State of housing affordability

State of the Nation's Housing 2021–22

State of housing affordability

KEY POINTS

- The pandemic is having highly uneven impacts on housing affordability across Australia, with outcomes mixed across different locations, incomes and housing segments.
- Housing affordability for first home buyers was already highly challenged, but has deteriorated further over the last year across many cities and regional areas, on the back of strongly rising house prices. First home buyer participation in the market was high over the last year, on the back of monetary and fiscal stimulus, but is now declining.
- Affordability for the nation's renters remains an acute problem for those on low to moderate incomes. Renters on low and/or moderate incomes experienced a deterioration in affordability in many regional areas as people sought refuge from the pandemic. Renters in some of Australia's largest cities (Sydney and Melbourne) saw a modest improvement, but rental pressures are now growing.
- Strongly rising house prices do not necessarily lead to worse affordability outcomes. Despite the substantial increase in property prices during 2020–21, the cost of servicing a mortgage for homeowners has managed to remain on par with the cost of renting. Affordability challenges primarily burden prospective first home buyers, as increases in property prices make it more difficult to save for a deposit. Renters in the lowest quintile are especially affected as they have the least capacity to absorb increased costs.
- Affordability for those looking to transition into home ownership remains highly challenged in cities like Sydney and has deteriorated even further. For example, households in the bottom 60% of income earners can afford less than 10% of properties in the market in Sydney and Hobart, making them the most unaffordable cities for those trying to transition into home ownership.
- Affordability in many regions became more acute for renters and first home buyers during the pandemic, as people sought to upsize or move to lower density living to support work from home arrangements. The deterioration in affordability in the period 2020–21 for first home buyers has been particularly pronounced in regional NSW, Vic and Tas.
- As borders reopen, demand for rental properties is likely to increase sharply and quickly in some major cities. Affordability for renters could worsen over the medium term if the housing pipeline doesn't remain strong enough to match anticipated new household formation.

Affordability **deteriorated**

for renters and
and first home buyers

ESPECIALLY IN REGIONAL NSW, VIC AND TAS

Less than
10%
of properties

ARE AFFORDABLE FOR THE BOTTOM 60% OF SYDNEY AND HOBART LOWER INCOME HOUSEHOLDS

$460k
The average first home buyer debt

UP $50K FROM LAST YEAR, A FIGURE THAT HAS TRIPLED SINCE THE EARLY 2000S

Introduction

Housing affordability has important social and economic implications

It is defined as the relationship between housing costs, such as mortgage repayments or rent, and household incomes. When housing is affordable, households can access an adequate standard of housing without unduly compromising their other needs.

This chapter builds on the measures of assessing housing affordability used in our State of the Nation's Housing 2020 report for renters and first home buyers. We also discuss measures to help estimate the need for social and affordable housing.

Consistent with our 2020 report, we assess affordability for public renters, private renters and prospective first home buyers. Public and private renters are typically on low to moderate incomes, which means their housing security is more vulnerable to changes in affordability. Assessing affordability for prospective first home buyers is important because these people are marginal buyers facing the greatest hurdles getting into the property market.

Some affordability measures do not adequately account for the distribution of housing outcomes. However, given research suggests groups most affected by high housing costs are low-income households, we incorporate income metrics in our affordability measures to provide insights into these specific market segments.

5.5% p.a. growth

in social housing stock needed

MUCH HIGHER THAN RECENT AVERAGE ANNUAL GROWTH OF 0.4% FROM 2011 TO 2020

727k

Additional social and affordable dwellings

REQUIRED BETWEEN 2016-2036 TO MEET THIS DEMAND

Private rental

Rental affordability has become more important as the share of Australians in the private rental market has increased steadily since 2011 to around 30%.[40]

This indicator is even more crucial at the lower end of the income scale, where there has been a large reduction in home ownership rates since the late 1980s.[41]

Unfortunately, there is no single 'catch-all' metric for housing affordability in the private rental market. A residual approach is often adopted, which involves measuring whether a household's income, after subtracting housing costs, is sufficient to cover a minimum basket of non-housing expenses,[42] or above or below an adjusted poverty line.[43] However, as discussed in last year's report, these metrics are not without their weaknesses.

In the more widely used metric, a household's housing costs are simply compared with its income. Where this ratio exceeds a specified baseline (usually 30%[44]) housing costs are deemed unaffordable. This approach is not without its problems either, largely stemming from its arbitrariness and simplicity.[45]

Using this latter approach, renters earning incomes up to the median are paying more than 30% of their income on rent. Assuming renters in the 25th percentile of income are also paying the 25th percentile of rent, the rent-to-income ratio suggests that these households are now paying 45% of their income on rent. This ratio peaked in 2015 and has since declined slightly, before rising a little in 2021 (Figure 6.1). This shows in recent years, household income growth has largely kept pace with the buoyancy in the rental market. Nevertheless, the ratios for these renter cohorts still remain above the 30% baseline.

This growth has been driven by a combination of slowing household income growth, largely due to sluggish wages growth and greater buoyancy in the rental market.
The resulting decline in affordability has been particularly acute over the latest financial year, with growth in median rents (5.9%) more than doubling growth in median disposable income (2.9%).

Figure 6.1: Rental payment-to-income ratio

Source: CoreLogic, ABS, ANU, NHFIC

40 AIHW (30 June 2021) *'Home ownership and housing tenure'*, Australia's welfare 2021.
41 Hall A (28 June 2017) *Trends in home ownership in Australia: a quick guide*, Parliament of Australia.
42 Stone M (31 August 2006) *'A Housing Affordability Standard for the UK'*, Housing Studies, 1(4):453–476.
43 Kutty N (31 March 2010) *'A new measure of housing affordability: Estimates and analytical results'*, Housing Policy Debate, 16(1): 113–142.
44 Herbert C, Alexander H and McCue D (September 2018) *Measuring Housing Affordability: Assessing the 30 Percent of Income Standard*, Joint Center For Housing Studies
45 Kutty N (31 March 2010) *'A new measure of housing affordability: Estimates and analytical results'*, Housing Policy Debate, 16(1): 113–142.

Figure 6.2a: Distribution of affordable rental dwellings by income quintile – Australia, Jun 2020 to Sept 2021

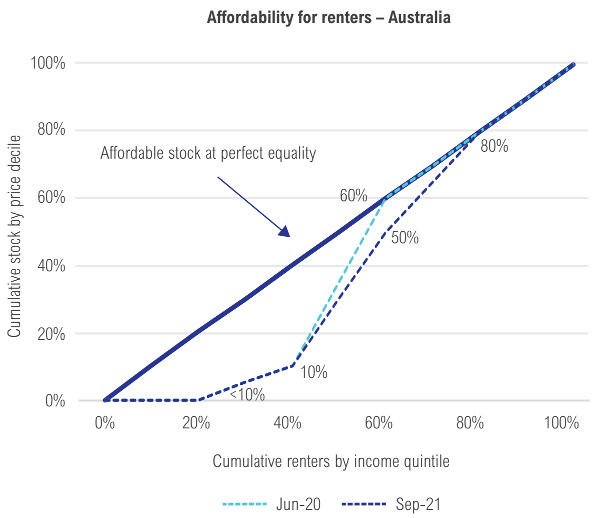
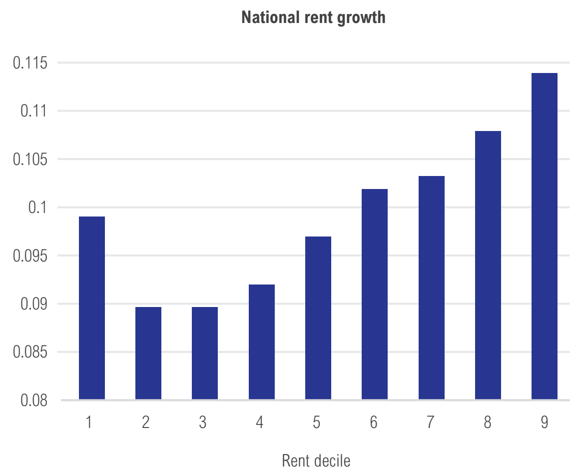


Figure 6.2b: Rent growth by decile – 2020 to 2021



Source: Income data from ANU, ABS; Rent data from CoreLogic

To further illustrate the distribution of affordability outcomes for renters, we repeated our Lorenz curve analysis conducted in last year's report. Lorenz curves are useful for assessing affordability because they graphically demonstrate what proportion of housing services or stock are affordable for households at each income level.

For the Lorenz curve analysis in this report, if there was perfect equality, those in the lowest income quintile could afford up to 20% of dwellings, those in the second lowest income quintile could afford up to 40% of dwellings, and so on. The further away the curve is from the 45-degree straight line of equality, the higher the level of housing affordability inequality.

Figure 6.2 and Figure 6.3 illustrate the proportion of rental properties people could potentially afford at each income quintile across Australia, the capital cities and regional areas of each state. To get a sense of what's changed, the graphs also compare the distribution of affordability outcomes in June 2020 to the distribution in September 2021. For the graphs below, 'affordable' is deemed to be if people spend less than or equal to 30% of their income on housing services.

The graphs show that rental affordability across the nation was slightly worse in September 2021 compared with June 2020. The change was mostly felt by renters in the middle-income quintile. Up to 50% of rental dwellings were considered affordable for this cohort but they were previously able to afford up to 60% of rental dwellings. Rising rents resulted in 10% of rental dwellings becoming unaffordable for middle income renters.

