

Measuring housing affordability

COMMONLY USED BENCHMARK MEASURES MAY DISGUISE THE EXTENT OF HOUSING STRESS IN AUSTRALIA. SUBSTANTIAL PROPORTIONS OF LOW-INCOME PUBLIC AND PRIVATE RENTERS MAY NOT HAVE ENOUGH MONEY TO MEET THE COST OF LIVING AFTER PAYING RENT, AND THIS SITUATION APPEARS TO HAVE WORSENERD OVER TIME.

KEY POINTS

- 'Housing affordability' refers to the capacity of households to meet housing costs while maintaining the ability to meet other basic costs of living.
- This research shows housing affordability decreased for low income public and private renters in the lowest two income quintiles between 1975 and 1999, according to commonly used 25 and 30 per cent of income housing affordability benchmarks.
- Despite housing assistance of various kinds, substantial numbers of both private and public renters experience housing stress.
- Furthermore, the benchmark measures may underestimate the real extent of housing stress in Australia. A 'budget standards measure' (that accounts for the capacity of people to pay their rent once they have met reasonable costs of living) points to even greater declines in housing affordability, including among public tenants, and suggests more low income households may be living in housing stress at any point in time than the affordability benchmark measures imply.
- As well, sizeable proportions of low income public and private tenants living below the budget standards measure in 1998-99 reported that they experienced:
 - 'missing out' (being unable to afford leisure or hobbies, a night out, new clothes, a holiday once a year, or to have a friend over);
 - 'cash flow problems' (being unable to pay utilities, registration or insurance, or having to seek financial help from families), and;
 - 'hardship' (going without meals, unable to heat home, need to seek assistance from welfare agencies, had to pawn or sell something).
- Significant levels of household debt were reported by the same group.

Based on research by Terry Burke and Liss Ralston, AHURI Swinburne- Monash Research Centre. The research uses unit record data from the Australian Bureau of Statistics' Household Expenditure Survey to compare the results from four approaches to measuring housing affordability. This Bulletin focuses on the outcomes for low-income public and private renters. The final report also compares housing affordability in these tenures over time.



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CONTEXT

A major rationale for housing assistance, whether in the form of public housing subsidies or Commonwealth Rent Assistance (CRA), is to improve housing affordability for those receiving the assistance. The level of subsidy required is dependent on the nature of housing costs (if these increase, other factors constant, more subsidy will be required), levels of income (if these fall, other factors constant, more subsidy will be required), and assumptions about the appropriate affordability benchmark and how this is calculated (e.g. adjustments for location and family size).

One of the problems in designing housing affordability benchmarks is that they can be based on very different and sometimes mutually exclusive assumptions, such as whether they are predominantly related to the needs of a tenant or the needs of a public housing system (e.g. financial viability) and whether housing assistance is to play a key or subsidiary role in income support generally.

Broadly speaking, housing affordability measures can be grouped into 'shelter first' and 'non-shelter first' measures. The shelter first approach is most common and relates the housing costs of a person or household to their income in percentage terms. In Australia the longest established benchmarks are those where, for public or private tenants, 25 or 30 per cent of income is paid on rent by those in the lowest two income quintiles.

An alternative approach assumes that other expenditure items have first claim on the budget, and housing cost should come out of the remainder. The principle of measurement is that the necessary expenditure for all other items is identified, and what is left over is how much is available for rent. The most commonly used non-shelter first method of affordability is the Henderson poverty line, established by the Commission of Inquiry into Poverty in 1974-75.

A second type of approach is a budget standard method. Until recently there has been no budget standard in Australia to evaluate the effects of housing affordability against, hence use by default of the Henderson poverty line. In 1998 an indicative budget standard for Australia was developed by

the Social Policy Research Centre (SPRC), enabling comparison of each of the different measures.

Given increased concern about housing affordability in general in Australia, it is important to understand the implications of the use of different affordability measures, as well as what these measures mean in real terms for low income households. By comparing different measurement approaches, this research has ascertained whether, despite housing assistance, households still experience difficulties paying their rent and meeting the costs of living.

FINDINGS

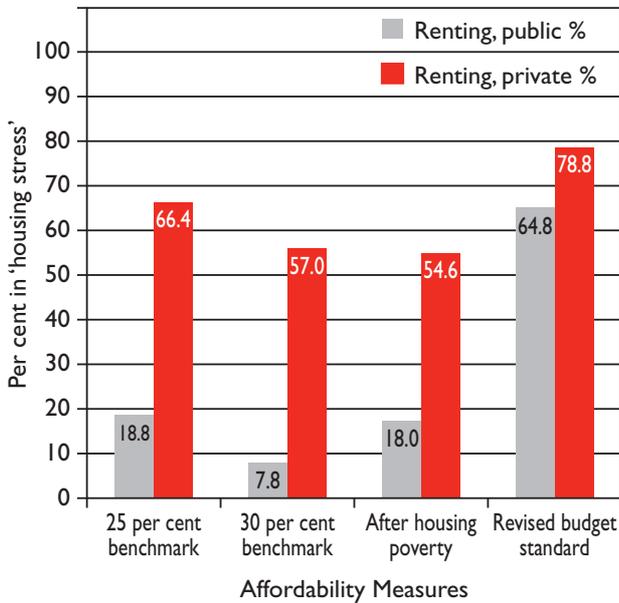
Using the Australian Bureau of Statistics' Household Expenditure Survey (HES) data collected in 1998-99, the four approaches to measuring housing affordability outlined above were compared.

