Positioning Paper

Analysis of expenditure patterns and levels of household indebtedness of public and private rental households, 1975 to 1999

authored by

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EXECUTIVE SUMMARY

This Positioning Paper is the first of two reports from the AHURI project analysing and comparing housing expenditure patterns and levels of indebtedness of public and private rental households over the period 1975-76 to 1998-89. The study is based on ABS Confidentialised Unit Record Files of household expenditure for four time periods: 1975-76, 1988-89, 1993-94 and 1998-99.. The HES is a survey of nearly 7,000 households who 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 (e.g. there are nine gambling items) but can be aggregated into broader expenditure categories such as housing, education, health and financial insurance, and clothing and footwear. The data is highly useful for a range of applications including policy evaluation, analysis of market trends and consumer behaviour, and problem identification.

A major rationale for housing assistance, whether in the form of demand-side (e.g. rent assistance) or supply-side subsidies (e.g. public housing), is to achieve housing affordability for recipient households. 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 what is the appropriate housing affordability benchmark and how this is calculated (e.g. adjustments for location and family size). The assumptions underpinning any benchmark vary from whether it is predominantly related to the needs of a tenant or the needs of the housing system (e.g. financial viability) and whether housing assistance is to play a key or subsidiary role in income support generally.

The analysis of household expenditure data enables the achievement of the following aims

- Identification of long-term trends in the housing budgets of low income households, thereby enabling judgements as to the adequacy of the housing subsidy;

- Evaluation of the consumption trade-off that may be made by low-income households as a result of increased housing costs. Do they cut back on education, health care and clothing, or is housing expenditure adapted to other consumption demands?;

- Evaluation of the consumption expenditure of public tenants compared to low income private renters over time to determine how (if at all) public housing assistance changes consumption patterns; and

- For key household types or socio-economic groups in the two sectors (e.g. families with children, the unemployed, different age groups), identification of any consumption patterns which may differ from the norm (e.g. expenditure on education at one extreme and gambling at another) and which could suggest a need for more targeted interventions (e.g. more heterogeneity of income to rent ratios).

In addition to the time series analysis, the 1998-99 survey also included questions on financial stress. These will be analysed to find out the degree to which public and private tenants experienced such stress, whether there were differences between the two renter types, and whether there were differences across household types.

This paper outlines the methodological problems in using HES data and reviews key concepts and frameworks including methods of calculating income to rent benchmarks and their underlying assumptions, and methods of calculating a budget standard for evaluating the adequacy of income support or housing payments. One key methodological problem is that the HES data does not identify rent assistance recipients, so low income private renters, ie those in the lowest quintile, the quintile where household incomes would enable many to qualify for rent assistance, will be used as a proxy throughout this study.

The paper then turns to some findings from the actual HES data. This is contextual data, as the detailed analysis is the subject matter of the final report. Five major findings emerge:

- There has been a steady increase in the real cost of housing from $94 per week in 1975-76 to $128 per week in 1998-99. As a result, housing costs as a proportion of household disposable income (i.e. income after tax) rose from 11.8 per cent to 18.2 per cent;

- All tenure sectors contributed something to the increase in real housing costs, but the two most important were purchasers and private rental;
- Disposable income has fallen by 11.7 per cent overall, with the lower income quintiles being the most affected. This means that, as the increased housing costs have not been compensated for by higher real incomes, households would have to make compensatory adjustments in other expenditures;
- Public sector tenants have had the biggest reduction in disposable income (down 39.8 per cent), while private renters fell by a substantial 13.8 per cent; and
- While real rents in the public system have increased overall, increases have been largest for households on higher incomes. These findings are consistent with a shift from cost rents to market rents in the late 1980s and 1990s.