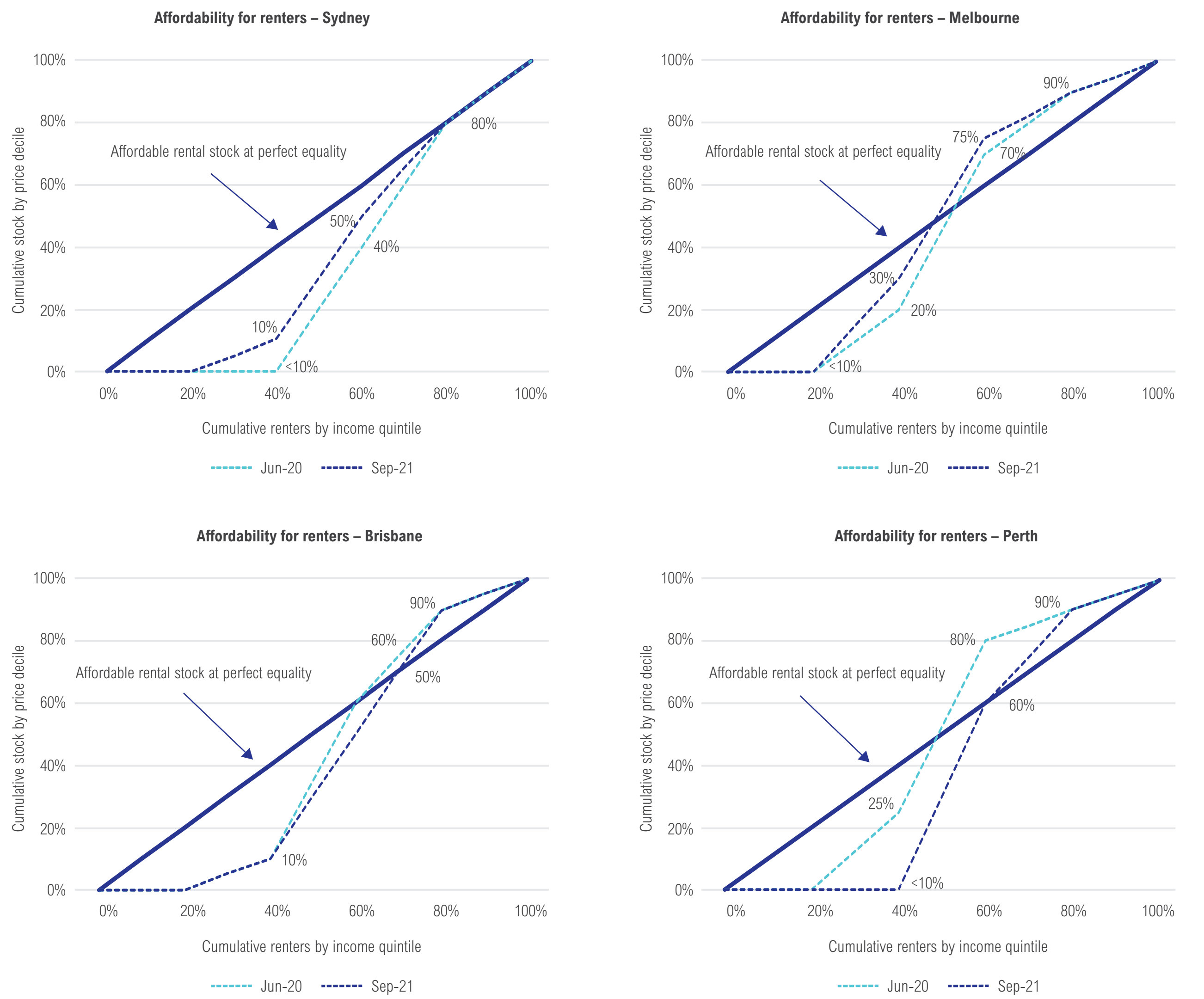
Affordability changes differed in each capital city. Rental affordability in Sydney improved, albeit marginally, for renters in the second-lowest and middle income quintiles as incomes rose slightly faster than rents. Sydney and Melbourne were most impacted by closure of international borders and where reduction in overseas students had a discernible impact on rental demand.

Melbourne also recorded a small improvement in affordability for renters in the second-lowest and middle income quintiles due to modest growth in rents and rising incomes. Melbourne continues to be more affordable than Sydney, with renters on median incomes able to afford up to 75% of rental stock as opposed to 50%. However, if rental listings are withdrawn and sold off to owner-occupiers, this could lead to a tighter rental market and worsening affordability.

Renters in Brisbane and Adelaide in the middle to second highest income quintiles faced more affordability pressure, with up to 10% of rental dwellings becoming unaffordable as rents appreciated strongly.

Rental affordability deteriorated significantly in Perth for those on low incomes. Renters in the second-lowest income quintile could previously afford up to 25% of rental stock, but less than 10% a year later. Renters in the middle income quintile could afford up to 80% of rental stock in 2020, but up to 60% is now considered affordable. This means roughly 20% fewer rental dwellings are regarded as affordable for renters in the middle-income quintile. The sharp falls in rental affordability in Perth is a result of a record surge in rents, which recorded double-digit growth over the year as a result of strong demand and tight rental supply.

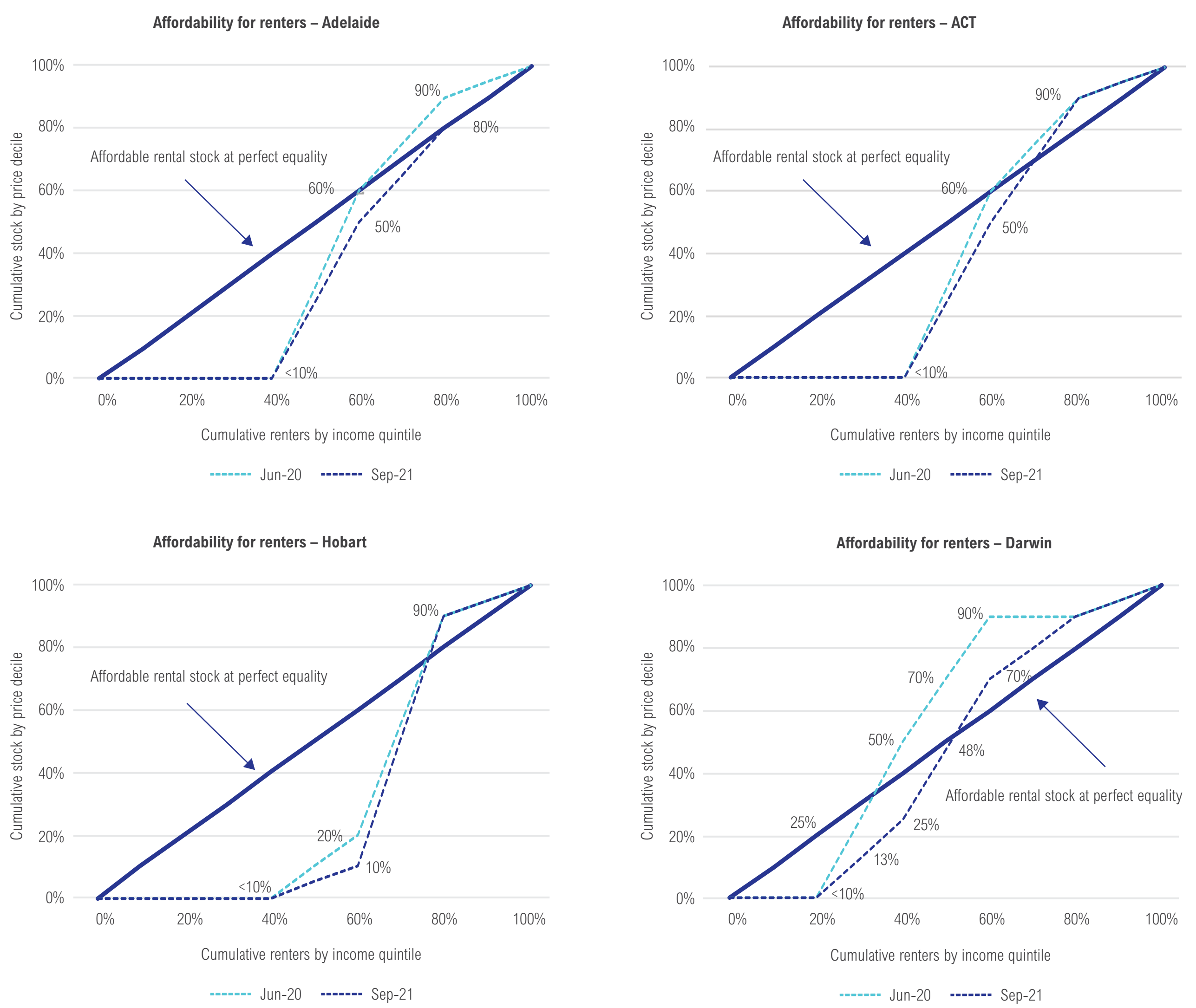
Figure 6.3: Distribution of affordable rental dwellings by income quintile – Capital cities, Jun 2020 to Sept 2021



Hobart continued to be a landlords' market, with low vacancy rates and increased interstate population growth resulting in affordability for renters in the middle-income quintile worsening to the point that just up to 10% of dwellings are considered affordable.