Two key findings emerge from this comparison, as seen from Figure 1.

- Firstly, despite the provision of housing assistance, a substantial minority of both public and private tenants experience affordability problems, regardless of which affordability measure is used. Housing affordability problems, on any measure, are most profound for low-income households in the private rental market.
- Using the 25 and 30 per cent benchmark measures to examine housing affordability among public tenants, the data show that approximately 18.8 per cent were paying more than 25 per cent of their income for housing, and 7.8 per cent were paying more than 30 per cent. It may be surprising to find that public renters appear to be in housing stress using these measures, given that rents in public housing are typically set around the 25 per cent benchmark. But the data are (i) based on disposable (after tax) incomes, and public housing rent rebates are based on pre-tax income and, (ii) include service charges, house or contents insurance, and any expenses designated by the respondent such as self-maintenance. These additional costs and lower income measure would push many over the 25 per cent benchmark and explain the anomaly.

- For private tenants, the data reaffirm the findings of other studies that substantial proportions, and absolute numbers, of lower income households are experiencing severe affordability problems relative to any of the accepted benchmarks.

Figure 1: Comparing different measures of housing need: percentage above affordability benchmarks or below poverty line or revised budget standard, 1998-99



Source: HES 1998-99.

- Second, comparison of the affordability benchmarks with the budget standards measure raises questions about the adequacy of the benchmark measures to represent usual living standards. While private renters experience most affordability problems according to this measure, public tenants are also found to experience significant affordability problems when the after-shelter costs measure is used. Despite rent rebates and, in the case of many private tenants, rent assistance, the amount of household subsidy is insufficient to prevent a sizeable proportion of these households falling below the minimum budget standard: that is, they do not have sufficient income to meet basic living costs and pay for their housing. On these figures this is the case for 64.8 per cent of public tenants, and 78.8 per cent of low-income private tenants.

HOUSING COSTS AND HARDSHIP

This study also explored the impact of affordability problems among low income public and private tenants. The 1998-99 HES data provide a basis for

assessing this by asking a set of thirteen questions around personal and financial wellbeing.

These were categorised into three broad measures of 'missing out', 'cash flow problems' and 'hardship'. Using these measures, the study compared responses of public and private renter sector households of different types (all falling below the budget standard) with all households to get a broad measure of the degree of comparative hardship.

The result showed low income public and private renter households below the budget standard have substantially higher rates of problems compared to all Australian households. This is particularly so in terms of 'missing out', with over half of these public and private renter households experiencing multiple problems. While in terms of 'cash flow problems' and 'hardship' the proportions are lower, they are nonetheless far higher than those experienced by other Australian households.

HOUSEHOLD DEBT

Additionally, results show that while 79 per cent of public renters and 62 per cent of private renters have no debt, a sizeable minority of low income households do have some debt. The mean debt of public tenants (and this of course does not include a mortgage) was \$6,639, and for lower income private tenants \$10,143. These translate into a weekly repayment of around \$30 for public tenants and \$46 for private tenants. The need to service such loans and pay rents is likely to increase real hardship for many tenants and contribute to rent arrears and loss of tenancy.

CAVEATS

The HES collects information on the expenditure, income and characteristics of households resident in private dwellings throughout Australia. It is a survey of nearly 7,000 households which are required to keep a written diary (supplemented by interviews) of the cost of acquiring goods and services over a two-week period. The consumption information collected is extremely detailed but can be aggregated into broader expenditure categories such as housing, education, health and financial insurance, and clothing and footwear.

In the comparison of affordability measured in the 1998-99 HES data presented in this Research and Policy Bulletin, a revised budget standard was used. This measure accepted all the expenditures of the SPRC budget standard with the exception of housing costs where actual costs for each household were substituted for its imputed costs.

POLICY IMPLICATIONS

Housing affordability is an important contemporary issue that has been affected by recent pricing booms and, among other policy responses, has resulted in the Productivity Commission's Inquiry into First Home Ownership. It is therefore critical that policy makers understand issues of meaning and measurement associated with measuring housing affordability.

The findings of this research illustrate different types of outcomes are associated with different measures.

As well, the research shows those groups most susceptible to housing affordability problems are housed within both public and private rental tenures. The findings indicate various forms of hardship are experienced by a large minority of public housing tenants, and that large numbers of low-income tenants in the private rental market are at risk of experiencing multiple forms of hardship including housing stress.

The implications of using different types of affordability measures are significant and need to be explicitly taken into account in the development of policy if housing outcomes are to be most effective. Notably, among public

and private tenants, measures of housing need relate to both current living standards, as well as to the capacity of rental households to save sufficient deposit to access home ownership.

FURTHER INFORMATION

This bulletin is based on AHURI project 50107, *Analysis of Expenditure Patterns and Levels of Household Indebtedness of Public and Private Rental Households, 1975 to 1999*. Reports from this project can be found on the AHURI website at www.ahuri.edu.au by typing the project number into the search function.

Papers available:

- Positioning Paper
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