



Australian Housing
and Urban Research Institute

ABN 11 090 448 918

National Office

Level 1, 114 Flinders Street

Melbourne Victoria 3000

Australia

Phone +61 3 9660 2300

Fax +61 3 9663 5488

Email information@ahuri.edu.au

Web www.ahuri.edu.au

31 March 2008

Our Ref: GOV/238

Mr John Hawkins
Secretary
Senate Select Committee on Housing
Affordability in Australia
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Hawkins

Thank you for the invitation to make a submission to the Senate's inquiry into housing affordability.

I note the terms of reference of the inquiry and observe the focus on the 'barriers to home ownership in Australia'. As you will note below, evidence from AHURI suggests a different focus to that specified in the terms of reference. The evidence makes clear that housing affordability is a matter of concern across the housing system, but especially in the private rental market.

The purpose of this submission, therefore, is to draw the Committee's attention to the considerable evidence base developed by AHURI on housing affordability in Australia.

This submission is structured to provide:

1. a brief introduction to AHURI;
2. an overview of AHURI's activities;
3. a guide to the research conducted and underway on housing affordability and;
4. a summary of the key findings arising from our National Research Venture on *Housing affordability for lower-income Australians*.

All AHURI's research output is available free from our website and the links to the relevant research have been included throughout this submission.

About AHURI

The Australian Housing and Urban Research Institute (AHURI) is a national, not-for-profit organisation that funds and conducts high-quality research into housing and urban issues. It aims to inform the policy making of governments, industry and the community sector and to stimulate debate on these issues in the broader community.

Primary funding for AHURI is provided by the Australian Government, all state and territory governments and the Institute's twelve university partners. In the 2006/07 year, AHURI invested over \$3 million in conducting and managing housing and urban research.

AHURI is organised as a network comprising a small management company, AHURI Limited, based in Melbourne, and seven Research Centres that span twelve universities throughout Australia. The role of AHURI Ltd is to lead the organisation, manage and coordinate the research and dissemination process, and stimulate policy debate.

AHURI's activities

A constructive engagement between the research and policy communities is essential to the conduct of policy relevant research. A modus operandi of 'engagement' permeates all AHURI's activities; from research project specific advisory groups, roundtable discussions about the implications of research findings for policy development, to conferences and the bi-annual National Housing Conference.

The sustainability of a high quality, policy relevant housing research program in Australia is underpinned by AHURI's capacity building activities. Postgraduate top-up scholarships, post-doctoral fellowships, and an annual symposium of postgraduate students are some of the key activities undertaken by AHURI.

Established in 2000 AHURI has completed over 100 research projects and published some two hundred plus reports on a wide range of housing policy issues. These include all aspects of the Australian housing system: homelessness, Indigenous housing, public housing, the private rental market, and home ownership. This research is not just about housing per se, but about the foundational role of housing in securing positive economic and social outcomes for the nation.

AHURI research on housing affordability

That housing is affordable is a key outcome sought by Australian households from the Australian housing system. The affordability of housing is an expression of the relationship between the cost of housing and a household's income. A widely used indicator, not a precise measure, of housing affordability is the "30/40 rule". When a household in the bottom 40% of the income distribution spends more than 30% of its gross income on housing costs it is said to be in "housing stress" as it has insufficient income for life's necessities. Higher income households who choose to allocate more than 30% of their income on housing costs are not in housing stress. They may have a high housing cost to

income ratio but they will still have sufficient income left for life's necessities. Such higher income households are not a direct public policy concern; however, they may be a political concern.

For more information on the measurement of housing affordability see Gabriel, M., Jacobs, K., Arthurson, K., Burke, T., and Yates, J. (2005) *Conceptualising and measuring the housing affordability problem*, NRV3 Research Paper 1, AHURI, Melbourne http://www.ahuri.edu.au/publications/download/nrv3_research_paper_1

AHURI has completed research on a number of dimensions of housing affordability including the:

- implications of housing affordability constraints for labour supply (e.g. Yates, J. Randolph, B. and Holloway, D. [2006] *Housing affordability, occupation and location in Australian cities and regions* http://www.ahuri.edu.au/publications/download/60279_fr);
- funding and policy frameworks required to support investment in not-for-profit affordable housing organisations (e.g. Milligan, V. Phibbs, P. Fagan, K. and Gurran, N. [2004] *A practical framework for expanding affordable housing services in Australia: learning from experience*, http://www.ahuri.edu.au/publications/download/60191_fr);
- failure of supply at the low-rent end of the private rental market (e.g. Yates, J. Wulff, M. and Reynolds, M. [2004] *Changes in the supply of and need for low rent dwellings in the private rental market* http://www.ahuri.edu.au/publications/download/60190_fr);
- lessons to be drawn from international experience in housing and land-use planning policy reform (e.g. Lawson, J. and Milligan, V. [2007] *International trends in housing and policy responses* http://www.ahuri.edu.au/publications/download/60323_fr, and Gurran, N. Milligan, V. Baker, D. and Bugg, L. [2007] *International practice in planning for affordable housing* http://www.ahuri.edu.au/publications/download/60322_pp).

AHURI's work on housing affordability has most recently resulted in the completion of an in-depth, three year inquiry into the housing affordability of lower income Australians, led by Associate Professor Judy Yates. This program of research, one of AHURI's 'National Research Ventures', has delivered eleven detailed Research Papers on all aspects of housing affordability in Australia. These papers are listed in the following table.

Author	Date of Publication	Title of Publication	Weblink
Gabriel, M. Jacobs, K. Arthurson, K. Burke, T. and Yates, J.	August 2005	Conceptualising and measuring the housing affordability problem	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_1

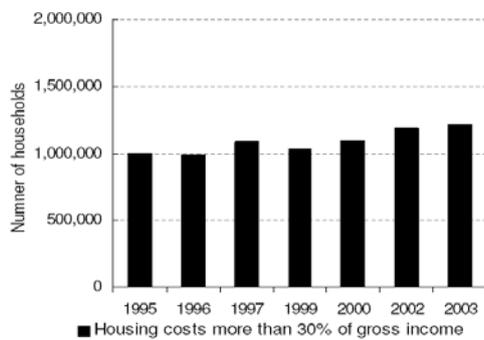
Author	Date of Publication	Title of Publication	Weblink
Milligan, V.	August 2005	Directions for affordable housing in Australia: Outcomes of a stakeholder forum	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_2
Yates, J; and Gabriel, M.	February 2006	Housing affordability in Australia	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_3
Berry, M.	June 2006	Housing affordability and economy: A review of macroeconomic impacts and policy issues	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_4
Berry, M.	August 2006	Housing affordability and the economy: A review of the labour markets impacts and policy issues	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_5
Yates, J.	October 2007	Housing affordability and financial stress	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_6
Milligan, V. Phibbs, P. Gurran, N. and Fagan, K.	July 2007	Approaches to evaluation of affordable housing initiatives in Australia	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_7
Yates, J.	September 2007	The polarisation of housing affordability	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_8
Burke, T. Pinnegar, S. Phibbs, P. Neske, C. Gabriel, M. Ralston, L. and Ruming, K.	January 2008	Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_9
Yates, J.	January 2008	Affordability and access to home ownership: past, present and future	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_10
Yates, J. Kendig, H. Phillips, B. Milligan, V. and Tanton, R.	February 2008	Sustaining fair shares: the Australian housing system and intergenerational sustainability	http://www.ahuri.edu.au/publications/download/nrv3_research_paper_11

The findings and implications for policy development of these eleven Research Papers are summarised in a Final Report by Yates, J. and Milligan, V. (2008) *Housing affordability: a 21st century problem*, http://www.ahuri.edu.au/publications/download/nrv3_final_report.

Some of the key messages from this research are that:

- housing affordability in Australia is a structural and a cyclical problem. Its structural nature is defined by evidence of a long-run, cross-cyclical pattern of high numbers of households with high housing cost ratios;

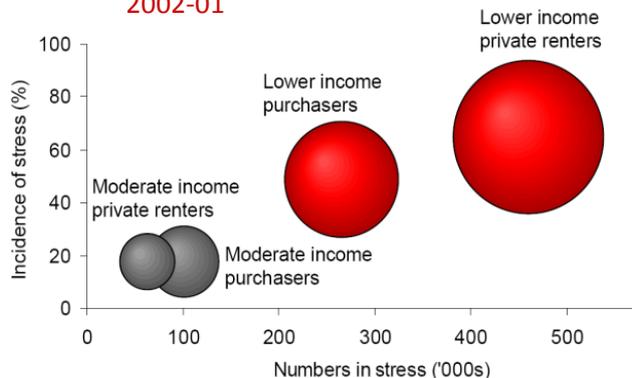
Figure 1: Number of households with high housing cost ratios, 1995-2003



