

## **Financial Review Housing Congress 2007**

### **Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships**

Professor Terry Burke  
Institute for Social Research  
Swinburne University of Technology

#### **1 Introduction**

This paper is about how people experience the housing affordability problem. Through the work of the Australian Housing and Urban Research Institute (AHURI) (see below) and the National Centre for Social and Economic Modelling (NATSEM) (Foong Chin and Harding 2006; Harding et al. 2004), we have a very good understanding of the problem in broad terms. We know its scale, its spatial distribution, in which tenures it is experienced most intensely (private rental), and which households the burden falls on most sharply (singles and sole parents). But we have less hard data on the experience of affordability; what hardships do households experience, what compromises and trade-offs are made to cope with it, how does it affect expectations of home purchase (in the case of renters) and how close to the margins of financial crisis are some home purchasers.

The findings of this study highlight that we need a more nuanced understanding of the housing affordability problem and therefore of the policy implications. For a start, we need to make clear that in this paper we are talking about housing affordability, and not affordable housing. The former deals with the problems of the income/housing cost relationship, while the latter concerns itself with the provision of housing (public or private) and rent or purchase levels below market value. And when we talk about the housing affordability problem, we need to recognise there are three separate but interrelated problems. There is the problem of rental affordability, there is the problem of affording the initial purchase, that is, getting a loan and bridging the deposit gap, and there is the problem of affording home repayments over time. For the purpose of this paper we will call these the problem of being 'locked out', of 'getting in' and of 'staying in'. We make observations about all three, although necessarily brief ones. The findings also suggest that Australia's affluence disguises hardship and struggle for many households to the degree that it is of little surprise that there is a growing disparity between Australian subjective measures of wellbeing and actual economic growth as measured by gross national product – it is clear that the benefits of this growth are not being shared fairly or are being eroded by housing market processes.

The findings in this paper are part of a larger AHURI study on housing affordability which has produced a number previous papers (Gabriel et al. 2005; Milligan 2005; Yates and Gabriel 2006; Berry 2006a, 2006b). This particular paper is the product of a survey of 1,735 renters and 407 recent (last five years) purchasers across three states in the case of the renter survey (New South Wales, Queensland and Victoria) and two (New South Wales and Victoria) in the case of purchasers. Respondents were drawn

from those areas selected from ABS collector's districts with high concentrations of low to moderate income private renters and purchasers, as the focus of the overall AHURI study was on the affordability problems of those on such incomes. Income quintiles were adjusted and indexed to fit those of the ABS Income and Housing Survey. This meant they can be validly compared with national income data. While the focus was on low income households, the results still have good representation of other income quintiles. For the purpose of the study, equivalised incomes were used, that is, incomes were adjusted for different household sizes. The method of data collection was a mail-out survey (Appendix 1 outlines the sampling method in more detail).

## 2 The context

Australia episodically finds itself confronting the politics of a housing affordability problem. This does not mean that there is not an underlying structural problem of affordability (there is), but not until the topic makes the transition from a personal trouble quietly experienced by the affected households to a social issue, that is, one where it is visible to the media and politicians, does it have any recognition. When this happens, a flurry of public and private sector reports are produced, most of which are opportunities for diverse interest groups to promote an understanding of the problem consistent with their interests. This means getting some policy reward, for example, a tax break or changes to what is seen as an onerous regulatory environment in the case of the private sector, or an opportunity for blame shifting between tiers of government. Following the first of our postwar house price booms in 1974-75 we had the Priority Review Staff report. Following the 1989-90 boom we had the National Housing Strategy and in 2004 we had the Productivity Commission report on home purchase affordability. All good and comprehensive reports, but none led to any substantive policy reform that would deal with the nature and scale of the problem. Thus we find that, despite the proliferation of reports, we have a worse problem than ever.

And what is the problem? The first point to be made, as the work by NATSEM and Yates and Gabriel has shown, is that, in terms of scale, the affordability problem is one of rental affordability, not ownership which is where most of the political and potential policy reform is focused. There are 1,186,000 or 15% of Australians in housing stress, where this defined by the 40/30 rule of the bottom 40% of income earners paying more than 30% of their income in housing. But when we look more closely at the data, 613,000 or 52% of this number are renters.