Lorenz curves are useful for assessing affordability because they graphically demonstrate what proportion of housing services or stock are affordable for households at each income level

Figure 6.3: Distribution of affordable rental dwellings by income quintile – Capital cities, Jun 2020 to Sept 2021 (continued)



Source: Income data from ANU, ABS; Rent data from CoreLogic

Table 6.1: Affordability changes for renters – Capital cities, Jun 2020 to Sept 2021

	Income quintile				
Region	**20th percentile**	**40th percentile**	**60th percentile**	**80th percentile**	**100th percentile**
Australia	-	-	▼10%	-	-
Sydney	-	▲10%	▲10%	-	-
Melbourne	-	▲10%	▲5%	-	-
Brisbane	-	-	▼10%	-	-
Perth	-	▼25 %	▼20%	-	-
Adelaide	-	-	▼10%	▼10%	-
Hobart	-	-	▼10%	-	-

Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

As regional and coastal lifestyle areas became more popular amid pandemic uncertainty, the increased demand and low rental supply saw record growth in rents. This worsened affordability in all regional markets. Although some, such as SA, were impacted less than others. Affordability has worsened more for those in regional markets compared to capital cities.

Research strongly suggests renters on the lowest incomes are crowded out by competition for affordable rentals from those higher up the income scale

Regional NSW and regional Vic saw renters in the middle-income quintile hit hardest by the surge in rents.

For instance, in both these regions, renters in the middle-income quintile could previously afford up to 50% of rental dwellings but can now afford just up to 30% of rental dwellings. Rents in regional NSW grew slightly more than rents in regional Vic over the year, especially for more expensive dwellings (Figure 6.4). This could explain why affordability worsened even for renters on the upper end of the income scale in regional NSW, while remaining largely unchanged in regional Vic.

Regional Qld has one of the most unaffordable rental markets of all the regional areas, with no income quintile experiencing affordable rental stock at perfect equality of distribution. While rents appreciated more in regional Qld compared to regional NSW and regional Vic (Figure 6.4), affordability didn't decline as much. For renters in all three middle-income quintiles, 10% of rentals became unaffordable.

In regional WA, renters in the middle-income quintile were most affected by the strong growth in rents. For renters in that quintile, 15% of dwellings became unaffordable compared to 2020.

In regional Tas, solid growth in rents and tight supply caused deterioration in affordability for those in all three middle-income quintiles, with up to 20% fewer dwellings classified as affordable for these renters.

Importantly, renters' incomes may not be perfectly matched to rental prices. For instance, renters in the middle-income quintile may not necessarily be renting stock from the middle price quintile.

Research strongly suggests renters on the lowest incomes are crowded out by competition for affordable rentals from those higher up the income scale.[46] The implication is that, even when overall supply is sufficient to meet demand, sufficient affordable housing supply may not be available to meet the needs of those in the bottom two quintiles. There could potentially be households facing more affordability constraints than is suggested in the Lorenz curves.

Figure 6.4: Rent growth in regional areas, Oct 2020 to Oct 2021

Source: CoreLogic

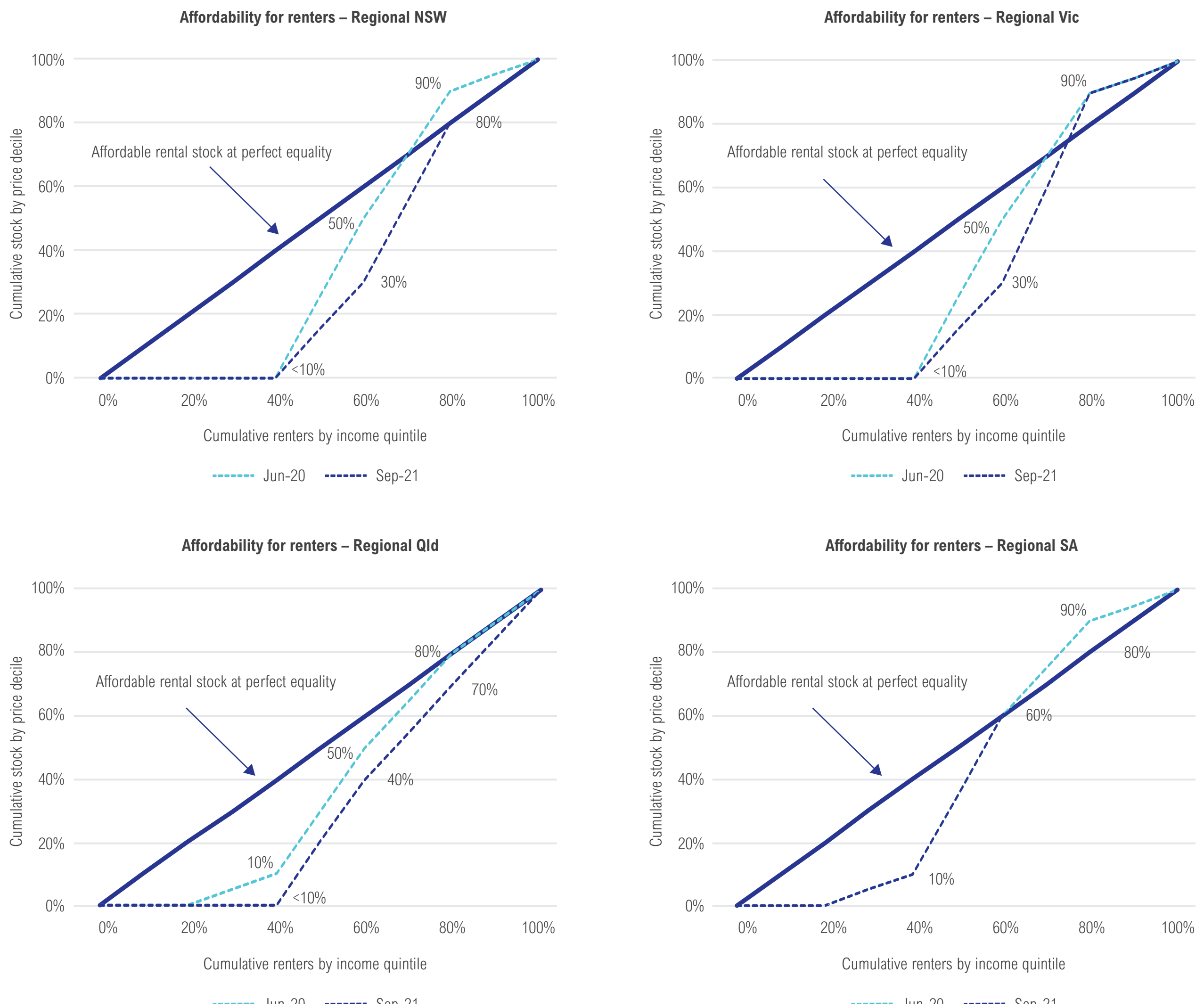
46 https://www.ahuri.edu.au/sites/default/files/migration/documents/AHURI_Final_Report_No241_Supply-shortages-and-affordability-outcomes-in-the-private-rental-sector-short-and-longer-term-trends.pdf

Table 6.2: Affordability changes for renters – Regional (rest of state) areas, Jun 2020 to Sept 2021

	Income quintile				
Region	**20th percentile**	**40th percentile**	**60th percentile**	**80th percentile**	**100th percentile**
Regional NSW	-	-	▼20%	▼10%	-
Regional Vic	-	-	▼20%	-	-
Regional Qld	-	▼10%	▼10%	▼10%	-
Regional WA	-	▼10%	▼15%	-	-
Regional SA	-	-	-	▼10%	-
Regional Tas	-	▼10%	▼20%	▼10%	-

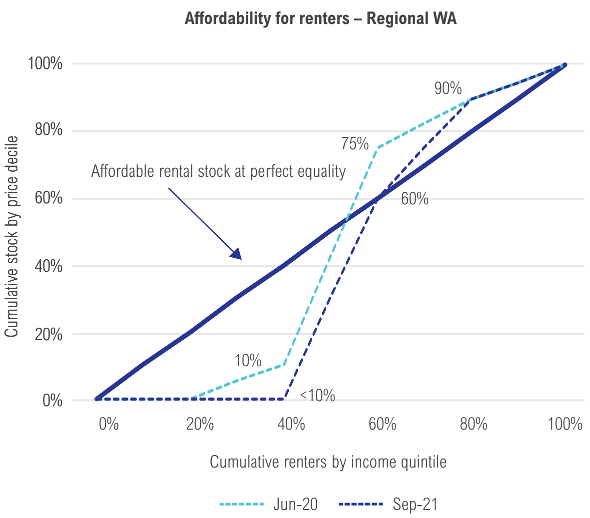
Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

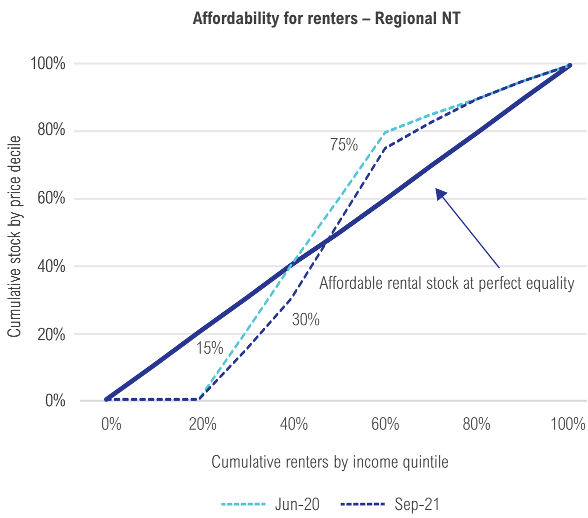
Figure 6.5: Distribution of affordable rental dwellings by income quintile – Regional (rest of state) areas, Jun 2020 to Sept 2021



One factor to consider is that our analysis in regional markets is based on the incomes of renters from that regional area. It does not account for the typically higher incomes of city workers now renting in regional areas. Affordability may not be as significant an issue for city workers moving into regional and coastal lifestyle markets. But locals are facing worsening affordability outcomes because they are now competing with higher paid city workers.