1. INTRODUCTION

One of the major reasons for government intervention in the housing market, whether in the form of demand-side (e.g. rent assistance) or supply-side subsidies (e.g. public housing), is the cost of housing relative to household income. Because this is one of the largest expenditure items in household budgets, high housing costs can push certain households into poverty or force them to compromise the quality or standard of their housing in ways that seriously undermine their quality of life. In the nineteenth and the early twentieth centuries, high private housing costs in relation to low labour market income for many people saw widespread poverty and, with the tendency for the poor to congregate in specific areas, the decline of these areas into slums. (Hayward D 1996, Howe R, 1988)

At differing rates and in different forms, advanced industrialised countries – pressured by middle-class social reformers and labour activists at one level, and awareness of the social effects of high housing costs (health, education, work productivity) at another – began to intervene in the housing market. Some opted for direct interventions such as rent controls, many for the provision of social housing and, after World War II, many also opted for demand-side subsidies in the form of allowances, vouchers and supplementary payments such as rent assistance. While a leader in many other aspects of social reform (e.g. age pensions, living wage), Australia was a laggard in housing reform, with the consequence that we were relatively late in establishing social housing, and then only in a minimalist or residual form (see Table 1).

Table 1: Tenure by country (early to mid-1990s)

	Owner Occupied	Private Rental	Social Rental
United States	70	25	5
Australia	68	22	6
New Zealand	70	24	6
Canada	62	28	6
Belgium	65	28	6
Ireland	78	9	14
Denmark	52	25	18
England	68	10	22
France	56	21	23
Germany	37	38	25
Netherlands	46	13	40
Sweden	40	20	40

Source: OECD (1994) *Occasional Paper*, no. 14; OECD (1997) *Social Statistics*; OECD (1998) *Occasional Paper*, no. 33; NZ Census Statistics 1996; Boelhouwer (1999: Table 1).

Except in war years, rent control has been little used in Australia as a mechanism for controlling housing costs, and demand-side assistance was also minimal up until the early 1980s when a small rent assistance scheme for pensioners was widened in eligibility (Hulse 2002). More money is now spent on rent assistance than on social housing, and it has become the major mechanism for dealing with the effects of private market housing costs and associated affordability problems (Burke 1998).

Once some form of government assistance is established in order to address high housing costs in relation to income, a decision has to be made as to the degree of subsidy or assistance that should be provided. 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 what is the appropriate housing affordability benchmark and how this is calculated (e.g. adjustments for location and family size). The assumptions underpinning any benchmark vary from whether it is predominantly related to the needs of a tenant or the needs of the housing system (e.g. financial viability) and whether housing assistance is to play a key or subsidiary role in income support generally.

This research project looks at housing expenditure over the period 1975-76 to 1998-99, particularly for those households in public or community housing and in the private rental sector on sufficiently low incomes that they may be in receipt of rent assistance (as rent assistance recipients are not identified in the HES). It is not a study of household housing expenditure generally, in part because that has already been done (Percival 1998), but mainly because renters receive the bulk of direct housing assistance and are most likely to suffer the effects (e.g. affordability problems) of changes in housing costs.

The time series nature of the data will enable identification of the changing relationship between private and public tenants and different household types within these two rental sectors in terms of employment and educational achievements. Thus it is possible to identify households with children and make some assessment as to the effect of housing costs and any housing assistance on educational spending and therefore possible educational outcomes. While essentially a method to measure these effects over time, it also enhances our knowledge of the impacts on household decision making over time of the restructuring of the housing system, for example, changes in the nature of the private rental sector and associated increased housing costs. As such, it can be a means of problem identification and a basis for researching housing futures.

2. AIMS

This project will use ABS secondary data from the HES to evaluate the effects of housing assistance and public rental on household consumption decisions, and to measure the impacts of increasing private and public rental costs on household consumption decisions, indebtedness and financial stress. More specifically, it will:

- Evaluate how the subsidised rent of public housing, which enables greater discretionary spending, is used by tenants. Is the money saved (or at least used to reduce debt) or is it spent on education, health, food etc.?;

- Evaluate the effect on household consumption of rising rents in the private sector;

- Compare housing and non-housing expenditures for low income public tenants and low income private tenants;

- Identify what sort of consumption adjustments different household types and socio-economic groups make to rising rents over time;

- Attempt to identify the effect of rent assistance on household consumption decisions;

- For key household types or socio-economic groups in the two sectors (e.g. families with children, the unemployed, different age groups), identify any consumption patterns which may differ from the norm (e.g. expenditure on education) and which may affect ability to participate in society;

- Evaluate any difference between the states and territories in terms of housing and non-housing consumption patterns; and

- Provide a better understanding of the degree to which housing assistance helps low-income households to achieve an acceptable level of disposable income.