However, such aggregated rental data disguises variations in the form and scale of the problem. For example, the 40/30 benchmark that created these numbers is a normative measure that historically derives from bank lending practices to avoid risk rather than from any analysis of what households require to live on after meeting housing costs or differences in household structure. As other studies have shown (Burke and Ralston 2003; Yates and Gabriel 2006), the 40/30 rule is too tight a measure and many low income households (particularly single and sole parents) **below** this cut-off can be experiencing hardship. And other countries that use this benchmark, for example, the United States and Canada, include utility costs as housing costs, further highlighting the harshness of the Australian definition. So what does it mean to be above this affordability measure?

### 3 Impacts on financial wellbeing

A number of questions were asked to try and identify the depth of an affordability problem, including: the degree to which respondents managed on their household income; the incidence of rent arrears; the degree to which they experienced financial difficulties such as going without meals, inability to heat or cool their home, and children missing out on school activities; and whether they were paying 40% and not 30% of income in rent.

**Table 1**  
**Effects of housing affordability on wellbeing by scale of affordability problem**

	Low income renters (two lowest quintiles)			Low income home purchasers (lowest quartile)
	Rent as a percentage of income			
	Up to 29% (affordable)	30%-39%	40% and above	
Count	129	170	403	91
My family has sometimes gone without meals	12.6%	20.5%	29.6%	9.7%
I am unable to sometimes heat or cool my home	37.6%	43.8%	57.3%	23.8%
My children have missed out on school activities such as excursions and sports	23.25	40.2%	42.4%	22.9%
My children have had to go without adequate health and/or dental care	20.9%	35.1%	38.7%	18.4%
Likelihood of purchasing own home	62.6%	39.4%	27.2%	N/A
I feel trapped in an area with poor job prospects	28.3%	36.8%	44.2%	30.3%
Approached a welfare/ community/ counselling agency for assistance	19.7%	27.9%	32.9%	5.7%
Sold or pawned personal possessions	17.3%	32.1%	33.7%	8.0%

Table 1 shows the effects of the rental affordability problem for a range of variables and highlights the degree to which the effects worsen as the problem intensifies. These are not mere inconveniences that people are experiencing, but behaviours or practices that we might expect in third world countries such as going without meals, selling or pawning possessions to survive financially, or forgoing adequate dental or health care. Thus, compared to a household below the 30% benchmark, a household paying more than 40% of their income in rent has 60% less likelihood of becoming an owner, twice the rate of having to sell or pawn possessions and almost twice the rate of children missing out on school activities. When low income home purchasers are

compared on the same criteria, this reveals much lower rates of hardship compared to renters, but nevertheless high rates if considered in isolation.

More variables were looked at than just these, with some showing no statistical difference between those who were in an unaffordable position and those who were. This suggests that other factors than housing-related budget constraints were operative. The two that fell into this category were 'Inability to pay off credit card debt' and 'Constant worrying about my financial situation', both of which appear to be more a problem of wider societal processes around material consumption and ease of borrowing, as they did not vary much over income ranges, household type or housing situation.

Another measure of hardship is that of arrears. Some 43% of all low income renter households had been in arrears at some time in the previous three years. At the time of the survey, 71% had **some** level of problem paying their rents, with 11% having a **major** problem, which raises issues in relationship to current talk of a 'rent crisis' (see below). However, in terms of arrears, the story is more complex than a simple 'rents too high' one. This was not in fact seen as the cause of most arrears, with the major explanation being utility bills (54%) and unexpected large bills (52%). This would suggest that rents are seen as a steady ongoing payment which can be planned for, but it is the more irregular utility bills or the unexpected financial shocks that destabilise household finances. The fact that rents may not leave sufficient to save for these contingencies is not part of the equation.

But the latter point also draws attention to one of the key conceptual and policy issues around affordability, particularly that of renters: is it a housing cost problem or is it an income problem? From this study and others (Burke and Ralston 2003; Yates and Gabriel 2006), it is clear that the housing affordability problem in Australia is as much an income problem as a housing problem. Given pressures through the labour market policy to keep incomes down, and given that income support payments in Australia are very low, the problem is likely to continue or more likely intensify.

