

# Senate Inquiry into Housing Affordability in Australia

**Submission March 2008**

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## **Senate Select Committee Inquiry into Housing Affordability in Australia**

### **Written Submission from the City Futures Research Centre at the University of New South Wales and the UNSW-UWS AHURI Research Centre**

1. The City Futures Research Centre at the University of New South Wales is committed to undertaking applied research on issues central to the future of Australian Cities. We focus on housing and planning issues, and alongside projects funded by AHURI and the ARC, we also work closely with Commonwealth, State and local government authorities to deliver policy-focused and policy-relevant work. As a key centre in the AHURI network, we have been involved in extensive research which has contributed to the housing affordability debate. Most recently, Professor Randolph and Dr Pinnegar have been involved in the AHURI National Research Venture on housing affordability for lower income Australians (NRV3), led by Professor Judith Yates at the University of Sydney.
2. The team fully acknowledges the scale and extent of debate regarding housing affordability constraint currently faced by many Australians, both within the rented sector but also amongst home purchasers. It would stress that whilst connected, the affordability constraints facing home buyers and renters are distinct and each require more nuanced policy responses.
3. The drivers and outcomes of such concerns are now increasingly understood (not least through the extensive research undertaken by AHURI), and it is anticipated that many submissions to the Senate Committee will consolidate this evidence base, including that being prepared by Dr Ian Winter, Executive Director of AHURI.
4. Rather than re-rehearsing this information and data regarding the scale and impact of affordability constraints, City Futures should like to focus on five areas of our current and recent research pertinent to a number of the sub-questions identified by the Committee. These points seek to offer a proactive view regarding issues to be considered and potential actions and initiatives which may be pursued in addressing those issues.
5. However, we should note that much of our work in this area have been completed on the Sydney housing market. While we believe there are general points to be made concerning the national housing affordability problem from this work, we are also aware that Sydney presents a particular aspect of the current situation. Our response to the Inquiry is therefore framed within the specific context of the Sydney housing market.

## 1. Affordability problems in the Private Rental Sector

### 1.1 The shifting location of low income private rental

Previous research funded by AHURI by the City Futures team has shown how the lower income households in the private rented sector have been increasingly dispersed into the suburbs as the sector has contracted in inner city areas<sup>1</sup>.

This research is important as it illustrates how housing opportunities for lower income working households in the private rental sector have shifted significantly away from higher cost areas close to central city labour markets into more dispersed locations in the middle and outer suburbs. These areas have lower levels of employment opportunity and much poorer public transport infrastructure.

The findings showed that:

- In **Sydney**, there were particularly high concentrations of private rental low income households (PRLIHs) in **Canterbury and Wyong** local government areas (LGAs), and in the suburbs of **Liverpool, Campsie and Cabramatta**.
- In Melbourne there were high concentrations of PRLIHs in **Darebin and Moreland** local government areas and in the suburbs of **Frankston, Reservoir and Dandenong**.
- In **Adelaide** there was a particularly high concentration of PRLIHs in **West Torrens – East** statistical local area, **West Torrens – West** and **Holdfast Bay-North**. At the suburb level in Adelaide there were high concentrations of PRLIHs in **Morphett Vale, Salisbury and Prospect**.
- 53% of PRLIHs in Sydney, 42% in Melbourne and 36% of PRLIHs in Adelaide live in flats.
- Between 60% and 70% of PRLIHs in Sydney, Melbourne and Adelaide are lone person households and one parent families.
- In all three cities the proportion of persons aged under 34 is significantly higher than that for the population as a whole.
- Low income renters are over-represented in Intermediate and Elementary Clerical, Sales and Service jobs as well as Intermediate Production and Transport Workers.
- There was a decrease in the proportion of Rent Assistance recipients in the inner cities of Sydney, Melbourne and Adelaide. Conversely, there was an increase in the relative proportion of Rent Assistance recipients in certain middle suburban areas in each of the three cities. Over this five year period, therefore, there was a notable shift of Rent Assistance recipients into middle and outer suburban areas (See **Figures 1 to 3**).

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<sup>1</sup> Randolph, B. and Holloway, D. (2007) *Rent Assistance and the Spatial Concentration of Low income Household in Metropolitan Australia*, Final Report, Australian Housing and Urban Research Institute, Melbourne.

