AHURI Research & Policy Bulletin

Issue 166 March 2014 · ISSN 1445-3428

Do current measures of housing affordability reflect wellbeing?

HOUSING STRESS IS ONLY WEAKLY LINKED WITH INDICATORS OF WELLBEING SUCH AS HEALTH AND FINANCIAL STRESS. ALTERNATIVE, NARROWER MEASURES OF HOUSING AFFORDABILITY ARE NEEDED TO BETTER QUANTIFY HOUSEHOLD AFFORDABILITY PROBLEMS AND THUS BETTER INFORM POLICY FORMULATION IN AUSTRALIA.

KEY POINTS

- A household is defined as being in housing stress when it pays more than 30 per cent of its gross income in housing costs and its income is amongst the lowest 40 per cent of all households (the 30:40 rule). Housing stress is only weakly linked with measures of financial wellbeing, with 45 per cent of those in housing stress indicating they were 'reasonably' or 'very' comfortable financially. Moves out of housing stress are also not statistically linked with improvements in financial stress.
- Housing stress is only weakly linked with health outcomes, though it is more strongly associated with chronic housing stress (i.e. where it is experienced three years in a row or longer).
- Housing stress is relatively high among renters, but is becoming increasingly apparent among purchasers. In particular, it may also affect older home-purchasers who have not yet paid off their mortgage debt.

This bulletin is based on research conducted by ***Associate Professor Steven Rowley*** *and* ***Associate Professor Rachel Ong*** *at the AHURI Research Centre—Curtin University.* *The research examined measures of affordability in Australia and sought to correlate them with other measures of wellbeing.*

AHURi
Australian Housing
and Urban Research Institute

- Housing stress may be precipitated by adverse life events such as a marriage break-up, but it is also linked to favourable events such as a pregnancy or promotion at work. It might also result from households voluntarily seeking higher quality housing and neighbourhoods.
- To ensure the policy relevance of housing stress measures, policy-makers may need to focus on households in the lowest income bands and those who experience chronic housing stress.
- Policy-makers might also consider other approaches—such as market and housing needs assessments—as a basis for setting housing supply targets.

CONTEXT

Policy-makers often use housing stress as an indicator of affordability. Apart from the 30:40 rule as a measure of housing stress, alternatives such as the residual income method have also been proposed. The residual income method calculates how much is left over for housing (e.g. rent, mortgage or other housing costs) after paying for a standard budget of household goods and services relevant to different household types and sizes. If there is not enough left for housing costs after meeting this budget standard, the household is considered to be in housing stress. The residual income method incorporates local housing costs and includes home owners and those renting in affordable housing programs, it is, however, complex to apply (see, e.g. AHURI Project 50597).

This project sought to examine evidence around the efficacy of the 30:40 rule in accurately measuring affordability problems by correlating it against other benchmarks of social wellbeing that are thought to be potential outcomes of poor housing affordability.

RESEARCH METHOD

We would normally expect housing stress to have negative implications for welfare (e.g. increased financial stress and poorer health). In this respect, we customarily see housing stress as an indicator of *constraint* on households. However, it is also possible that housing stress might reflect *voluntary choices* by households who are willing to ‘prefer’ housing stress as long as they can achieve other outcomes, such as better location, housing quality or employment opportunities, to suit their household circumstances.

This project estimated housing affordability by utilising the housing stress measure using data from the Household Income and Labour Dynamics in Australia (HILDA) survey for the years 2001–10. Key evidence from this data source was used to test arguments around the validity of housing stress measures of affordability by correlating them with other subjective welfare measures such as financial stress, self-assessed health and neighbourhood quality. By exploiting the longitudinal nature of the data set, movements in and out of housing stress and longer durations in stress are correlated with these indicators as well.

KEY FINDINGS

Housing stress is only weakly linked to financial stress

Those in housing stress were more likely to report experiencing particular sorts of financial stress. For example, 40 per cent of those in housing stress reported having at least one cash flow problem, compared to only 16 per cent of those not in housing stress. However, statistical analysis suggests that housing stress was only weakly linked to measures of financial stress.

