

Housing Affordability

Summary of talk to AHURI National Housing Policy Workshop

15 March 2001

Terry Burke

1 Introduction

Policy interest in issues of housing affordability waxes and wanes over time, with each period of renewed interest generating a series of reports and policy recommendations, the bulk of which are never implemented. For the last two or three years, housing affordability has been once again on the agenda, with New South Wales paving the way and other states following with varying degrees of enthusiasm. In 1998 New South Wales had its Ministerial Taskforce on Affordable Housing, and in 2000 Queensland established its Affordable Housing Unit and produced a number of reports. Victoria in 2001 appears to be building momentum towards new consideration of the issue with its own affordability review. The late 1980s and early 1990s was another era when housing affordability was thrust to the fore; the National Housing Strategy gave considerable attention to the issue, along with the Victorian Department of Housing and Urban Development in its report *Housing Affordability*. Prior to that, the mid-1970s had been another period of substantial concern, with the Cost of Housing Inquiry and the Priority Housing Taskforce.

Despite all the research and all the reports, progress in actually addressing housing affordability has been minimal and it is hard to think of any new policy which has been implemented to tackle the issue. Arguably, the most effective policy is the longest running one – that is, public housing – but even this is at risk, not just because of contractions in funding but because of a recasting of its role to become special needs housing rather than affordable housing. Rent assistance is the other major program to mitigate the effects of affordability problems on individual households. However, in the absence of adequate research, it is difficult to know whether this program is a solution or if it is part of the problem in that it may encourage an overall increase in rents. Moreover, it excludes many low income households (those not on benefits) and does not account adequately for differences in location or household type.

2 Why has little policy reform been achieved?

Why has the most effective policy been emasculated, and why have the few reforms that have been implemented had little effect or, in some cases (illustrating the complexity of market processes), appear to have worsened the problem?

Many reports, little policy reform: why?

- Inaction easier than action
- The constraints of market liberalism
- Whose role, whose jurisdiction?
- The instability of market outcomes
- Lack of clarity and agreement on what the problem is

2.1 Inaction is easier than action

Actions around affordability are often complex, crossing jurisdictional boundaries of government responsibility, and are politically difficult in that they may cut across entrenched interests. Moreover, Australia appears to have an obsession with keeping policies simple, even though the problems are complex, such that there is not a policy environment to facilitate appropriate actions. Thus taxation policy (e.g. negative gearing) and rent assistance are very simple 'one size fits all' models of policy intervention which preclude their use – as in the United States or Europe – as mechanisms around which distinctive affordability programs can be built. Similarly, planning legislation conceived largely in narrow and relatively simple land-use terms inhibits the use of urban planning as an instrument for achieving affordability outcomes. All of these factors fuse to create a climate that makes it difficult to achieve much by way of affordability programs and policy

2.2 Constraints of market liberalism

Australia is a market liberal society where small government, low tax, deregulation and a strong market emphasis are the dominant values, and interventions which are common in less marketised societies are put off the agenda. Thus land banking, a large social housing sector, using social housing cost rents as a check on market rent inflation, capital gains tax on home ownership, targeted rather than universal tax breaks, planning controls that mandate affordable housing, developer levies to fund affordable housing trusts, rent controls etc. are rarely given consideration. This institutional environment eliminates much of the potential to address affordability. Just as importantly, a market liberal environment also creates a social values context where there is less sense of communitarianism and concern for those who are less well-off. This to a large degree eliminates a political climate that might place pressures on government for action.

2.3 Whose role, whose jurisdiction?

Problems and potential policies transcend individual government departments – most notably, housing, planning and urban development – and different levels of government. It is difficult to create an organisational structure that coordinates an affordability program. One could also argue that a housing office embedded in a human services department is less likely than an independent housing department to develop a concern for affordability, and by contrast will work more within a paradigm concerned with special needs, support and linkages.

2.4 Instability of market outcomes

The Australian residential building industry is highly unstable, going through regular waves of boom and bust. This creates an equally unstable policy environment; one year, e.g. at the height of a boom, affordability is on the agenda, while the next year we are in a bust and the concern is about employment in the building industry and restarting growth. Further, by stabilising or causing a fall in prices, the market contraction actually reduces the severity of the affordability problem.