**Figure 1:** The change in number of Rent Assistance recipients by postcode in Sydney in March 2000- March 2005

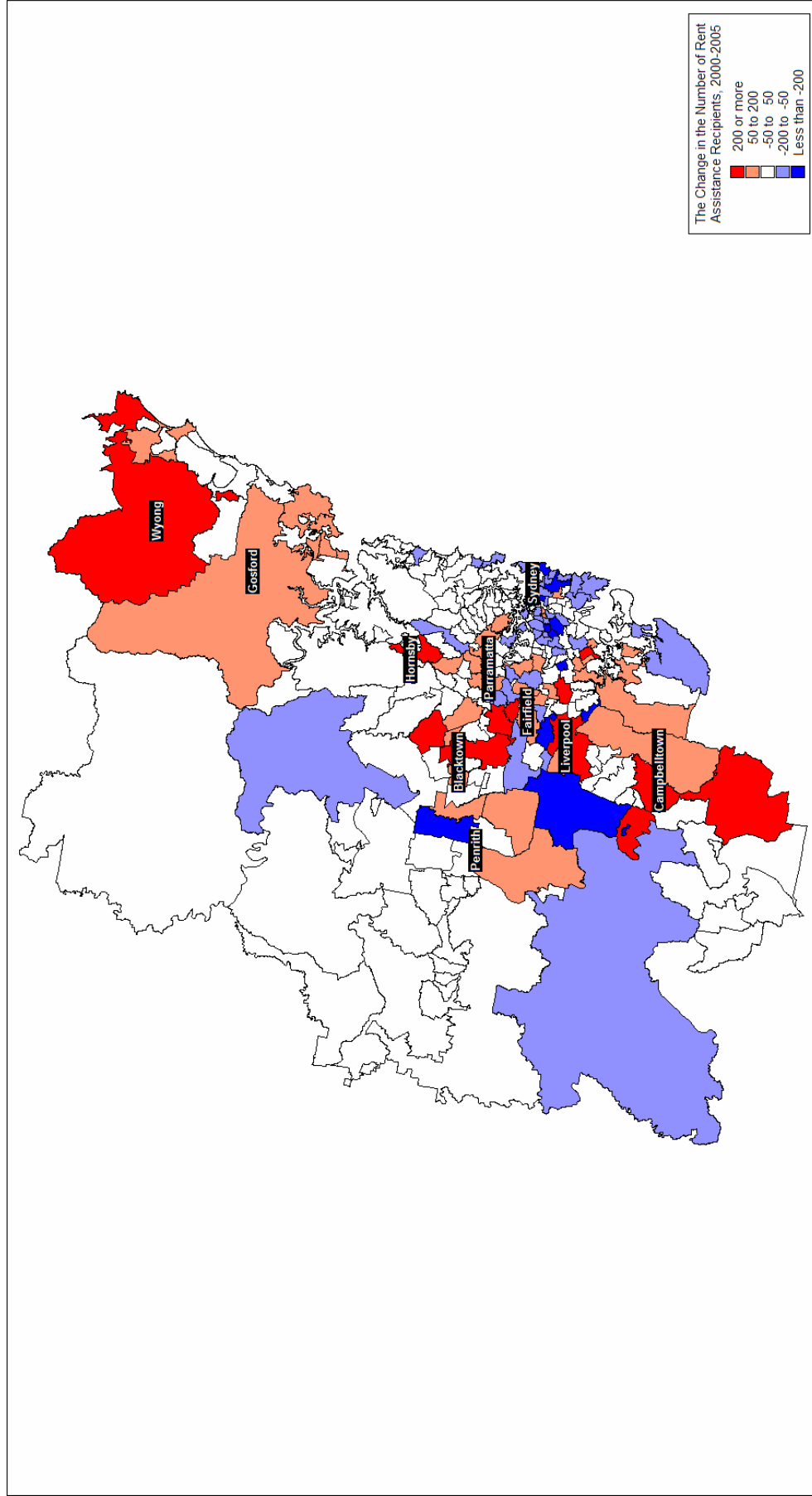


Figure 2: The change in number of Rent Assistance recipients by postcode in Melbourne in March 2000- March 2005