3. POLICY RELEVANCE AND LITERATURE REVIEW

This project will contribute to a better understanding of how public housing and rent assistance actually help households, as well as improving our knowledge of the changing market context in which housing assistance programs operate. The key objective of housing assistance is to make housing more affordable, yet we know little about what this means from the clients' perspective. Does it enable them to make expenditure decisions more in line with the wider community and therefore participate more fully in society – for example, by spending more on education, health care, adequate clothing or savings – or are the affordability 'savings' spent on some other form of consumption? Are there differences in consumption between different types of public and private tenants? There is also relatively little known about the degree to which housing has been an increasing or decreasing item of expenditure in low income households' budgets and, if increasing, what behavioural responses have they made to the changes. For example, are arrears in public housing a problem of increasing income to rent ratios, leaving insufficient to meet basic needs and forcing households into episodic arrears?

The project will complement the study by Wulff, Yates and Burke (2001) which identified a process of erosion of affordable private rental stock and increasing rents at the low end of the market. The study was unable to offer any findings on what this meant by way of personal hardship and the trade-offs that low-income private rental households have to make. By tracking housing and other consumption changes over time, this project will offer insights on what trade-offs have been made to pay increasing rental costs, and the possible effects of rent assistance. Again, it will be able to differentiate between tenant types in analysing these trade-offs.

3.1 Measuring Housing Affordability

This study is also about housing affordability and benchmarks of affordability, that is, how much of a low-income household budget should housing consume, and therefore how much should be subsidised for low-income households. A framework of analysis is required as different approaches can yield different outcomes depending on the assumptions made. There are broadly three approaches.

Historical Rule of Thumb

This is based on a rule of thumb that rents are normally around a quarter of a household's income. This is not sophisticated evidence based policy, but appears to have emerged from historical observation of people's housing practices and financial institutions' lending practices. It underpinned the National Housing Strategy (NHS 1991). While the NHS study documented the scale of the affordability problems nationally – that is, more than 10 per cent of households in the bottom two quintiles in housing stress (defined as paying more than 30 per cent of their income on housing costs) – it also had the effect of consolidating 25 and 30 per cent as benchmarks for affordability in Australia. Since then, policy discussion has conventionally used these as the lower and upper measures of the appropriate housing costs to income ratio, and public housing authorities have moved the rebate to the 25 per cent benchmark. However, the NHS only gave cursory attention to this, providing a brief overview of what some other countries set in terms of benchmarks (many are much lower) and then apparently choosing an upper end benchmark because the Canadian system uses this and because it fits contemporary practices in terms of home ownership lending conditions by finance institutions (NHS 1991: 6-7). A historical review of the American origins of the 'right' amount of income to spend on housing also found that it was largely grounded in banking practices and could be traced back to the 1920s and 1930s. It was also based on some rough and ready judgements of what an average low-income worker spent on housing. Both suggested 25 per cent (Feins and Lane 1981). However, such rule of thumb benchmarks are set by private market requirements, not necessarily by what people can afford. Moreover as Landt and Bray (1997), among others, have pointed out the problem with these aggregated benchmarks is that they fail to adjust for individual family or household characteristics, or the appropriateness of the dwelling.

Most academic methods used to identify what is an appropriate amount to spend on housing essentially reduce to two types one which has housing as a residual to other expenses (a non shelter first method) and a budget standards approach

Non-Shelter First Claim

As used by Stone (1993), this assumes that no trade-offs are made between non-shelter and shelter expenditures, and that 'non-shelter spending has first claim on the household budget' (Feins and Lane 1981: 67). If the necessary expenditure for all other items is identified, then what is left over is how much is available for rent. This should be how much people pay. This approach assumes that housing programs should be the instrument for addressing all income problems; that is, that housing is the linchpin for a social security system. This might, for example, create a requirement that rents should be around 9 per cent of income (Stone 1993) meaning that if housing was to be subsidized to this degree all other expenditure problems would be resolved. Poverty is thus addressed through housing subsidy!