Figure 6.5: Distribution of affordable rental dwellings by income quintile – Regional (rest of state) areas, Jun 2020 to Sept 2021 (continued)





Source: Income data from ANU, ABS; Rent data from CoreLogic

First home buyers

Affordability for prospective first home buyers has declined as property prices recorded double digit growth.

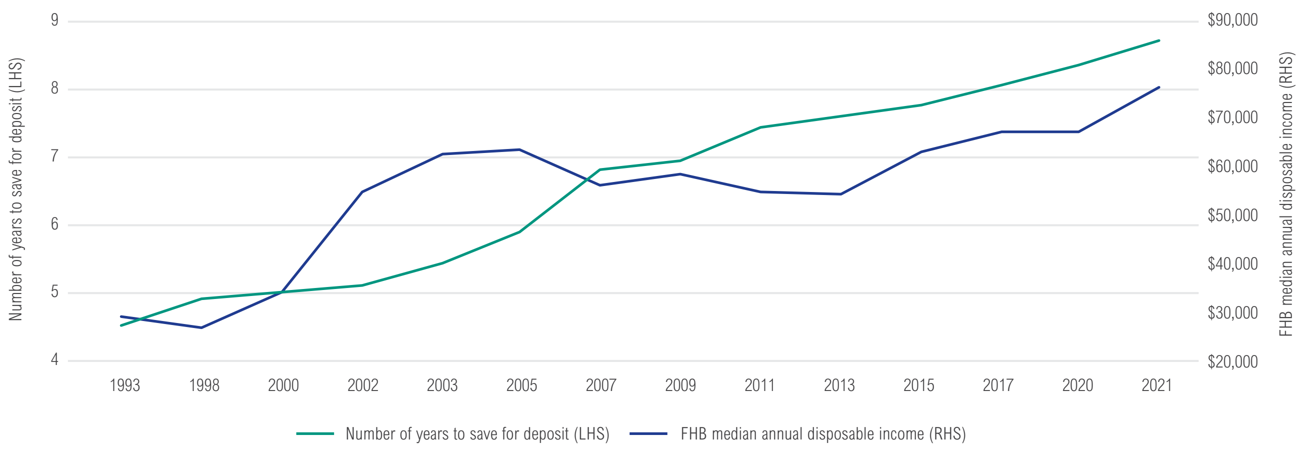
Prospective first home buyers have been identified as those currently renting with a household head aged between 25 and 39 years old.[47]

Saving up for a deposit is the biggest challenge first home buyers face when it comes to purchasing property. Compared with last year, strong growth in property prices means first home buyers need to save for another year on average to secure a 20% deposit, despite median incomes rising steadily (Figure 6.6). The time required to save for this deposit has doubled since the early 1990s from around 4 to 8 years, while the size of the upfront deposit required has increased more than fivefold to be almost $130,000.

Several government schemes aim to help first home buyers get a foot in the property market sooner. These include:

- First Home Loan Deposit Scheme – supports first home buyers to buy a home sooner with a deposit as little as 5%.
- New Home Guarantee – supports first home buyers to build or buy a new home, with higher property price caps available in selected areas.
- Family Home Guarantee – supports eligible single parents with at least one dependent child in purchasing a family home with a deposit as little as 2%, regardless of whether they are a first home buyer or a previous homeowner.
- First Home Super Saver Scheme – first home buyers can use voluntary super contributions of up to $15,000 each financial year to assist with the purchase of their first home.
- First Home Owner Grant Scheme – a one-off grant payable to first home buyers if they satisfy eligibility criteria. For instance, in NSW, $10,000 is available if they buy or build their first home with a purchase price of under $600,000 (or under $750,000 if purchasing vacant land and building a home).
- Transfer duty exemptions or concessions in some states and territories.

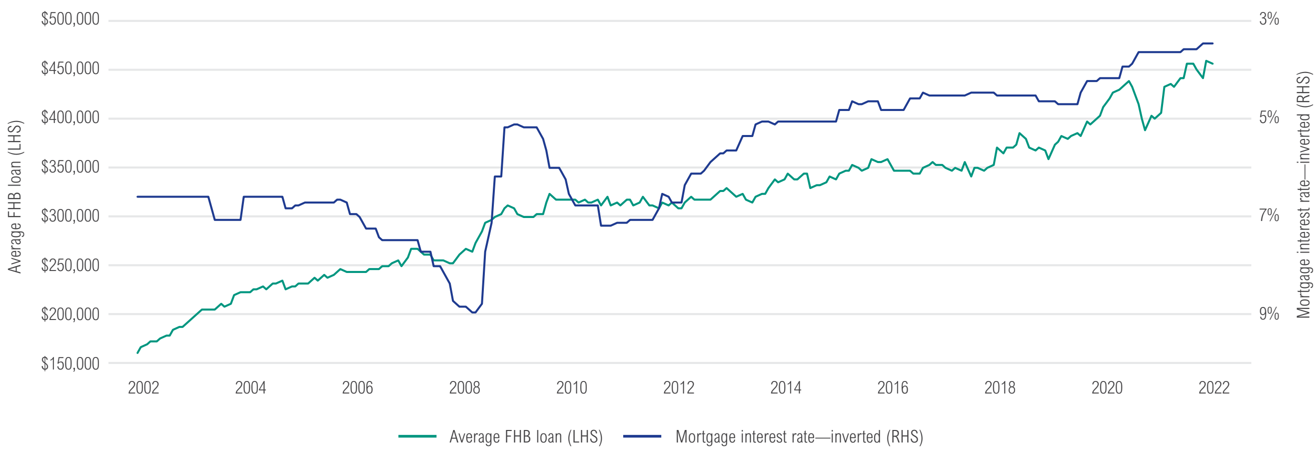
Figure 6.6: Time required to save 20% deposit for prospective first home buyer



Source: CoreLogic, ABS, RBA, NHFIC

47 La Cava G, Leal H and Zurawski A (2017) Housing Accessibility for First Home Buyers, Reserve Bank of Australia

Figure 6.7: First home buyer debt relative to discounted mortgage interest rate, 2002–2021

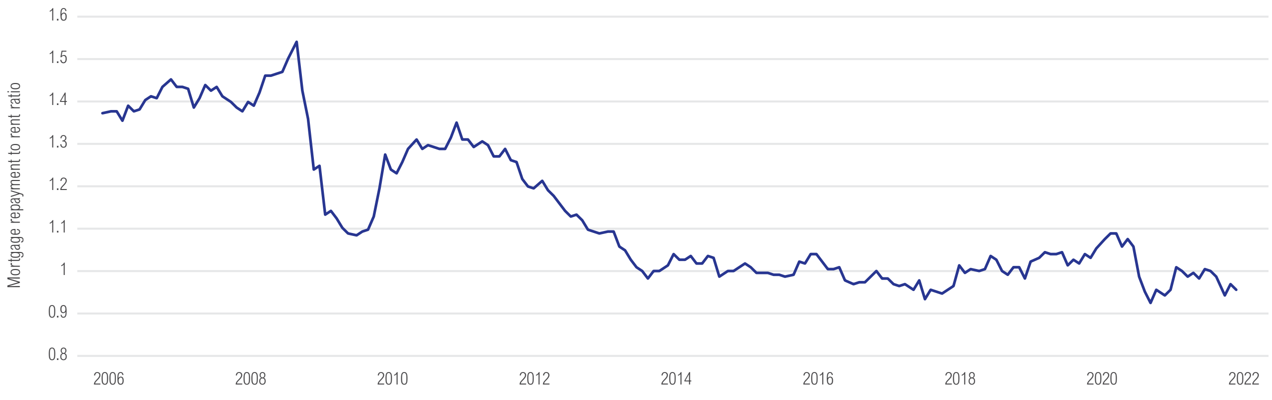


Source: ABS, RBA, NHFIC

The increase in deposits has been accompanied by the growing amount of debt that first home buyers take on. Figure 6.7 shows average first home buyer debt rose around $50,000 from last year to a total of almost $460,000, spurred on by record low mortgage lending rates. This is triple the debt first home buyers took on in the early 2000s.

However, once the deposit has been paid and the home loan secured, affordability pressures generally decrease as the decline in mortgage lending rates has helped mortgage serviceability in recent years.

Figure 6.8: Monthly mortgage-repayments-to-rent ratio, Australia



Source: CoreLogic, ABS, RBA, NHFIC

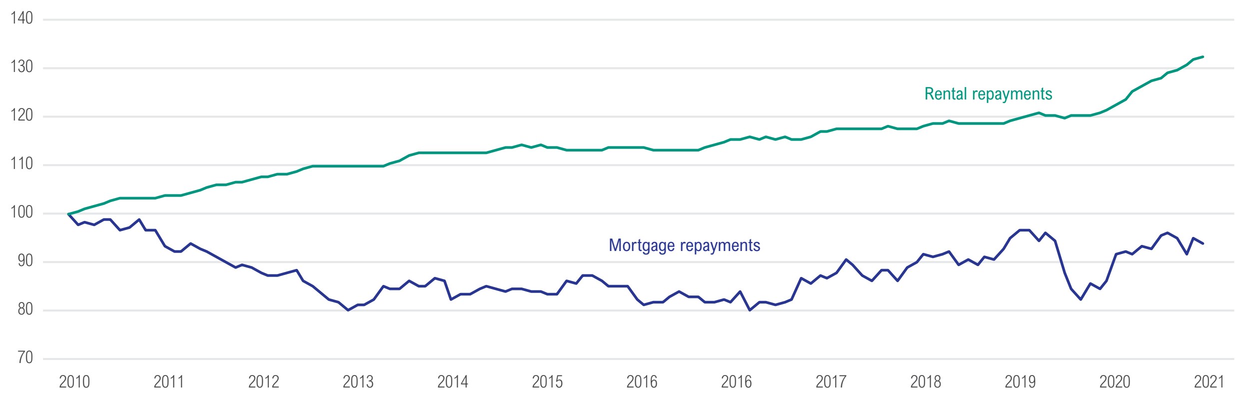
We can compare differences in affordability pressures for prospective first home buyers and first homeowners by comparing the cost of renting with the cost of servicing a mortgage.

