

The Affordable Housing Income Gap

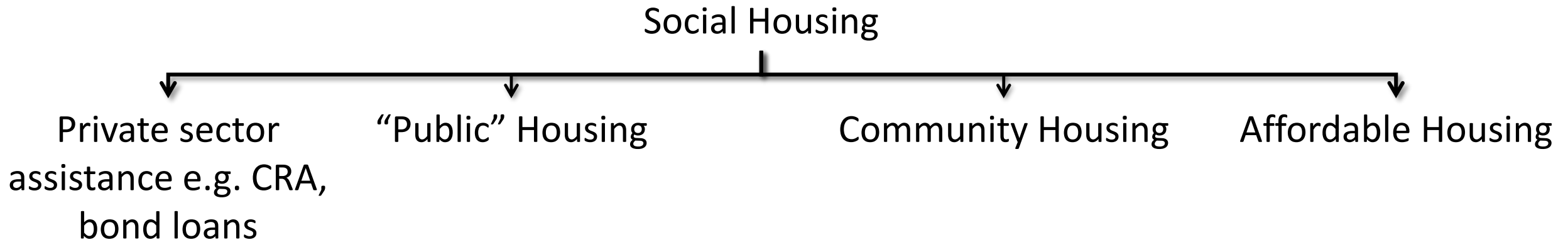
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SUSTAINABLE DEVELOPMENT GOAL 11

Make cities and human settlements inclusive, safe, resilient and sustainable

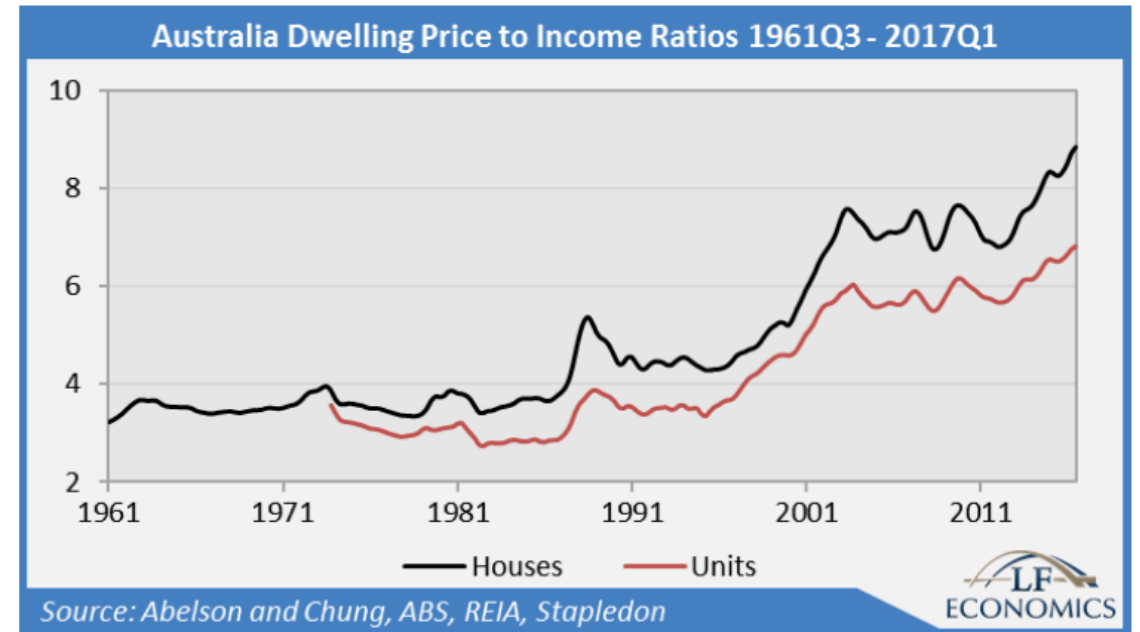


Housing Assistance in Australia



What do we mean by affordable?

- One useful measure of affordability is known as the median multiple (sometimes called the price-to-income ratio)
- It is produced by dividing the median dwelling price by the median household income. The resulting figure is the number of years worth of median household income required to buy a median-priced dwelling.
- Demographia considers a multiple of 5 or above to be severely unaffordable. Australia's overall multiple is 6.6*
- LF Economics paints a bleaker picture, estimating price-to-income ratios of 9.0 for houses and 6.9 for units.



By this measure, Australia has some of the least affordable housing in the world.