#### 4 Getting into ownership

'Getting in' is the shorthand for making the transition to ownership. One of the major concerns with the affordability problem is that fewer households can become purchasers, therefore potentially weakening Australia's self-defined status as **the** home ownership society, although many other advanced industrial societies now have higher ownership rates.

The study asked households their perceptions of their home ownership futures. For the two lowest quintiles, 63% saw this as either unlikely or very unlikely, with the largest proportion (34%) being very unlikely. Illustrating how far most are from achieving ownership, they were asked what likely change they would make to the housing situation if they received another \$100 a week, quite a sizable increase for a moderate income household. Only 5% said they would purchase a home, with another 37% saying they would use it to save for a deposit. The bulk would continue to rent. In short, a large number of renters would appear to be trapped in the rental market, given that current income levels and the sort of income increases most households are experiencing will mean largish numbers will never make the transition to ownership.

It is difficult to see any ownership assistance program getting sufficient number of households over the tenure line to reverse the trend to falling ownership.

The study looked at the factors constraining ability to become home owners. 86% of low income quintile respondents stated that income was a major limitation, with 58% saying that an uncertain income future, for example, from casualised work, was a major limitation. Age and the costs of children were important but secondary factors. The question was also asked as to whether households could expect some form of assistance from parents to help them get into home ownership, whether in the form of inheritance, a loan, a gift or other assistance. 73% said they would be unlikely to receive any assistance and, if any, the bulk would be in the form of a loan. This would suggest that intergenerational transfers are of limited use for low income households in making the transition to ownership.

## **5 Duration of the problem**

Another reason why ownership will remain a dream, but a point worthy of analysis in its own right, is the perceived duration of the affordability problem. Because of the contemporary nature of household relationships (increasing separation and remarriage) and the changing nature of income earning capacity, it is easy to argue that perhaps the affordability problem is a temporary phenomenon, and that forming a new household or getting employment will resolve it. This, however, is not the renters' perception. 32% said they had been experiencing the problem for a long time, and another 37% said the problem had been recurring on and off for some time. Only 12% reported they had had a problem in the past and it was now gone, and 8% that they did not have a problem. Looking into the future, 70% expected it to be an ongoing problem, and importantly there was very little difference in rates across household types in future expectations, although singles (both young and old) had experienced higher rates of long-term affordability problems.

Looking at why the housing cost problem will be ongoing, three main factors stood out: the perception that, even with improved incomes, rents will just be too high (38%); personal circumstances (health disability relationships was 39%); and the belief that they are unlikely to ever get a job that pays sufficiently (22%). In this answer there were major variations between household types. Singles had a much higher emphasis on personal factors (54%), while couples with children had greater concern with a well paid job (33%) and sole parents were disproportionately concerned with sustained high rents (52%).

The conclusion to be drawn here is that, for the bulk of low income renters, their affordability problem is a continuing, not a temporary, one. This reaffirms the earlier observation that more and more renters are trapped and unable to get into ownership.

All these findings raise the question of whether Australia, as it moves towards a flexible and casualised labour market, can sustain being a home ownership society. It has to be remembered that the growth in postwar ownership was achieved within the framework of a centralised wage-setting system and an economy where most work was full-time and for life. This era has gone, and the data in this study would suggest that, for the bulk of the bottom two quintiles, the Australian dream of ownership is just that. This raises important questions of public policy. If private rental is now to be

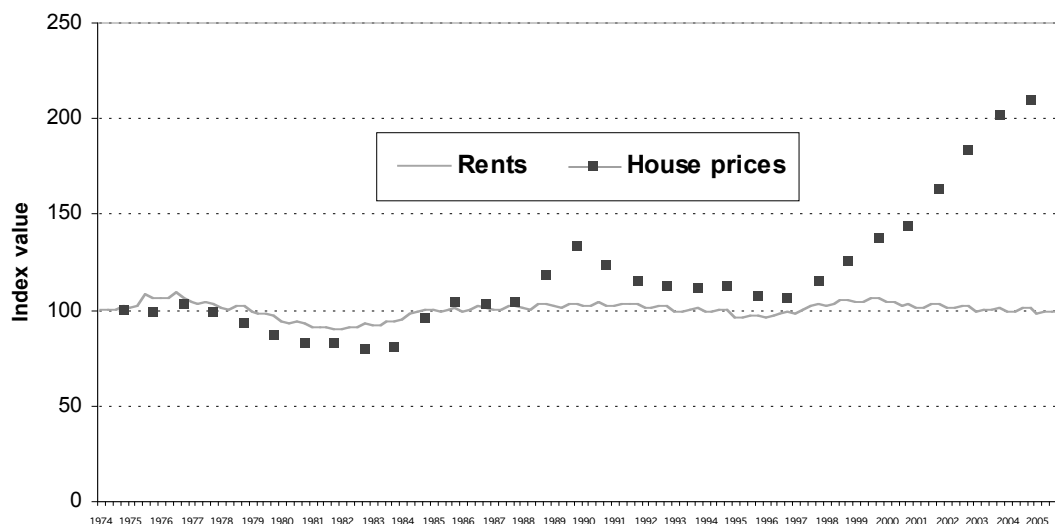
a tenure of long-term residency, not a transitional one, what programs are necessary to give tenants the security, sense of identity and long-term affordability offered by ownership?

