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## Affordable rental housing: the problem and its causes

by Andrew Haylen

### 1. Introduction

Stable and affordable housing, with access to jobs and services, is fundamental to support employment and wellbeing by enabling social and economic participation in society. Importantly, “it provides a stable base for raising children and supports community engagement.”<sup>1</sup>

As pointed out by the *Affordable Housing Taskforce*, “by a range of indicators, there is a housing affordability issue facing NSW and this is particularly acute in Sydney and other large regional centres.”<sup>2</sup> While this affordability issue affects households across all segments of the market, it is particularly pressing for lower income households in need of affordable rental housing.

An initial point to make is that affordable housing can be understood in a narrower and broader sense. The focus of the current paper is on the broader understanding of affordable housing. This encompasses any private rental housing for low to middle income residents, where rents for these households is at a level that enables them to meet other basic living costs.<sup>3</sup> In this context, housing is usually considered affordable if it costs less than 30% of gross household income.<sup>4</sup>

Narrowly understood affordable housing is a specific type of housing built to be occupied by a range of [low to moderate income households](#) that are ineligible for public housing and also unable to participate effectively in the private rental market; this may include people who work full or part-time in lower paid jobs, where their household income is not high enough to pay market rent in the area in which they live and/or work. Typically, this category of affordable housing is delivered through government intervention of one sort or another and is managed by dedicated non-profit, private affordable housing companies – including [community housing providers](#).<sup>5</sup> Eligibility<sup>6</sup> and rents vary depending on the affordable housing scheme involved. For example, where rent is set as a discount on the market rent, the discount is “usually between 20 and 25% compared to the market rent for a similar property in the area.”<sup>7</sup>

This purpose built affordable housing is noted in Chapter 4 (Policy options to address the affordable housing problem) of this e-brief. It will be the subject of the forthcoming paper, *Affordable Rental Housing: current policies and options*.

As a prelude to that briefing paper, this e-brief conceptually frames the underlying reasons for the affordable rental housing problem in NSW<sup>8</sup> - in Sydney in particular. In doing so, the discussion in this paper focusses on the interconnected nature of various segments of the housing market and how the affordable rental housing “crisis”<sup>9</sup> has stemmed from and been exacerbated by multi-faceted structural deficiencies in the private rental, home ownership and public segments of the housing market.

## 2. The affordable rental housing shortage in NSW

Since the beginning of 2007, real rental prices (i.e. inflation adjusted) in the Sydney metropolitan region have risen, on average, between 25% and 35%.

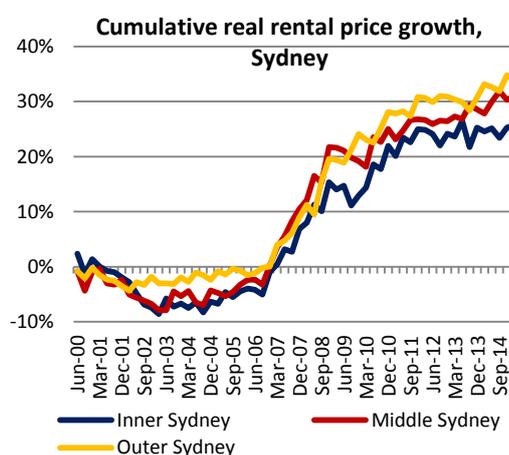
While *aggregate wages growth* has increased broadly in line with rental price increases over that period;<sup>10</sup> the national ratio of median rent to median income paid by tenants who rented privately rose to 27 per cent in 2011, up from a more affordable 19 per cent in 1981.<sup>11</sup>

The evidence suggests that this trend is likely to continue. Wages growth has been slowing in NSW and in the 12 months to March 2015 was recorded at 2.1%; 1.3% below the decade average.<sup>12</sup>

The growing disparity between income and rental price growth has undermined the affordability of previously accessible rental dwellings for low to middle income earners.<sup>13</sup> This has resulted in a “chronic undersupply of affordable housing”<sup>14</sup> in NSW.

According to the [Centre for Affordable Housing](#), between 2006 and 2013, 41,954 affordable rental properties had been lost, by way of a decline in affordability,<sup>15</sup> to low income households in the Sydney metropolitan region. This is not a new occurrence and is not just limited to Sydney. The National Housing Supply Council reported an absolute and relative fall in the national supply of affordable rental dwellings for lower income households in the decade to 2006, despite a 20% growth in the total number of private rental properties.<sup>16</sup>

In 2013 the number of affordable rental housing properties to low income households in the Sydney region was estimated by the Centre of Affordable Housing at just 20,646<sup>17</sup>; and according to the Australian Institute for Health and Welfare, this is equivalent to “one affordable and available rental property for every 15 very low-income households.”<sup>18</sup>



In their latest [2015 Rental Affordability Snapshot](#), Anglicare found that of the 15,000 private rental market properties available for rent in the Greater Sydney & the Illawarra region, only 18% would have been appropriate and affordable for a couple, with two children receiving the minimum wage and Family Tax Benefit A. The situation is even more severe for people living on government allowances alone, for which less than 1% of properties would have been appropriate and affordable.<sup>19</sup>

A consequence of this housing shortage is that a growing number of people in NSW – and Sydney in particular – are living in [housing stress](#) (i.e. their housing costs are greater than 30% of gross household income). The 2011 Census counted 219,202 low-income households<sup>20</sup> in private rental housing in NSW. Of these households:<sup>21</sup>

- 78% (171,563 households) were paying more than 30% of their income in rent; that is, they were in “housing stress”; and
- 43% (94,959 households) were paying more than 50% of their income in rent; that is, they were in “severe housing stress”.