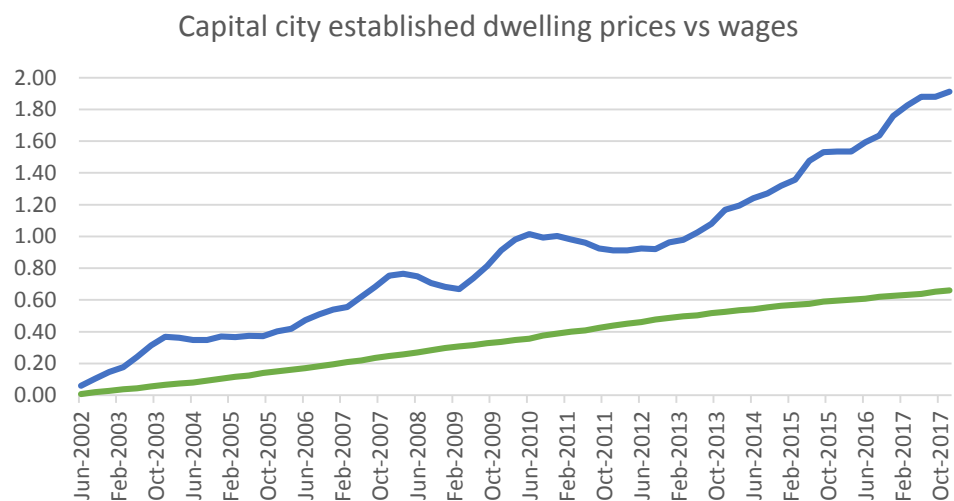
Rank:	City	Median multiple
1	Hong Kong	19.4
2	Sydney*	12.9
3	Vancouver	12.6
4	San Jose	10.3
5	Melbourne	9.9
6	Los Angeles	9.5
7	Honolulu	9.2
8	San Francisco	9.1
9	Auckland	8.8
10	London	8.5
16	Adelaide	6.6
	Newcastle*	6.6
18	Brisbane	6.3
21	Perth	5.9

Source: Demographia International Housing Affordability Survey 2018, <http://www.demographia.com/dhi.pdf>, ABS

* Newcastle is not included in the 2018 Demographia Report. The median multiple in the above table is based on the 2017 Report.

This is not normal, or sustainable

- Over the past 15 years, established dwelling prices in Australia's capital cities have increased by 190% - roughly three times as fast as wages.



Source: ABS



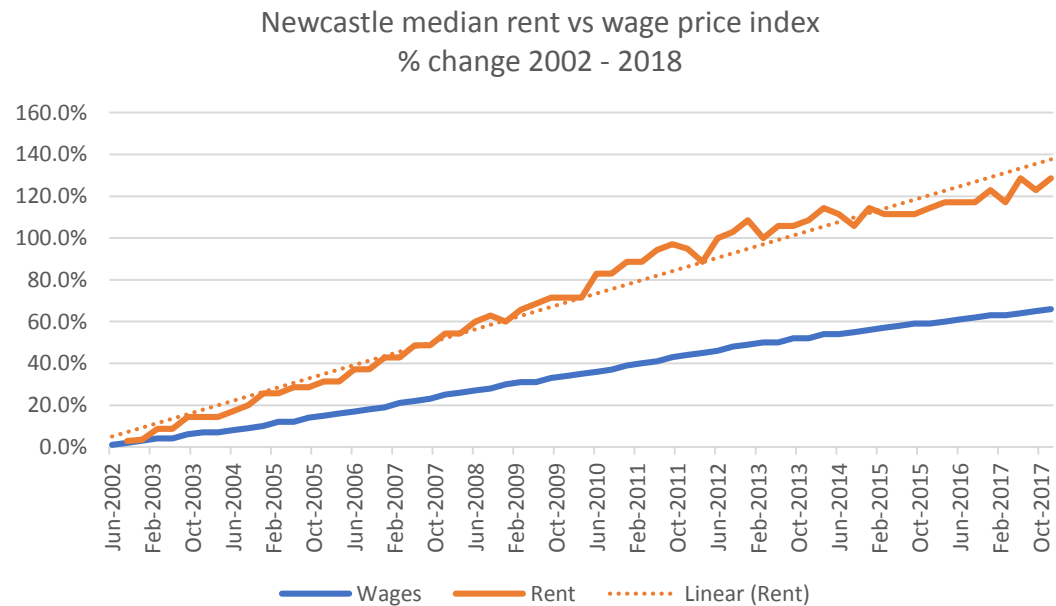
This is not normal, or sustainable

- For most of the 20th century, Australia's average price-to-income ratio was less than 4.
- If price-to-income ratios had remained at 1980s levels, the current median house price in Sydney would be \$364,000.
- Returning to historic price-to-income ratios would involve median prices falling by more than 60% or median incomes rising by more than 200%.
- Even if Sydney prices stood still from this point on, it would take more than 35 years of continual 3 per cent annual income growth before price-to-income ratios returned to their long-term average.