## 6 Will rents rise to restore rental yields?

One of the popular beliefs about the rental market is that rents are currently too low relative to dwelling prices, with yields in most capital cities around or below 3%. Along with arguments about the shortage of supply as a result of a slowdown in new investment, this is used as a rationale that rents will confront big rises. Some economic forecasters are predicting increases of 30% in order to restore yields (*Australian*, 21 February 2007). This, of course, is a far more palatable understanding of housing market dynamics than that house prices need to fall.

However, we have to remember that a large number of renters are constrained in their ability to pay higher rents and can undertake adaptive behaviours to avoid them. This will keep a check on rent rises. Many times over the last thirty years they have defied the real estate pundits and broadly remained constant in real terms, irrespective of movements in dwelling prices or vacancy rates. Figure 1 shows real rents for Melbourne and the Valuer General's median house price statistics from 1974 to 2005. The long-term trend suggests that there is no relationship of rents to house prices and that rents, unlike dwelling prices, are constant over time.

**Figure 1**  
**Rents and house prices, Melbourne, 1974-2005 (constant 2005 dollars)**



Source: ABS, *Consumer Price Index. Rental Series*, 1974-2005; Office of the Valuer General, Victoria, *Property Sales Statistics*, 1974-2005.

In our survey we asked the likely affect of a \$30 a week rent increase, an amount equivalent to a 7% real increase for Melbourne on 2006 rent levels. Only 5% of low quintile respondents said they would cope without much of a problem, with another 32% saying they would cope but it would be a real struggle, while the remaining 63% said they would have to move or get somebody to share with them. While not

explicitly asked about, and perhaps buried in the 'have to move' answer, is homelessness. For some young people and singles, this is the most dramatic response to rent increases.

Such adaptive behaviours reduce the capacity of landlords to ask for too high a rent, with the former creating transaction costs as property vacancies might increase, and the latter reducing demand as two households morph into one. Putting further credence on the views that they would leave if rents went up another \$30 a week is the reality that 50% of the low income quintile had actually left a dwelling in the last five years to reduce their housing costs, and 35% of all households that had moved in the last five years had done so to reduce rental payments. It is possible to have tight vacancy rates (as in the late 1980s) and little capacity to increase rents. Any talk of 30% rent increases suggests a misunderstanding of the income position of renters and the related price and income elasticity of rents. Even a rent increase of 10% would push many households to the limit.

In the Australian context we have to remember the sheer number of low income earners in the sector. As Hulse (2003) points out, almost 50% of all renter households are in receipt of Centrelink rent assistance. As this payment is not indexed or linked with the rate of rental increase, it puts a drag on capacity of renters to adjust to increased rents. Given real rents in 1974 were virtually the same as 2005, Figure 1 would suggest that any substantial short-term increases in rents will quickly be countered by a fall as the adaptive behaviours of renters cut in. This is bad news for recent investors and suggests that restoration of long-term rent to capital values is as likely to come from a longish period of stable dwelling prices or even falls as to come from any rent increase.

How does this view relate to media commentary on tight vacancies and rent increases? Well, part of the answer is that the story is media exaggeration. Headlines such as 'Rent rises force out families' (*Age*, 12 February 2007) and 'Property prices hit Sydney' were built around a real annual increase in Melbourne of 3% and in Sydney of only 0.2% – not crisis scale increases by any means.<sup>1</sup> A few stories where there have been big increases are then used to justify the crisis argument, and no doubt there are areas and property types where there are quite large rental increases.

