

Is deteriorating housing affordability reducing lower income central city worker supply and productivity?

LOWER INCOME WORKERS IN THE CENTRAL CITY LIVE FURTHER FROM WORK THAN OTHER LOWER INCOME WORKERS AND ARE MORE LIKELY TO RENT OR SHARE ACCOMMODATION.

KEY POINTS

- Lower income workers who work in the centre of cities live around twice as far from work as other lower income workers who work in outer city areas. The median distance to work for lower income central Sydney workers is 12.9 kilometres, compared to 6.2 kilometres for lower income workers across greater Sydney.
- Lower income central city workers are also more likely to make housing-related compromises, such as living in smaller dwellings, sharing with unrelated adults or renting.
- Most central city employers interviewed were able to meet their lower income labour needs. There was some evidence of recruitment, retention and reliability issues, but for most it was a secondary issue.
- A supply of reliable lower income workers for central city businesses was also made possible, in some cases, by factors such as good public transport links to a high proportion of the metro area, a supply of short-term workers and the lifestyle benefits and professional opportunities that come from working in the central city.
- Six industries that employed the majority of lower income central city workers were identified as the most likely to be affected by lower income labour constraints. Of

This bulletin is based on research conducted by Mr Ryan van den Nouweland, Dr Laura Crommelin, Dr Shanaka Herath and Professor Bill Randolph at the AHURI Research Centre—The University of New South Wales. The study examined whether the diminishing supply of affordable housing options for lower income central city workers is having an impact on central city businesses and on the overall productivity of those economies.

these, hospitality and retail were the most vulnerable because of their large proportion of low-income workers, the fewer higher income opportunities and the availability of jobs outside the central city.

- Governments and employers concerned about negative economic and labour market impacts of housing workers may need to facilitate low-cost housing in inner areas, consider the needs of low-income workers in public transport policy and integrate strategies at state and local government level and across policy domains.

CONTEXT

In Australian cities, the coinciding of housing growth on the urban periphery and jobs growth in the central city has resulted in increased distances between places where people live and work (or ‘spatial mismatch’). This has been found to reduce the work opportunities for those living in low-cost housing areas.

Major city governments, both in Australia and overseas, have recognised that high housing costs may also constrain urban economic growth. Economic development strategies in both Sydney and Melbourne, for example, note that housing costs can limit access to central city jobs, which can in turn thin lower income labour markets.

This project’s aim was to identify the extent to which housing issues reduce access to jobs and thus constrain economic growth.

RESEARCH METHOD

The research comprised a review of 2011 Census and other data as to the housing market position of lower income central city workers in five of Australia’s key metropolitan areas—Perth, Darwin, Melbourne, Sydney and Brisbane. Using Sydney as a case study, the research also comprised a series of interviews with employers and an analysis of the demand profile in recent infill development.

KEY FINDINGS

Policies addressing the housing constraints of lower income central city workers are fragmented

When the economic impact of high housing costs is considered in policy, it mostly highlights the resulting reduced consumption and wage inflation. Little research has identified or quantified the resulting constraints on productivity caused by a spatial mismatch and a thinner labour market of lower income central city workers.

Policy responses that could address this spatial mismatch can broadly be categorised as:

1. transport strategies connecting jobs and labour
2. distributed economic development strategies moving jobs closer to labour
3. inner-city housing strategies moving labour closer to jobs
4. job-finding strategies overcoming barriers to labour force participation.

These four responses are likely to fall into separate policy arenas and government agencies. The issue of spatial mismatch constraining lower income central city labour market thickness is likely to be a secondary driver in each of these policy arenas. Evidence of coordinated policy responses is very limited.

Lower income central city workers live a long way from their work and affordable housing options closer to the central city are very limited

In all five case study cities, census data showed that lower income central city workers are spatially separated from their jobs to a much greater degree than lower income workers in the wider metropolitan area. For example, in Sydney, the median distance of the low-income central city workers was 12.9 kilometres, roughly double that of metro-wide low-income workers (6.2 kilometres).

Rental and sales data showed that the spatial separation is likely linked to the highly

unaffordable housing markets in the inner city. Sydney, in particular, has very few house sales affordable to a medium-income household within 25 kilometres of the central city.