What about renting?

- Since 2002 median rents in Newcastle LGA have increased by 128%. Roughly twice as fast as wages.
- Median rent for a 3 bedroom house in Newcastle now comprises 32% of median household income.



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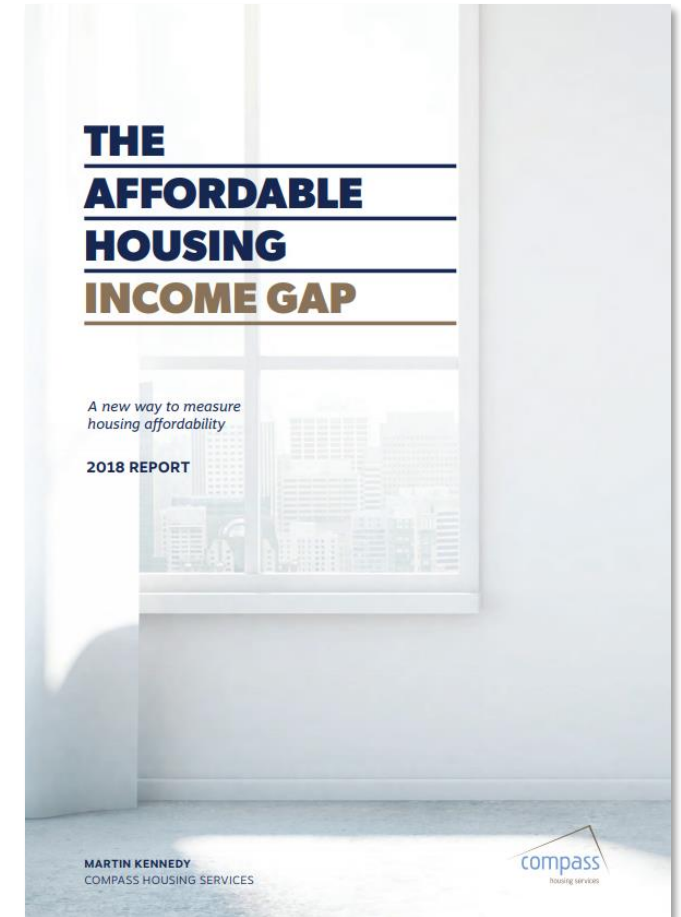
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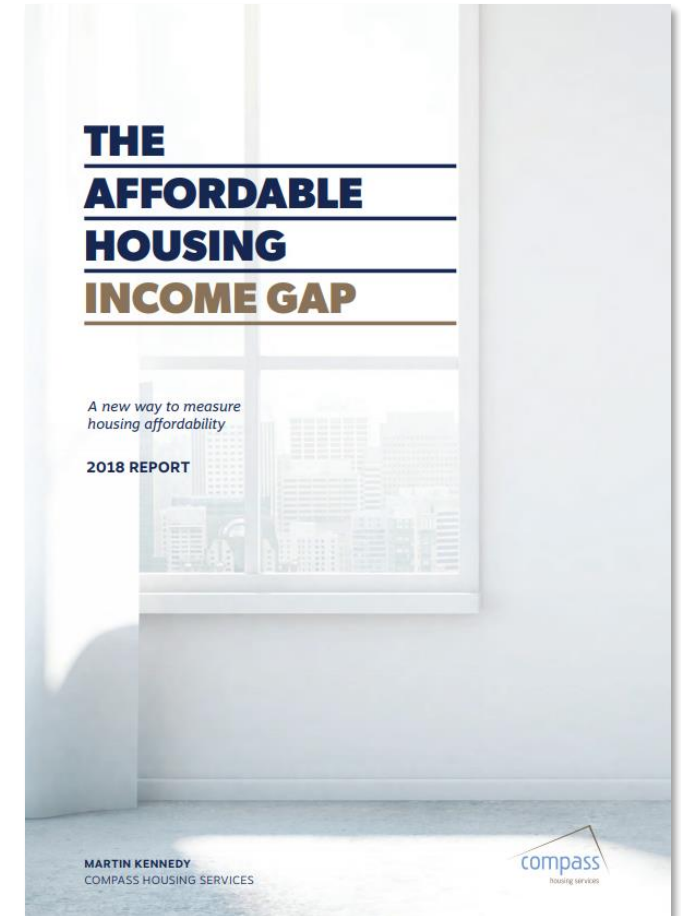
The Affordable Housing Income Gap

- The Affordable Housing Income Gap is the gap between the median income of renting households, and the median income required to pay median rent without experiencing housing stress.
- E.g. an area in which the median household income for renting households is \$1000 per week, and the median rent is \$450 per week. In order to pay \$450 per week without exceeding the 30% affordability threshold, a household would need a weekly income of \$1500. The AHIG for the area therefore, is \$500



The Affordable Housing Income Gap

- To avoid housing stress on a three bedroom house in Sydney's inner ring, a typical renting household would require an additional \$1503 per week (\$78,000 per year).
- To avoid housing stress on a two-bedroom unit in Sydney's inner ring, the typical renting household would require an additional \$519 per week. (\$27,000 per year)...
- To avoid housing stress on a three-bedroom house in Sydney's middle ring, a typical renting household would require an additional \$186 per week (\$9672 per year).
- Similar results in both Melbourne and Brisbane.