The affordable rental housing problem is not just limited to the Sydney region, with a number of other regional metropolitan areas including the [Hunter](#), [Central Coast](#) and the [Illawarra](#) feeling the burden of declining rental affordability, with the proportion of rental properties affordable for very low and low income households declining over the last decade.<sup>22</sup>

It should be noted that these figures may not completely reflect the extent of the housing stress faced by NSW households. This is because many people who pay less than the 30% may only do so by living in poor quality or badly-located housing. The figures also do not account for the additional costs (i.e. transport) of the living in these “affordable” areas.<sup>23</sup>

Nor does the raw data account for the security of tenure for these households. As noted by the National Affordable Housing Consortium, there are “personal and systemic costs that result from a bias to short term lets”<sup>24</sup> and “...repeated moving reduces their ability to cope with these burdens, eats into savings and depletes stocks of social capital that have been built up in a current location.”<sup>25</sup>

As will be shown in the following chapter, the causes for the shortage of affordable rental housing are complex and linked to various supply and demand factors across different segments of the housing market, including but not limited to:

- A general shortage of housing stock because of a stagnant supply response to demand growth;
- Residual effects from declining ownership affordability;
- Increased competition in the private rental market;
- Demographic changes influencing household composition; and
- The unsustainability of the public housing model.

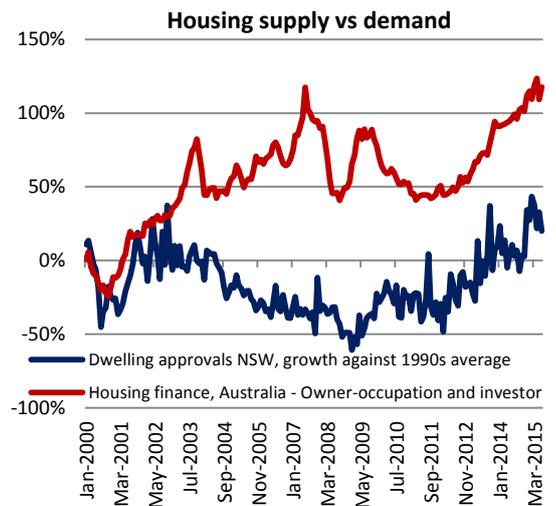
### 3. Causes of the affordable rental housing shortage

#### 3.1 A widening gap between housing supply and demand

In a well-functioning market, the quantity supplied should be responsive to increased demand. However, the performance of Sydney’s housing market, in terms of supply, has been particularly underwhelming in recent years.

As can be seen in the figure below, supply has struggled to keep pace with the growing demand for residential real estate. In real terms, owner-occupier and investor housing finance for purchases (i.e. demand)<sup>26</sup> has increased considerably and is nearly 120% higher in June 2015 than it was in January 2000.

Over the same period, supply growth has remained relatively stagnant and has only shown signs of consistent growth in the past few years as a response to the latest surge in prices. As at June 2015, dwelling approvals in NSW were only 20% higher than the average through the 1990s; and were in fact below such levels through much of the 2000s.



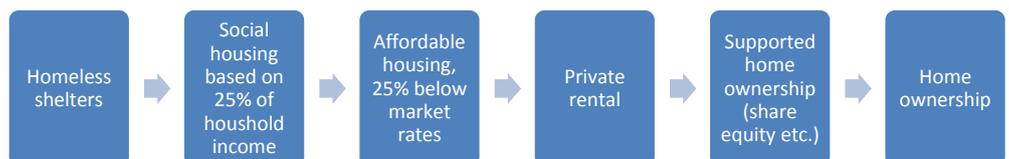
The result of this surge in demand and relatively stagnant supply is an expanding supply gap in the residential housing market. In 2012 the National Housing Supply Council estimated the national housing supply gap was 228,000, with NSW the highest of the States at 89,000.<sup>27</sup>

Given the recent surge in demand and lag in supply, it is likely that the supply gap in Sydney and NSW has worsened since these estimates were published by the National Housing Supply Council.

#### 3.2 Effects from declining ownership affordability

It is important to note that the “housing system in its entirety is interconnected”<sup>28</sup> and that supply and demand imbalances in certain segments of the market can have flow on effects across the full continuum of housing.

Housing market continuum

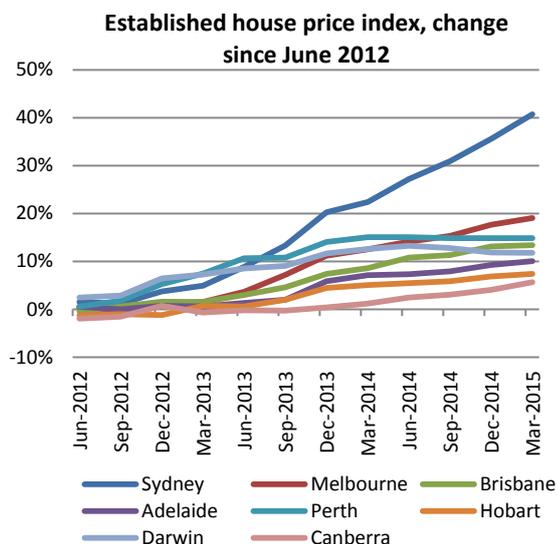


A “well-functioning housing continuum would mean that there would be enough homes at all points to meet demand.”<sup>29</sup> In Sydney this is not the case, with repercussions of the home ownership affordability crisis being

felt down the housing continuum in the private and affordable rental markets.

Typically in Australia, the first preference of individuals and households is to purchase their own home. While certain households choose to rent for personal reasons, typically the decision to rent is financially motivated;<sup>30</sup> one which has been forced on a growing number of Sydney households in response to the surge in house prices.

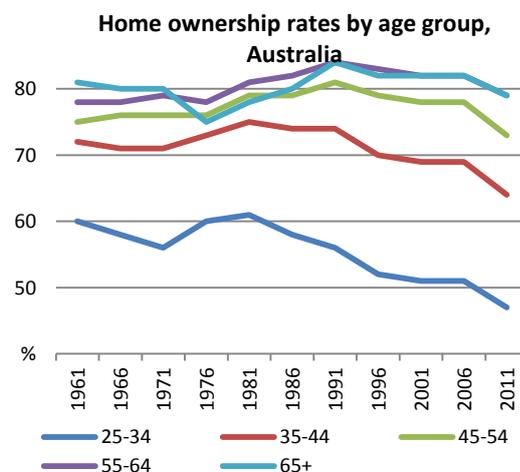
In July 2015, Sydney's median house price had “smashed through the magic \$1 million mark”<sup>31</sup> for the first time, following growth of 8.4 per cent over the June quarter. The next highest capital city median house price in Australia was in Melbourne at \$668,030; 33% lower than Sydney's at \$1,000,616. The median house price has increased by almost \$200,000 in a year or 22.9%, which is one of the highest annual growth rates ever recorded by the city.