Figure 6.8 shows the ratio of first home buyers' mortgage-repayments-to-rent has fallen over time, with mortgage repayments being on par and even slightly less than rental repayments late last year and from the middle of this year. On average, the cost of servicing a mortgage has remained on par with the cost of renting over recent years.

This is largely attributable to ultra-low mortgage rates, which has made larger loans more affordable. But stronger growth in rents has also helped balance these costs out as rents increased more than mortgage repayments (Figure 6.9).

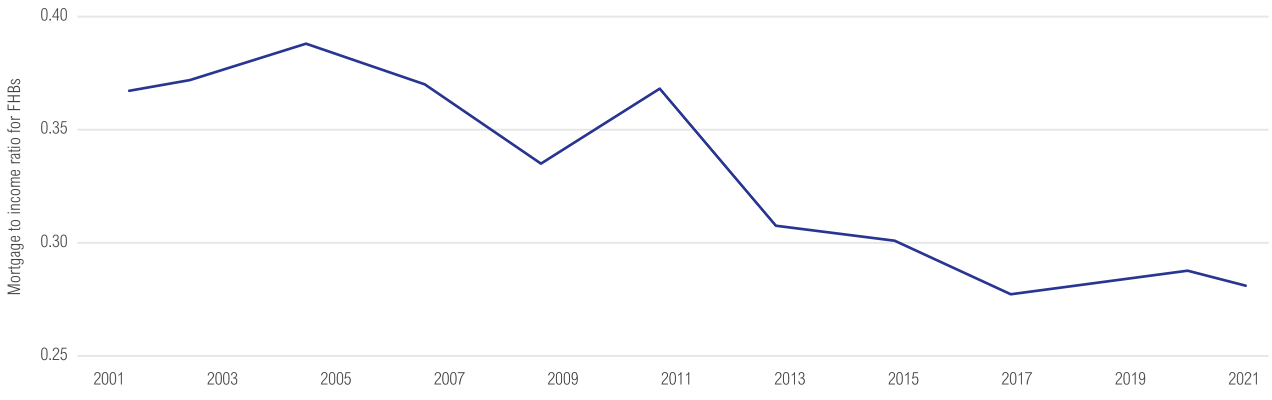
High rental costs are also a key reason behind why prospective first home buyers struggle to save up for a deposit. As Figure 6.1 shows, households on median incomes were paying over 30% of their income on rent and cost of living increases have further slowed their progress to home ownership.

Figure 6.9: Mortgage repayment vs rental repayment growth, Australia – (indexed, base of 100 = December 2010)



Source: CoreLogic, ABS, RBA, NHFIC

Figure 6.10: Minimum mortgage-repayment-to-income ratio for prospective first home buyers



Source: ABS, ANU, RBA, NHFIC

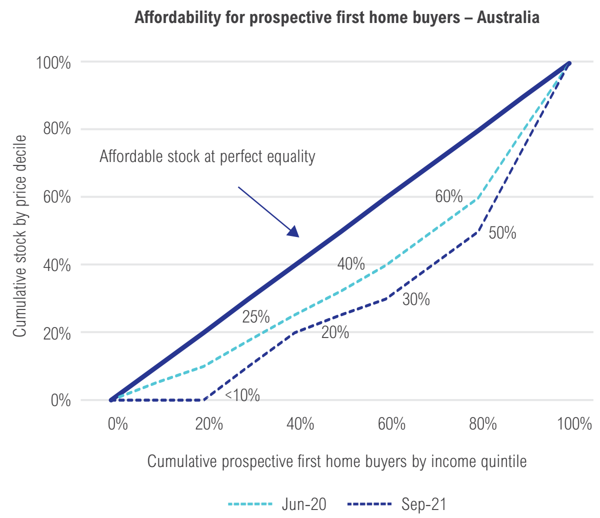
Another way of assessing affordability of servicing a mortgage is by comparing mortgage repayments to income. This ratio remains below 30% (Figure 6.10). As discussed above, housing costs are generally deemed affordable if they make up 30% or less of disposable household income. This further highlights how the greatest affordability challenges for prospective first home buyers are related to saving up for a deposit rather than servicing the mortgage once they secure a home.

Mortgage serviceability could decline if interest rates increase on the back of a strengthening post-pandemic economy. However, APRA recently increased the minimum interest rate buffer on home loan applications from 2.5 to 3 percentage points. This could help support mortgage serviceability of new loans by limiting the size of the total loan. However, it could also risk pushing first home buyers out of the market. APRA estimates the rule change will reduce a household's maximum borrowing capacity by around 5%.

The same Lorenz curve analysis used in Figure 6.2 and Figure 6.3 is used here to illustrate the distribution of affordable dwellings for prospective first home buyers based on different income quintiles. The distribution of dwellings deemed affordable using Lorenz curve analysis for this cohort is based on affordability of mortgage repayments. Mortgage repayments less than or equal to 30% of prospective first home buyer income renders the dwelling price affordable in this analysis. However, as outlined above, it is important to note saving for a deposit is still the key affordability constraint for prospective first home buyers. While the curve connects back to this straight line of equality for first home buyers on the highest incomes (100% income quintile), it should not be interpreted that first home buyers on the highest incomes can afford 100% of dwellings.

Figure 6.11 shows that, at the national level, overall affordability worsened. Just up to 20% of dwellings are considered affordable to buyers in the second lowest income quintile, down from 25% last year. Those in the middle income quintile can only afford up to 30% of dwellings, down from 40% last year.

Figure 6.11a: Distribution of affordable dwellings for prospective first home buyers by income quintile – Australia, Jun 2020 to Sept 2021



Source: Income data from ANU, ABS; Rent data from CoreLogic

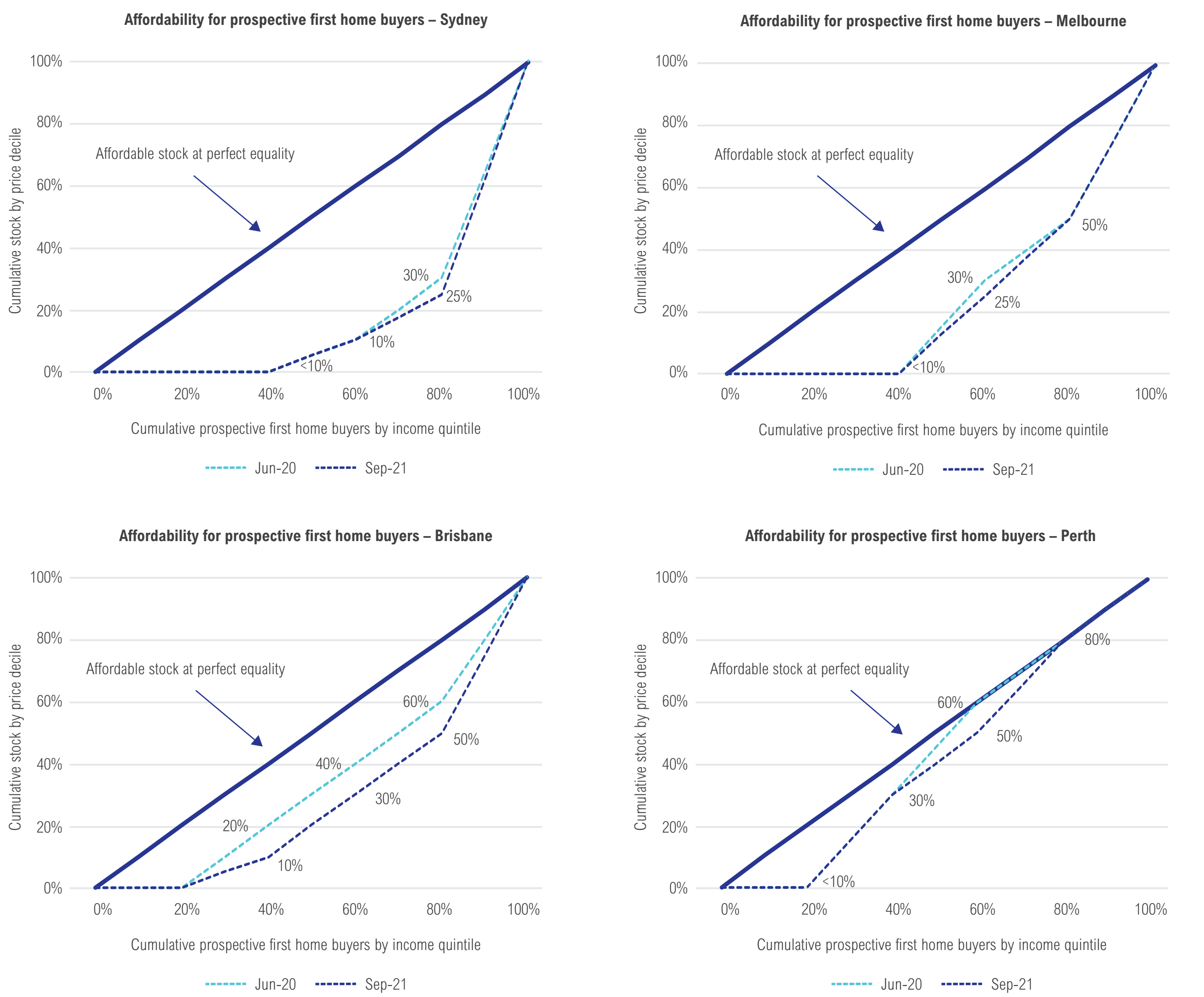
We also repeat our analysis on a capital city and regional basis to cater for the spatial dimensions of affordability.

