Indigenous households experiencing housing affordability problems are found in New South Wales (5,443), Queensland (4,527) and Western Australia (1,687). These households tend to be in the major cities and inner regional areas.<sup>3</sup>

## **WHY DO HOUSING AFFORDABILITY PROBLEMS PERSIST IN AUSTRALIA?**

Housing affordability problems in Australia persist because real housing costs have increased over time and because of a fall in the supply of housing stock at the low-cost end of the private rental market.

*Real housing costs* increased 32.9% over the period 1975–76 to 1998–99. The increase for home purchasers was 66%, for private tenants 24%, for outright owners 21%, and for public tenants 3%.<sup>4</sup>

*Real household incomes* became increasingly polarised over the same period, explained by changes in household composition (smaller households with fewer income earners).

The *combined effect* of real increases in housing costs and changes in real incomes for all households meant that housing costs increased from 11.7% of household income in 1975 to 17.6% by 1999.<sup>4</sup>

The fall in the supply of low-cost private rental stock has persisted throughout the decade 1991-2001. In 2001, there was an overall shortage of affordable and available private rental housing suitable for low-income households in Australia equal to 134,000 dwellings. This was a marginal improvement from 1996, when the shortage was put at 150,000.<sup>5</sup>

Many low-cost dwellings are occupied by households whose incomes indicate they could afford to pay more, leaving a shortfall of dwellings available for households on lower incomes.<sup>5</sup>

Low rent housing stock has declined particularly in inner urban areas, the losses not being offset by an increased availability in outer suburbs.<sup>5</sup>

## NOTES

This bulletin synthesises evidence from the following publications:

1. Yates, J. and Gabriel, M. (2005) *Housing affordability in Australia*, AHURI, Melbourne. <http://www.ahuri.edu.au>
2. Berry, M. and Hall, J. (2002) *New Approaches to Expanding the Supply of Affordable Housing in Australia: an increasing role for the private sector*, Australian Housing and Urban Research Institute, Melbourne. <http://www.ahuri.edu.au>
3. Standing Committee on Indigenous Housing (2003) *Building a Better Future Outcomes Report 2002/03*. Annual Report on Australian Housing Ministers' Ten Year Statement of New Directions for Indigenous Housing Building a Better Future: Indigenous Housing to 2010. Brisbane, Housing Ministers' Advisory Committee

4. AHURI (2004) 'Measuring Housing Affordability', *Research and Policy Bulletin*, Issue 45, Australian Housing and Urban Research Institute, Melbourne. <http://www.ahuri.edu.au>
5. Yates, J., Wulff, M., Reynolds, M. (2004) *Changes In the Supply Of And Need For Low Rent Dwellings In the Private Rental Market*, Australian Housing and Urban Research Institute, Melbourne <http://www.ahuri.edu.au>

## FURTHER INFORMATION

Reports on housing affordability can be found on the AHURI website ([www.ahuri.edu.au](http://www.ahuri.edu.au)) or contact the AHURI National Office +61 3 9660 2300.



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