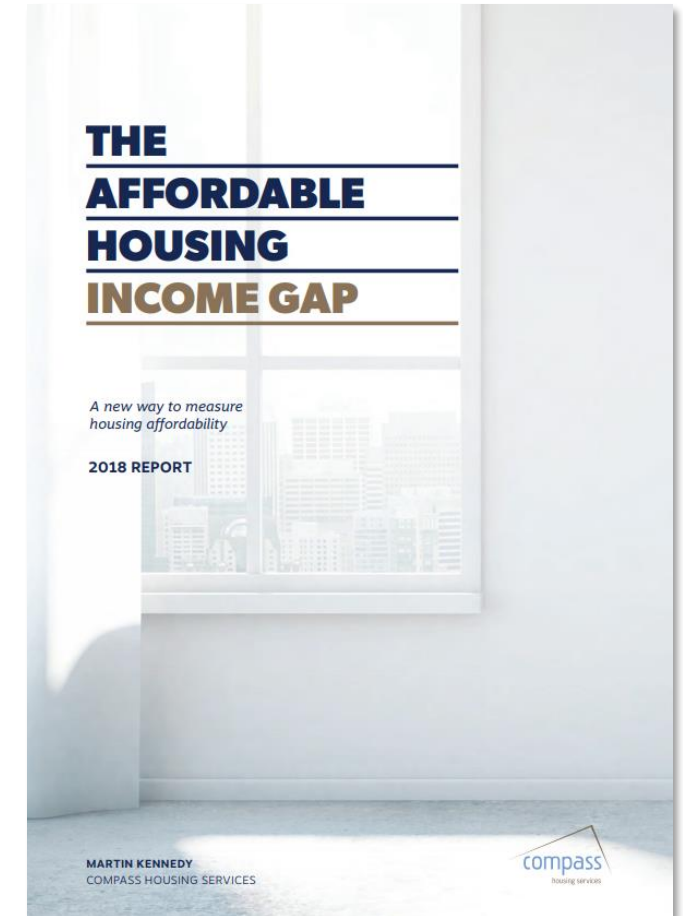
Regional perspective – a mixed bag

LEAST AFFORDABLE LGAS – REGIONAL NSW

LGA	Median Rent (All Dwellings)	Income required to avoid housing stress	Median household income	% of income required to pay median rent	AHIG	AHIG INDEX
Byron	590	1,967	1,218	48%	749	61
Ballina	450	1,500	1,022	44%	478	47
Clarence Valley (Grafton)	350	1,167	907	39%	260	29
Tweed Shire	430	1,433	1182	36%	251	21
Shoalhaven	370	1,233	1048	35%	185	18
Coffs Harbour	395	1,317	1125	35%	192	17
Port Macquarie	390	1,300	1148	34%	152	13