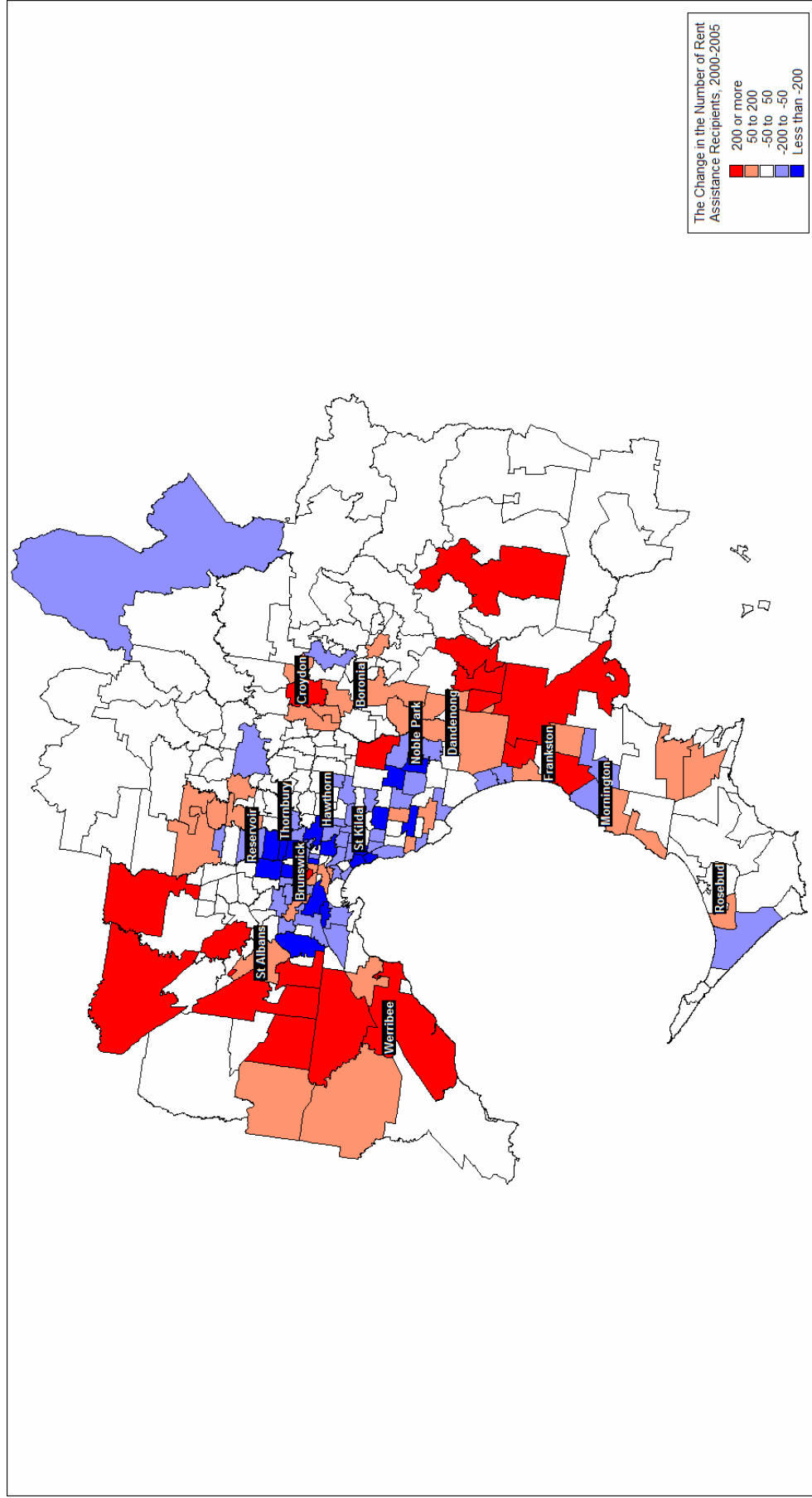
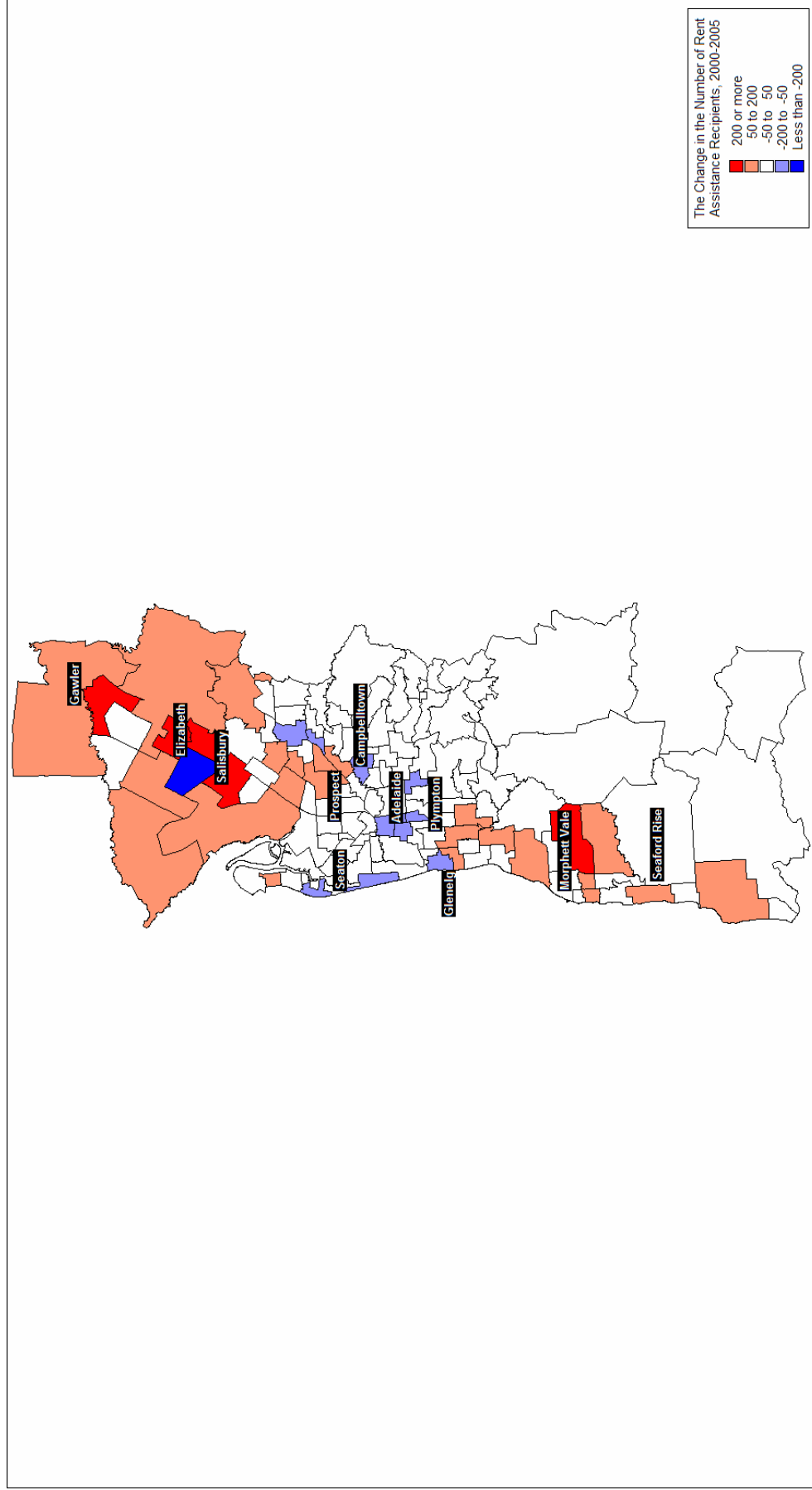