In Greater Sydney, strong property price growth means Sydney remains largely unaffordable for households in the lower to middle income quintiles looking to transition into home ownership. Even households in the second highest income quintile can only afford up to 25% of dwellings, compared with 30% last year.

In Melbourne, affordability for prospective first home buyers also remains in line with last year's affordability profile despite moderate price increases.

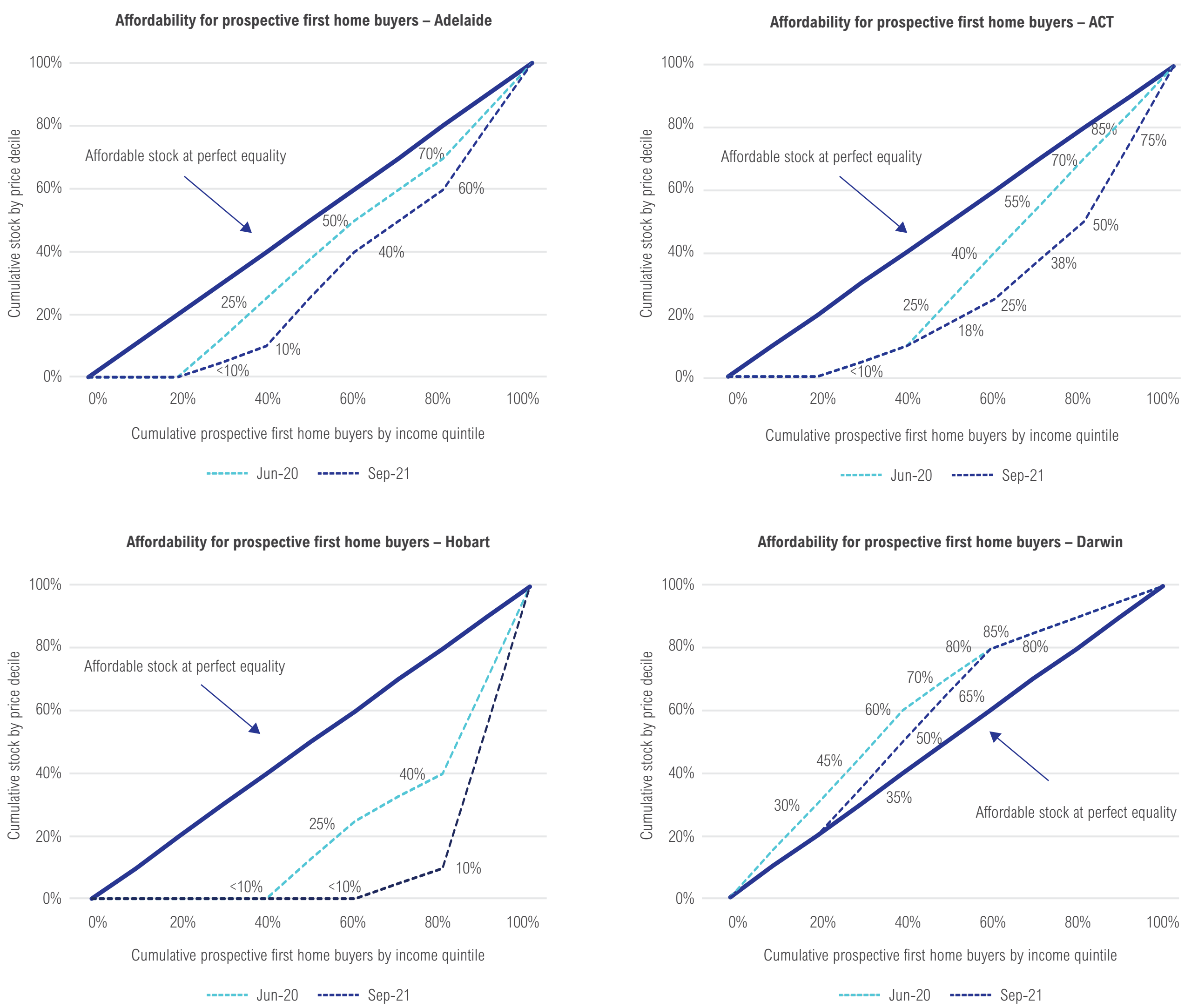
Changes in affordability for prospective first home buyers were more substantial in other capital cities. Strong price growth especially affected those in the lower to middle income quintiles in Brisbane, Perth and Adelaide, with up to 10 to 15% of dwellings becoming unaffordable.

Figure 6.11b: Distribution of affordable dwellings for prospective first home buyers by income quintile – Capital cities, Jun 2020 to Sept 2021



In Hobart, house prices jumped to new records as prices increased steeply. This resulted in affordability deteriorating substantially, pricing prospective first home buyers on incomes up to the middle-income quintile out of the market. Even those on the second highest income quintile could only afford just up to 10% of dwellings.

Figure 6.11b: Distribution of affordable dwellings for prospective first home buyers by income quintile – Capital cities, Jun 2020 to Sept 2021 (continued)



Source: Income data from ANU, ABS; Rent data from CoreLogic

Table 6.3: Affordability changes for prospective first home buyers – Jun 2020 to Sept 2021

	Income quintile				
Region	**20th percentile**	**40th percentile**	**60th percentile**	**80th percentile**	**100th percentile**
Australia	▼10%	▼5%	▼10%	▼10%	-
Sydney	-	-	-	▼5%	-
Melbourne	-	-	▼5%	-	-
Brisbane	-	▼10%	▼10%	▼10%	-
Perth	-	-	▼10%	-	-
Adelaide	-	▼15%	▼10%	▼10%	-
Hobart	-	-	▼25%	▼30%	-

Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

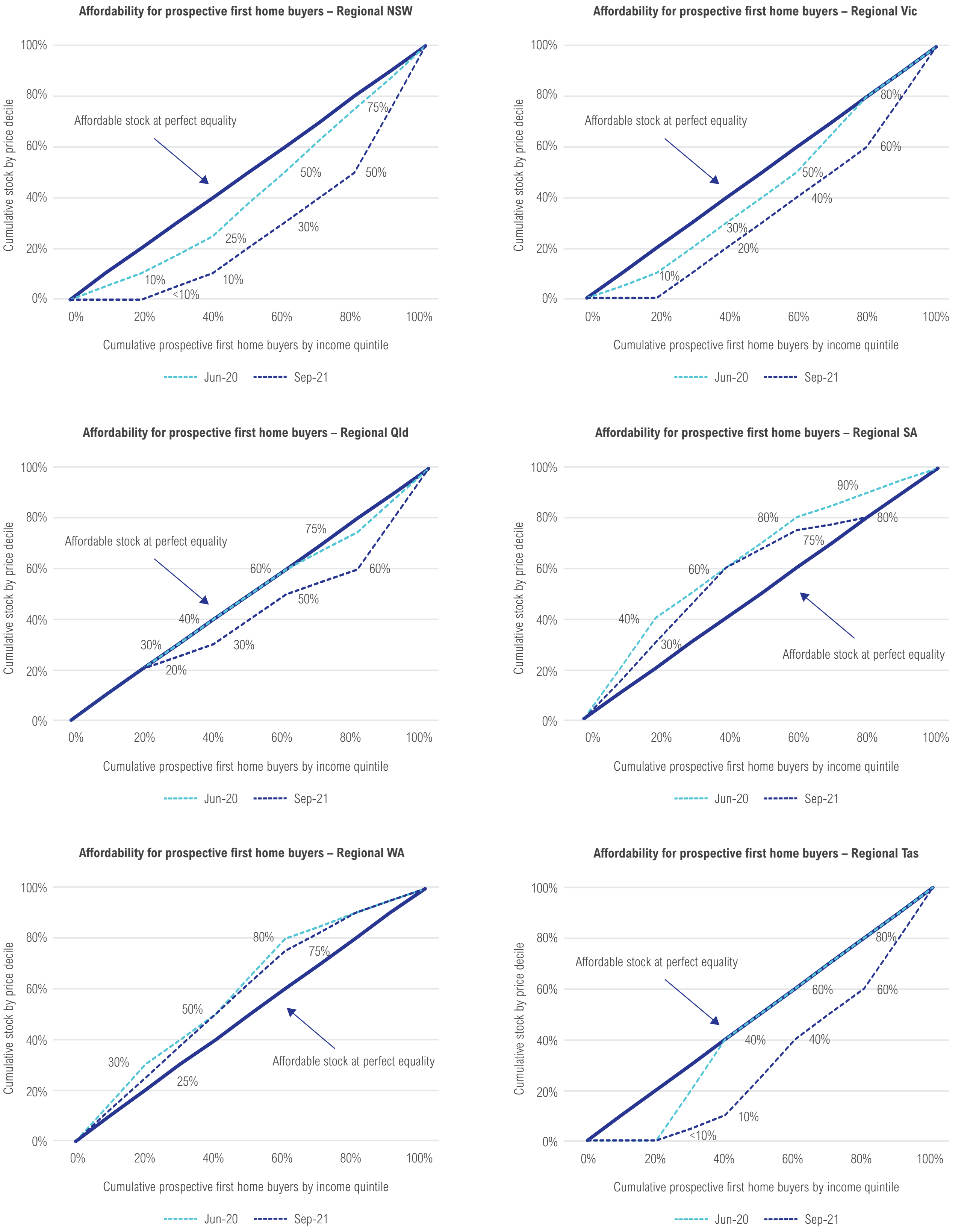
Affordability for those in regional areas looking to achieve home ownership in local markets also fell. In regional NSW, house prices posted record gains. This led to prospective first home buyers in the second lowest and middle-income quintiles being able to afford up to 20% fewer dwellings than a year ago. Price growth was especially strong for more expensive dwellings, likely reflecting the heightened demand for upsizing into more spacious and bigger homes. This led to prospective first home buyers in the second highest income quintile being able to afford 25% fewer dwellings. Affordability in regional Vic also worsened the most for those in the second highest income quintile, but the falls in affordability were less than for regional NSW.

