

How long does housing affordability stress last?

FAMILIES WITH MORTGAGES ARE THE MOST SUSCEPTIBLE TO PROLONGED HOUSING STRESS, AND THOSE EXPERIENCING PERSISTENT HOUSING STRESS ARE USUALLY ON LOW INCOMES.

KEY POINTS

- Once in affordable housing, a minority of Australians (18%) tumble into housing affordability stress over a five-year period, and for those that do experience a spell of housing affordability stress, the experience is temporary—75 per cent resume living in affordable housing within five years.
- Over a five-year period, most households that experience housing stress, only experience it once. Nevertheless 40 per cent of these households fall back into housing stress within three years of this first experience.
- Certain groups are more likely to fall into housing affordability stress: owners with mortgages and families with children are at greater risk of plunging into housing affordability stress.
- Those escaping housing stress mainly do so within the first year of experiencing that stress.
- Shaking off housing stress circumstances is not linked to labour market variables or tenure per se, but does seem to be linked to moving house (and so renters appear to exit more easily than owner purchasers). It seems that other factors that might anchor a household to a certain house or location—including having children—reduce the likelihood of escaping housing stress.

*This bulletin is based on research by **Professor Gavin Wood** of the AHURI RMIT Research Centre and **Dr Rachel Ong** of the AHURI Western Australia Research Centre. By identifying groups experiencing prolonged bouts of housing affordability stress, housing policy makers might be able to better target policies to those households most in need.*

CONTEXT

This project investigates the dynamics of housing affordability in Australia over the period 2001–06. This is a key question for policy-makers because if housing affordability stress is a prolonged experience for households, there is greater reason to regard housing affordability stress as a cause of policy concern. This project provides important information for the formulation and design of policies that aim to improve housing affordability in Australia.

METHOD

The project involved tracking the housing affordability trajectories of a nationally representative sample of Australians across a period of six years, using the Household, Income and Labour Dynamics in Australia (HILDA) Survey.

The study is also the first time econometric techniques have been used in Australia to analyse the factors associated with those experiencing persistent housing affordability stress. In this study, housing affordability stress (*housing stress*) was defined as paying over 30 per cent of gross household income in housing costs. The study's authors wanted to explore the role of income in determining the persistence of spells in housing affordability stress, and so departed from the definition used by Yates and Milligan (2007) which restricted the definition of households in stress to be those in the bottom 40 per cent of income earning households paying over 30 per cent of gross household income in housing costs.

The housing affordability profiles of two groups of Australians are examined. The first is a sample of those with spells living in affordable housing. It is used to identify variables influencing the chances of sinking into housing stress. The second is a sample of Australians with spells of housing stress. It is used to identify variables that leave some Australians more vulnerable to persistent housing stress.

The period under consideration was one of increasing housing stress as the boom in the housing market took hold: 8.0 per cent of all households experienced housing stress in 2006 compared to 6.4 per cent in 2001.

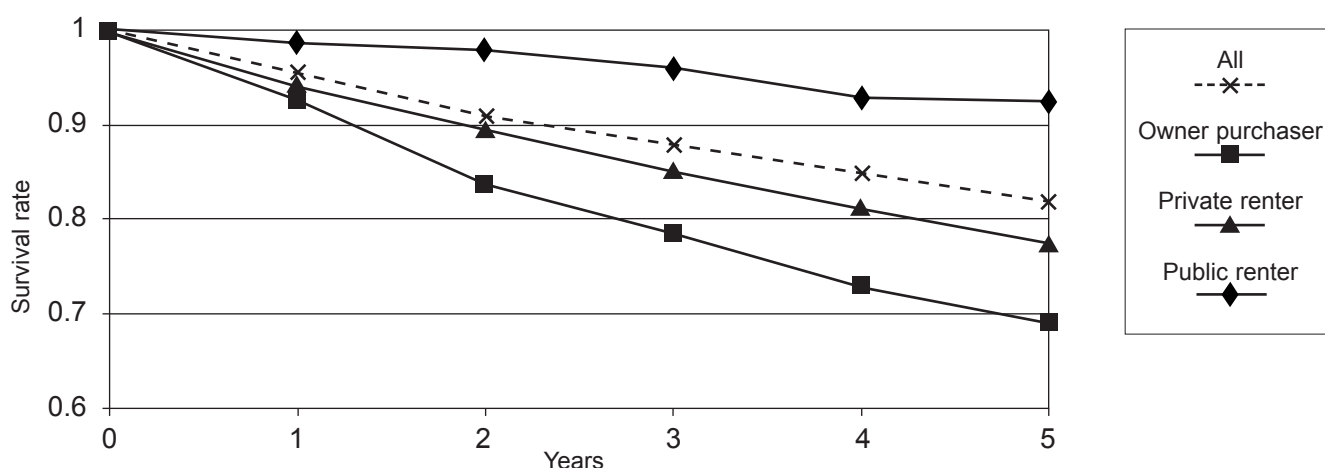
FINDINGS

Who falls into housing affordability stress?

Most Australians (82%) in affordable housing in 2001 remained in affordable housing over the following five year study period (ending in 2006). Of those that descend into housing stress, 75 per cent manage a swift return back into affordable housing.

There are systematic differences in the chances of remaining in affordable housing that are related to financial, demographic and housing tenure characteristics. The Figure plots percentage rates of households 'surviving' in affordable housing by housing tenure. It shows that home purchasers (owners with a mortgage) are the least likely to remain in affordable housing: after five years, about one-third had fallen into housing affordability stress. By contrast, only 8 per cent of those who were in public housing had fallen into housing stress.