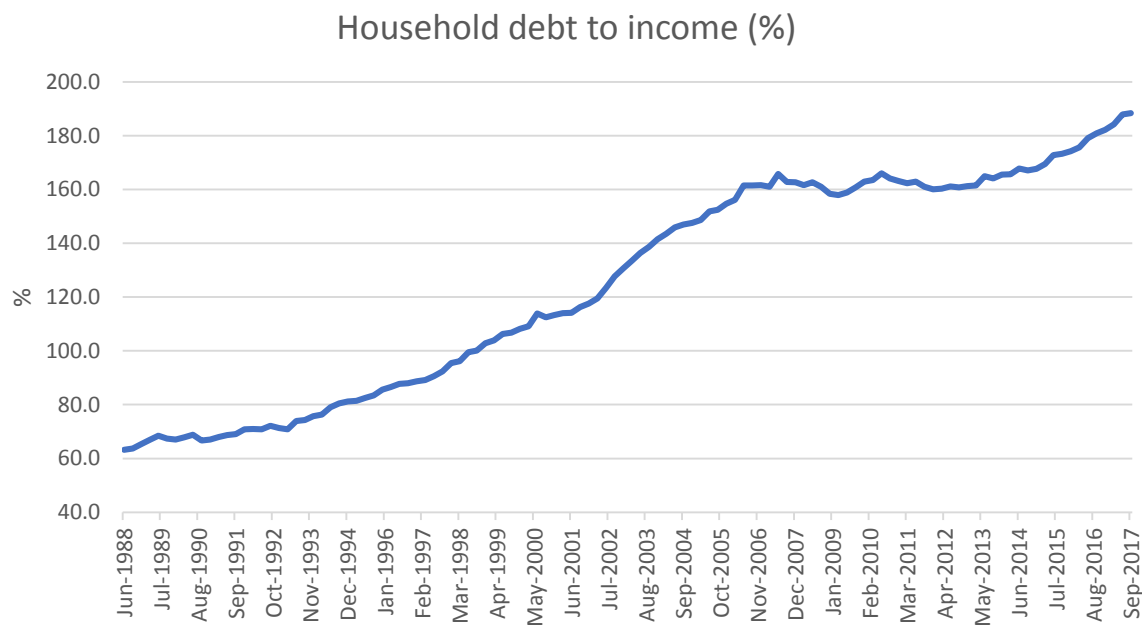
MOST AFFORDABLE LGAS – REGIONAL NSW

LGA	Median Rent (All Dwellings)	Income required to avoid housing stress	Median household income	% of income required to pay median rent	AHIG	AHIG INDEX
Upper Hunter	250	833	1223	20%	-390	-32
Queanbeyan	350	1,167	1454	24%	-287	-20
Broken Hill	248	825	1,027	24%	-202	-20
Orange	320	1,067	1233	26%	-166	-13
Wagga Wagga	310	1,033	1172	26%	-139	-12
Bathurst	310	1,033	1,164	27%	-131	-11
Tamworth	315	1,050	1163	27%	-113	-10
Western Plains (Dubbo)	320	1,067	1117	29%	-50	-5
Goulburn	330	1,100	1150	29%	-50	-4
Albury	280	933	972	29%	-39	-4

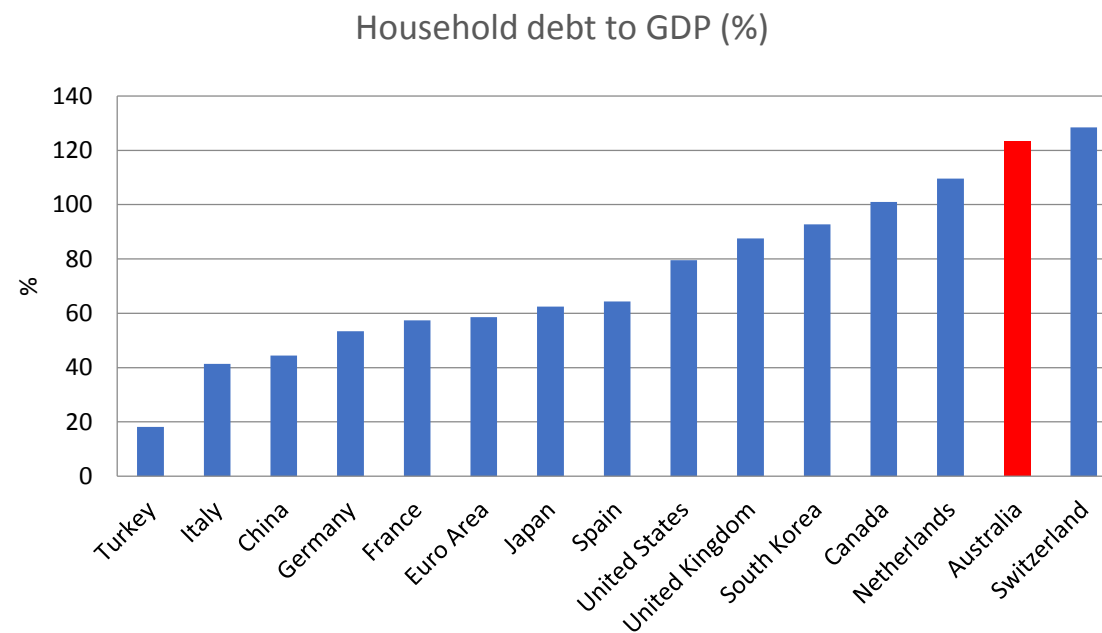


What happens when housing is unaffordable?