Source: Yates and Gabriel, National Research Venture 3, Research Paper No. 3

- most households in housing stress are in the private rental market and the impacts of housing stress upon various aspects of their lives is significant;

Figure 2: Incidence of and number in housing stress by income group and tenure, 2002-01



Source: National Research Venture 3, Final Report

- housing affordability creates problems for individual households and risks for the economy as a whole;

Figure 3: Nature of the problem

Housing affordability is an issue for individuals and households, as well as the Australian economy overall,

Nature of the problem at individual/household level

- increasing costs of access to home ownership
- large numbers in mortgage stress
- declining home ownership rates amongst young
- large numbers in housing stress in private rental
- significant homelessness

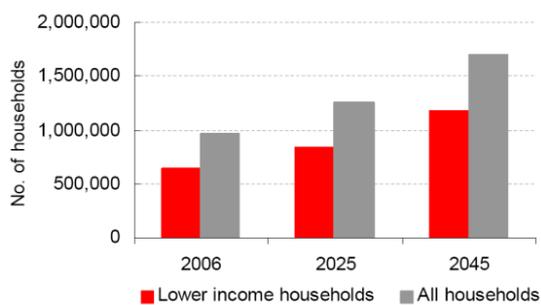
Nature of the problem at economy wide level

- spatial segregation
- labour market inefficiencies
- intra and intergenerational inequities
- potential macroeconomic instability

Source: National Research Venture 3

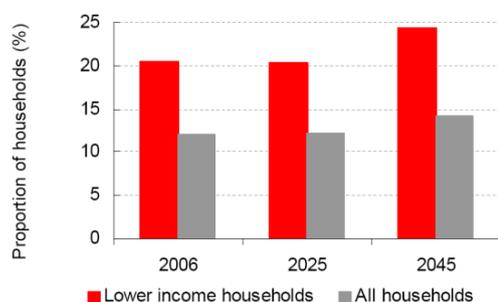
- housing affordability is projected to worsen to 2045.

Figure 4: Number of households with high housing cost ratios, 2006, 2025 and 2045



Source: National Research Venture 3, Research Paper No. 11

Figure 5: Percentage of households with high housing cost ratios, 2006, 2025 and 2045



Source: National Research Venture 3, Research Paper No. 11

As the evidence above demonstrates, housing affordability is an issue that will not simply disappear with the next cycle of the property market. It will be an ongoing matter of public policy concern. Hence, AHURI has ongoing work that will support policy development in this field and that will be of interest to the Committee. The following tables set out projects that are underway and scheduled for completion as listed and projects that have commenced in 2008.

Project title	Project Leader	Due date for publication
Housing markets in resource boom towns	McKenzie, F.	March 2009
International practice in planning for affordable housing	Gurran, N.	June 2008

Project title	Project Leader
Reverse mortgages and older people: growth factors and implications for retirement decisions	Bridge, C.
The advantages and disadvantages of home ownership for low-moderate income households	Hulse, K.
Movements in and out of housing affordability stress and dynamic modelling of initiatives to improve the supply of affordable housing	Wood, G.
Mortgage default in Australia: nature, causes and social and economic impacts	Berry, M.
Low-income home ownership support programs: a review of past schemes and consideration of future potential	Pinnegar, S.
The housing impacts of neighbourhood change: gentrification, affordability and displacement	Atkinson, R.

This submission is being made by and on behalf of the Australian Housing and Urban Research Institute and the following individuals associated with the Institute:

Associate Professor Judith Yates
Dr Vivienne Milligan
Professor Bill Randolph
Professor Peter Phibbs

We would like to thank the Senate Select Committee for its consideration of our submission and we would welcome the opportunity to elaborate further on this submission if it would assist the Committee in its deliberations.

Yours sincerely

A handwritten signature in black ink, appearing to be 'I. Winter', written in a cursive style.

Dr Ian Winter
Executive Director