---

<sup>1</sup> There is also the over-used argument that loss of stock associated with lack of investment or disinvestment is creating a supply shortage which inevitably must force rents up. This was promoted by the real estate industry following the quarantining of negative gearing in 1987 and in 1990 at the peak of the last boom. Neither time did this argument translate into rent increases (as Figure 1 reveals) and the reason is that existing properties that are disinvested in or not invested in do not vaporise through changed investment decisions. If they are sold by an investor and cease to exist as a rental property, they become owner occupied properties. Yes, rental stock has been reduced, but so has rental demand, as a renter had to become an owner for the sale to take place. However, **there is** a long-term problem if there is no investment in new construction and if that new construction is not at the lower cost end where the need is the greatest. In terms of the former, we are just seeing the absorption of the over-supply of new stock in the inner city at the moment, so that element of the long-term problem is still around the corner. However, the shortage of low cost stock has been a problem for a decade or so (Wulff et al. 2002). There is no doubting there is a shortage at the moment, but it has more to do with rental demand as people cannot exit into ownership and lack of investment in new construction.

As the Australian labour market increasingly polarises into winners and losers, so will the rental market. The large number of trapped renters will undertake the adaptive behaviours outlined above and keep a check on rent rises in the areas and property types they live in. On the other hand, aspirationalists (renters who have both the income and the desire to aspire to ownership) are more likely to have the income to absorb rent increases, and we will see many of the better quality inner urban properties of the type which aspirationalists prefer will experience bigish rent increases. And aspirationalists have less adaptive potential. They could not change their cosmopolitan lifestyle and live in the outer suburbs, nor could they lower their dignity and share. Their adaptive behaviour to increased rents is to move on to ownership but, as they tend to want high priced inner city properties with no renovation or upgrade requirements, many will just have to absorb the rent increases. But they won't do so quietly. They will complain and whinge about the unfairness of it all and feed the rental crisis stories.

This is not to de-emphasise the rental problem. Relative to incomes of low income households, rents are already too high (alternatively, incomes are too low), and however you look at it we have a sustained rental crisis for low income earners. We are not entering a rental crisis, we already have one. It is just that a low income rental crisis is not as sexy as the hardship stories of aspirationalists or recent landlords' problems with low returns, and therefore does not resonate with the industry. This is aspirationalist property owning Australia – who cares about low income renters!

## **7 Mitigating the worst: adaptive behaviours and trade-offs**

The study does provide information on the adaptive behaviour and trade-offs of renters, including the compromises which households made to rent their current accommodation. Not surprisingly, 50% claimed they paid a higher level of rent than they wanted to, but this was followed by quality (36%) and size (30%) trade-offs, and almost a quarter relocated to areas where they would not otherwise have done so. This was a multiple choice question, and households often made more than one compromise, with 48% making three or more.

An alternative strategy to exit (the most common one) in the face of increased rents or an existing affordability problem is some form of labour market response, that is, find a job, work overtime or take a second job. This was the strategy for 48% of respondents, followed by borrowing money (43%), and selling or pawning possessions (33%) or approaching a welfare agency. This answer, like many others, highlights the interrelationship between labour markets and housing markets and is an issue that warrants more work.

## **8 Home purchasers**

Now let's turn to the home purchase sample. This covered a wider range of incomes but still concentrated on locations with a high concentration of moderate income households. These are households who have overcome the hurdle of getting in and their problem is 'staying in', but nevertheless questions were asked about the process of and problems associated with getting in. Of the sample, 58% received the first home buyers grant and of these, contrary to some views that it is a white goods subsidy, the 97% spent the money on direct housing costs, either mortgage payments

(54%), stamp duty (19.8%), transaction fees(16.4%) or making up the deposit (6.5%). However, in what could be construed as an argument for more effective targeting, 37.6% said they would have been able to purchase without any government assistance (rising to 48.6% for those in the highest quartile). This raises the policy issue of whether there are ways to target in such a way as to get the marginal buyer across the line rather than subsidise those who were going to purchase anyhow.

