

The impact of housing costs on financial disadvantage: a small area analysis

THERE ARE SUBSTANTIAL REGIONAL DIFFERENCES IN THE IMPACT OF HOUSING COSTS ON FINANCIAL DISADVANTAGE ACROSS AUSTRALIA. THE STRONGEST IMPACT OF HOUSING COSTS IS FOUND IN CLUSTERS OF OUTER SUBURBAN AREAS AND IN KEY RURAL AND REGIONAL AREAS.

KEY POINTS

- The magnitude of the difference between before- and after-housing poverty rates is particularly large in clusters of outer-suburban areas in Australia's capital cities.
- The impact of housing costs on financial disadvantage is not limited to urban areas, with a number of rural and regional areas (specifically in Western Australia and Queensland) also experiencing large differences between before- and after- housing poverty rates.
- For private renters, the impact of high housing costs is more concentrated in capital cities than regional areas, but for home purchasers these high-impact areas are more evenly spread between urban and rural locations.
- Commonwealth Rent Assistance has a modest but positive effect on the impact of housing costs on financial disadvantage for private renters, particularly in a number of outer suburbs in capital cities, as well as in scattered rural statistical local areas (SLAs).

*This bulletin is based on research by **Justine McNamara, Robert Tanton and Ben Phillips** of the AHURI RMIT-NATSEM Research Centre. The research used spatial microsimulation techniques to examine the impact of housing costs on financial disadvantage at a small area level, and explore the effect of current and potential housing policies on this impact.*

The logo for AHURI (Australian Housing and Urban Research Institute) features the acronym 'AHURI' in a bold, black, sans-serif font. Above the letters 'H' and 'U' is a red curved line that arches over the text.

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BACKGROUND

The importance of understanding spatial differences in well-being across Australia is widely acknowledged, with a growing body of research examining regional variations in economic advantage and disadvantage. Limitations in the availability of data at a small area level, however, have made some aspects of disadvantage difficult to assess at a high level of spatial disaggregation.

The impact of housing costs on financial disadvantage, and the effect of housing assistance in reducing this impact, are two of the measures for which suitable data have not been available at a detailed regional level. The escalating costs of housing, the large regional variations in such costs, and the increasing proportion of household budgets taken up with housing costs, all point to the importance of having detailed regional estimates of the impact of housing costs on financial disadvantage.

METHODOLOGY

Detailed data on housing costs and income are not available at a small area level in Australia. Therefore this study uses modelling techniques to simulate this in a Statistical Local Area (SLA), and to test policy scenarios. The methodology used builds on earlier AHURI work, and uses the HOUSEMOD spatial microsimulation model, which has been designed specifically for the modelling of housing policy at a small area level. HOUSEMOD combines data from two sources: the 2001 Census of Population and Housing, and the 1998-99 Household Expenditure Survey, both conducted by the Australian Bureau of Statistics. Not all SLAs in Australia can be reliably modelled, with around 8 per cent of small areas in Australia not included in this modelling (including over one-third of SLAs in the Northern Territory). When interpreting the results presented here, it should be kept in mind that spatial microsimulation methodology is very new and complex, and continually in the process of additional development.

In this study the impact of housing costs on financial disadvantage is measured by the size of the difference between before- and after-housing poverty rates, using a standard measure of income poverty. After-housing poverty is calculated by subtracting housing costs from

cash disposable income and then equivalising the resultant adjusted income. Where this difference is large, the impact of housing costs is high.

In this study, SLAs that have 'high housing costs impact' are those in which this difference is ranked in the top 20 per cent of differences between before- and after- housing poverty rates across all SLAs. 'Low housing costs impact' is defined as a difference in the bottom 20 per cent of all differences between before- and after-housing poverty rates.

FINDINGS

What is the regional impact of housing costs on financial disadvantage?