Lower income workers are compromising their housing experience to maintain central city jobs

The distribution of housing costs as a proportion of household incomes—including levels of housing stress—were found to be consistent across different localities. However, evidence of housing compromise (probably made to avoid housing stress) could be seen in other differences in the housing experience of lower income workers working in the central city versus lower income workers generally. Lower income central city workers were more likely to be:

- renting
- living with unrelated strangers or extended family
- living in an apartment
- showing signs of dwelling size compromise, in terms of bedrooms/occupants
- living further from their place of work.

Employers in hospitality were more likely to be concerned about recruitment, retention and reliability of lower income workers, but most businesses were able to fill vacant positions

In the cities examined, most lower income central city jobs were in a few key industries. The six common industries were hospitality, retail, support services (like travel and recruitment agencies), professional services (like legal and accounting), finance-insurance, and government services.

Hospitality and retail were considered to be particularly vulnerable. These two industries represented around one in three lower income central city workers. Both depended on these workers, with around 65 per cent of their workers earning an income at this level. There are also greater rates of geographic distribution (retail, e.g. had up to 20 lower income jobs outside the central city for every job inside it) making it possible for workers to find comparable jobs closer to home.

Interviews with Sydney central city employers in all of these industries (except government services) revealed that some businesses—most notably in hospitality and tourism—are aware of and concerned about the issue. Although evidently not consequential, almost all could offer anecdotal evidence of recruitment, reliability or retention issues being connected to housing affordability. Most interviewees recognised that employees primarily bear the burden of this expense, rather than employers.

Interviewees also identified a number of factors that mitigated some impacts of high housing costs. For example, the central city was seen as offering a number of professional and lifestyle benefits and opportunities for lower income workers. These benefits increased the supply of short-term workers (students and travellers) and career starters. The census data revealed a presence of lower income central city jobs across well-paid and growing professional industries, probably related to the much larger representation of younger, more educated and more mobile lower income workers in the central city.

A growing supply of housing in the current market provides for some lower income central city workers, but does little to offset the compromises they are making

The research looked at the profile of residents of recent housing developments within the Sydney council area. A supply of new housing in central city locations might be a valid means to improve accessibility of jobs for lower income workers.

New apartment developments were found to be more expensive than other inner city housing options, with higher rents and higher mortgage payments. These new apartments also had higher rates of both private rental and shared accommodation. The new supply did provide housing for some low-income central city workers, most likely temporary and student workers who find high turnover rental markets and group household arrangements appropriate. However, this housing is not accommodating families and other potential lower income central city workers.

POLICY IMPLICATIONS

This research found little evidence that central city industries were significantly impeded by labour market constraints—at best it remains a secondary concern among both the businesses interviewed and policy-makers.

Despite the clear link between high housing costs and a spatial mismatch of lower income workers from central city jobs, there are a number of mitigating factors at play. These include a supply of short-term workers, lifestyle and professional benefits and good transport links which have insulated businesses.

One exception appears to be the hospitality industry, particularly tourism and accommodation, which relies on a greater number, and a greater diversity, of lower income central city workers. Currently employers fill the gap with student and short-term workers such as tourists. There are, however, signs that labour market thickness is being affected by housing costs.

If housing affordability worsens, it is possible that the experience of the hospitality industry could affect more central city industries.

Forcing more lower income workers—including those in middle-income households—to make housing compromises to work in the central city will further erode the labour market.

Given the importance of the ongoing attractiveness of central cities for lower income workers, spatial mismatch will remain a state and local government concern. The shortcomings of existing efforts to boost the supply of infill housing through market development point to the need for policy intervention. However, it is worrying that policy responses to manage spatial mismatch are

so fragmented and a secondary objective of responsible government agencies.

The research points to three key policy requirements to improve the spatial mismatch between lower income workforces and central city industries:

- A need for a continued focus on facilitating and delivering low-cost and affordable housing options through a combination of planning policy interventions, use of public lands and state-funded housing support initiatives—especially to house more diverse groups of low-income people.
- An ongoing commitment to public transport policy—these workers require efficient, affordable and safe transport options to access central city employment.
- A more integrated metropolitan policy response, involving collaboration between state and local government entities across planning, housing, transport and regional policy domains to address developing issues. This might include working to distribute jobs to other centres and ensure an efficient land-use pattern.

FURTHER INFORMATION

This bulletin is based on AHURI Project 71032, *Housing affordability, central city economic productivity and the lower income labour market*.

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.

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