Just over half (54.4 %) of all purchasers (70% of low income purchasers) had been forced to defer their home buying decision, with most explanations being income related (low level of income, lack of income, or unstable or uncertain income). These were followed by stamp duty (17.5%) and concerns about ongoing ownership costs (17.9%). Despite the easing of lending conditions from financial institutions, 21.3% found it difficult to find a lender willing to loan, with higher rates in the lower 50% of income earners.

Turning to the theme of intergenerational assistance, 23.5% either received a gift or loan from parents, which accords almost exactly with the proportion that renters nominated as likely to provide assistance. Only the highest income quartile experienced much lower rates of family assistance (10.4%), perhaps because they did not need it or more likely because their higher income enabled them to get a 100% loan as 12.9% of this group did not pay a deposit, compared to only 4.5% for the lowest income quartile.

Having got in, how well are home purchasers coping? One measure is the degree to which they are currently experiencing difficulties in meeting the mortgage, and here 47.9% stated they were experiencing difficulties but only 6.5% (12.4% lowest quartile) experiencing major problems. Further tests of an ongoing affordability problem are to the degree to which a \$100 a month interest rate increase (roughly equivalent to a 1% increase on a \$300,000 loan) would impact on their financial wellbeing, their capacity to draw down on any savings in bad times, and how many are experiencing various measure of financial stress. The evidence depends on whether you think the glass is half empty or half full. The interest rate rise would have a major impact on 15.8% of all purchasers but a 28% impact on the lowest quartile purchasers. A remarkable 52.2% of all purchasers have less than \$2,000 in savings in case of financial troubles (68.6% for lowest quartile purchasers). By contrast or perhaps relatedly, 36.5% of respondents have household debt of more than \$10,000 excluding the home loan. The high proportions of debt, combined with limited savings and levels of financial difficulties, would suggest that a substantial minority of home purchasers are experiencing hard times and are vulnerable to any external shock, for example, economic downturn or further interest rates increases, or to internal stresses, for example, marital breakdown or loss or reduction of income. One consequence of the mortgage hardship was that 59.5% of all purchasers were unable to adequately furnish their home due to a lack of money.

One of the reasons that some purchasers are having troubling 'remaining in' is that quite high proportions (57.1%) found they experienced unexpected housing costs after purchase, for example, repairs and maintenance, with some 24% claiming this is having a major affect on their household finances. This raises the issue of whether information material provided by lenders should make potential buyers more aware of

the continuing costs of ownership and the need to plan for it in setting limits on how much they borrow.

To what degree do purchasers see their hardship as temporary or short-term? The answer is less than one-third (32.1%) see it as short-term, with a substantial minority (43.4%) seeing it as ongoing. One-third believe it is unlikely they will ever get a job that pays a sufficient income (33.3%) or even with an improved income their mortgage will just be too high (45.3%). Households are clearly willing to make a sacrifice to achieve home ownership, despite their stated financial problems. 81% still believed the benefits of ownership outweigh those of rental, and 60% had put themselves in a higher housing cost situation (relative to their previous rental situation) to achieve their aspiration of ownership.

## **9 Purchasers' adaptive behaviours**

Like renters, purchaser households have not just sat back and accepted their housing hardship. 68% of respondents said they have evolved various adaptive behaviours of which labour market adaptations (79% overall) had been the most important with 32.7% working overtime, 22.4% finding a better job and 15.1% taking a second job in order to afford their mortgage. Interestingly, the labour market adaptations were much weaker for renter households, with perhaps one of the reasons being that renters felt much more trapped in areas of poor job prospects. Like other findings, this one reaffirms the relationships between housing outcome and labour market processes. Purchasers appear highly vulnerable to any weakening of the labour market that would undermine their capacity to maintain existing levels of mortgage payments. Somewhat surprisingly – and perhaps dangerously – the next most important adaptation was to increase the balance owing on credit cards (21.3%)

## **10 Perceptions of housing-related general wellbeing**

40.8% of purchasers thought that they are worse off in housing terms than their parents at the same stage of the family lifecycle, with only 27.9% saying they were better off. Not surprisingly, for renters with an affordability problem the answer was 55%. Given both the number of renters on low income and of recent purchasers, this suggests there are substantial numbers of Australian households with feelings of blocked aspirations and frustration with life.

