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## **HOUSING AFFORDABILITY**

**Briefing Paper No 04/2011**

by Louise O'Flynn

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# Housing Affordability

**by**

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***Population, housing and transport indicators for NSW, NSW Parliamentary Library Research Service, Statistical Indicators 4/11 by Talina Drabsch, pp 23-25.***

## **SUMMARY**

### **Introduction [1]**

The purpose of this paper is to present an overview of the Housing affordability debate, in particular as this relates to NSW. It should be noted, however, that the focus of the paper is on housing affordability in metropolitan areas and not in rural and regional NSW where the issues concerned are somewhat different in nature and scale. To put it another way, a whole series of different housing markets operate in NSW.

Home ownership is the most common and most desired form of housing in Australia, yet for many it is increasingly unaffordable. The latest [Annual Demographia International Housing Affordability Survey](#) compared housing affordability in metropolitan markets in Australia, Canada, Ireland, New Zealand, the UK, the US and Hong Kong. It looked at median multiples (i.e. the median house price divided by the gross annual median household income). The survey found that the major metropolitan markets in Australia were all severely unaffordable (as they had a median multiple greater than 5.0); and that of the 82 major metropolitan markets in the countries surveyed, Sydney was the second most unaffordable (it had a multiple of 9.6).

As house prices have increased, so too have rents. In fact, the largest group of households experiencing affordability problems are households in the private rental market. High levels of rental stress mean that affordability is low and people are less able to rent housing that meets their needs. As with home ownership, affordability in the NSW rental market is also in decline. In 2007-08, 57 percent of low income households in the private rental market in NSW were in rental stress. This was the highest of all Australian jurisdictions and significantly above the national average of 47.5 percent.

### **Defining 'housing affordability' [2]**

Although there is no single agreed definition of housing affordability, the term refers broadly to a person's ability to pay for their housing. Housing affordability can be distinguished from the term "affordable housing". In Australia, "affordable housing" is often used as an alternative to terms such as "public", "social" or "low cost" housing.

### **The implications of housing affordability [3]**

Spatial disparities in housing affordability may influence the labour market, in particular by discouraging people from working in low affordability areas. High housing costs accentuate financial hardship for low income households by leaving too little in the household budget for non-housing expenses and place some households at risk of being unable to pay their housing costs. High housing costs and low affordability can also result in a widening of the wealth distribution between those able to purchase housing and those who cannot.

..

Housing affordability has implications for the economy, at the national and sub-national levels.

### **Measuring affordability [4]**

While it is generally accepted that there is a housing affordability problem in NSW, there is still debate over the threshold beyond which housing is considered unaffordable. Five key measures used to calculate housing affordability are discussed:

- the '30/40' rule;
- residual income;
- the accessibility/ deposit gap;
- house price compared to consumer prices or incomes; and
- the effects on home ownership rates.

The review of these methods of measuring housing affordability suggests that each method produced a different result.

### **Home ownership affordability [5]**

House prices in Australia have risen faster than average household incomes since 1970. In 2007-2008, 49.3% of low income households with a mortgage in NSW were found to be in mortgage stress (nationally 46.6%). Sydney is considered to have the most heated market for private housing amongst Australian capital cities. From September 2008 to September 2010, median prices for non-strata dwellings in Sydney increased by 22.8% and by 14.9% across NSW.

According to Shelter NSW, in September 2010, 1% of home purchase stock was found to be affordable for very low income households, 6% for low income households, and 25% for moderate income households.

While the overall trend in house prices in NSW is upward, there is some variation amongst local housing markets in terms of the extent of the increase. For key workers (notably, police, teachers, nurses, fire fighters and ambulance officers) looking to buy a house, 84% of Sydney LGA's in 2010 were unaffordable. In regional NSW, 75% of LGAs were affordable, with house prices less than 5 times the salaries of key workers.

### **Rental market affordability [6]**

Although affordability problems for home buyers tend to receive the most media attention, the largest group of households experiencing such problems are households in the private rental market. Shelter NSW reports that in 2006, there was a shortage of 44,000 affordable and available private rental stock for very low income households in Sydney, 5,900 in Newcastle and 3,200 in Wollongong. In 2007-08, NSW recorded the highest percentage of low income households in the private rental market in rental stress at 57% (nationally 47.5%). Shelter NSW further reports that in NSW in September 2010, 13% of



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rental stock was affordable for very low income households; 31% for low income households; and 68% for moderate income households. Most affordable rental stock was located in outer suburbs which tend to have lower levels of employment opportunity and significantly poorer public transport infrastructure.