Regional Qld, which is relatively more affordable for prospective first home buyers, experienced similar declines in affordability as regional Vic, with households in most income quintiles finding 10% fewer dwellings to be affordable.

As prices hit record highs in regional Tas, prospective first home buyers in the middle income quintile are finding 20% fewer dwellings to be affordable

In regional SA and regional WA, typically up to 10% of dwellings became unaffordable, with the distribution in affordability outcomes equal to or exceeding the line of perfect equality. This suggests fewer affordability concerns for prospective first home buyers in those markets, particularly compared to renters.

Figure 6.12: Distribution of affordable dwellings for prospective first home buyers by income quintile – Regional (rest of state) areas, Jun 2020 to Sept 2021



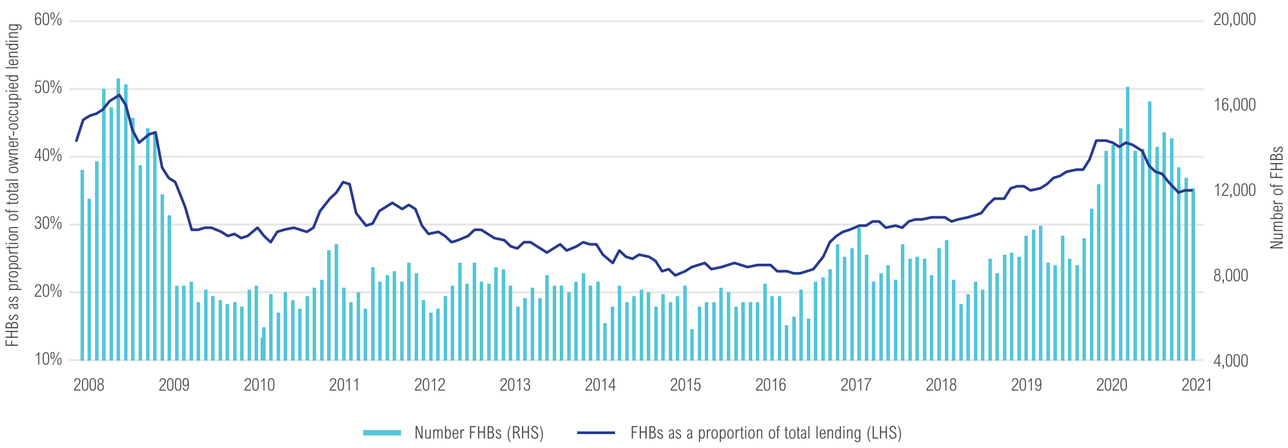
Source: Income data from ANU, ABS; Rent data from CoreLogic

Table 6.4: Affordability changes for prospective first home buyers – Jun 2020 to Sept 2021

	Income quintile				
Region	**20th percentile**	**40th percentile**	**60th percentile**	**80th percentile**	**100th percentile**
Regional NSW	▼10%	▼15%	▼20%	▼25%	-
Regional Vic	▼10%	▼10%	▼10%	▼20%	-
Regional Qld	-	▼10%	▼10%	▼15%	-
Regional WA	▼5%	-	▼5%	-	-
Regional SA	▼10%	-	▼5%	▼10%	-
Regional Tas	-	▼30%	▼20%	▼20%	-

Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

Figure 6.13: First home buyer loan commitments – Australia - Feb 2008 to Sept 2021



Source: ABS, NHFIC

Prospective first home buyers being priced out of the market can also be seen through first home buyer participation. This peaked late last year to 42% of total owner-occupier lending commitments, before subsiding as prices surged to record highs (Figure 6.13). Interest from first home buyers remains above long-run averages, but affordability constraints mean they are likely to be under-represented over coming months.

Estimating the need for social and affordable housing

Low-income households who struggle to afford rent and may be on the brink of homelessness can seek social housing, where rent is typically set at around 25–30% of income.

Affordable housing is available to those on low to moderate incomes who struggle to afford basic living costs. It can include essential workers whose household income is not high enough to pay market rent in the area in which they live or work. Rent for these affordable housing candidates is typically set at 80% of market rent.

Social and affordable housing need assessments are important to inform policy decisions on resource allocation, market monitoring, affordable housing targets, budgeting and planning.

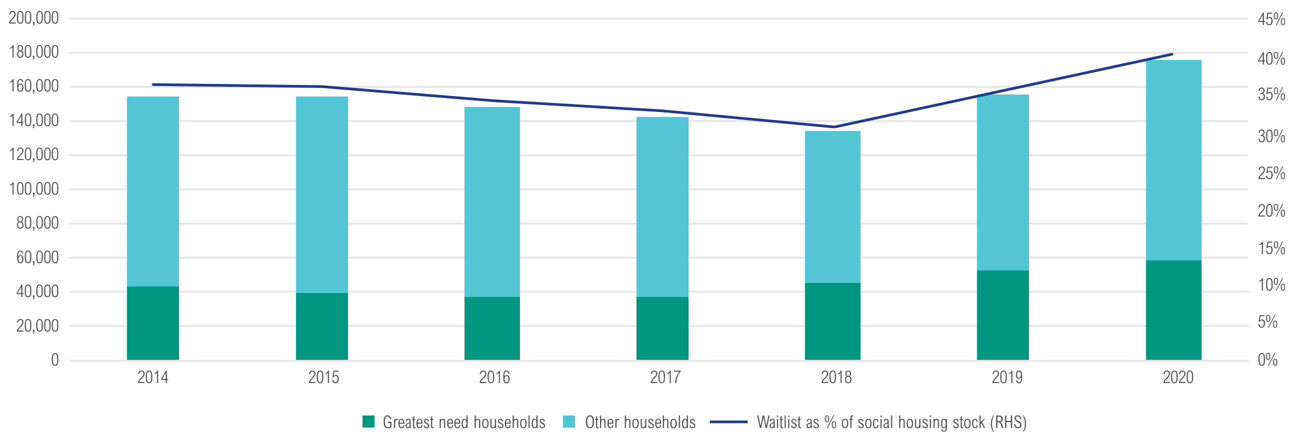
Wait lists and changes in wait lists provides a simple and straight forward indicator of housing need (Figure 6.14).

As of mid–2020, Australia had 436,000 social housing dwellings, with more than 175,000 households on wait lists – 20,000 more than in mid–2019.

More sophisticated affordable housing assessment techniques recognise the distinction between an existing stock of need and future ongoing need.

Table 6.5 summarises more advanced methods used in studies to estimate the need for social and affordable housing (see Appendix for further details). All studies have identified the current share of social housing needs to be expanded to ensure low-income households are not paying unaffordable rents.

Figure 6.14: Public housing waitlist



Source: AIHW, NHFIC

Table 6.5: Estimating social and affordable housing need

Study methodology	Findings
Availability of affordable private rentals to low-income households[48 49]	National shortfall of affordable private rentals to low-income households was estimated to be around 270,000 in 2011, where affordable is defined as not paying more than 30% of income on rent. Social housing would need to be expanded from 5% to 8.4% of total stock.
Growth required to maintain a certain share of social housing[50 51]	Using 2016 as a starting point, 2,000 rentals would need to be added annually over a 20-year period (2016 to 2036) to maintain the share of social housing in NSW, totalling to around 40,000 dwellings. More than double the rentals would be needed annually if tenants with unaffordable rental payments were also accounted for, totalling to around 100,000 dwellings. Over the same period, 330,000 additional social housing dwellings would be required to return social housing stock back to a 6% benchmark, which was the level when Australia stopped its public housing construction program in 1996. 580,000 rentals would be needed if affordable housing was factored in.
Simulation model accounting for economic conditions and household formation[52]	Over the period 2017 to 2025, the number of households in housing need due to unaffordable market rent is expected to increase from 1.3 million to 1.7 million (from 14 to 16% of households).
Current and projected housing need[53 54]	Over the period 2016 to 2036, some 727,300 additional social dwellings would be needed, implying an annual average growth of 5.5% over the existing stock. To simply prevent further deterioration in the current shortfall of social housing, 290,000 homes are required over the projection period, or 15,000 annually. Extending housing need requirements to income quintile 2, total housing required by 2036 is just above one million homes. Around 8–9% of stock would need to be social/affordable housing.

48 Hulse, K., Reynolds, M., Stone, W. and Yates, J. 2015, Supply shortages and affordability outcomes in the private rental sector: short- and longer-term trends, AHURI Final Report No. 241, Australian Housing and Urban Research Institute, Melbourne, https://www.ahuri.edu.au/research/final-reports/241

49 Groenhart, L. and Burke, T. 2014, Thirty years of public housing supply and consumption: 1981–2011, AHURI Final Report No. 231, Australian Housing and Urban Research Institute, Melbourne, https://www.ahuri.edu.au/research/final-reports/231.