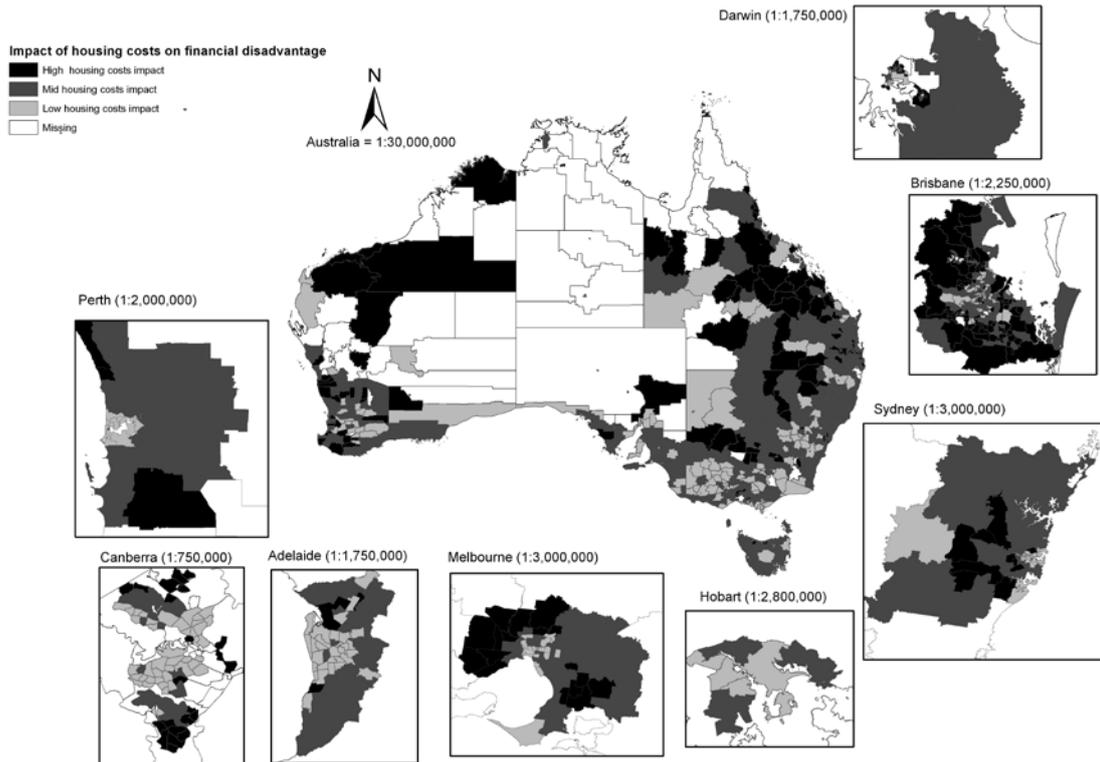
The impact of housing costs on financial disadvantage across Australia and in each of the capital cities is represented in Figure 1. The darkest areas on the map are those where housing costs have the greatest impact on financial disadvantage, and the lightest areas are those where housing costs have the least impact on financial disadvantage. It is important to note that the light areas are not necessarily areas of advantage – they are simply those areas where levels of financial advantage or disadvantage are less strongly affected by housing costs.

Brisbane shows particularly strong impacts of housing costs, and Melbourne and Sydney both have a number of large SLAs where housing costs have a high impact. The smaller capital cities generally have few SLAs with high housing costs impact, although the outlying suburbs to the north and south of Canberra are an exception.

In most cities, areas close to the city centre were likely to have the smallest impact of housing costs on financial disadvantage, possibly due to the relatively high incomes of households in these areas. High impact rural areas appear across Australia, and include a large number of rural SLAs in Western Australia and Queensland.

Regions where housing costs had a large impact on financial disadvantage did not consistently share the same population characteristics. However it was found that many of these areas had relatively high proportions of home purchasers, lower proportions of older households, and relatively high proportions of couples with children.

FIGURE 1: IMPACT OF HOUSING COSTS ON FINANCIAL DISADVANTAGE, AUSTRALIA, 2003



Source: HOUSEMOD

What is the regional impact of housing costs on financial disadvantage by tenure type?