Figure 3: The change in number of Rent Assistance recipients by postcode in Adelaide in March 2000- March 2005



## 1.2 Rental affordability problems among key target groups

The recent AHURI report NRV3<sup>2</sup> highlighted that housing stress affects households in all tenures, however particular concerns can be seen in the private rented sector where the number of households in severe housing stress can be seen to be the greatest.

Research undertaken by City Futures for the AHURI NRV3<sup>3</sup> illustrated that the choices, constraints and behaviour of lower income Australians renting privately have become more fragmented. More focused policy responses, to both short and long term concerns, are required which acknowledge this. Several findings are of relevance to the future need for new policies for affordable housing support for key groups.

- Of immediate concern, it is clear that a significant number of **Struggling** private renters are living with substantial levels of housing stress. Often households are paying far in excess of standard 30% benchmarks towards their housing costs, trying to get by fortnight to fortnight with bills and any unexpected expenses hard to meet. This represents the primary target group for any new policies to address affordability in the private rented sector. While they may be working, their incomes are too low to bear current rents and, unless they have children, they receive no direct subsidies to assist in meeting rental payments.
- **Backsliders** are a subset of this group. They have fallen out of homeownership or more stable rental circumstances due to a range of personal crises, such as marital breakdown, financial difficulties or job loss. They need to restart their lives but lack 'renter knowledge' and the skills required to negotiate the rental market, compounding the sense of loss and strain imposed on this group by their change in circumstances. Again, more tailored policy responses can be targeted towards assisting this group.
- In the longer-term, a growing cohort of **Pragmatic** renters presents a particular policy challenge. Again, this group have been renting for many years and become pragmatic, or resigned, to the fact that they are unlikely to move into homeownership although they had always felt they would do so at some point. Renters in this group are likely to rationalise the circumstances they are in, acknowledging that it is cheaper for them to remain renting (although that does not necessary correlate with it being 'affordable').

While accepting of their circumstances at the present time, as they move towards retirement having had little opportunity to save and build assets, real policy concerns are likely to emerge. On present policy settings, this group face an old age in an increasingly unaffordable private rental market. This group therefore poses a significant question for longer term policy on housing affordability in the rental sector.

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<sup>2</sup> Yates, V. and Milligan, V. with Berry, M., Burke, T., Gabrielle, M., Phibbs, P. Pinnegar, S. and Randolph, B. (2007) *Housing Affordability: A 21<sup>st</sup> Century Problem*, Final Report, Australian Housing and Urban Research Institute, Melbourne.

## **2 The geography of home ownership unaffordability in Sydney**

Much research and debate has centred on the problems of home purchase affordability. Much of this has been conducted at the conceptual or macro level. However, an understanding of the actual distribution of home purchase affordability at the local level is critical to developing policies that might target key groups for whom home purchase affordability is an issue.

City Futures has been undertaking exploratory research on housing costs and affordability among lower income and first time buyer households at the suburb level in Sydney using the 2001 and 2006 Censuses.

- Initial findings strongly point to the higher prevalence of these problems in the middle and outer suburbs.
- This is consistent with an analysis of the changing income growth across the city, with stagnant household incomes in many middle and outer west suburbs contrasting to strong income growth in the inner, eastern and northern suburbs (**Figures 4 and 5**).
- The outcome is falling home ownership affordability in the middle and outer suburbs, rather than the inner city. **Figure 6** illustrates this trend, with the housing loan to income ratio worsening significantly between 2001 and 2006 in many middle and outer suburbs (i.e. the ratio increased), particularly in the central west area, while it actually improved in suburbs in the inner, eastern and northern suburbs (i.e. the ratio decreased).
- The disjuncture between the inner and outer housing markets is clearly shown in **Figure 7**, which plots strata and non-strata prices along a transect from the CBD westwards out to the urban fringe of Fairfield.
- With rising interest rates, housing costs have outstripped the limited capacity of younger family households in the middle and outer areas. The most affordable housing is now limited to areas in Campbelltown and Blacktown, together with several more localised areas in other parts of Sydney (**Figure 8**).