### **Factors affecting housing affordability [7]**

The causes of housing affordability problems are said to be complex and diverse, with major driving factors found both within the housing system and beyond it. Two pivotal factors are the supply of, and demand for housing, with a host of other issues in turn influencing housing demand, including: higher incomes; demographics; lower interest rates; speculative demand; and taxation influences.

### **Addressing affordability [8]**

NSW local and State Governments, in cooperation with the Commonwealth Government have sought to implement a range of measures to improve housing affordability. The National Affordable Housing Agreement (NAHA) provides a framework for the different levels of government to improve housing affordability. The Commonwealth Government has introduced measures to address affordability. These include First Home Owner Grants and help in the private rental market through Commonwealth rent assistance. Policies of the O'Farrell Government include the extension of the Empty Nester Transfer Duty Concessions and repeal of the Homebuyers Tax - as provided by the *Duties Amendment (Senior's Principal Place of Residence Duty Exemption) Act 2011* and the *Real Property Amendment (Torrens Assurance Levy Repeal) Act 2011* respectively.

The former NSW Labor Government sought to address affordability by establishing the Centre for Affordable Housing and introducing the First Home Plus One scheme. It also adopted planning mechanisms to improve affordability and increased the supply of land for housing. Some Sydney councils have introduced measures to improve housing affordability, often through the inclusion of planning provisions.

### **Stakeholder proposals [9]**

Interest groups and stakeholders have suggested a range of solutions to the housing affordability problem in NSW and across Australia. For example, in a [policy paper](#) prepared by the [Property Council of Australia](#), the supply of land was identified as the "key factor" affecting affordability. According to the [Australian Institute of Architects](#), long term housing affordability requires the incorporation of environmentally sustainable design techniques into the design of new homes and the modification of existing homes. The Institute has emphasised that affordability relates to a household's access to transport, services, facilities and employment and education.

## **Conclusion [10]**

Extensive use has been made in this paper of the 2008 Senate Committee inquiry report, both in respect to the empirical research about housing affordability and in relation to the more discursive issues involved. The [Executive Summary](#) to that report started by stating:

The majority of Australians aspire to home ownership. It should be an aspiration that through prudent management of household finances they are able to realise. Currently, there is a significant problem with housing affordability in Australia. In certain regions of the country the problem is particularly acute.

The issue of housing affordability is of major concern to many NSW households, as part of the broader concern about cost of living pressures. It is an issue which can be considered from the perspective of individual households, as well from a range of other levels, from State planning and land release policies to debates about macro-economic and broad demographic trends.

Housing affordability is an issue for all levels of government in Australia. The challenges are many and substantial. The University of Western Sydney Urban Research Centre has commented in this respect:

Though much has been written on housing affordability in the Australian context, it has proved difficult to secure agreement about the right mix of responsibilities for housing policy among the various tiers of government and how best to address housing affordability.

## 1 INTRODUCTION

Home ownership is the most common and most desired form of housing in Australia, yet for many it is increasingly unaffordable. The latest Annual [Demographia International Housing Affordability Survey](#) compared housing affordability in metropolitan markets in Australia, Canada, Ireland, New Zealand, the UK, the US and Hong Kong. It looked at median multiples (i.e. the median house price divided by the gross annual median household income).<sup>1</sup> The survey found that the major metropolitan markets in Australia were all severely unaffordable (as they had a median multiple greater than 5.0); and that of the 82 major metropolitan markets in the countries surveyed, Sydney was the second most unaffordable (it had a multiple of 9.6).<sup>2</sup>

As house prices have increased, so too have rents. In fact, the largest group of households experiencing affordability problems are households in the private rental market. High levels of rental stress mean that affordability is low and people are less able to rent housing that meets their needs. As with home ownership, affordability in the NSW rental market is also in decline. In 2007-08, 57 percent of low income households in the private rental market in NSW were in rental stress. This was the highest of all Australian jurisdictions and significantly above the national average of 47.5 percent.<sup>3</sup>

This briefing starts by defining 'housing affordability' and noting the social and other implications that arise from it, before setting out five different measures by which it is calculated. It then reviews the issues of affordability as these relate to home ownership and the private rental market. The paper ends with an overview of government initiatives and stakeholder proposals.