Residual Income or Budget Standard Approach

This assumes that housing programs should be designed to reduce housing costs to an amount that covers an acceptable minimum standard and which is consistent with a modest budget. Housing is therefore just one part of a set of programs that address social security issues. However of the acceptable minimum standard turn out to be so high there is little left for rents the method becomes a non-shelter first method of measuring affordability. The method here is to identify an acceptable standard of housing expenditure as a basis for setting a general housing cost to income ratio. This might be anywhere between 15 and 30 per cent, depending on household type and location.

When the states and territories first established their public housing systems, a key policy issue was the effective level of rent that tenants should pay. The methods were a combination of rule of thumb and budget standard. Justice Higgins' determination in his Harvester Judgement of 1907 set a living wage based on what an unskilled labourer required to meet the normal needs of himself, his non-working wife and three children. He found that rent constituted 7s or one-sixth of a weekly wage of 42s (McNelis 2001: 38). In his successful push to establish the Victorian Housing Commission, social reformer Oswald Barnett argued that there was a need for an economic rent (i.e. one which covered the cost of a dwelling) and an 'ability to pay' rent which 'must bear a relation not only to family income but also the number in the family unit' (Barnett and Burt 1942).

The report of the Housing Investigation and Slum Abolition Board (of which Barnett was chairman) used these two notions, supplemented by a review of English rent schemes and the findings of the Harvester Judgement, to recommend an economic rent of 22 per cent of income for a family on the basic wage. This was higher than Higgins' 15 per cent, but should be seen as an equivalent, given that the public housing economic rent was considerably less than private sector market rents. However, 22 per cent was the upper benchmark, and for every 3s below the basic wage the rent was reduced by 1s per week. Recognizing that expenditures vary by household size the amount of family income taken into account for rent setting purposes was to be further reduced by 7s 6d for each fourth and subsequent child. These combinations meant that the income to rent ratio could be anywhere between 9 and 22 per cent but, for a typical lower income household (e.g. one on an income of 80 per cent of the basic wage or with one additional child); the ratio was 18 per cent (HISAB 1938).

These principles, if not the details, were largely adopted by the Victorian Housing Commission and formed the basis for the Commonwealth Housing Commission's recommendations of 1944 which in turn led to the first CSHA a year later (McNelis 2001: 45). This laid the foundations for all subsequent social housing provision. Clause 11(1) set the benchmark for rebate of rents at one-fifth of family income equal to the basic wage, with families whose income was less than this receiving a further rebate by one quarter for any amount below the basic wage. Rebates decreased by one-third for any amount above the basic wage. The income to which the rent related was defined as the whole of the income of the highest income earner, two-thirds of the next highest earner's income and one-third of other household members' income up to some maximum, then set at 30s.

While the income definition changed over time, the income to rent ratio was still broadly operative in 1991 at the time of the NHS and was only changed in the 1998 CSHA. Interestingly, the one-fifth benchmark was a compromise as the Commonwealth Housing Commission's 1944 report actually recommended one-sixth as the benchmark (McNelis 2001). Thus, for most of the post-war period, the income to rent ratio was structured in a way which, depending on income and family size, meant that the appropriate percentage could be anywhere between 15 and 25 per cent. For those on higher incomes and paying the full economic or cost rent, it could be as much as 25 per cent of income, but for lower income earners it was more likely to be between 15 and 20 per cent. With some state and territory variations, we are now looking at a policy environment where 25 per cent (i.e. the NHS affordability benchmark) is used by both public and community housing, at least for new tenants.

Looking at this history, we can hypothesise that both the 1991 NHS and 1998 CSHA rent to income benchmarks were chosen less as measures designed to address household need, but to minimise the potential government budget costs of low income housing assistance. This study will evaluate whether the current affordability ratios are appropriate from a household's, rather than a systems maintenance, perspective.