Figure 4: Median household income levels by suburb, Sydney 2006

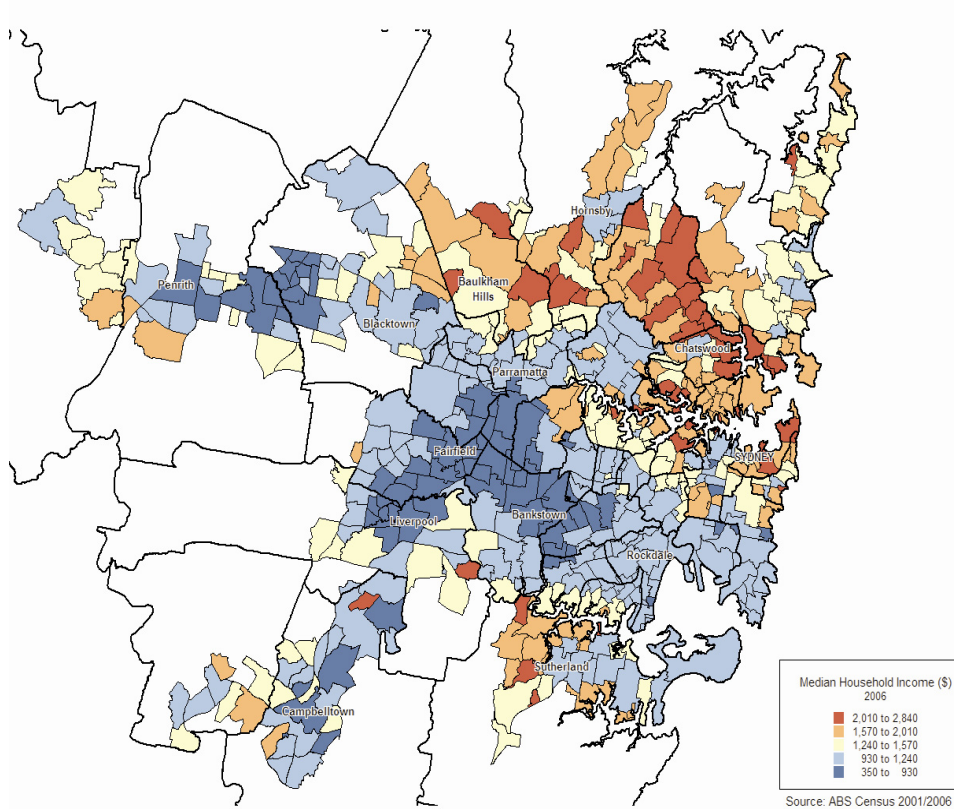
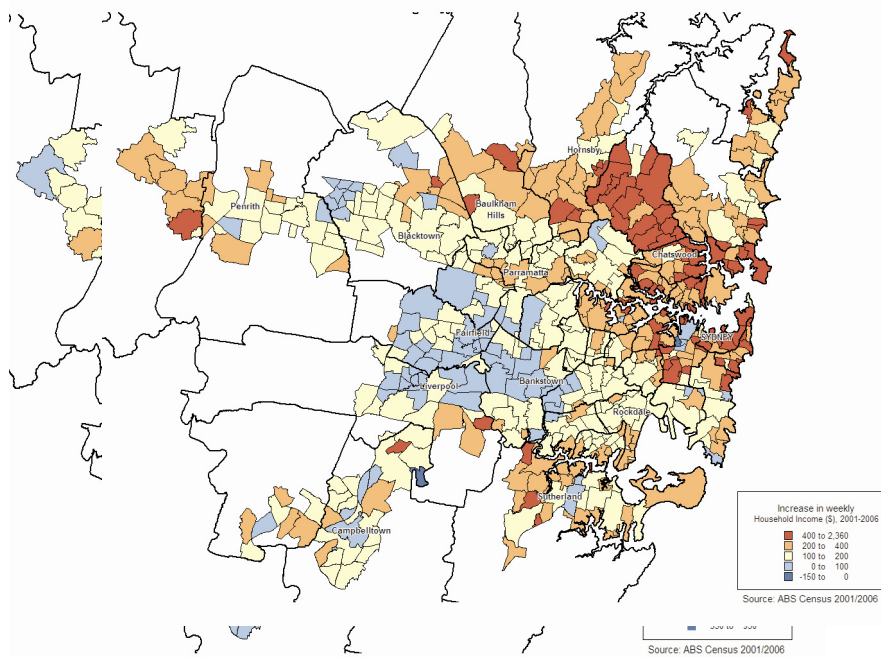
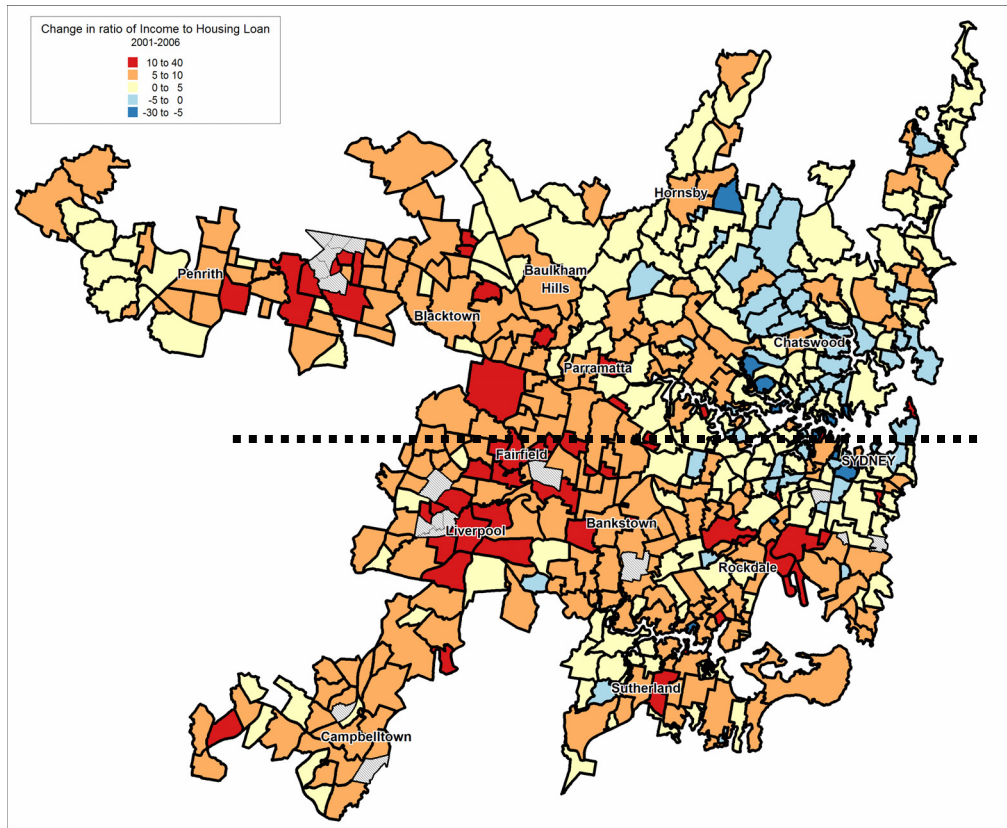


