POLICY EVIDENCE SUMMARY September 2020

Examining housing and commuting cost for low-income workers

Based on AHURI Final Report No. 335: Commuting burden and housing affordability for low-income renters

What this research is about

This research focuses on the impacts commuting costs have on low-income workers who rent and on their access to employment. Because of their modest incomes, low-income workers potentially occupy a pressured position in the housing market. In urban housing markets, these low-income workers are above the threshold of income and capability for most forms of housing assistance, particularly access to public housing or to rent assistance. At the same time, they have less income than 60 per cent of workers and are therefore potentially subject to housing market pressures that may limit where they can afford to live.

The context of this research

Policy makers have concerns that unaffordable housing may result in low-income workers living in locations that are remote from employment concentrations, leading to weaker worker-job matching and worker exclusion from opportunity.

In addition, a productive urban environment depends, in part, on efficient labour markets that provide firms with a wide and deep pool of workers to best match workers to jobs; and workers with good spatial job access, delivering benefits such as improved employment opportunities and wages.

"People trade-off the costs between housing and commuting because they often have a fixed total budget for living and transport relative to income."

The key findings

The study finds that, in general, low-income renters (i.e. those earning in the second quintile—Q2—or between 20% and 40% of Australia's income distribution) in both Melbourne and Sydney live in locations where they can afford to love and they can also mitigate extreme commuting costs.

Typically, lower cost rental housing tends to be located in outer and fringe suburban locations, which is where a high proportion of Q2 renters also live. The type of employment from which they earn their income tends also to be suburbanised, often in the middle-outer zone. Consequently the commuting burdens on Q2 renters in outer and fringe zones where rental housing is cheaper are not necessarily high when the jobs in which they are employed are also located in these zones.

People with lower commuting costs are typically paying higher housing rent, or vice versa. People trade-off the costs between housing and commuting because they often have a fixed total budget for living and transport relative to income.

Average commuting costs for Q2 workers in Sydney and Melbourne

The economic burden of commuting for Q2 renters is assessed by comparing the total commuting cost (such as public transport fares and car ownership and operation costs) relative to personal income. (Commuting times were not included in the calculation of travel cost.)

The research finds that Q2 workers in Sydney and Melbourne have average commuting costs of 8.6 per cent and 9.4 per cent of their average income respectively. The research also finds that the total number of Q2 renters who have commuting burdens greater than the average for each is city is no more than 12,000 Q2 renters in each city.

In both cities, trip costs for Q2 renters are AU$9.50 per trip. The average trip cost in Sydney is slightly lower than that in Melbourne, with more trips in the lower cost category (<AU$8 per trip) and fewer in the higher cost category (>AU$14 per trip). The main reason for this seems to be the overall shorter distance travelled by Sydney Q2 commuters (9.3 kilometres) compared to their Melbourne counterparts (10.1 kilometres), and the higher proportion of trips by public transport in Sydney compared to Melbourne.

Table 1: Statistic summary for Q2 renters

Q2 renters	Melbourne	Sydney
Average personal income (AU$/week)	726.7	778.4
Average household income (AU$/week)	727.0	751.1
Average housing rent (AU$/week)	348.4	429.1
Average journey to work (JTW) distance (kilometres)	10.1	9.3
Average commuting cost by car (AU$/day)	8.8	9.0
Average commuting cost by PT (AU$/day)	8.1	8.1
Average commuting burdens	9.4%	8.6%
Workers under higher commuting burden (greater than the mean)	11,729	11,310
Workers under higher commuting burden and who work in the top 10 job destinations	3,859	4,880

Top 10 commuting destinations for Q2 workers

The research identifies the top 10 commuting destinations for Q2 workers with high commuting burdens for Sydney and Melbourne. A great number of Q2 renters work in the major employment centres in each city, which implies many Q2 workers are skilled and thus contribute to the large and productive agglomeration economy of each city.

Of the no more than 12,000 Q2 renters who pay an above-average commuting burden in each of Sydney or Melbourne, fewer than 5,000 commuters in each city in total travel to one of the top 10 employment destinations for this group. However, people in this group typically experience among the highest commuting burdens for their income group.

Commuting destinations for Q2 renters who pay high commuting costs in Sydney is highly centralised in the CBD and its surrounds (43.1% of Q2 workers). In addition, significant commuting movements are found in the far north region near Gosford, that suggest strong self-contained spatial labour markets. Very few Q2 workers commute to Sydney from north of the Hawkesbury River.

Commuting flows for Q2 workers who pay high commuting costs in Melbourne are less centralized (32.9%). In addition to the CBD and surrounds, including Docklands and Richmond, other significant trip destinations for Q2 renters include Dandenong and Laverton. Trips to these zones are typically long, compared to the average, and are car-based.