It may well be that a flat rebate of 25 per cent for all household types is inappropriate and that, as with the original Commonwealth Housing Commission recommendation and early public housing practice, there need to be more differentiated measures. Feins and Lane (1981: 65), for example, using United States data, found on the basis of actual housing expenditure patterns of different types of low income households that 19 per cent of income was appropriate for larger family types, but for older couples it could go up to 36 per cent. The Australian context may mean different outcomes, but this illustrates the point that different household types and potentially different locations might mean different affordability ratios.

Landt and Bray in a very useful summary of alternative approaches to measuring housing affordability in Australia review the NHS affordability benchmark method and the poverty line (as a residual measure) but also explore the implications of the Canadian core housing need model(Landt and Bray 1997) This is measure of need both in terms of affordability and appropriateness (number of rooms per household). Landt and Bray undertake an analysis where they statistically measure the number and proportion of renter households who were paying more than 30 percent of their income in rent *and* occupying a dwelling too small for them. In the following section yet another method for measuring affordability is suggested.

3.2 The Budget Standards Method

One important use of the household expenditure data is to evaluate whether housing costs have risen for low-income households to the degree that it affects their ability to maintain an acceptable standard of living. The problem here, and one with a long tradition in social policy research, is identifying and finding a measure of what represents such a standard. There are two broad approaches to resolving this problem. One is to focus on the income necessary to achieve a certain standard of living typically measured by a poverty line set as some relationship (e.g. median or mean) to national average earnings. The other, and one given less attention in Australia, is to focus on the level of consumption consistent with a certain standard of living.

Methodological issues around the former have recently received prominent media attention. A Smith Family/NATSEM report defined poverty as those households receiving less than half the mean income. By this criterion, 13 per cent of Australians in 1999 were in poverty, up from 11.3 per cent in 1990. Tsumori, Saunders and Hughes (2002) criticised this measure because of its sensitivity to changes in the mean income caused by increases at the top end of the range. If the median income, which is less sensitive to growth in outliers, was used, then poverty would have been lower, but they see even this as still too much a relative concept linked to other people's income.

The alternative to an income measure of poverty is some form of consumption based measure which attempts to define a minimum acceptable budget standard (Bradshaw 1993; McDonald and Brownlee 1994). Such a measure is available in Australia, although rarely used and not given the policy attention it deserves. Between 1995 and 1998 the Social Policy Research Centre (SPRC) at the University of New South Wales worked on developing indicative budget standards for Australia. Their results will be used in this study so therefore warrant explanation.

A budget standard represents 'what is needed, in a particular place at a particular point in time, in order to achieve a specific standard of living' (SPRC 1998: 4). The report is prefaced by a discussion of the considerable conceptual and methodological problems involved. It acknowledges that a budget standard has to be defined by someone and is therefore subjective.

The SPRC approach is essentially twofold: firstly, the patterns of the ABS HES are used to get a measure of the weight and cost of expenditure items in household budgets; secondly, normative judgements of the research team backed up by focus group discussions are used to set the amount needed for different household types. Two standards were established: a modest but adequate one, and a low cost one which is a level of consumption that may require frugal and careful management of resources – that is, a subsistence level budget that may involve serious compromise in expenditure related to areas such as health and education (SPRC 1998: 63). For the purposes of this study, the low cost standard has been used in order to ward off any challenges of excessive needs. It differs from the modest but adequate standard by costing some items at a cheaper price, by incorporating lower quality products or fewer of them, by extending lifetimes (e.g. for durables) or by excluding some items altogether.

The analysis was done for a limited range of households, although there is a statistical appendix outlining a methodology for extending the base line data for modelled households to other types. Fortunately, the households modelled included those that make up the major client groups of the rental sector. The budget standard calculated by the SPRC was for 1997 and therefore has been adjusted to other years by the rate of increase in the CPI. This, of course, is a flawed measure of indexation as it does not allow for changes in the nature of goods and services consumed between the different time periods of the HES. There is, however, no method of standardisation of consumption.

The HES is used in most countries as the primary data source for updating their CPIs and revising the category of goods and services that make up the CPI basket, as well as for changing the weighting of items. It is also used to evaluate the effects of government payments (e.g. pensions and allowances) on income distribution and household wellbeing. Its use in housing-specific research in Australia and internationally has not been great, and it is most commonly used by economists for estimating housing elasticities, that is, changes in the supply or demand of a commodity or service in response to changes in incomes. For a summary of the methodological problems and findings on elasticity research, see Ermisch, Findlay and Gibb (1996) and Hansen, Formby and James Smith (1998).