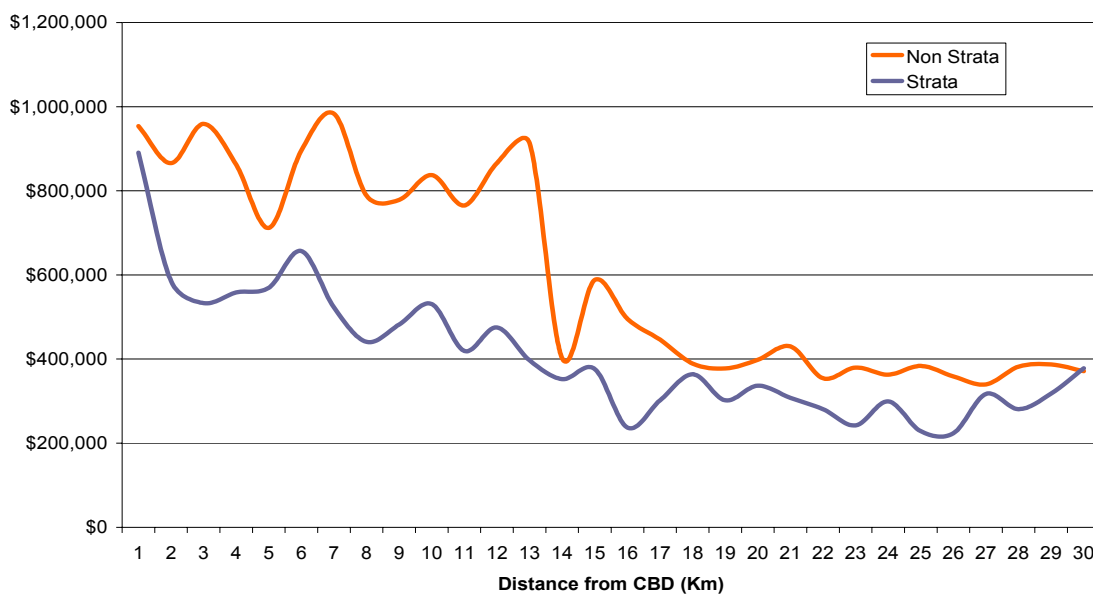
Figure 5: Trends in median household incomes between 2001 and 2006, Sydney