While the causes for this latest house price surge in Sydney are complex and varied<sup>32</sup>, the most notable factors influencing the growth is the chronic undersupply of housing, coupled with the unyielding appetite of domestic and foreign investors for residential real estate – caused in part by preferential federal taxation policies.<sup>33</sup>

The continued house price surge in capital cities, in particular Sydney, has undermined the affordability of home ownership; with households now requiring increasingly higher incomes to access the market.<sup>34</sup>

The result of this is that home ownership rates have been declining – particularly among lower and middle income households. Additionally, home ownership rates appear to be declining most severely for those in the youngest age bracket of 25 to 34.



Over time this decline in home ownership is only anticipated to worsen<sup>35</sup> thereby applying increasing demand-side pressure on a private rental market<sup>36</sup> which has already “sustained, gradual, long-term growth in Australia in recent decades.”<sup>37</sup>

If that proves to be the case, in the longer term it will reinforce the [changing role of the private rental market](#) as “a transitional sector for households moving into home ownership or social housing to a long-term sector.”<sup>38</sup> The incidence of long-term private renting (i.e. renting for periods of 10 years or more continuously) has grown as an overall proportion of private renting in Australia, and is now experienced by around a third of all private renter households (33.4%) compared to 27 per cent in 1994.<sup>39</sup>

It should be pointed out that the latest home ownership data is only available up until 2011-12. This does not account for the latest surge in house prices. It is therefore probable that ownership rates have fallen in the last two or three years. Nor does it account for the spatial distribution of ownership. Ownership rates are provided at either a national or State level. The most severe degree of ownership affordability is likely to be felt in the inner urban areas of capital cities for which more recent data is not available.

### 3.2.1 The home ownership outlook remains pessimistic

In the past, housing demand and prices were typically driven and underpinned by population growth. Now this demand is being driven, in a large part, by investors who are seeking to obtain a capital return in a market with reliable returns<sup>40</sup> and in which vacancy rates have remained at favourable levels.

The current framework of home ownership in Australia is unequivocally favoured to incumbent home owners. From a market perspective, this is largely because the appreciating nature of housing as an asset means that once in the market, incumbent owners are in an advantageous position compared to prospective home owners.

Further, housing prices have historically exceeded, by some margin, growth in household incomes. This has particularly been the case in the last few years in which housing prices in Sydney have surged dramatically while household incomes have been increasing but at a relatively subdued rate.

So while the asset base of incumbent home owners continues to broaden as house prices rise, the purchasing capacity of prospective owners – which is typically indexed to their income growth – is likely to deteriorate.

From a policy perspective, the Australia Institute compares the current system in Australia to that in Germany which has tenant neutrality. That is, “taxes and subsidies relating to housing treat renters and owners equally.”<sup>41</sup> The Institute notes that in Australia government policies are heavily skewed towards benefiting investors and existing home owners – such that “home owners and investors receive 90% of the benefits from housing policies, while renters received virtually no benefits.”<sup>42</sup>

This indicates that the housing continuum is subject to a snowball type structural problem with its roots arguably in the home ownership market. Over time the housing asset base, which is growing at a relatively subdued pace, is likely to become more and more centralised. This is because incumbent owners will be able to leverage more and more of their existing assets to compete against prospective home owners with comparatively

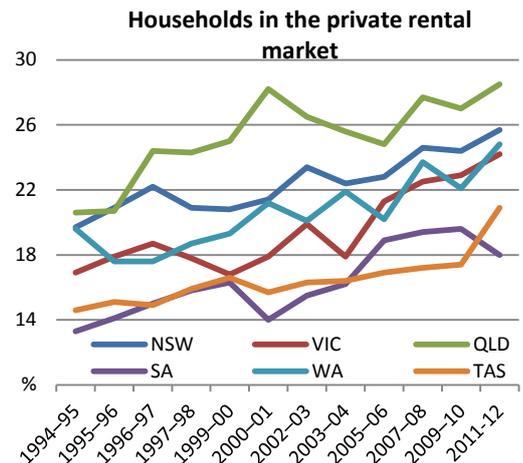
fewer assets. It is a centralisation which, according to Disney (2008), will “gather pace with the passing of the older, favoured generations.”<sup>43</sup>

### 3.3 Increased competition in the private rental market

Because of this trend in home ownership, an increasing number of households of higher incomes, who in the past would have typically entered the ownership market, are now “renting down”.<sup>44</sup>

NSW has the second highest percentage of households of all States and Territories living in the private rental market at 26%.<sup>45</sup> It is clear from the figure adjacent, that the proportion of households entering the private rental market is increasing across all jurisdictions in Australia. Additionally, at a national level, 19% more middle income households are renting in 2012 than did in 2002.<sup>46</sup>

In consequence, lower to middle income earners who would have typically had access to affordable private rental housing are now being forced to compete – or in many cases are crowded out – by higher income earners in the private rental market.



The competition in the private rental market is evidenced by low [rental vacancy rates](#) in the Sydney metropolitan area, which have been well below 2 percent for most periods since mid-2006 – compared to a “balanced market of close to 3%”.<sup>47</sup>

In addition to rents increasing to sustain investor yields<sup>48</sup>; the increased competition from higher income tenants with limited growth in the housing stock,<sup>49</sup> inevitably forces up rents.

Given the increased competition from higher income renters, lower to middle income earners are presented with two main options if they are going to be able to adequately afford other essential goods and services. The first of these is to move to outer and typically more affordable suburbs of capital cities. In many cases this involves the prospect of a longer commute to work, which itself imposes additional social and financial costs on these workers.