4. METHODS

Swinburne University has an agreement with the ABS to access Confidentialised Unit Record Files (CURFs) for approved non-commercial purposes. These are the most detailed data that can be released from an ABS survey and enable the researcher to cross-tabulate and organise the data in any way they like. For example, with the HES data, we would be able to create a group of private renter households who rely primarily on a statutory income and pay more than a certain amount on rent, and compare their expenditure patterns and level of household indebtedness to households on statutory incomes in public rental.

The HES collects information on the expenditure, income and characteristics of households resident in private dwellings throughout Australia. Expenditure items are broken down into very detailed classifications, whilst the source of household income is also detailed, including broad categories of government payments. Although rent assistance is not a discrete payment category, cross-tabulating rent paid with source of income will enable a category of (likely) rent assistance recipients to be identified.

The HES has been conducted in 1975-76, 1983-84, 1988-89, 1993-94 and 1998-99, providing a rich database of expenditure and income patterns which enables a detailed investigation of changes over time. In addition to the time series analysis, the 1998-99 survey also included questions on financial stress. These will be analysed to find out the degree to which public and private tenants experienced such stress, whether there were differences between the two renter types, and whether there were differences across household types.

Of course, for such a long time series there will always be continuing changes to the data collection process that affect comparability. The most important is that the 1983-84 survey did not distinguish between public and private rental, with the result that this time period has not been included in the analysis. The study adhered to the same data correction principles as NATSEM (Percival 1998), with some changes, notably to the 1998-99 data which was not available at the time of Percival's study. These are:

- The 1975-76 HES includes an amount for repaying the principal component of a mortgage(?), as distinct from the interest component. This was not done in subsequent years. As the study only concerns itself with rental, this is not a problem;

- In 1975-76 and 1983-84, negative incomes[1] were set to zero by the ABS. Accordingly, negative incomes in subsequent years have also been labelled zero;

- As the pre-1993-94 HES did not include the Northern Territory, it has also been excluded from the national aggregates for 1993-94 and 1999-99; and

- The 1998-99 HES changed the definition of dependent children over the age of 15 to include full-time students aged 15-24 who have a parent in the household, where in previous surveys it included full-time students aged 15-20 who have a parent in the household. Where possible, the 1998-99 data has been adjusted to the same measure as other years.

There have also been some changes to sample sizes and the balance between areas, as summarised in Table 2.

Table 2: Differences between HES sample sizes

Geographical area	1975-76	1888-89	1993-94	1998-99
Capital city	2,813	5,263	6,107	4,795
Other urban area	2,225	1,630	1,712	1,534
Rural	831	512	570	564
Total	5,869	7,405	8,389	6,893

Source: ABS (2000) Household Expenditure Survey Australia: User Guide 1998-99: 22.

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[1] A negative income is defined not by the survey respondents but by an ABS classification process whereby any household whose expenditures exceed recorded income are deemed as being negative income households.

The public housing sample in 1998-99 is 529 households, which produces a relative sample error rate of around 9 per cent. In earlier years with higher samples, the error rate is closer to 5 per cent. Private renters, of which there were 962 in 1998-99 and higher in other years, has an error rate of 2.5 per cent, while for lower income renters (around 500) the error rate is 9 per cent. This means that for some caution must be exercised in interpreting results particular with subsets of the public housing population, eg, household types.

In addition to the information regarding expenditure, income and household characteristics, the latest HES (1998-99) included a series of questions based on recent living standards research, covering topics such as management of household income, present standard of living compared with two years ago, ability to raise emergency money, main source of emergency money, and cash flow problems. These subjective measures of economic wellbeing will provide another basis of comparison for low-income households in the private and public rental sectors.

Once we have achieved the maximum level of concordance between the five years for our key variables and established the household types and income cohorts that we wish to investigate over time, there will be considerable data manipulation required. This is clearly an iterative and explorative process; as trends and relationships are discovered, further issues to be explored and refinements to the original conceptualisation will arise.