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Table 2: Top 10 employment locations for Q2 renters under high commuting burdens, Melbourne and Sydney

Work destination	Commuting cost (AU$/day)	Trip arrivals (Q2 renters with higher commuting costs)	% of Q2 renters with higher commuting costs
Melbourne			
1 Melbourne CBD	10.6	758	6.4
2 Dandenong	12.5	1,039	8.8
3 Clayton	13.1	258	2.1
4 Richmond	11.8	304	2.5
5 Port Melbourne Industrial	13.2	240	2.0
6 Docklands	12.6	159	1.3
7 Southbank	11.2	212	1.8
8 Laverton	12.5	321	2.7
9 Keilor	12.2	201	1.7
10 Campbellfield	12.3	244	2.1
Sydney			
1 Sydney CBD	9.7	3,941	34.8
2 Parramatta	10.9	526	4.7
3 Springfield (Gosford)	12.2	380	3.4
4 Wetherill Park Industrial	11.7	374	3.3
5 Macquarie Park	10.8	388	3.4
6 Silverwater	10.9	333	2.9
7 Kangy Angy (Tuggerah)	11.1	258	2.3
8 Prospect Reservoir	11.1	360	3.2
9 Alexandria	10.4	311	2.7
10 Ultimo	9.9	340	3.0

Increasing residential capacity in Sydney and Melbourne

There are comparatively few sites within 10 kilometres of the top 10 locations for Q2 renter employment where the current rental market conditions make new market-priced housing development feasible to the extent that it overcomes commuting burdens. The research modelled two scenarios that may support new affordable housing that improves work access for Q2 renters.

The first scenario modeled building new housing developments that have residential density levels that are either 75 per cent or 90 per cent of the average residential zone density level in either Melbourne or Sydney:

Table 3: Potential number of dwellings for areas adjacent to Q2 renter employment centres, with rent no more than market rate paid by current Q2 renters

	Melbourne	Sydney
75 per cent level	13,781	6,594
90 per cent level	25,942	16,802

The second scenario modeled the potential capacity for delivery of additional dwellings at 75 and 90 per cent average density levels in locations closer to the main employment centres for Q2 renters where the property is eligible for a 25 per cent charitable rent discount (such as through housing managed by a community housing provider).

Table 4: Potential number of dwellings for areas adjacent to Q2 renter employment centres, with rent 25 per cent less than market rate paid by current Q2 renters

	Melbourne	Sydney
75th percentile	26,113	9,727
90th percentile	48,219	24,698

Satellite cities: Wollongong and Geelong

The research identifies that that most Q2 workers in Wollongong live and work within the region. Some workers travel to work in the surrounding regions, but comparatively few travel to Sydney for work. The economic activities for Q2 workers in Wollongong appear to be generally self-contained, with few traveling beyond the local region to access employment. We find that every SA2 in Wollongong offers local jobs that are suitable for Q2 workers. (SA2 or Statistical Areas Level 2 are medium-sized areas that represent a community that interacts together socially and economically and have on average 10,000 people.)

Although there is a known commuting interaction between Geelong and Melbourne, most Q2 workers in Geelong travel to work within the local Geelong SA2s. There is a small number of workers who travel to work in proximate ex-Geelong regions (Werribee), and some industrial zones in Melbourne's west. As the largest centre in the Geelong region, the Geelong CBD is the commuting destination that attracts the highest number of Geelong Q2 workers.

The results from Wollongong and Geelong indicate that the housing markets in satellite cities do not present a similar degree of scale or spatial variation to the major cities of Sydney and Melbourne, and consequently do not result in a high degree of separation between jobs and workers on low incomes. Most Q2 workers in the satellite cities are able to live relatively close to work, pay regional rents for their dwellings and do not experience a high commuting burden in contrast to a sizeable proportion of Q2 renters in Melbourne and Sydney. Accordingly, we do not consider that Q2 workers in Wollongong and Geelong experience commuting burdens that are of a magnitude or frequency that deserve special policy attention.

What this research means for policy makers

Policy attention to the distribution of work locations for Q2 renters may be merited.

In Sydney, managing the metropolitan distribution of employment so to shift Q2 renter CBD employment to other sites, particularly those closer to Q2 residential locations, may reduce the number of high cost burden commutes for this cohort.

In Melbourne, where there is a more even distribution of employment for Q2 renters, commuting cost burdens may already be moderated. However, there is evidence that this dispersion is accompanied by greater work travel distances, given the higher average commuting burden for such workers.

Policy should consider options to improve transport networks in Sydney and Melbourne so they can better serve the dispersed employment patterns of Q2 commuters. In the context of rapidly growing populations and the difficulties of creating additional road capacity, improving accessibility by public transport is likely to be more productive than car travel for Q2 renters.

The analysis has shown that there are sites that would support housing development affordable to Q2 renters close to employment nodes under prevailing zoning and housing market conditions. However, the number of sites is not large and these cannot automatically be assumed to be able to generate future affordable housing through market processes. If such sites are to be developed for affordable Q2 renters it is likely that a dedicated affordable housing agency would be required to undertake the development. In turn this implies a form of subsidisation to provide the dwellings at rents lower than the prevailing market level.

Methodology

This research analyses ABS Census journey to work patterns and rental costs for Q2 renter workers in Sydney and Melbourne, and investigated commuting patterns in two metropolitan-adjacent satellite cities: Wollongong adjacent to Sydney and Geelong adjacent to Melbourne.

To cite the AHURI research, please refer to:

Dodson, J., Li, T. Taylor, E. and Goldie, X., (2020) *Community burden and housing affordability for low-income renters,* AHURI Final Report No. 335, Australian Housing and Urban Research Institute Limited, Melbourne.

Available from the AHURI website at ahuri.edu.au/research/final-reports/335

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