The second is to apply specifically for affordable rental housing – that is housing specifically built for low-to-moderate income households by non-profit organisations. In effect, a growing demand for such housing arises where households, which are not eligible for social housing, are forced out of the private rental market. There may be essential workers such as police, teachers or health care workers for whom moving to fringe suburbs is not a viable option.

### 3.4 Demographic changes adding to rental demand

In addition to pressures from the top-end of the housing continuum, the overall base demand for general private rental housing has also been increasing considerably in recent years.

As pointed out by Hulse et. al (2012), this is “in part due to population growth but more particularly due to a rate of household formation which has been greater than population growth since the 1960s.”<sup>50</sup> There are an increasing number of smaller households, including a rising number of single person households. The average Australian household size fell from 3.3 people to 2.6 people between 1971 and 2011, while the proportion of single person households increased from 18.1 per cent to 24.3 per cent over this period.<sup>51</sup>

As pointed out by Stone et. al (2013), a number of demand side demographic variables have contributed to the considerable increase in private rental households in Australia.<sup>52</sup>

- migration policy has added substantially to the number of households entering Australia, of which a large majority (70%) start out in private rental.
- the huge growth in international student numbers, with only a small proportion of their housing needs being met by educational institutions providing student housing.
- additional households forming and renting housing for longer periods before having children, and re-forming due to separation and divorce.
- greater female participation in the workforce, enabling more women to set up independent households.

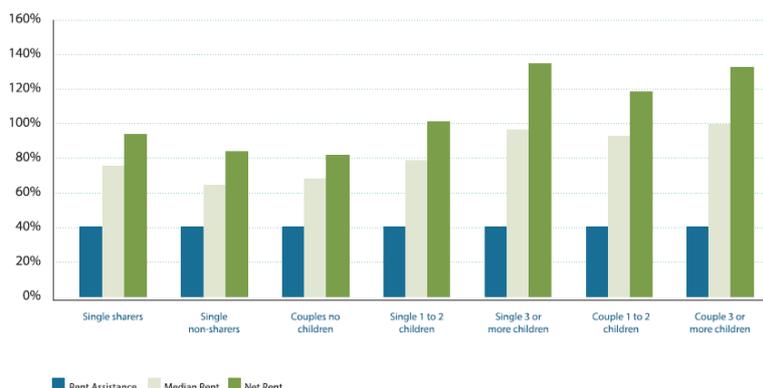
### 3.5 Demand-side subsidies becoming less effective

Demand-side subsidies, such as [Commonwealth Rent Assistance](#) (CRA), generally have a positive impact on lower to middle income household rental affordability.<sup>53</sup> According to the Australian Institute of Health and Welfare, prior to receipt of CRA, 67% of individuals were in rental stress, and this reduced to 40% after receiving CRA.<sup>54</sup>

However, CRA, which is indexed to the consumer price index, has failed to keep up with rising private rental costs. The figure below, from the Department of Social Services, shows that while maximum rates of CRA have increased by 40% between 2001 and 2013; median rents for each group have increased by between 65% and 100%.

This means that CRA has gradually become less effective in reducing rental stress and improving affordability for people in the private rental market.

### Growth in housing costs for income support recipients by household type, 2001 to 2013<sup>55</sup>



As the Reference Group on Welfare Reform noted, "...it has also widened the gap between the relative generosity of CRA and public housing [assistance]."<sup>56</sup> This is because public housing rents are indexed typically at 25% of a household's income. As most public housing tenants are in receipt of government income support, rents have been increasing in line with government support increases; which is below the private market growth rates.

Both the [Harmer Review](#) (Finding 17) and the [Henry Review](#) (Recommendation 102) recommended a reindexing of CRA, in line with movements in national rents.

As pointed out by Hulse et. al (2014) of the Australia Housing and Urban Research Institute, demand-side subsidies are likely to be of limited effectiveness on their own in a situation of supply shortage.<sup>57</sup> The Productivity Commission (2010) also acknowledged that "the effectiveness of demand-side strategies is questionable when housing supply is relatively inelastic".<sup>58</sup>

Policies such as CRA and the first home buyer's grant can inflate rents and house prices, reducing the ability of those on low incomes to access well located quality housing. Further, CRA is not accessible to those not already in the private rental market and therefore does not assist those who cannot access the private rental market.

### 3.6 An unsustainable model limiting public housing supply growth

Traditionally, social housing in Australia was funded through public grants and public loans. However, a policy shift from supply side to demand side support,<sup>59</sup> in the form of Rent Assistance, has meant that "investment through these means has been in long term decline, resulting in new [public housing] supply levels falling below household formation rates."<sup>60</sup>

Between 2006 and 2012, overall social housing stock in Australia increased by 3% in nominal terms—from 409,000 to 423,000 dwellings. This represents a decrease in real terms when compared with the overall number of Australian dwellings—which increased by 8% between the 2006 and 2011 censuses. Social housing made up 4.9% of the total dwelling stock in Australia in 2006; this fell to 4.6% in 2011.<sup>61</sup>

The relative slowdown in public housing investment has also been caused, in part, by the deteriorating cost-effectiveness of the current model. Specifically, the rental income States and Territories receive is “insufficient to support critical stock redevelopment, or cover the cost of maintaining existing stock.”<sup>62</sup>

This problem is exacerbated as properties age and the costs of property and tenancy management increase. The majority of dwellings (more than 60%) in the social housing portfolio were constructed between 1970 and 2000. Only around 10% of the portfolio has been constructed since 2000.<sup>63</sup>

As a result, State government housing agencies face significant operating deficits<sup>64</sup>; making public housing in its current form unsustainable – let alone conducive to growth.<sup>65</sup>

According to the Productivity Commission, at 30 June 2014 there were 154,566 people on public housing waiting lists in Australia. In NSW there were 57,791 applicants waiting for public housing.<sup>66</sup> The large and growing waiting list for public housing has meant that it is now prioritised on a most-needs basis – typically those in extreme poverty or at most risk of homelessness.