That it feels (and is) harder for renters than purchasers is also witnessed by overall satisfaction levels with their respective locations and dwellings as shown by Table 2. Renters expressed lower satisfaction on both dwelling and location, and for dwellings the satisfaction rates for both purchasers and renters were lower than location, suggesting households made more trade-offs on the dwelling attributes than location.

**Table 2**  
**Satisfaction with dwelling and location: renters and purchasers**

	<b>Low income renters (two lowest quintiles)</b>	<b>Purchasers (lowest quartile)</b>
Satisfaction rating for dwelling	53%	61.8%
Satisfaction rating for location	63%	71.9%

In the context of satisfaction and wellbeing surveys generally, these are – with the exception of the purchasers’ location response – poor responses. Whether customer, employee or social wellbeing surveys, the generally positive view of the world that most people have tends to mean that most satisfaction surveys end up with median scores in the range of 65% to 75%.

### **Conclusion**

This paper has focused on just a few of the issues around the actual experience of housing affordability, revealing how deeply the problem cuts into the financial and general wellbeing of renters. Not only does it create intense hardship for many, but there is no escape from the relentless squeeze between income and rents. This is a lifetime sentence. The findings also indicate that, for many renters, it is not that rents have increased to excessive levels (they have been relatively constant) that has created the affordability problem, but that incomes are too low and too uncertain. In a deregulated labour market environment, this is only likely to worsen. Recognition that there is a deep and permanent affordability issue for many renters suggests that all the focus on home ownership programs has got more to do with political point scoring and policy capture than anything to do with the real affordability problem.

This is not to say that we do not have a purchasing problem. We do, but it is now of a form that the current policy interventions are as much part of the problem as the solution. We have to recognise, as the respondents in these two surveys do, that labour markets and housing markets are interlinked. As previously indicated, the high rates of ownership achieved in the first three decades of the postwar years were enabled by a very different labour market to that of today, one that was inclusive of all (except married women), full-time and permanent. Today’s labour market is polarised. For many, it is increasingly casualised, part-time, low paid and exclusive (particularly of the old and those without skills). For others in the professions and skilled trades, it provides opportunities for real income increments unparalleled in earlier years. This flows into the housing market and will continue to do so. Appeals to raise home purchasing rates back to those of the past are increasingly futile. New times create new market patterns and therefore the need for new policy interventions. Rental is the tenure of the future, and more policy attention should be given to providing this sector with more of the elements of ownership (security, ability to adapt to tenants’ needs, long-term affordability), but without undermining continued investment in new stock that is appropriate and sustainable.

## References

- Berry, M. 2006a, *Housing Affordability and the Economy: A Review of Labour Market Impacts and Policy Issues*, AHURI, Melbourne
- Berry, M. 2006b, *Housing Affordability and the Economy: A Review of Macroeconomic Impacts and Policy Issues*, AHURI, Melbourne
- Burke, T. and Ralston, L. 2003, *Expenditure Patterns and Levels of Household Indebtedness of Public and Private Rental Households, 1975 to 1999*, AHURI, Melbourne
- Foong Chin, S. and Harding, A. 2006, *Housing Stress in 2001: Estimates for Statistical Local Areas*, NATSEM, Canberra
- Gabriel, M., Jacobs, K., Arthurson, K., Burke, T. and Yates, J. 2005, *Conceptualising and Measuring the Housing Affordability Problem*, AHURI, Melbourne
- Harding, A., Phillips, B. and Kelly, S. 2004, *Trends in Housing Stress*, NATSEM, Canberra
- Hulse, K. 2003, 'Housing Allowances and Private Renting in Liberal Welfare Regimes', *Housing Theory and Society*, vol. 20, no. 1
- Milligan, V. 2005, *Directions for Affordable Housing Policy in Australia: Outcomes of a Stakeholder Forum*, AHURI, Melbourne
- Wulff, M. and Yates, J. (with Burke, T.) 2001, *Low Rent Housing in Australia: How Has It Changed, Who Does It Work for and Who Does It Fail?*, Department of Family and Community Services, Canberra
- Yates, J. and Gabriel, M. 2006, *Housing Affordability in Australia*, AHURI, Melbourne

## Appendix 1

The over-arching theme of the AHURI studies was to explore housing affordability for low income Australians and to this end two surveys were designed: one of low income private renters and another of recent home purchasers in areas of modest dwelling prices. The findings from these surveys were also used to inform both focus groups and personal interviews that explored the issues raised from the surveys in greater detail.