5. PRELIMINARY FINDINGS

To date, little use has been made of the HES CURF data for housing research, the major exception being the paper by Richard Percival (1998) on which this project aims to build. His paper analysed housing expenditures for the same time period, excluding 1998-99, but looked at all tenures and the broad spectrum of consumers. By contrast, this study focuses only on lower income rental households. However, it is both important and useful to locate trends in the broader context of housing consumption trends generally.

Figure 1: Weekly household expenditure on housing for all tenure types (1998-99 dollars)
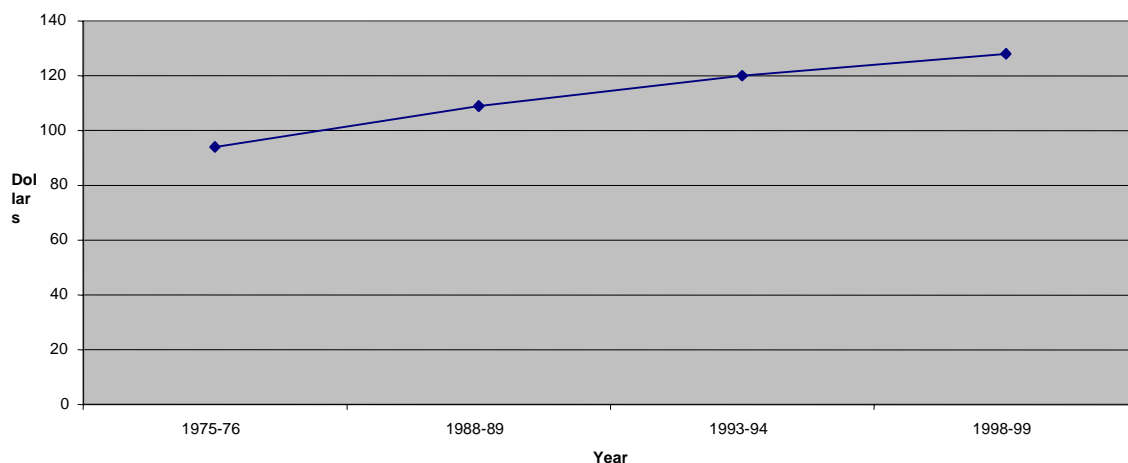
Figure 1 shows a 36.2 per cent increase in the real cost (1998-99 prices)of housing from $94 per week in 1975-76 to $128 per week in 1998-99. As a result, housing costs as a proportion of household disposable income rose from 11.8 per cent to 18.2 per cent. This is an average cost across tenures that have very different consumption attributes and cost structures. It could thus represent an actual cost of housing through, say, higher mortgage costs, land costs, rents etc., or it could represent a change in the compositional make-up of the tenures so that there were more households in those demographics living in a high cost tenure (e.g. home purchasers) than in a low cost tenure (e.g. outright ownership). Table 3 suggests something of the explanation.

Table 3 : Weekly household expenditure on housing

YEAR	1975-76 $pw	1988-89 $pw	1993-94 $pw	1998-99 $pw	Difference between 1975-76 & 1998-99 $pw	% points
Owner						
All	36	42	41	47	11	30.6
Purchaser						
All	135	196	235	229	94	69.6
Renting, governmnent						
All	69	68	72	73	4	5.8
Renting, private						
All	120	141	150	151	31	25.8
Other						
All	87	23	22	50	-37	-42.5
All tenure types	**94**	**109**	**120**	**128**	**34**	**36.2**

All figures in 1998-99 dollars
na Not available

CPI rates for the relevant finacial years are as follows:

(CPI: Special Series, Weighted Average of Eight Capital Cities (Quarter))

All groups excluding Housing

1975-76	30.9
1983-84	66.4
1988-89	93.7
1993-94	113.5
1997-98	125.4

Table 3 also in real 1998/99 prices shows that all tenure sectors contributed something to the increase, but the two most important were purchasers and private rental. For purchasers, most of this increase was in the cost of a mortgage (Percival 1998: 10). However, this does not take us far, as the increase could be because of higher interest rates, a higher mortgage requirement because of higher property values, or a higher mortgage requirement because of consumption changes (e.g. a switch to larger and more expensive houses).