1. Household debt goes through the roof

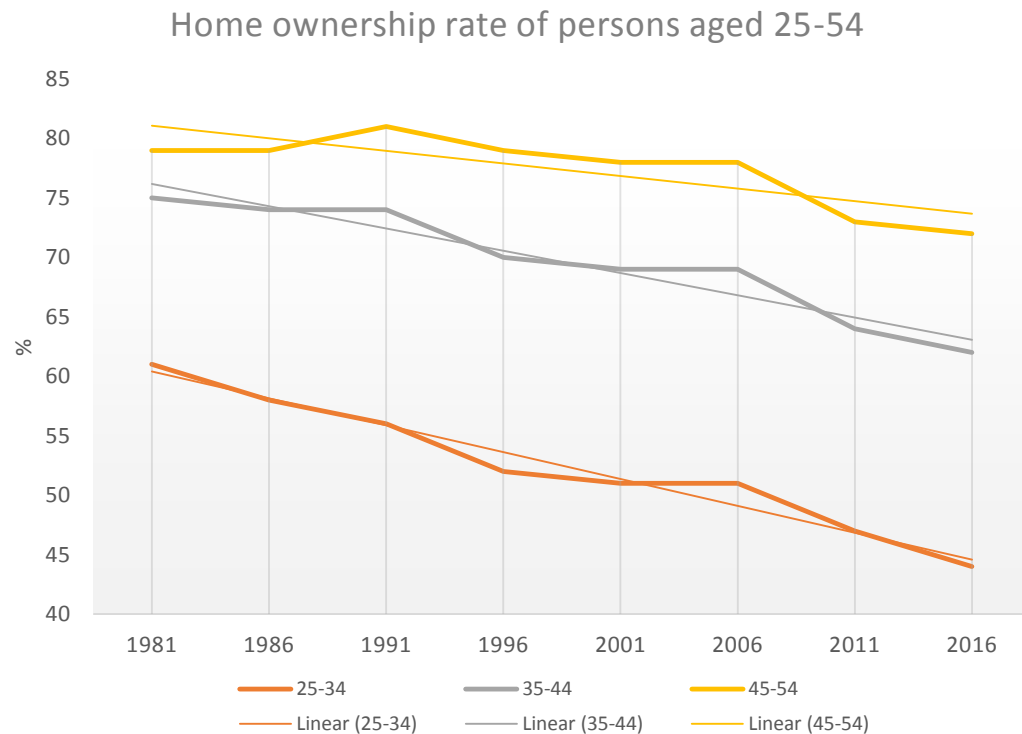


Source: Reserve Bank of Australia – Household Finances Selected Ratios

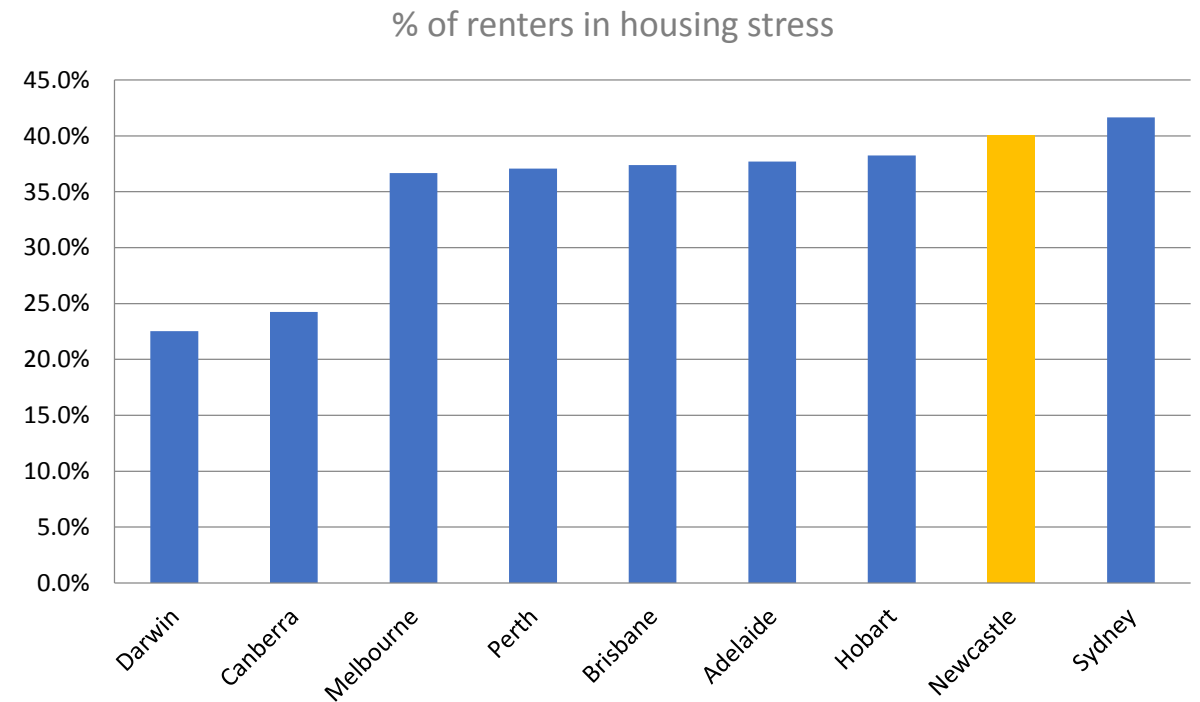


Source: TradingEconomics.com, OECD, ABS

2. Home ownership rates collapse, creating more competition for affordable rentals



Source: Yates (2015), ABS, Grattan Institute



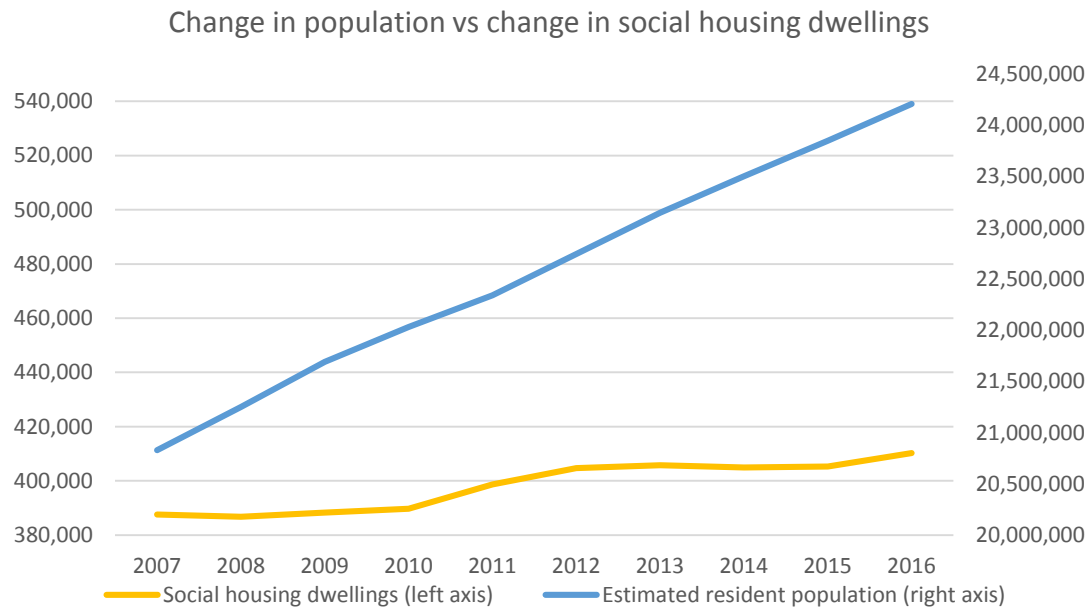
Source: ABS Census 2016

3. The retirement system starts looking shaky