50 Yates, J. 2018, Social and Affordable Housing Projections for Australia 2016–2026/36, Paper commissioned by Everybody's Home – The National Housing Campaign, http://everybodyshome.com.au/wp-content/uploads/2018/04/EH_researchreport_190418- 1.pdf.

51 Yates, J. 2016, Addressing the housing affordability crisis: Basis for an estimated need of 100,000 dwellings in NSW over the next two decades, NSW Federation of Housing Associations, Sydney, http://www.communityhousing.org.au/index_attachments/NSWFHA%20Need%20for%2010 0,000%20dwellings.pdf

52 Rowley, S., Leishman, C., Baker, E., Bentley, R. and Lester, L. 2017, Modelling housing need in Australia to 2025, AHURI Final Report No. 287, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/287

53 Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. 2018, Social housing as infrastructure: an investment pathway, AHURI Final Report No. 306, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/306

54 Troy, L., van den Nouwelant, R., Randolph, B. 2019, Estimating need and costs of social and affordable housing delivery, City Futures Research Centre, Sydney, https://cityfutures.be.unsw.edu.au/documents/522/Modelling_costs_of_housing_provision_FINAL.pdf

In Australia, the growth in the community housing sector has been constrained by the funding gap: the difference between the costs of delivering and operating new community housing developments and the comparatively low rental returns. NHFIC modelling has shown contributions of government-owned land, mixed-tenure developments, lower-cost NHFIC finance and additional private sector finance can help narrow the funding gap for community housing.[55] However, liaison with Community Housing Providers (CHPs) suggests there is heightened interest from institutional investors in considering affordable housing as a form of social infrastructure investment at a time when interest rates and investment returns in general are low.

Currently measurements of housing need are also limited.[56] Key issues include:

- **A lack of consistency** among state and territory governments in reporting number of social housing units by provider type and whether affordable housing is included. Different definitions of community housing mean published statistics can be inconsistent with the actual numbers managed by registered CHPs.
- **A lack of statistical data.** For instance, Australia has no official separate source of community housing data, or one that enables the CHP-managed portfolio to be split by provider-owned vs CHP-managed. The extent to which head-leased properties are included in published totals is also unclear. State and territory governments do not routinely publish statistics on construction of social and affordable housing, nor on public housing sales or demolitions. Usually, their pledges for new housing investment programs do not account for sale and demolitions of existing homes.
- **Statistics might not capture the full context.** They are only a point in time analysis. In the case of wait lists, changes may not reflect changes in housing need but could be a product of policy changes or changes in eligibility criteria. Qualitative information, such as quality or appropriateness of the dwelling stock, may not be factored in when examining supply.

Data published on the stock of social housing dwellings for each state by the Australian Institute of Health and Welfare suggests the average growth rate in the number of social housing dwellings for Australia from 2011 to 2020 was about 0.4% per annum. This is a much lower than the current and projected housing need growth rate of 5.5% (Table 6.5). This suggests some reform is needed in current state policy settings to achieve and address necessary housing need outcomes.

Housing need assessments are performed more consistently overseas. The UK government publishes guidance for councils on how to assess their housing needs to help them identify how many homes need to be planned for.[57] The standard method uses a formula to identify the minimum number of homes expected to be planned for, in a way that addresses projected household growth and historic undersupply. The first step involves setting the baseline number of households using national household growth projections for local council area. Using these projections, the average annual household growth is calculated over a 10-year period. The projected household growth figure is then adjusted based on the area's affordability.[58] Next a cap is applied, which limits the increases a council can face, depending on other strategic housing policies.[59] A 35% uplift is then applied to the councils in the top 20 most populated cities or urban centres.

The UK also publishes an annual homelessness monitor, which reports on homelessness statistics, highlights emerging trends, forecasts likely future changes and identifies the developments likely to have the most significant impacts on homelessness.[60] In Australia, Launch Housing also publishes a homelessness monitor, examining changes in the scale and nature of homelessness in Australia, as well as how social, economic and policy drive these changes.[61]

Other UK national housing needs assessments have projected out housing supply requirements for low-income households and homeless people using a model like some used in Australian studies.[62] The model is constructed for different housing markets areas, incorporating the supply process as a function of planning and economic modelling of demographic change. It also links other components, such as income distribution and labour market indicators.

55 https://www.nhfic.gov.au/media/1670/210520-delivering-more-affordable-housing-research-paper.pdf
56 CHIA 2020 – Social and affordable housing provision data – state of play
57 https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments#housing-need
58 These median workplace-based affordability ratios are published by the Office for National Statistics at a local authority level. No adjustment is applied where the ratio is 4 or below. For each 1% the ratio is above 4, the average household growth baseline should be increased by a quarter of a percent. An authority with a ratio of 8 will have a 25% increase on its annual average household growth baseline.
59 Where relevant strategic housing policies were adopted within the last 5 years, the local housing need is capped at 40% above the average annual housing requirement figure set out in existing policies Where these policies were adopted more than 5 years ago, the local housing need figure is capped at 40% above whichever is the higher of the projected household growth identified in the first step, or the average annual housing requirement figure set out in the most recently adopted strategic policies.
60 https://www.crisis.org.uk/media/244703/crisis-england-monitor-executive-summary-2021.pdf
61 https://www.launchhousing.org.au/ending-homelessness/research-hub/australian-homelessness-monitor
62 Bramley, G. (2018) Housing supply requirements across Great Britain: for low-income households and homeless people. London: Crisis and National Housing Federation

Current state policy aims

To meet the increasing demand for social housing, the state and territory governments have announced a number of initiatives since June 2020.[63 64]

The most notable is the Vic Government's $5.3 billion 'Big Housing Build' package, which aims to provide 9,300 new social housing homes and 2,900 new affordable and low-cost homes.

Other state government social housing initiatives announced since June 2020 include the:

- NSW Government's $812 million COVID-19 social housing stimulus package, which is expected to provide 800 new social housing properties and upgrades to around 16,500 existing properties, and an additional $183 million to fast-track more than 1,400 new homes under the NSW Government's economic recovery strategy.[65]
- Qld Government's $2.9 billion 'Queensland Housing Strategy Action Plan 2021-2025', composed of a $1.9 billion investment to increase the supply of social and affordable housing, including approximately 7,400 new builds over the next four years, and a new $1 billion Housing Investment Fund.[66]
- WA Government's $2.1 billion investment in social housing, including a dedicated $750 million Social Housing Investment Fund, intended to deliver around 3,300 social housing properties and a range of other initiatives to improve existing properties.[67]
- Tas Government's $300 million investment in social housing through 'Tasmania's Affordable Housing Actions' Plan 1 and 2 and 'Community Housing Growth Program', including an expected 2,350 new social housing properties, and an additional $315 million for social and affordable housing and homelessness, intended to deliver another 3,500 properties by 2027.[68]
- ACT Government's $96 million 'Growing and Renewing Public Housing' program, which is expected to provide 400 additional social housing properties and renew another 1,000 existing properties over the next four years, and an additional $80 million earmarked for public housing maintenance over the next three years.[69]

These initiatives represent some catch-up in social housing supply as, for most states and territories, social housing investment has lagged population growth and demand for social housing for a number of years. That said, social housing has long been a conduit for stimulus during economic downturns.[70] While social and affordable housing is typically a responsibility of state governments, the Commonwealth continues to provide support through Commonwealth Rent Assistance and funding through the COAG National Affordable Housing Agreement.

Commonwealth Rent Assistance

Commonwealth Rent Assistance (CRA) is the most common form of housing assistance received by Australian households. It is available to families and individuals who pay or are liable to pay private rent or community housing rent, over specified thresholds and who do not reside in public housing. Tenants receive certain social security payments, in most cases, Newstart Allowance, Disability Support Pension or Age Pension. CRA recipients are typically those in the social and affordable needs group.

CRA considerably reduces rental stress. In 2020, the CRA managed to reduce the percentage of recipients paying more than 30% of income on rent from 55% to 29%.[71] However, around 487,900 income units (individuals or group of related persons) were still left paying more than 30% of income on rent in the private market. The improvement in housing affordability for these tenants was not due to any policy changes related to CRA. The number of CRA recipients has grown from 1.346 million in 2016 to 1.403 million in 2020. Interestingly, the number of CRA recipients aged 75 years or more rose from 120,567 in 2016 to 150,536 in 2020.

63 https://www.corrs.com.au/insights/rebuilding-after-covid-19-state-government-investment-in-social-and-affordable-housing
64 Other social and affordable housing initiatives may be present in each state, such as SA's $550 million 'Our Housing Future 2020-30' initiative to deliver more than 20,000 affordable housing outcomes over the next decade, and the NT's 'Housing Strategy 2020-2025'. This section focuses on initiatives announced from mid-2020, after the onset of COVID-19.
65 https://www.dpie.nsw.gov.au/news-and-events/articles/2021/Social-housing-investment-key-to-recovery-roadmap
66 https://statements.qld.gov.au/statements/92391
67 https://www.mediastatements.wa.gov.au/Pages/McGowan/2021/09/875-million-to-significantly-boost-social-housing-in-WA.aspx
68 https://www.premier.tas.gov.au/budget_2021/budget_releases/building_more_homes_for_tasmanians_in_need_and_more_support_for_home_ownership
69 https://www.cmtedd.act.gov.au/open_government/inform/act_government_media_releases/barr/2021/$100-million-to-grow-and-improve-social-and-affordable-housing
70 https://apo.org.au/sites/default/files/resource-files/2020-11/apo-nid309240_1.pdf
71 https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/financial-assistance#Stress