As a result of this, lower-to-middle income households that would have once been eligible for public housing no longer meet eligibility criteria, or face extraordinary waiting times where they do meet the criteria. As acknowledged in the 2010 discussion paper ‘Regulation and Growth of the Not-For-Profit Housing Sector’:<sup>67</sup>

Public housing has traditionally been a safety valve for the private rental market and a stepping stone to home ownership for low and moderate income earners. However, at 4.5% of Australia’s total housing stock, public housing cannot provide a realistic alternative to the private rental market for all low income earners. Public housing stock has necessarily become increasingly rationed to the most disadvantaged and, while private rents remain high, demand for public housing will continue to grow.

#### **4. Policy options to address the affordable housing shortage**

Given the interconnected nature of the affordable rental housing problem, policy solutions can be broadly categorised as general measures aimed at adjusting supply and demand across the broader housing continuum; or on the narrower understanding of affordable housing, targeted measures at improving the specific supply of housing for low-to-middle income earners. As noted, this purpose built affordable housing will be the subject of the forthcoming paper, *Affordable rental housing: current policies and options*.

The National Housing Supply Council estimated that the housing shortage in NSW will reach 186,000 dwellings by 2020. To meet this shortage, “42,000 new houses would need to be constructed across [NSW] every year.”<sup>68</sup>

Multiple housing supply targets have been set in recent years. The [Sydney Metropolitan Strategy 2036](#) required the NSW Government to ensure that 23,300 new homes were built across greater Sydney each year between

2006 and 2036. In the five-year period from 2006 to 2011, supply fell short by 40% of the target.<sup>69</sup>

From a supply-side perspective, a number of State and Commonwealth initiatives<sup>70</sup> have facilitated the provision of specifically targeted affordable housing in recent years. However, it is widely acknowledged that the provision of such affordable rental accommodation on a scale to meet the forecast shortage requires larger scale institutional investment,<sup>71</sup> a scale beyond which governments can supply alone.<sup>72</sup>

The [2013 AHURI Investigative Panel](#) concluded that institutional investment was the most desirable source of finance to achieve long-term growth in the supply of rental housing.<sup>73</sup> However, to date, fiscal strategies for attracting investment towards rental housing in Australia have had limited success, especially in attracting institutional investors to this sector.<sup>74</sup>

Various studies<sup>75</sup> have examined the reasons for low institutional investment in the supply of affordable residential rental properties, noting “low rental yield, high taxes, poor liquidity [and] higher investment risk...”<sup>76</sup> as factors undermining investment potential.

Although a significant growth of national and state-based [community housing organisations](#) in Australia has occurred since the 1980s – due in part to the increases in [public housing transfers](#) to the sector – community housing providers have had “little capacity to raise private finance for additional [affordable] housing developments.”<sup>77</sup>

Despite this, well regulated, professionally audited and transparently managed not-for-profit housing associations are the Commonwealth Government’s preferred delivery mechanism for affordable rental and social housing. This is evidenced by their central role in the Social Housing Initiative, National Rental Affordability Scheme and the establishment of the robust National Regulatory System in 2013.<sup>78</sup>

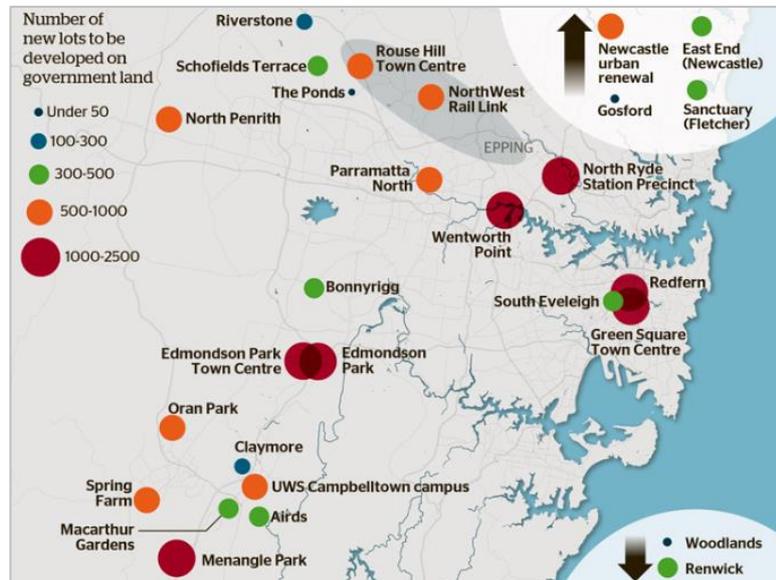
Alternatively, governments may develop initiatives to increase the supply of affordable housing through changes to planning legislation to make the supply of housing developments more efficient and affordable. A number of such measures are already in place in NSW, initially through the [State Environmental Planning Policy \(Affordable Rental Housing\) 2009](#) and later through the [State Environmental Planning Policy No. 70 Affordable Housing \(Revised Schemes\)](#). Additionally, Premier Mike Baird announced in September 2015 the [NSW: Making It Happen](#) State Priorities, of which ‘faster housing approvals’ was one of the 12 priorities – with a target of 90% of housing development applications determined within 40 days.

The NSW Government’s proposed Greater Sydney Commission is another such measure currently being implemented to improve the efficiency of housing supply in the Sydney region. A formal structure for the proposed Greater Sydney Commission, consisting of State and local Government representatives and independent experts, was announced by Planning Minister Rob Stokes in September 2015.<sup>79</sup>

This follows a [commitment](#) from the NSW Government during the 2015 State Election to deliver 20,000 extra home sites in Sydney over the next four years by releasing government land for development. According to

documents obtained by the [Sun Herald](#), about 2500 lots will be released in the inner city, including 1000 at Redfern, 1300 at Green Square, and 300 at South Eveleigh.

**Prospective locations for new housing developments in Sydney<sup>80</sup>**



Nearly 40 per cent of the 20,000 target will be achieved from selling greenfield land in the south west, including Edmondson Park in the Liverpool Council area, Menangle Park, and the University of Western Sydney's Campbelltown Campus. Urban regeneration for high-rise in Sydney's inner west and northern suburbs, at Wentworth Point, North Ryde Station and along the North West Rail Link will yield another 5000 lots, with North Parramatta slated for another 800.<sup>81</sup> It is unclear how this property will be specifically distributed between the private rental and affordable housing markets.