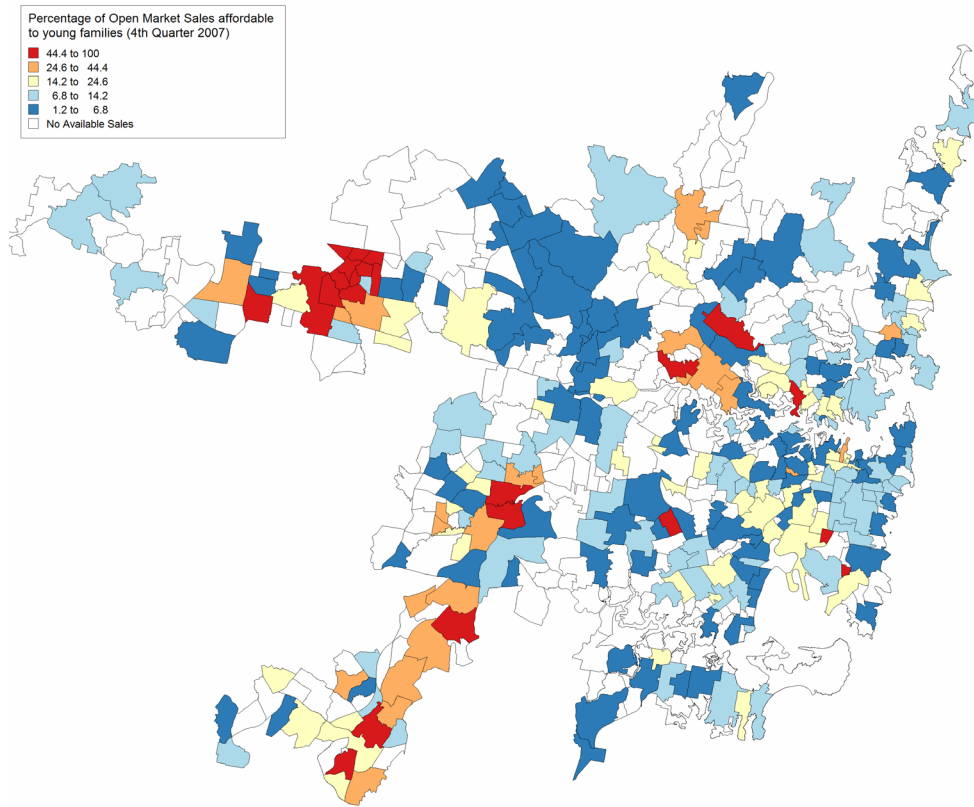
**Figure 6:** Change in income to home loan ratio, 2001-2006



**Figure 7:** Average Sales Price 2006-2007 (Middle Ring transect)



**Figure 8:** Percentage of open market sales affordable to Young Families, Quarter 4, 2007, Sydney



**3. Better coordination of housing, planning, and urban regeneration policy objectives, with affordability considerations central to each**

Housing plays a key role in the development and renewal of our cities. However current metropolitan planning, charged with directing and shaping urban form, function and character, struggles to engage with the pivotal role housing and housing investment plays in building and sustaining stronger neighbourhoods and communities.

It would not be overstating the reality of contemporary strategic planning's approach to housing provision to a concern over:

- 1) establishing targets based upon forecasting and identifying and allocating residential land to allow those targets to be achieved; and
- 2) promoting frameworks whereby the social and infrastructure liabilities to government of new residential development are minimised.

A case can be put forward for a more coherent integration of housing and planning policy if sustainability and affordability goals are to be made more meaningful. 'Affordable housing' strategies, where they have been developed, have been limited, and project based, rather than integrated and encompassing. The result has been a policy gap. We are not planning cities with affordability goals in mind, but rather planning cities with the hope that markets will be able to respond. There is sufficient evidence to suggest that they have struggled to do so in recent years.

A more progressive approach would seek coordination across housing, planning and regeneration policy, grounded in housing affordability goals. Such targets demonstrate commitment to more sustainable housing affordability levels in general, rather than treating 'affordable' housing as a discrete policy subset aligned to a token proportion of new housing development.

Amongst our capital cities, Melbourne is arguably more progressed in this regard, although the tools and frameworks available for actual implementation remain limited. Sydney is far behind, where planning frameworks related to housing remain essentially an urban capacity and numbers exercise.

A more integrated, coordinated approach also points to the strategically important role affordable housing investment can play in urban regeneration and renewal in low value and low amenity private housing areas, for example through local housing-led regeneration initiatives.

#### **4. More informed debate about housing demand as well as supply**

The issue of land supply, and its relation to housing affordability, will no doubt feature significantly in evidence presented to the Committee. Issues of land supply are of course important, however a more informed understanding of the drivers of housing demand – at the spatial scale at which housing markets operate – is also vital if affordability constraints are to be more effectively understood. There is a need for more informed discussion and response to future housing provision than one primarily dependent on expectations that turning on/off supply levers is the solution in all cases, in all market contexts, and at all points in the market cycle.

Plans for a National Housing Supply Research Council offer an opportunity to underpin policy development and delivery with a more robust evidence base. It has been indicated that consideration of demand factors will provide part of the Council's remit. This needs to move beyond national level, macroeconomic considerations to understand how drivers of demand operate and impact upon affordability considerations in more localised market contexts. The Council should also be structured so that its activities assist planners in the delivery/implementation of better housing affordability outcomes.

This points towards a national agency incorporating State/Metropolitan city nodes. This will draw upon existing capacity in housing policy advice, housing market analysis and data handling, with nodes developing around existing expertise in the independent University sector in conjunction with State/Metropolitan-level planning, development and renewal agencies. Importantly, it will be at this Metropolitan scale that the real potential lies, where the Council not only assists in policy development and planning but also in delivery and implementation.

A need for more informed consideration of demand-side factors at the sub-national level is identified on two fronts.