The increase in rents is less ambiguous as it is not as directly connected to borrowing conditions and more likely to reflect prevailing market conditions for the demand and supply of rental stock. The suggestions here are that the underlying trend in the private sector is to real increases in rents.

Table 4 shows that real disposable income (i.e. income after tax) fell by 11.7 per cent between 1975-76 and 1998-99. Australians as a whole have less to spend on expenditure items, including housing, than they did over two decades ago. This would suggest that any real cost in housing expenditure would cut more severely into a household budget than if there had been increases in disposable income.

Table 4: Average weekly household disposable income by tenant type, constant 1998-99 dollars

	1975-76	1988-89	1993-94	1998-99	Percentage Change, 1975-76 – 1998-99
Owner	678	635	604	629	-7.2
Purchaser	956	825	841	900	-5.9
Renting (govt)	621	464	401	374	-39.8
Renting (private)	768	674	608	662	-13.8
Other	631	520	527	508	-19.5
Total	793	686	651	700	-11.7

Significantly, the changes in effects on disposable income have been disproportionately borne by the lower income quintiles, with the least burden on the highest income quintile. Public tenants have had the biggest reduction in disposable income (down 39.8 per cent) and private renters experienced a substantial fall of 13.8 per cent. In the case of public tenants, the explanation rests with greater targeting and a move to market rents which has removed higher income earners from public housing.

Table 5 shows the trends in housing expenditures for public and private renters by income quintiles, revealing a somewhat divergent pattern. While real rents in the public system have increased overall, they have been largest in the higher income quintiles. In 1975-76 the upper quintile housing expenditure per week ($87) was slightly less than double that of the lower quintile ($44), but by 1998-99 it was three times as great ($158 compared to $52). These findings are consistent with a shift from cost rents to market rents in the late 1980s and 1990s. By contrast, private rental housing expenditures were more evenly spread, with the two upper income quintiles experiencing increases much the same as the two lowest quintiles. Only the middle quintile experienced a relatively low rate of increase. This could reflect a bifurcation of the role and experience of the private rental sector. At the lower end of the market, pressures from increasing demand from the growing number of low income households and contracting supply (Wulff, Yates and Burke 2001) may be forcing rents up. At the high end, the increase may be explained by the growth in more affluent households choosing to rent rather than own (e.g. young professionals) and the emergence of new high cost forms of rental accommodation (e.g. townhouses in the 1980s and inner city apartments in the 1990s).

Table 5: Weekly household expenditure on housing, by renters and disposable income quintiles

YEAR	1975-76 $pw	1988-89 $pw	1993-94 $pw	1998-99 $pw	Difference between 1975-76 & 1998-99 $pw	% points
Renting, governmnent						
1(lowest)	44	44	44	52	8	18.2
2	74	69	74	79	5	6.8
3	83	88	101	104	21	25.3
4	79	98	115	119	40	50.6
5(highest)	87	100	127	158	71	81.6
All	69	68	72	73	4	5.8
Renting, private						
1(lowest)	85	107	111	112	27	31.8
2	109	119	125	136	27	24.8
3	126	140	146	151	25	19.8
4	131	163	156	176	45	34.4
5(highest)	149	179	211	210	61	40.9
All	120	141	150	151	31	25.8

All figures in 1998-99 dollars
na Not available
Quintiles are calculated across all households; quintile 1 has the lowest income and quintile 5 the highest

CPI rates for the relevant finacial years are as follows:

(CPI: Special Series, Weighted Average of Eight Capital Cities (Quarter))

All groups excluding Housing

1975-76	30.9
1983-84	66.4
1988-89	93.7
1993-94	113.5
1997-98	125.4

6 CONCLUSION

Despite the richness of the data the household expenditure survey has been little used for housing research. This paper has suggested some of the potential uses and tabled some preliminary findings The final report from this study will build on this context and provide much greater detail on the changing household budgets of lower income renters, as well as drawing out the policy implications. This will be available in three months time.

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