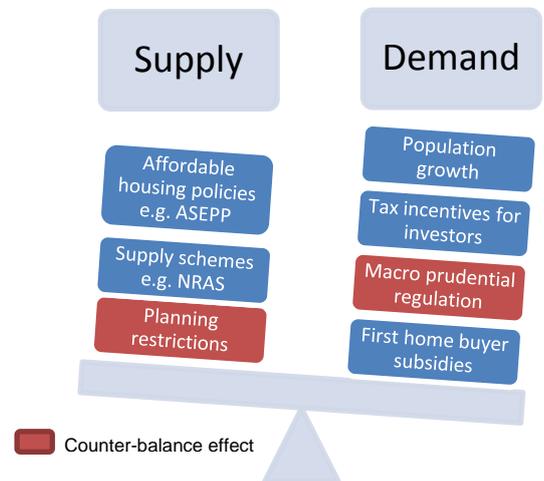
These supply-side solutions are essential to improving the provision of affordable housing for low-to-middle income earners. As highlighted in the 2009 Housing Ministers Conference Working Paper, "unless the underlying systemic and structural issues that restrict the supply of housing are addressed, house prices and rental costs will continue to rise."<sup>82</sup> This was also acknowledged by Planning Minister Rob Stokes, who stated that "the challenge remains to address a historical undersupply [of housing]."<sup>83</sup> Examples and models of supply-side measures to increase the provision of affordable housing through financing and planning incentives will be examined in further detail in the forthcoming NSW Parliamentary Research Service briefing paper.

For the moment it is enough to say that while "reforms that remove impediments to housing supply will remove unwarranted pressure on house prices"<sup>84</sup>, this may not be a complete solution. Increasing supply alleviates the problem but may not necessarily present an underlying structural solution to all the root causes. As pointed out by the COAG Housing Supply and Affordability Reform Working Party:<sup>85</sup>

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...reducing the supply-side constraints will not necessarily be sufficient to address the housing affordability problems faced by lower-income households. The issue of (un)affordable home ownership may be largely confined to a lack of means for some segments of the population to purchase or rent a dwelling, rather than a physical lack of supply of dwellings.

As has been illustrated in this paper, the affordable housing shortage in NSW is inextricably linked with the gap in the supply and demand of housing stock in the home ownership market. Such that, if demand keeps exceeding supply – as has been the case in recent years – the housing shortage will not improve, applying further pressure to the affordable housing segment of the market. Therefore to bridge this gap, the correct balance of supply and demand policy measures is required.



Demand side, non-subsidised policies (e.g. through changes in investor taxation incentives) to improve the affordability of housing, while controversial, are – at least for government – far more cost effective than supply side solutions. In addition, they can have a much more immediate effect on the market than supply side solutions. The main reason for this, as explained by Dr. Tim Williams, Chief Executive Officer, Committee for Sydney, is that:<sup>86</sup>

...normally in a market you think if you produce a lot more the price drops...It is not that easy in our market. Part of the reason is that 98% of all homes in the market already exist. So even if you build 2% or 3% more in a year, which is quite good going, it does not really have a big effect on house prices.

A couple of examples illustrate the immediate effect demand side manipulations can have on housing prices. One is the first home buyer stimulus that was issued in 2009 in the midst of the global financial crisis. While it was a costly method, the immediacy of its impact was evident in bringing forth demand to sustain prices and stimulate the housing and construction market.<sup>87</sup>

The latest evidence of the responsiveness of demand-side manipulations to housing can be seen through the recent changes to macro prudential controls on investment lending. The latest price data for the month of August shows that prices are up by 1.1% - well below recent medium term growth. According to Harley (2015), this is evidence that such controls are “crimping” demand.<sup>88</sup> While this is not the end of the housing boom, Harley (2015) suggests that this should constrain the occurrence of “incendiary [auction] events” that have led to runaway prices in recent years.<sup>89</sup>

## 5. Conclusion

Put simply, there is a chronic undersupply of affordable housing in NSW for lower to middle income earners<sup>90</sup> - with Sydney particularly vulnerable as a result of surging purchase and rental prices, as well as slowing wages growth.

As has been pointed out in this paper, the housing market is highly interconnected and imbalances in certain segments of the market can have flow on effects across the full continuum of housing. In particular, pressures in the home ownership segment of the market are forcing more households, typically of higher income, into the private rental markets. This is creating a more competitive environment for low to middle income households, which inevitably forces up rents and compounds the ever growing demand for affordable housing.<sup>91</sup>

As noted by Disney (2008), “a fall in the overall level of home ownership should not [necessarily] be seen as undesirable.”<sup>92</sup> But it would “increase the need for affordable, well-located rental housing, reasonable security of tenure and other protection of vulnerable tenants.”<sup>93</sup>

On this note, the under-supply of private rental housing has been aggravated by the relative slowdown in public housing investment; caused, in part, by the deteriorating cost-effectiveness of the current model.

Given the interconnected nature of the housing system, the NSW Legislative Council Select Committee on Social, Public and Affordable Housing concluded that “...without improvement at all levels in the system, there would be a cascading effect on housing choices, with people being pushed further down the housing continuum.”<sup>94</sup>

Current and prospective remedies to the affordable housing shortage are complex and multi-faceted which involve supply and demand-side policy levers. The challenge for government is finding the right combination of these levers. In any event, it is clear that policy intervention will require involvement across all levels of government in Australia. Policy options available to government will be the focus of the forthcoming briefing paper, *Affordable rental housing: current policy and options*.