- The inadequacy of an essentially supply-led, market-response approach is clearly exposed by the more nuanced operation of the supply-demand dynamic in Sydney in recent years. As we demonstrated in section 3 above, the city's west is currently experiencing severe affordability constraint. Releasing further land does not necessarily translate into demand if the price point of the product available continues to be far out of reach for the intended market; indeed, turning the supply flow on too much is likely to exacerbate rather than alleviate pressures on already fragile markets. Similarly, urban renewal is often not economically viable in the locations identified in Metropolitan plans because the necessary price points are far out of reach for the target market. In the absence of subsidy, the economic response is for development not to happen. A more comprehensive appreciation of both supply and demand drivers will help move from strategic intent to delivery, and help understand constraints faced.
- Given recent trends in the US but also recently filtering into the UK housing market, it is likely that demand-side factors are going to play a crucial role in market dynamics and housing affordability considerations in the next few years. This not only relates to the impact of tightening macroeconomic factors generally, but the rapid contraction of cheap and available finance making it much harder to borrow. Much greater caution on the part of both lender and consumer will act as further constraints in already unaffordable markets, and is likely to most impact upon first time buyer and low to middle income groups.

## **5. Facilitating access to homeownership: the potential of shared equity initiatives**

A key expression of current affordability constraint has been the significant decrease in recent years in the proportion of total home purchases being made by first time buyers. The costs of accessing the housing market – both in terms of the difficulties of saving up a deposit as well as the ongoing costs of servicing a home loan – have significantly increased. In part, ‘delayed’ homeownership clearly reflects changing lifestyle preferences and circumstances, however it is also apparent that severe affordability constraints are preventing or at least delaying purchase.

In response, there has been much interest in the potential of shared equity schemes as a means of facilitating access to ownership. The City Futures research team, in conjunction with colleagues at the University of Sydney, are leading current AHURI research into the potential of a range of such initiatives in Australia. Most States and Territories have already established, or are in the process of establishing, schemes on a relatively modest scale. These primarily seek to assist first-time purchasers who meet certain eligibility criteria or social housing tenants buy a share of their property. Variant schemes also assist with specific groups, for example: facilitating Indigenous home ownership; helping households who face the loss of their home as a result of death of a partner or marital breakdown, or disability housing provision.

With their focus on facilitating access to ownership, government subsidy associated with those initiatives typically translates into opportunities for wealth accumulation at the household level. Other models, for example Community Land Trusts – popular in the US and emerging in the UK – are structured so that the partner retains a greater proportion of equity (for example retaining ownership of the land) and may include covenants placed on resale as a means of preserving affordability. Although this latter model has yet to appear on a significant scale in Australia, it holds interest in terms of wider, strategic affordable housing supply and preservation approaches.

Key to our current research is an assessment of potential, taking into account the perspectives of policymakers, consumers, lenders and the investment community alike. In the first stage of the research, we have spoken to policy officials, the lending community and existing shared equity consumers. We are shortly to conduct a series of focus groups across three States to explore perceived advantages, disadvantages and understanding of trade-offs associated with shared equity products amongst prospective customers.

We are happy to discuss with the Committee early findings arising from the research in more detail at the hearing; in this submission, some key considerations are flagged.

- Experience both in Australia and internationally points to a challenging and complex policy area, with success or otherwise dependent upon recognising and balancing the requirements of all parties concerned (consumers, lenders, investment community, policymakers).
- Although there has been significant interest from the private sector, few shared equity products have come to market in the absence of a policy-directed and subsidised framework. This inevitably raises questions regarding the relative cost-benefit of shared equity vis-à-vis other forms of housing subsidy, targeting, and regulatory requirements. Government is also required to take its share of risk (and indeed play a mitigating role in others’ risk).
- Arguably the risks of government not being involved are greater. Firstly, private sector products are not primarily targeted towards households facing affordability constraint, and risk further exacerbation of demand-side pressures in strong markets. Secondly, the ongoing subprime mortgage crisis in the US highlights the risks associated with poorly regulated mechanisms encouraging homeownership amongst those on the ‘cusp of affordability’.

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- Discussions with lenders suggest cautious interest in shared equity, but mixed perspectives on the level and type of involvement expected by government. For some there was concern that involvement adds to complexity. Others noted that commitment was required irrespective of policy goals or level of subsidy in terms of facilitating scale, information sharing, and addressing taxation and regulatory matters. Concerns regarding product and reputational risks were voiced. It is likely that the credit crunch has acted to exacerbate those concerns.
- Discussions with recent consumers highlight satisfaction with current State/Territory-led shared equity schemes. Longer-term consumers provide a more pragmatic, but nonetheless still positive, view. Concerns expressed related to limited understanding as to what happens when they come to sell, how they might meet obligations placed upon them in time by the scheme, and difficulties faced in purchasing the property outright due to strong price increases.
- Viability and relative attractiveness of shared equity schemes is dependent upon wider housing market characteristics and expectations. Schemes typically work better where price growth is steady. Falls lead to concerns regarding negative equity; price surges risk constraining opportunities to staircase and potentially 'trapping' households in an intermediate market.

Shared equity schemes have the potential to play an important role in addressing affordability constraint whether through schemes primarily geared towards facilitating access or initiatives tied to wider affordable housing provision. Both can be considered useful models within a wider toolkit but their reach is likely to remain limited. Neither should be considered the solution to affordability concerns alone.