

# Addressing recurring or protracted episodes in housing affordability stress 2001–11

**RECURRING AND ENDURING EPISODES OF HOUSING AFFORDABILITY STRESS ARE MORE COMMON AMONG LOW-INCOME HOUSEHOLDS WHO HAVE DEPENDENT CHILDREN, ARE MIGRANTS FROM NON-ENGLISH SPEAKING BACKGROUNDS OR ARE SELF-EMPLOYED. INCREASING SECURE AFFORDABLE HOUSING FOR THESE GROUPS SHOULD BE A PRIORITY FOR HOUSING POLICY.**

## KEY POINTS

- Over the decade 2001–11 one in five Australians (in a 5047 person sample) experienced housing affordability stress (HAS).
- Half of those who experienced HAS did so as a one-off, short-term event. However, the other half experienced HAS on a recurring or enduring basis.
- Low-income households prone to recurring or enduring periods of HAS include migrants from non-English speaking backgrounds, households with dependent children, the jobless, self-employed and those on casual contracts.
- Labour market factors (e.g. reduced income or unemployment) and housing factors (increased housing costs) are equally important in causing HAS. Exits from HAS are more commonly linked to increased income. This suggests that policies to boost employment participation and supplements to income might be effective in helping low-income groups permanently exit HAS.

*This bulletin is based on research conducted by **Professor Gavin Wood** and **Dr Melek Cigdem** at the AHURI Research Centre—RMIT University, and **Associate Professor Rachel Ong** at the AHURI Research Centre—Curtin University. The research identifies those most vulnerable to protracted or repeat episodes in housing affordability stress and ways to assist this group.*

- Both Commonwealth Rent Assistance (CRA) and public housing still play important roles in preventing HAS, although the effectiveness of CRA has declined. The affordability of public housing might be eroded if policy proposals to introduce market rents are enacted.

## CONTEXT

Previous research found that housing affordability can be a protracted and recurring experience for some households. Policy-makers are particularly concerned about this group, and so need to know who is most at risk and what market processes and policies are most likely to assist such households.

This research extends previous research to include the period when Australia experienced the Global Financial Crisis (GFC). It also more accurately pin-points groups that have recurring experiences of HAS and considers the adequacy of present policies (including CRA) in preventing such experiences.

## RESEARCH METHOD

This study utilizes the first 11 waves of the Household, Income and Labour Dynamics of Australia (HILDA) Survey to track individuals' housing affordability dynamics over the period 2001–11. The project sought to define and identify those that have recurring experiences with HAS (termed 'dynamic affordability stress'). The AHURI-3M microsimulation model was used to determine CRA eligibility and entitlements.

HAS is defined using the 30/40 indicator: stress occurs where a household's housing costs exceed 30 per cent of their equivalised income and their income is in the bottom 40 per cent of the household income distribution.

The researchers undertook *regression modeling* to identify the factors influencing a person's chances of escaping HAS or falling back into HAS, and *shift-share analysis* to identify how much of a change in housing cost as a proportion of income was due to changes in income or changes in housing costs.

## KEY FINDINGS

### ***Households who slip into housing affordability stress***

Over the 10-year period 2001–11, 20.5 per cent of all households slipped into HAS. Most households (79.5%) in affordable housing in 2001 remained in affordable housing through to 2011.

Certain demographic groups among low-income households are more likely to fall into stress, including those that are young (under 35) and couples with children. Migrants from a non-English-speaking background and sole parents with young children are also vulnerable, as are the self-employed and jobless. Private renters and purchasers are also at higher risk of experiencing HAS, but not outright owners (94% of outright owners retain affordable housing over 10 years) or public renters. Furthermore, previous experience of HAS has a 'scarring effect' that increases a household's chances of slipping back into HAS in subsequent years.

### ***Escaping housing affordability stress***

The chances of escaping HAS are high, with 73 percent of those experiencing HAS escaping within 12 months of first experiencing HAS over the period 2001–11. Only a small minority endure HAS continuously over the 10-year study time frame. However, those who remain in unaffordable housing find that their chances of evading HAS decline sharply as spells lengthen.

Many of the groups at high risk of slipping into HAS also find climbing out of HAS difficult. These groups include low-income couples with children (especially in the 35–54 age group), sole parents with young dependent children, migrants, and the jobless and self-employed. For example, low-income migrant households from non-English speaking countries have odds of escaping HAS that are 35 per cent lower than Australian-born non-Indigenous persons. Mortgagors find it more difficult to climb out of unaffordable housing than private renters, possibly because relatively high transaction costs impede moves that could reduce housing costs.

