



## EXECUTIVE SUMMARY

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# Supporting Australia's housing system: modelling pandemic policy responses

Authored by

**Chris Leishman**, University of Adelaide

**Rachel Ong**, Curtin University

**Laurence Lester**, University of Adelaide

**Weidong Liang**, University of Adelaide

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**Authors**

Chris Leishman, University of Adelaide  
Rachel Ong, Curtin University  
Laurence Lester, University of Adelaide  
Weidong Liang, University of Adelaide

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# Executive summary

## Key points

- Predictions about the impact to Australian Gross Domestic Product (GDP) in 2020 suggest a range approximately 5 per cent to 25 per cent lower than in late 2019. There is a broad consensus that GDP growth in 2021 will deliver a total level of output approximately 4 per cent to 5 per cent lower than in late 2019.
- There are 956,000 households living in Housing Affordability Stress (HAS) in Australia. Commonwealth Rent Assistance (CRA) reduces this number to 758,000. There is a heavy concentration in the private rental sector (69%) but this is reduced to 61 per cent after CRA is taken into account.
- Nearly 50,000 households that face high housing cost burdens themselves also own a private investment property – this is cause for concern given that private renters have been disproportionately affected by the downturn.
- It is estimated that the number of households living with HAS would have risen to 1,336,000 (from the 758,000 baseline) without the JobKeeper and JobSeeker interventions.
- The JobKeeper and JobSeeker interventions reduced the incidence of housing affordability stress by a considerable amount: 861,500 household compared to 1,336,000 without the intervention.
- As JobKeeper moves through its later phases, HAS gradually rises by a further 124,000 compared to phase one, and 73 per cent of these households are private renters.

- **A combination of CRA and a 25 per cent rent relief scenario have the most powerful impacts on simulated numbers in HAS of all the interventions modelled.**
- **The 2021 scenario modelling shows that CRA is not sufficient to fully mitigate the impacts of an economic downturn in any of the scenarios examined.**
- **Finally, households living with HAS and owning an investment property themselves are predicted to more than double. All interventions modelled have a mild effect on these additional numbers.**

## Key findings

In this project we reviewed and synthesised the small, niche literature on the economic consequences of pandemics. We found that predicted impacts on GDP ranged from 1 per cent to 7 per cent. However, these predictions were based on milder pandemic scenarios, such as Severe Acute Respiratory Syndrome (SARS) or influenza. Predictions about the impact of COVID-19 on Australia's GDP range from a 5 per cent drop to a 25 per cent drop. However, most other studies suggest a strong recovery after the initial lockdown phase(s), including possible second or third waves, resulting in a 2021 position that may be somewhere between 4 per cent and 5 per cent lower than 2019 GDP in real terms.

Early predictions included employment loss of up to 25 per cent. Fortunately, it is clear that the impact of COVID-19 has been somewhat mitigated, aided by Australian Government interventions. However, the job losses and potential future job losses that COVID-19 has caused are concentrated in public-facing industries including arts, leisure, accommodation and food services. This has the potential to disproportionately impact specific groups of individuals and households.

In the course of this research, we established a baseline set of estimates of unemployment and numbers of households affected by living in Housing Affordability Stress (HAS). We then applied economic scenarios, modelled propensities to become unemployed, and simulated the impacts of policy interventions. The latter was centred on the Australian Government's JobKeeper and JobSeeker measures, and the Coronavirus supplement.

We found that large-scale job losses—which were mirrored by the total number of people (3.5 million) on income support measures (such as JobSeeker, JobKeeper and Coronavirus supplement)—would have resulted in 1,336,000 households living in HAS without the Australian Government interventions. This estimate reflects eligibility for Commonwealth Rent Assistance (CRA), but it is important to note that there remains a heavy concentration of households living in HAS in the private rental sector (58%).

We also found that nearly 124,000 households who face high housing cost burdens themselves also own a private investment (compared to the baseline estimate of 49,000 pre-pandemic).

The JobKeeper and JobSeeker interventions reduced the incidence of housing affordability stress by a considerable amount: 861,500 households compared to 1,336,000 without the intervention.

As JobKeeper moves through its later phases, HAS gradually rises by a further 62,000-124,000 and more than 70 per cent of these households are private renters. The 2021 scenario modelling shows that CRA is not sufficient to fully mitigate the impacts of an economic downturn in any of the scenarios examined. Households in HAS rise from the baseline 757,000 to at least 797,000 to 893,000.

## Policy development options

The economic shocks imposed by the SARS-CoV2 (COVID-19) pandemic are unprecedented, and the full impacts and knock-on consequences are difficult to predict. This report focuses on the potential impacts to households and their ability to meet their housing costs in the face of economic uncertainty, reduced incomes and potential widespread job losses.

As the JobKeeper and JobSeeker interventions are gradually wound back, there are some important, but currently unanswered, questions. Yet these can be informed by the findings set out in this report. For example:

- To what extent is the phasing of income supports well-timed in terms of Australia's economic recovery?
- What is the right balance between withdrawing supports as the economy recovers, and withdrawing supports to pressure individuals back into the labour market?
- Is the design of the current interventions appropriate in terms of targeting the right individuals and households, i.e. those facing the most precarious of labour market and housing system circumstances?
- Should the current interventions be phased out completely after March 2021, or is there a case for continued support after this?

## The study

This study was commissioned as one of AHURI's COVID-19 research program, and responds to the urgent housing research and policy questions that arose as a consequence of the pandemic. The overall aim of the project was to undertake a rapid redevelopment of economic and housing system modelling approaches previously funded by AHURI in order to provide deep policy insights to a range of COVID-19 interventions. Through three inter-linked research questions we examined the impacts of the pandemic on:

1. labour market participation, employment and earnings
2. the distributional impacts of the fallout on owners, renters, investors and at risk households
3. specific policy interventions.

The project provides a range of policy relevant outputs, including:

- scenario-based estimates of economic impacts on a range of sectors of the economy
- estimates of impacts on probabilities of labour force participation and (un)employment
- distributional analysis demonstrating impacts on owners, renters and 'Mum and Dad' investors
- specific analysis of three high risk groups of households (stressed households; households 'on the edge'; and households with double precarity)
- demonstration of the policy impacts of Commonwealth Rent Assistance (CRA); JobSeeker and Jobkeeper; and a crisis-related temporary rent relief scenario for two states.



**Australian Housing and Urban Research Institute**

Level 12, 460 Bourke Street

Melbourne VIC 3000

Australia


+61 3 9660 2300

[information@ahuri.edu.au](mailto:information@ahuri.edu.au)

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