Furthermore, while most households in stress reported they were ‘just getting along’ or ‘poor or very poor’, 45 per cent also considered themselves ‘reasonably comfortable’ and ‘very comfortable’. This may mean that being in ‘housing stress’ is financially sustainable for some households.

A striking finding of the study was that there were no statistically significant associations between movement out of housing stress and an improvement in financial wellbeing. This suggests that the housing stress measure does not reflect the financial position of households in housing street, and casts doubts on the 30:40 rule in making judgments about the financial capacities of these households.

Chronic housing stress is linked with poor health

The study also found a very weak link between housing stress and subjective self-assessed health. Very good health outcomes were reported for those going in and out of housing stress, and, while the differences are statistically significant, the magnitude of difference due to housing stress is small. However, the link is stronger with longer durations of housing stress—especially where households have endured stress for three years or more.

Increased housing stress may reflect improved neighbourhood quality

A concern for policy-makers is whether housing stress is linked to financial constraint and whether this forces households to locate in poorer quality neighbourhoods. However, it is also possible that some households may choose to take on higher cost burdens and therefore be in housing stress in order to access the benefits of living in higher quality neighbourhoods.

The evidence suggests that there are effects both ways, meaning that housing stress may not be just an indicator of financial constraint. On the one hand, households in housing stress are more likely to be in disadvantaged areas lacking economic resources, education and other amenities. On the other hand, a falling proportion of people are indicating they are satisfied with their house and neighbourhood, suggesting that people might be making quality trade-offs to keep housing costs low. This suggests that factors related to constraint (and in particular low income) are driving outcomes for most households in housing stress.

However, the study showed that a movement into housing stress is associated with a 40–50 per cent increased probability of achieving a higher quality housing environment. This suggests that many households are choosing to take up higher housing costs in return for an improvement in housing quality and neighbourhood conditions.

Housing stress measures exclude key tenure categories

Current housing stress measures are not relevant for around half of all households. This is because owners who have already paid off their mortgage (around a third of all households), those in public housing paying income-based rents, or private renters with subsidised employer accommodation, are all assumed to not face housing stress. Households measured as being outside housing stress may be achieving low housing costs by choosing to live in areas that have limited access to employment opportunities. They may also sacrifice other amenities as well.

Circumstances associated with housing stress are not just negative

The study revealed that a number of life events are associated with moving into housing stress. Some were favourable (impending birth of child), some unfavourable (redundancy and separation from a spouse), while some movements were ambiguous in nature. For example, changing residences was linked with moving into housing stress though it is possible that this could be a matter of choice (in which households purposefully seek more expensive housing) or constraint (e.g. a marriage break-up necessitating housing choices close to family).

POLICY IMPLICATIONS

This study suggested that the current measure of housing stress (the 30:40 rule) is inadequate as it under represents those that might experience housing cost-related stresses, such as public renters, but also includes households that apparently do not suffer negative consequences, such as financial stress or poor health outcomes, and who may be entering housing stress 'voluntarily'.

Policy-makers wishing to make the housing stress measure more meaningful could narrow their focus towards people experiencing higher level housing stress, long durations of housing stress, or those who experience housing stress because of constraint rather than choice. Those households that have a high net worth (through increased housing equity for example) might be considered to have resources to deal with their stress if they choose to, and so they should not be as great a concern for policy-makers.

Affordability can only be improved through a significant reduction in market rents and prices, direct housing subsidies to households or, more realistically, through large scale new housing supply. Another way forward is to move beyond housing stress measurement towards housing market and housing needs assessments at a local level. This involves modeling the demand for various types of affordable housing and provides a reliable evidence base for setting housing supply targets that will provide more affordable housing.

FURTHER INFORMATION

This bulletin is based on AHURI project 80650, *Housing stress and household wellbeing in Australia.*

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting AHURI Limited on +61 3 9660 2300.

ahuri.edu.au

AHURI
Australian Housing and Urban Research Institute

ADDRESS Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

ACKNOWLEDGMENTS This material was produced with funding from Australian Government and the Australian States and Territories. AHURI Limited 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.