2.5 Lack of clarity about what affordability is and what the problem is

As with all concepts, there are differences as to how we define affordability, with the different definitions having different policy connotations:

- Firstly, there is the *ratio of housing costs to income*, a measure which is good for getting an understanding of the scale of the problem, showing need or trends over time. In terms of policy application, it is best used in setting eligibility for social housing rent rebates and rent assistance. But should this ratio be 20, 25 or

30 per cent, should it differ for different household types, and should there be an upper income threshold to which it is applied?

- A second measure is *residual housing cost*: after meeting other essential costs, how much is left for housing (e.g. after housing poverty)? This can be used in the same way as the ratio of housing costs to income but is methodologically more difficult to calculate, requiring some benchmark of other necessary expenditures.
- The final measure is *benchmark rent or dwelling prices*, e.g. house price to be no more than, say, 75 per cent of the median price for this dwelling type in some locality. Thus if the local median price is \$200,000, an affordable unit is \$150,000, but in another area it may only be \$120,000. This is less used in Australia but is useful in giving industry some guidelines that might be aimed at as part of a joint venture to achieve affordable outcomes.

The obvious message here is that attention must be given to the appropriate measure for the specific policy or research context. Setting aside the definitional problems, there is the more substantive one of causal explanation.

3 What is the cause of the problem?

The plethora of reports over the last two decades have suggested various subsets of policy reforms, premised on different assumptions about the causes of affordability problems and about what represents an appropriate policy intervention. At the broadest and most simple level, analysis typically reduces to one of three causes—changes in income, changes in the cost of housing, and changes in stock – but with multiple explanations within each.

Causes of the affordability problem

- An income problem
- A housing cost problem
- Absence or loss of low cost stock

3.1 Income level

This suggests that affordability is a function of too low a level of income. The solution is therefore to raise incomes through some form of income support, e.g. rent assistance. Behind changes in income are two broad processes, each with another subset of causal explanations underlying them:

- *Demographic and social processes*, e.g. an increase in low income households such as singles and sole parents (with multi-layered explanations for these processes); and
- *Economic processes*, e.g. labour market changes and industry restructuring, which may create lower incomes for many, irrespective of household type.

3.2 Housing cost

This also has many layers and alternative explanations, and includes the factors summarised below. These explanations are all concerned with what raises the actual cost of renting or purchasing a house, whether new (construction costs) or established (incipient house price inflation).

Interest rates	
Higher house prices	<p>Housing market efficiency</p> <ul style="list-style-type: none"> • Land availability • Labour costs • Material costs <p>Institutional environment</p> <ul style="list-style-type: none"> • Regulation or deregulation • Infrastructure costs • Taxation system • Absence of a deflationary property environment

3.3 Absence or loss of low cost stock

This refers to changes in affordability brought about by stock changes such as loss of specific types of affordable dwellings, e.g. boarding houses and low cost private rental. As with other areas, a review of the literature would suggest different explanations for any loss, including:

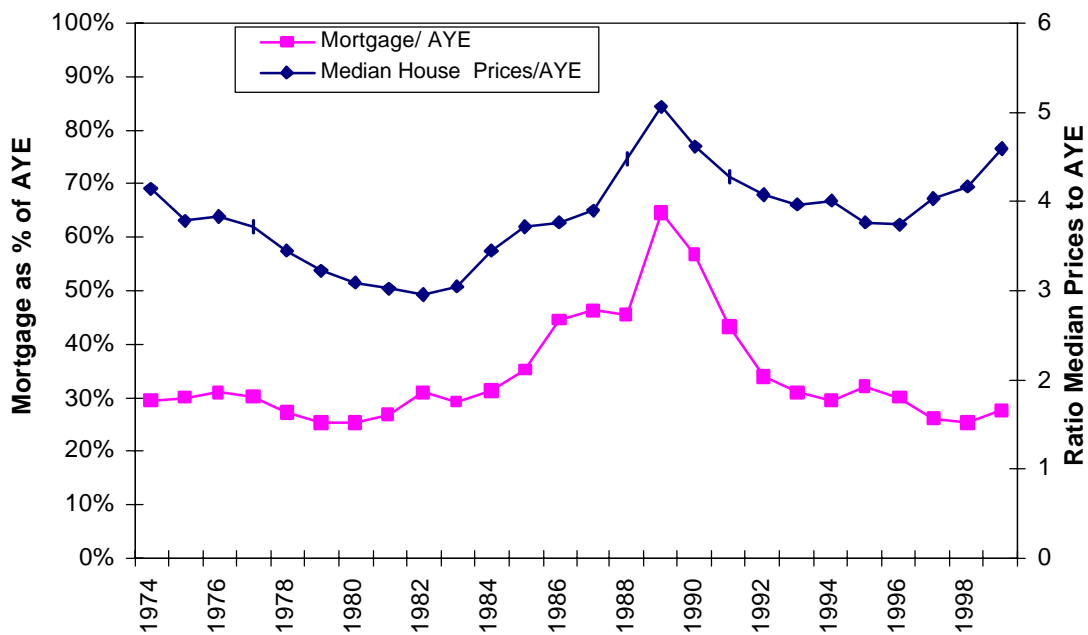
- Regulation
- Disinvestment (more and better alternatives)
- Gentrification
- Loss or slow growth of social housing