- <sup>1</sup> Department of Social Services, A new system for better employment and social outcomes, June 2014, Interim Report of the Reference Group on Welfare Reform, p.30
- <sup>2</sup> Affordable Housing Taskforce. (2012) Interim Report, p.4
- <sup>3</sup> Urban Research Centre. (2008) [Models of Sustainable and Affordable Housing for Local Government](#), p.30
- <sup>4</sup> Centre for Affordable Housing, [What is affordable housing?](#), accessed 15 July 2015
- <sup>5</sup> Urban Research Centre, Models of Sustainable and Affordable Housing for Local Government, 2008, p.30
- <sup>6</sup> Eligibility, including income limits, can vary depending on the way a property was funded or developed, and who manages it. Income eligibility limits set by the NSW Government are outlined in the [NSW Affordable Housing Guidelines](#).
- <sup>7</sup> Centre for Affordable Housing, [How much rent will I pay?](#), accessed 15 July 2015
- <sup>8</sup> While this discussion will be focussed with particular reference to Sydney and NSW; in a number of instances, data and information is only available at a national and as such discussion will be framed accordingly.
- <sup>9</sup> NSW Legislative Council. (2014) [Select Committee Report On Social Public and affordable housing](#), p.xv
- <sup>10</sup> Australian Bureau of Statistics, [Wage Price Index, Australia](#), June 2015, Cat. No. 6345.0
- <sup>11</sup> Lovering, M. (2014) [Housing affordability: cities performing badly](#), April 2014, AHURI Evidence Review 053, p.1
- <sup>12</sup> Haylen, A. (2015) [NSW Economic Update Winter 2015](#), NSW Parliamentary Research Service, p.12
- <sup>13</sup> The Senate Economics Reference Committee. (2015) [Out of reach? The Australia housing affordability challenge](#), p.205; 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, p.2
- <sup>14</sup> Community Housing Federation of Australia, [Response to the White Paper on Housing and Homelessness](#), June 2015, p.6
- <sup>15</sup> That is, rental price rises exceeded income growth for relevant households for these particular properties.
- <sup>16</sup> National Housing Supply Council. (2009) [State of Supply Report 2008](#), p.98
- <sup>17</sup> Centre of Affordable Housing, [Housing Snapshots – Various](#), accessed 25 August 2015
- <sup>18</sup> Australian Institute of Health and Welfare. (2014) [Housing Assistance in Australia 2014](#), p.3
- <sup>19</sup> Anglicare. (2015) [Rental Affordability Snapshot](#), p.4
- <sup>20</sup> Low-income households are defined as those whose equivalised gross household income is in the bottom 40% of the income distribution.
- <sup>21</sup> Census 2011 data provided on special request to the Tenants Union of NSW.
- <sup>22</sup> Centre of Affordable Housing, [Housing Market Snapshots](#), accessed 10 September 2015
- <sup>23</sup> Disney, J. (2008) [Affordable Housing, Issues of Our Time](#), p.99
- <sup>24</sup> The Senate Economics Reference Committee on Affordable Housing. (2015) [Submission 101 – National Affordable Housing Consortium](#), p. 5
- <sup>25</sup> The Senate Economics Reference Committee on Affordable Housing. (2015) [Submission 23](#), p.11
- <sup>26</sup> This data is only indicative of housing demand. This data was only available at a national level through the ABS Housing Finance Catalogue; given the relative strength of the Sydney housing market, it is likely that the demand growth at a State or metropolitan level would be higher than that nationally. No data is available of actual purchases at either a State or National level. This figure also only accounts for domestic investors and owner-occupiers.
- <sup>27</sup> National Housing Supply Council, [Housing Supply and Affordability—Key indicators](#), 2012, p. vi
- <sup>28</sup> NSW Legislative Council. (2014) Select Committee Report On Social Public and affordable housing, [St George Community Housing - Submission 71](#), p.5
- <sup>29</sup> Ibid
- <sup>30</sup> For more information see: Tenants Union of NSW. (2014) [Affordable Housing and the NSW Rental Market – Survey report](#)
- <sup>31</sup> Domain Group, [Sydney Median House Price now \\$1 million](#), 23 July 2015
- <sup>32</sup> These factors are discussed at length in the NSW Parliamentary Research Service paper [House Prices, Ownership and Affordability: trends in New South Wales](#).

- <sup>33</sup> For stakeholder discussion of federal taxation policies, see: NSW Legislative Council, [Select Committee Report On Social Public and affordable housing](#), September 2014, p.49-52
- <sup>34</sup> For more discussion of dwelling prices and household income, see: Fox, R, and Finlay, R, [Dwelling Prices and Household Incomes](#), 2012, Reserve Bank of Australia, December Quarter Bulletin 2012
- <sup>35</sup> National Housing Supply Council. (2013) [Housing Supply and Affordability Issues 2012-13](#), p.x
- <sup>36</sup> *Ibid*, p. 7
- <sup>37</sup> Stone, W., Burke, T., Hulse, K. and Ralston, L. (2013) [Long-term private rental in a changing Australian private rental sector](#), AHURI Final Report No.209, p.44
- <sup>38</sup> *Ibid*, p.6
- <sup>39</sup> *Ibid*, p.44
- <sup>40</sup> According to [CoreLogic data](#), Sydney dwelling values are 17.6 per cent higher over the past year, and since the beginning of 2009, Australia's largest capital city housing market has recorded a cumulative capital gain of 76 per cent.
- <sup>41</sup> The Australia Institute. (2015) [The great Australian lockout: inequality in the housing market](#), p.6
- <sup>42</sup> The Australia Institute. (2015) [The great Australian lockout: inequality in the housing market](#), p.6; Kelly, J-F. (2013) [Renovating Housing Policy](#)
- <sup>43</sup> Disney, J. (2008) [Affordable Housing, Issues of Our Time](#), p.94
- <sup>44</sup> The Senate Economics Reference Committee. (2015) [Out of reach? The Australia housing affordability challenge](#), p.207
- <sup>45</sup> Australian Bureau of Statistics, [Housing Occupancy and Costs 2011-12](#), 2013
- <sup>46</sup> The Australia Institute. (2015) [The great Australian lockout: inequality in the housing market](#); Melbourne Institute. (2012) HILDA Survey
- <sup>47</sup> Burke, T. (2014) [Private rental: investment and supply issues](#), Shelter NSW
- <sup>48</sup> Australia's Future Tax System. (2009) [Report to the Treasurer](#), Part Two, Volume 2, p. 413
- <sup>49</sup> Wulff, M. et al. (2011) [Australia's private rental market: the supply of, and demand for, affordable dwellings](#), AHURI Final Report No.168, p. 13
- <sup>50</sup> Hulse, K. et al. (2012) [The Australian private rental sector: changes and challenges](#), AHURI Positioning Paper No.149, p.12
- <sup>51</sup> Productivity Commission. (2015) [Report on Government Services Chapter 17 – Housing](#), p.17.5
- <sup>52</sup> Stone, W., Burke, T., Hulse, K. and Ralston, L. (2013) [Long-term private rental in a changing Australian private rental sector](#), AHURI Final Report No.209, p.6
- <sup>53</sup> Australian Institute of Health and Welfare, [Housing Assistance in Australia 2014](#), 2010, p.24
- <sup>54</sup> Australian Institute of Health and Welfare, [Housing Assistance in Australia 2014](#), 2010, p.67
- <sup>55</sup> Department of Social Services. (2014) [A new system for better employment and social outcomes](#), Interim Report of the Reference Group on Welfare Reform, p.69
- <sup>56</sup> *Ibid*, p.31
- <sup>57</sup> Hulse, K., Reynolds, M. and Yates, J. (2014) [Changes in the supply of affordable housing in the private rental sector for lower income households, 2006–11](#), AHURI Final Report No.235. p.47
- <sup>58</sup> Productivity Commission. (2010) [Contribution of the Not-for-Profit Sector](#), p.1.13
- <sup>59</sup> Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), Report for the Government of Western Australia, p.9
- <sup>60</sup> *Ibid*, p.4
- <sup>61</sup> Australian Institute of Health and Welfare. (2013) [Housing Assistance in Australia](#), p.14
- <sup>62</sup> H Pawson et al. (2013) [Public housing transfers: past, present and prospective](#), AHURI Final Report No. 215, p. 10
- <sup>63</sup> NSW Parliamentary Research Service, [Key Issues for the 56<sup>th</sup> Parliament](#), 2015, Chapter 10 – Social Housing, p.97
- <sup>64</sup> The Land and Housing Corporation was in deficit by \$490 million in 2012-13 because the operating cost of providing housing exceeded revenue.