FIGURE: THE DURATION OF FIRST SPELLS IN AFFORDABLE HOUSING, BY HOUSING TENURE IN FIRST YEAR OF SPELL



Source: Authors' calculations using confidentialised unit record files of the HILDA Survey Waves 1–6

Particular types of households are more likely to plunge into housing stress. They include households repaying a mortgage secured against one's home, private renters, residential movers, families with young dependent children and those with high human capital. Among those initially living in affordable housing:

- Home purchasers are eight times more likely to tumble into housing stress compared to those in outright ownership, and private renters seven times more likely than outright owners.
- People moving house during a spell living in affordable housing are also two times as likely to fall into stress than those staying where they are (they are more likely to move into a more expensive abode).
- Labour market variables are also important: self-employed and unemployed people are respectively 1.6 and 1.8 times more likely to fall into stress than those not in the labour force.
- Those with higher human capital (year 12 qualifications or higher) are more likely than those without such qualifications to fall into housing stress. This might seem puzzling, but these Australians are typically younger, expect rising incomes over the life course and might therefore anticipate spells of housing stress to be temporary.

What happens to those in housing stress?

Most Australians that slipped into housing affordability stress had only one spell (78%), but 20 per cent had two spells of stress between 2001 and 2006.

The Table below shows that almost two-thirds of Australians experiencing a spell of housing affordability stress are able to escape within a year.

By the fifth year, only 7 per cent still remain in housing stress. Even so, the chances of eluding housing affordability stress diminish the longer you remain in stress: for example, the likelihood of escape declines from two-thirds (in year one) to a little over one in five after five years.

However, among those exiting housing stress there is a high chance of return: 40 per cent have fallen back into housing stress within three years of their first escape. There seems to be considerable churning in and out of housing affordability stress.

Who exits housing stress and why?

Those that have higher chances of exiting a spell of housing stress are: in their first year of their spell (2.8 times more likely than in remaining years of spell); movers (2.5 times more likely than non-movers); those that are single and never married, and have a full-time, permanent job or a casual or other contract. By contrast, the presence of children of any age and whether you were born in a non-main English speaking country reduce your odds of exiting housing stress. The presence of young dependent children reduces the odds of escaping housing affordability stress by over 40 per cent.

Labour market variables are generally not important in explaining whether you escape housing stress, but those in relatively insecure and part-time jobs are more prone to persistent housing affordability stress than those on full-time permanent contracts.

It would appear that precarious housing affordability circumstances are particularly evident amongst those that have lost jobs, and among younger couples with dependent children (a stage in the life cycle that is associated with pressing spending needs).

TABLE: THE DURATION OF FIRST SPELLS IN AFFORDABLE HOUSING, BY HOUSING TENURE IN FIRST YEAR OF SPELL

Year	Number		Likelihood of escaping housing stress each year (per cent)	Per cent remaining in housing stress
	In housing stress at start of year	Escaped housing stress during the year		
0	1550	0		100
1	1378	907	65.8	34.2
2	397	172	43.3	19.4
3	195	73	37.4	12.1
4	100	31	31	8.4
5	47	10	21.3	6.6

Residential moves made during spells living in unaffordable housing tend to alleviate housing cost burdens because such households trade down in the housing market. Renters are much more likely to move and hence they have better chances of escaping housing affordability stress than home buyers, who tend to be less mobile.

POLICY IMPLICATIONS

Only a minority of households experience housing affordability stress on what seems to be a long-term basis. These are typically the unemployed and non-participants in the labour force. Their housing affordability problems appear chronic and warrant long-term support and assistance if their position is to be alleviated. Households less willing to move house (such as mortgage holders) and those experiencing higher household costs (such as those with children), are particularly vulnerable to persistent housing stress.

Even among the group that quickly escapes housing affordability stress, a surprisingly large number subsequently churn in and out of unaffordable housing. We need to know more about these people in order to design policies that will improve their resilience.

There is a suggestion that young Australian couples are trading in house price gains and banking on future growth in earnings and house prices to 'see them through' in the medium to long term. These households could be overestimating their capacity to take on debt that allows them to buy more expensive housing. There is an elevated risk of persistent housing stress for these people, which could result in loss of home ownership status when threatened by unanticipated adverse events (e.g. steep increases in mortgage interest rates).

Federal and State Governments could consider policy interventions if housing stress for large numbers of home buyers continues to worsen such that it jeopardises home ownership for those with mortgages.

These policy interventions can be grouped into two categories:

- *Debt-based solutions* that involve assistance with repayments, either through financial institutions granting deferral of mortgage repayments, or governments extending financial assistance in the form of direct subsidies.
- *Equity-based solutions*, such as shared ownership or equity loans that would allow home buyers to trade in some share of future price appreciation for lower current repayments, or home equity insurance programs that offer some protection of housing equity based on regional or neighbourhood house price indices.

FURTHER INFORMATION

Judith Yates and Vivienne Milligan (2007) *Housing affordability: a 21st century problem*, AHURI National Research Venture 3: Housing affordability for lower income Australians, Final Report, September.

This bulletin is based on AHURI project 30521: *Movements in and out of housing affordability stress and dynamic modelling of initiatives to improve the supply of affordable housing*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or contact the AHURI National Office on +61 3 9660 2300.

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ACKNOWLEDGMENTS This material was produced with funding from Australian Government and the Australian States and Territories. AHURI Ltd acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

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