The difficulty in getting a handle on the problem is illustrated by Figure 1 which shows long-term affordability for Melbourne as calculated by two different measures: the cost of a median house compared to average earnings, and the mortgage necessary to purchase a median house compared to earnings. The former takes into account only dwelling costs and income relationships, the latter interest rates. Two very different interpretations of trends are revealed:

- The house price/earnings measure indicates that in 2000 affordability was close to its worst situation historically – only 1989 was worse; this indicates that the underlying inflation in house prices is creating a major affordability problem.
- The mortgage to income measure, by contrast, shows affordability is at a historical low; this is, of course, due to the effects of low interest rates.

What then do we conclude? Do we have a major affordability problem or do we not?

Figure 1 Mortgage Repayments Required to Purchase the Median Dwelling, and Median Dwelling Price as a Proportion of Average Yearly Earnings, 1974-98



Sources: Valuer General's Property Sales Statistics; ABS (2000) Earning Statistics.

4. Issues

There are very many issues that could be taken up under the affordability heading. Some which we may wish to explore further are:

- The role of public housing
- The role of rent assistance
- Planning and affordability
- The spatial implications of affordability
- The institutional context
- The CSHA and national housing policy

- Rent rebates appear to be at the right level of affordability **but** public housing no longer has an affordable housing role; instead, it has an 'accommodating special needs' role. Should public housing continue to have such a highly targeted role or should it go back – as in the 1950s through to the 1970s – to a low income housing/affordability role, with community housing taking on the special needs role? Appropriate stock transfers and realignments may be necessary.
- Do we need to build new agencies to provide affordable housing, using the shallow subsidy of rent assistance? Should largish (1,000 plus units) affordable

housing associations be nurtured which provide rent assistance rather than rebated assistance?

- Do we additionally need state rental assistance subsidy for low income households who are ineligible for Centrelink benefits or who require a top-up to rent assistance to enable them to live in certain locations, e.g. the inner city? If so, who should be eligible?
- Rent assistance does not achieve affordability in many locations, e.g. Sydney and Melbourne, but probably does so in Tasmania and Adelaide. How do we restructure it to take account of regional differences, or should we see rent assistance as income support and move to state rental assistance programs to provide local market variations? Should any form of rent assistance be linked to supply outcomes, as in Section 8 allowances in the United States?
- How much of the subsidy provided by rent assistance is eroded by rent inflation induced by rent assistance? The loss of low cost stock and the rapid increase in low cost rents between 1986 and 1996 suggest prima facie that rent assistance has done little for – or, perhaps worse, has weakened – the performance of the low end of the rental market. This is an important research question.
- Despite an erosion of affordability generally, the decline in many local housing markets – e.g. country towns and certain outer suburbs – has actually improved both rental and purchase affordability. However, there is a danger of **excessive** affordability, with ghettos of poverty and social exclusion being formed as low income and poor households are drawn to these areas. Do we just leave this process to the market and wait, or are interventions required and, if so, what interventions?
- This raises questions about how we insert issues of affordability into debates about metropolitan planning and local government housing strategy plans – affordability is not part of the lexicon of planners, and the planning legislation does little to facilitate affordability programs.
- How do we change the institutional context, including taxation and planning, in such a way that market incentives are provided for affordable housing?
- Affordability should not be discussed in a policy vacuum. It has implications for urban form, social excision, capacity building, and personal and family wellbeing, and thus it should form part of a broad housing debate. Such a debate would be more fruitful if there was an even broader debate about whether we should have – and what would make up – a national housing policy, and whether the CSHA negotiations should be widened to take in housing assistance generally, not just public and community housing.