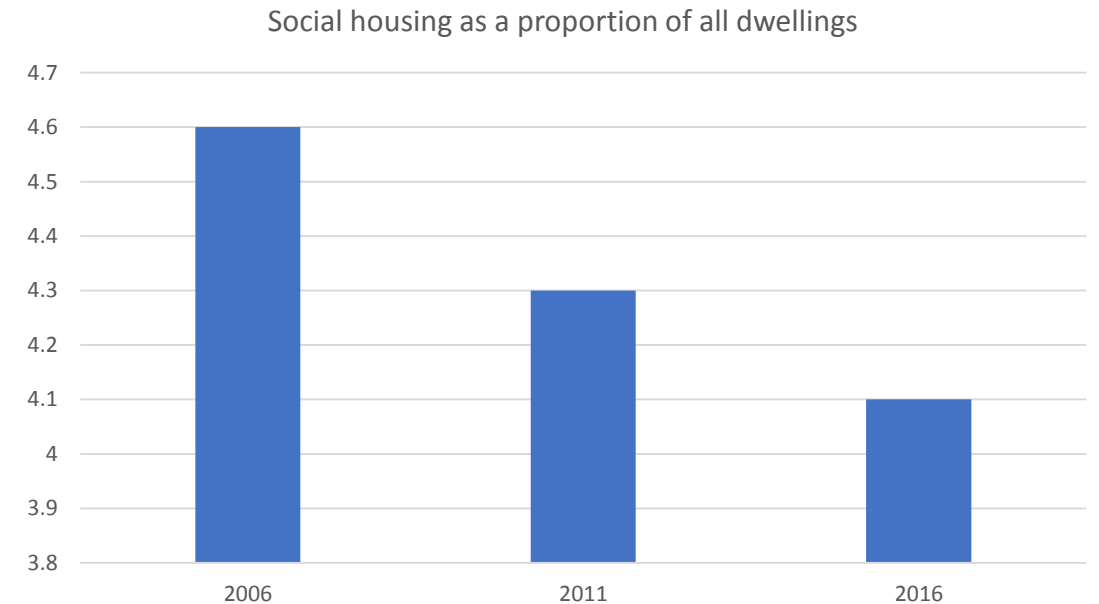
- Fewer retirees will own their own homes in future
- Superannuation likely to be used to pay off mortgages rather than used for living expenses
- Result likely to be more demand for the Age Pension and Commonwealth Rent Assistance, more demand for social and affordable housing, and greater pressure on government funding of aged care.
- All paid for by the declining proportion of the population in the workforce