- <sup>65</sup> Department of Prime Minister and Cabinet. (2014) [Roles and Responsibilities in Housing and Homelessness](#), Reform of the Federation White Paper, Issues Paper 2
- <sup>66</sup> Productivity Commission. (2015) [Report on Government Services Chapter 17 – Housing](#), p.
- <sup>67</sup> Department of Families, Housing, Community Services and Indigenous Affairs. (2010) [Regulation and Growth of the Not-For-Profit Housing Sector](#), Discussion Paper, p.2
- <sup>68</sup> National Housing Supply Council. (2012) State of Supply Report 2011, p.208
- <sup>69</sup> NSW Legislative Council, Inquiry into Social, public and affordable housing, [Submission 109 - McKell Institute](#), p 8.
- <sup>70</sup> Initiatives include the National Affordable Housing Agreement; the National Rental Affordability Scheme; the Social Housing Initiative; and Affordable Rental Housing State Environmental Planning Policy. Such policies will be examined in further detail in the forthcoming briefing paper.
- <sup>71</sup> Newell, G., Lee, C. and Kupke, V. (2015) [The opportunity of residential property investment vehicles in enhancing affordable rental housing supply](#), AHURI Positioning Paper No.166, p.3
- <sup>72</sup> Lawson, J., Berry, M., Hamilton, C. and Pawson, H. (2014) [Enhancing affordable rental housing investment via an intermediary and guarantee](#), AHURI Final Report No.220, p.49
- <sup>73</sup> Ibid, p.13
- <sup>74</sup> Ibid, p.1
- <sup>75</sup> Newell, G., Lee, C. and Kupke, V. (2015) [The opportunity of residential property investment vehicles in enhancing affordable rental housing supply](#), AHURI Positioning Paper No.166, p.8
- <sup>76</sup> Ibid, p.37
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- <sup>78</sup> Lawson, J., Berry, M., Hamilton, C. and Pawson, H. (2014) [Enhancing affordable rental housing investment via an intermediary and guarantee](#), AHURI Final Report No.220, p.55
- <sup>79</sup> NSW Legislative Assembly, [Hansard – Tuesday 8 September 2015](#), p.25
- <sup>80</sup> Needham, K, [Greater Sydney Commission: Budget to tackle housing crisis with London-style planning authority](#), 21 June 2015, The Sun Herald
- <sup>81</sup> Needham, K, [Greater Sydney Commission: Budget to tackle housing crisis with London-style planning authority](#), 21 June 2015, The Sun Herald
- <sup>82</sup> Housing Ministers Conference. (2009) [Implementing the National Housing Reforms](#), p.7
- <sup>83</sup> NSW Legislative Assembly, [Hansard – Tuesday 8 September 2015](#), p.25
- <sup>84</sup> Housing Supply and Affordability Reform Working Party. (2012) [Housing Supply and Affordability Reform](#), p.3
- <sup>85</sup> Ibid
- <sup>86</sup> NSW Legislative Council. (2014) [Select Committee Report On Social Public and affordable housing](#), p.53
- <sup>87</sup> For detailed discussion on this, see: Haylen, A. (2014) [House prices, ownership and affordability: trends in NSW](#), NSW Parliamentary Research Service, p.20
- <sup>88</sup> Harley, R. (2015) [The Sydney property fever is passing - but slowly](#), The Australian Financial Review, accessed 2 September 2015
- <sup>89</sup> Ibid
- <sup>90</sup> Community Housing Federation of Australia. (2015) [Response to the White Paper on Housing and Homelessness](#), June 2015, p.6
- <sup>91</sup> Legislative Council, [Select Committee Report On Social Public and affordable housing](#), September 2014, p.xv
- <sup>92</sup> Disney, J. (2008) [Affordable Housing, Issues of Our Time](#), p.101
- <sup>93</sup> Disney, J. (2008) [Affordable Housing, Issues of Our Time](#), p.101
- <sup>94</sup> Legislative Council, [Select Committee Report On Social Public and affordable housing](#), September 2014, p.65

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