The rental survey was administered via a large-scale mail-out to 11,250 households in New South Wales, Queensland and Victoria. The sampling frame was obtained using the following method:

- All ABS collector's districts (CDs) for the three states were extracted from CData 2001 and ranked by the SEIFA (Socio-Economic Indexes for Areas), with the lowest four deciles (the bottom 40%) of SEIFA CDs selected;
- For all the CDs selected in the four lowest deciles, those with the lowest 40% of income were identified;
- CDs with less than 40% of households in the private rental market were excluded;
- Those with more than 20% of households renting from a state or territory housing authority, and those with more than 20% of residents attending university, were excluded.

With the cooperation of the rental authorities in each state (Rental Bond Board in New South Wales, Residential Tenancies Authority in Queensland, and Residential Tenancies Bond Authority in Victoria), household addresses were located within the suburbs/postcodes specified by the research team from the CD analysis, with the further specification of an upper rent range cut-off for each suburb/postcode (based upon the median rental for both flats and houses in that area, plus 20%) and the surveys were distributed only to households below this upper rent limit. The addressing of the surveys was organised by each of the rental authorities to overcome any privacy concerns, and there was no follow up of non-respondents as this would breach ethics guidelines. In total, 1,735 responses were returned and entered into the database.<sup>2</sup> A detailed statistical analysis of the socio-economic attributes of the chosen survey areas suggests that the sample is a good representation of households.

In order to address the theme of housing affordability for low income Australians, the sample of respondents from the private rental questionnaire has been divided according to equivalised household income, and the initial analysis compares respondents who fall within the lowest two quintiles of the equivalised income distribution (that is, the bottom 40% of income earners) and all other income earners (that is, quintile three and above, or 60% of income earners). For the purpose of analysis, the sample of households that fall within the lowest 40% of the income distribution will be referred to as the 'low income' sample and the remaining 60% as the 'higher income' sample. The aim of this analysis was to determine, overall, how

---

<sup>2</sup> The data entry for the rental survey was double keyed, that is, each survey response was entered into the database and then re-entered for quality control purposes.

low income households are managing in the private rental market compared to higher income households. Valid responses for both income samples are shown in Table 3.<sup>3</sup>

**Table 3**  
**Private rental sample by income quintiles**

Equivalised household income					
Low income		Higher income		Total	
N	%	N	%	N	%
732	53%	649	47%	1,381	100%

Following on from the above, the low income sample was further analysed, based upon the extent of the household's rental affordability problem: those with no affordability problem (paying up to 29% of their household income on rent: the 'affordable' sample) and those paying 30% or more (the 'unaffordable' sample).<sup>4</sup> The purpose here is to specifically focus on low income households to explore the difficulties they are experiencing in the private rental market based upon whether they have an affordability problem or not. Valid responses for the affordability analysis of the low income sample are shown in Table 4.

**Table 4**  
**Low income sample by affordability ratio**

Rental affordability	Low income	
	N	%
Affordable	129	18%
Unaffordable	573	82%
Total	702	100%

<sup>3</sup> Of the 1,735 surveys returned, 229 respondents did not state a yearly income and a further 35 indicated that this was less than \$10,000. Of the 229 respondents who did not state a yearly income, in some cases we were able to impute their income based upon Centrelink payment rates. This was only completed for respondents who stated their main source of income was from a government pension or allowance. Therefore, the frequency of 'income not stated' fell to 150 responses. It was inappropriate to impute an income for these remaining respondents for various reasons, for example, they stated they were employed in some form or were living in a group household. The 35 respondents who reported a yearly income less than \$10,000 were not altered due to demographic information provided that made sense, for example, they indicated they were a recent immigrant.

<sup>4</sup> This analysis was not completed for the higher income sample as the vast majority of this sample (86%) was spending less than 30% of their household income on rent and hence did not have an affordability problem in terms of their housing costs. For the 14% (88 households) that were spending more than 30% of their household income on rental payments, due to the small numbers involved it has been assumed that this was more likely to be from choice rather than constraint.