4. More pressure on the swamped social housing system



Source: ABS Australian Demographic Statistics, Productivity Commission



Source: ABS Census 2016, Productivity Commission

4. More pressure on the swamped social housing system

- There are approximately 410,000 social housing dwellings in Australia and approximately 35,000 affordable dwellings provided under the National Rental Affordability Scheme.
- Yet there are still more than 200,000 households on social housing waiting lists across the country.
- Social housing is the only form of benefit to which access is rationed in this way.
- The ABS estimates approximately 116,000 Australians are homeless on any given night.



4. More pressure on the swamped social housing system - the Newcastle experience

- Since 2002 median rents in Newcastle LGA have increased by 128%. Roughly twice as fast as wages.
- Approximately 40% of renting households in the Newcastle LGA are in housing stress – above the state and national averages.
- At the last census there were 802 people experiencing homelessness in Newcastle.
- There are approximately 4900 social housing dwellings in Newcastle / Lake Mac
- There are approximately 2100 households on the waiting list.
- The average waiting time is 5-10 years depending on the type of property required.
- The median household income for social housing tenants in the area is approx. \$23,000 per year – consistent with national average.

5. Reduced consumer spending as households devote more of their budgets to housing costs
6. Extra demand for Rent Assistance and pressure to increase pensions
7. Economic and social segregation as low/moderate income households are pushed out
8. Extra pressure on transport infrastructure
9. Wasted human capital as workers are locked out of inner city job hubs
10. Greater demand on healthcare and social services

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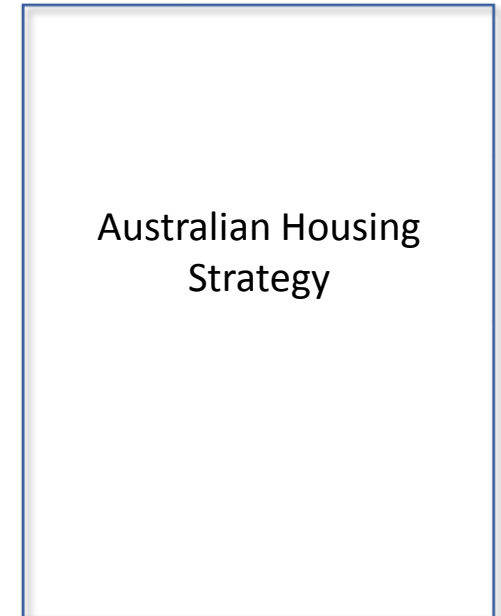
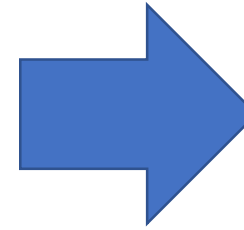
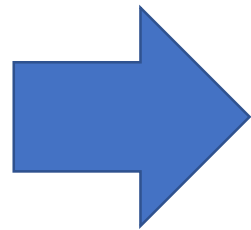
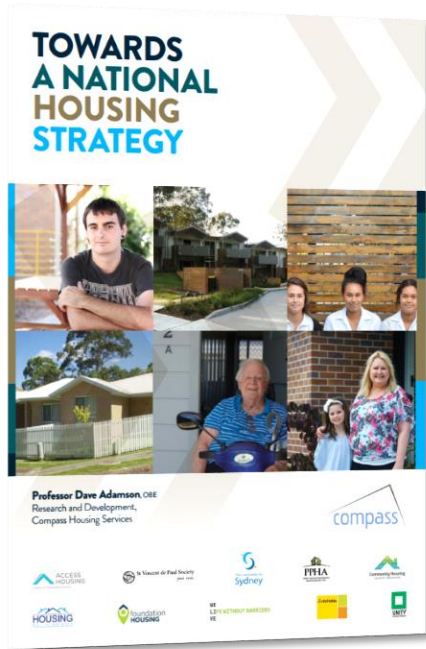


So, what's the plan?

Believe it or not, there isn't one

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So Compass decided to get the ball rolling



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