At the outset, 'housing affordability' is distinguished from 'affordable housing', a term that is identified with 'social' or 'public housing'. It should be noted that this issue of affordable housing is planned to be the subject of a separate publication and is not therefore dealt with in any detail in this briefing paper. The same applies in respect to population growth, which has a major impact on housing affordability.

It should be noted, too, that the focus of the paper is on housing affordability in metropolitan areas and not in rural and regional NSW where the issues concerned are somewhat different in nature and scale. To put it another way, a whole series of different housing markets operate in NSW. For example,

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<sup>1</sup> Demographia, [7<sup>th</sup> Annual Demographia International Housing Affordability Survey: 2011](#), 2011 p 8.

<sup>2</sup> Demographia, n1 pp 8-9.

<sup>3</sup> COAG Reform Council, [National Affordable Housing Agreement: Report on Performance 2008-09](#), 2010 p 58.

extensive use is made in this paper of a 2008 Senate Committee report where it is said that the "sea change" regions of NSW have distinct problems of their own. The Committee wrote: "Ballina, on the northern coast of New South Wales, also has a shortage of available land for housing. The town continues to attract retirees and its many low income earners have been priced out of the housing market". Bringing the focus back on the Sydney region, the Committee added:

The suburbs of western Sydney are a striking microcosm of the housing affordability crisis nationally. They are highly geared, on relatively low incomes, and are disproportionately represented among those areas suffering mortgage stress and falling behind on home loan repayments.<sup>4</sup>

In 2008 the top nine regions in Australia when ranked by incidence of 30 plus days of mortgage arrears were in this State, six of these in Western Sydney:<sup>5</sup>

1. Fairfield – Liverpool
2. Gosford – Wyong
3. Outer South Western Sydney
4. Outer Western Sydney
5. Newcastle
6. Central Western Sydney
7. Wollongong
8. Blacktown
9. Canterbury - Bankstown

## 2 DEFINING 'HOUSING AFFORDABILITY'

While there is no single agreed definition of 'housing affordability', the term refers broadly to a person's ability to pay for their housing. It relates to both home ownership affordability and rental market affordability. Research by the Australian Housing and Urban Research Institute (AHURI) suggested that one of the most helpful statements about what housing affordability entails is provided by Maclennan and Williams:

'Housing Affordability' is concerned with securing some given standard of housing (or different standards) at a price or rent which does not impose, in the eyes of some third party (usually government), an unreasonable burden on household incomes.<sup>6</sup>

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<sup>4</sup> Commonwealth Parliament, Legislative and General Purpose Standing Committee, Senate Committee Report into Housing Affordability in Australia (Senate [inquiry](#)), 2008, para 8.69.

<sup>5</sup> Urban Research Centre, *The experience of mortgage distress in Western Sydney*, UWS, 2010, p 13.

<sup>6</sup> D Maclennan and R Williams, *Affordable housing in Britain and America*. York. UK: Joseph Rowntree Foundation, 1990, quoted in M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, [Conceptualising and measuring the housing affordability problem](#), AHURI, 2005 p 6.

More recent research for AHURI in 2011, considered housing affordability to be:

an expression of the social and material experiences of households, in relation to their individual housing situations. Affordability expresses the challenge each faces in balancing the cost of their actual or potential housing, on the one hand, and their non-housing expenditures, on the other, within the constraints of their income.<sup>7</sup>

As noted 'housing affordability' can be distinguished from the term 'affordable housing'. In Australia, the phrase 'affordable housing' is often used as an alternative to terms such as 'public', 'social' or 'low cost' housing.<sup>8</sup> The Urban Research Centre has given the following explanation of affordable housing:

Affordable housing is housing that is appropriate for the needs of a range of low to moderate income households and priced so that low and moderate incomes are able to meet their other essential basic living costs.<sup>9</sup>

A concept closely related to housing affordability is 'housing stress'. AHURI research has written that housing stress:

encompasses a range of financial circumstances including a short-term or one-off issue of paying a mortgage deposit or rental bond, an ongoing problem for households whose income is insufficient to meet housing costs (e.g. households who have over-extended themselves and pay too much in rental or mortgage costs), and an episodic problem due to unforeseen circumstances such as redundancy or a rent rise. It can also refer to factors such as over-crowding, insecurity of tenure, and inappropriate facilities within the home.<sup>10</sup>

Housing stress can be viewed as a measure of how much a household pays for their housing as a proportion of their gross income. It can be seen therefore as one measure of housing affordability.<sup>11</sup> Several other measures used to calculate housing affordability are discussed in section 4 of this paper.