Private renters face the greatest impact of housing costs on financial disadvantage across all geographic areas, followed by households purchasing homes. For areas outside the capital cities, there is a tendency for housing costs to have a greater impact on financial disadvantage for home purchasers than for private renters, however there are some areas where a high impact is experienced by both tenure types.

There is considerable variation in the relative impact on renters and purchasers between and within capital cities. For example, in Darwin the impact is greatest for home purchasers, whereas in Perth, renters are most affected. In Sydney, purchasers are more affected in inner city areas, whereas renters are more affected at the city's northern and southern fringes. In Melbourne, the spatial patterns are similar for renters and purchasers, with both groups experiencing moderate impacts, but small clusters of high-impact areas for both groups in the north-west and outer southern suburbs.

What is the regional impact of Commonwealth Rent Assistance on financial disadvantage?

Commonwealth Rent Assistance (CRA) is designed to assist low-income households in the private rental market

with their housing costs. Researchers compared the spatial distribution of after-housing poverty among private renters with the spatial distribution as it would appear if CRA were not available. The results showed that private renter poverty rates in clusters of outer suburbs in all the capital cities except Darwin were particularly sensitive to the removal of CRA. Scattered rural areas in all states with a high impact of CRA removal were also evident, but the spatial patterns were not as strong as in the state capital cities.

The research also examined the impact of removing the upper limit on CRA payments, by modelling a policy world in which CRA was paid as a percentage of rental costs (to eligible individuals), with no upper limit. Results showed that the overall rate of after-housing poverty for private renters fell by almost 5 percentage points compared with their situation under current CRA rules. However, this does not take into account the potential behavioural change among both renters and landlords. For example, renters with access to more housing assistance may choose to rent more expensive properties. Alternatively, landlords may respond to an increase in government benefits by increasing rents. When modelling these possible behavioural impacts, the research found that the potentially beneficial effects were largely eroded.

TABLE 1: PERCENTAGE POINT DIFFERENCE BETWEEN BEFORE- AND AFTER- HOUSING POVERTY RATES BY TENURE TYPE AND SECTION OF STATE, 2003

Tenure type	Difference in poverty rates (%)			
	Urban		Rural	
	Major	Other	Towns	Other
Owned outright	-2.31	-2.03	-1.56	-1.55
Purchasing	+6.96	+7.50	+7.57	+7.33
Public renters	+0.63	+0.37	+2.14	+1.74
Private renters	+9.42	+9.72	+8.59	+8.80

POLICY IMPLICATIONS

The findings suggest that the impact of housing costs on financial disadvantage differs substantially between regions, and that the population composition of areas that suffer from high housing costs impact differs between regions. While the findings can be used to identify and target areas in need of additional assistance to lessen the burden of housing costs, policy solutions will need to take account of differences in characteristics such as tenure arrangements, age and family type within affected regions.

The policy scenarios modelled for this project represent examples of approaches that could be taken to reduce the impact of housing costs on financial disadvantage for private renters, and for private renters moving to home purchase. It was found that the changes modelled tended to have stronger effects in urban than rural areas of Australia, and that within cities, policies have differing impacts between regions. The findings also suggest that behavioural changes following increased assistance can readily negate the positive benefits of policy change.

The results of the modelling presented in this study could be used by policy makers to inform the development of policy solutions which take into account small area differences in the impact of both housing costs and housing assistance on financial disadvantage. Finally, this project considered

the impact of housing costs on only one aspect of disadvantage (financial disadvantage), and future work could be undertaken to explore the regional impact of housing costs on broader measures of well-being.

FURTHER INFORMATION

This bulletin is based on AHURI project 30295, *The regional impact of housing costs and assistance on financial disadvantage*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

The following documents, which contain greater detail on the methodology and modelling used, are available:

- Positioning Paper
- Final Report

Or contact the AHURI National Office on +61 3 9660 2300



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