Escapes are often short-lived: of the 1119 spells in affordable housing that followed an escape, a little over one in three (414 spells or 37%) relapsed back into unaffordable housing.

### **Groups most vulnerable to 'dynamic affordability stress'**

Some households are prone to episodic housing affordability. That is, they shift in and out of HAS. The following subgroups have much more episodic profiles:

- Low-income Australians, especially couples with very young children (under five); and those with dependent children in adolescent and young adult years (15–24).
- Low-income migrants from non-English speaking backgrounds.
- Low-income self-employed individuals (who experience twice as much variability in household disposable income as the rest of the workforce).

Macroeconomic conditions also matter. The odds of sustaining affordable housing have fallen since the GFC, and vulnerability to dynamic affordability stress is higher post-GFC after controlling for all other factors. If an episode of HAS occurs in the post-GFC era, the odds of a bounce back into affordable housing are 44 per cent lower.

### **Labour and housing market drivers of transitions in and out of affordable housing**

An analysis of shifts *into* HAS reveals that on average lower income and higher housing costs are of equal importance.

By contrast, *escape* from unaffordable housing is largely due to rising incomes. Of the total fall in housing cost ratios that accompany escapes, 23.5 percentage points (or two-thirds of the total fall) is accounted for by income changes. This suggests that income related factors, such as increases in wages and income supplements, working longer hours, or regaining employment are more important in lifting people out of HAS than are housing cost factors such as residential mobility. These findings suggest that policy-makers might

need to look beyond housing policies to effectively address HAS.

### **Commonwealth Rent Assistance (CRA) becoming less effective as a buffer against housing stress**

In 2001, affordability ratios were estimated to be nearly 16 percentage points higher if CRA were withdrawn, and rates of stress among clients would rise from 12 per cent to 53 per cent.

However, the effectiveness of CRA as a protection appears to tail off in the second half of the decade to 2011.

## **POLICY IMPLICATIONS**

This study suggests that housing assistance plays an important role in preventing HAS. CRA has enabled most eligible private renters to avoid HAS, though its adequacy may have diminished in recent decades, and recent proposed changes mean it will taper out at lower levels of income. Protecting low-income families is important in any budget related reform of CRA since they are most likely to face recurring affordability problems.

Public housing is also an effective safeguard against protracted or episodic affordability stress because it offers tenants certainty of rent payments as a share of income, and a secure 'lifetime' lease (in most states and territories). Proposed reforms to introduce market rents for social housing tenants (enabling them to qualify for CRA), would likely place social housing tenants at greater risk of protracted or episodic spells of housing stress. This is especially the case if security of tenure were to be eroded. Secure long-term leases are an important protection that is missing in private rental housing. The need to move when leases are not renewed by private landlords, or sharp increases in rents when leases are renewed, can precipitate a shift into HAS. Social housing tenants are not exposed to this hazard.

Because improving income is critical in both preventing and escaping HAS, macroeconomic and labour market policies raising employment participation could prove especially effective in addressing recurring affordability problems.

Households most prone to enduring and episodic unaffordable housing typically have uncertain income streams that fluctuate around relatively low average incomes, as is particularly the case among casual workers and the self-employed with low earnings. Demographic and housing tenure groups also at risk include younger couples with children and mortgagors. Supplements to family incomes (e.g. provided by Family Tax Benefit) make an important contribution to family budgets, and so 2014 Federal Budget reforms that freeze their indexation (if legislated) may undermine housing affordability outcomes for this group.

Low-income migrants are also prone to recurring affordability difficulties. Language difficulties, discrimination and unfamiliar institutional practices are possible explanations. Further research identifying the relative importance of these explanations would help frame appropriate policy responses.

Outright owners (most of whom are retired) are immune to enduring or repeated bouts of HAS. As outright ownership plays a very important role in protecting older Australians from housing stress and poverty, the long-term decline in rates of ownership and rising indebtedness of younger Australians are a signal that this safeguard may be threatened for a growing number of Australians. Policies to sustain ownership rates among younger cohorts may prove decisive in ensuring that HAS continues to be an uncommon event in old age.

## FURTHER INFORMATION

This bulletin is based on AHURI project 53021, *Housing affordability dynamics in Australia: new insights from the last decade*.

Reports from this project can be found on the AHURI website: [www.ahuri.edu.au](http://www.ahuri.edu.au) or by contacting AHURI Limited on +61 3 9660 2300.

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**ACKNOWLEDGMENTS** This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited acknowledges the financial and other support it has received from the Australian, state and territory governments, without which this work would not have been possible.

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