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<sup>7</sup> M Stone, T Burke and L Ralston, [The residual income approach to housing affordability: the theory and the practice, positioning paper](#), AHURI, 2011 p 8.

<sup>8</sup> Urban Research Centre, [Housing Affordability Literature Review and Affordable Housing Program Audit](#), University of Western Sydney, 2008 p 5.

<sup>9</sup> Urban Research Centre, 2008, n8, p5.

<sup>10</sup> M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, [Conceptualising and measuring the housing affordability problem](#), AHURI, 2005 p 7.

<sup>11</sup> AMP, NATSEM, [Wherever I lay my debt, that's my home](#), 2008 p 8.

### 3 THE IMPLICATIONS OF HOUSING AFFORDABILITY

The spatial, environmental, social and economic implications of housing affordability are many and varied. For example, cheaper, more affordable housing tends to be located in areas of poorer amenity, such as away from employment centres or with limited access to public transport. This in turn impacts upon employment, health and social connectedness.<sup>12</sup>

#### 3.1 Spatial and environmental implications

The delivery and location of housing has significant economic implications for both the "employment prospects of households and the functional efficiency of regional labour markets".<sup>13</sup> Gabriel et al write that

Differentials in affordability between areas may create labour market impediments by discouraging people from moving to employment in areas of low affordability and conversely discouraging migration to areas of high affordability as the low house prices and rents indicate low capital gain potential and poor employment prospects.<sup>14</sup>

Spatial disparities in metropolitan areas increase the difficulties and costs of commuting to work, particularly for low income service sector workers.<sup>15</sup> Professor Berry of the Royal Melbourne Institute of Technology wrote that where there is spatial disparity between a person's place of work and where they can afford to live:

regional labour markets will fail to operate efficiently, resulting in labour bottlenecks and surpluses, reflected in higher wages in some areas coinciding with persistent frictional unemployment in other areas. The lack of local jobs can result in the growth of deeper structural unemployment in marginalised areas, which then assumes an inter-generational character.<sup>16</sup>

A [paper](#) by the Australian Conservation Foundation and the Victorian Council of Social Service links the notion of affordability with environmental sustainability. The paper argued that housing affordability must take into account a wider range of costs than just rent or mortgage price, including such factors as

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<sup>12</sup> M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, AHURI n10, p 3.

<sup>13</sup> M Berry, [Housing Affordability and the Economy: A review of macroeconomic impacts and policy issues](#), AHURI, 2006 p 2.

<sup>14</sup> M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, AHURI n10, p 3.

<sup>15</sup> M Berry, AHURI, n13 p 2.

<sup>16</sup> M Berry, AHURI, n13, p 2.

transport and energy costs. The paper viewed congestion as a challenge closely associated with the increasing cost of travel and housing affordability. If fuel costs continue to rise, it is anticipated to have a greater than average financial impact on households in outer suburban locations, many of whom are low income earners travelling further to reach employment. Inadequate public transport in these locations encourages car dependency and often savings made through cheaper rent are offset by high travel costs.<sup>17</sup> On a similar note, the 2008 Senate Committee inquiry explained:

The way to improve housing affordability is not to build cheap houses on the outskirts of cities away from employment, services and public transport links. This simply shifts costs from housing to the cost – in dollars and time – of transport. Rather, the aim must be to build affordable housing in areas where infrastructure can provide for and attract new residents. In considering longer term changes in the housing stock, thought must also be given to it being environmentally sustainable for it to be truly 'affordable' in a broader sense.<sup>18</sup>

### 3.2 Social and economic implications

One among many implications of housing affordability is that low income households tend to suffer from rising housing prices while higher income households benefit. Richards writes in this respect:

Renters will be worse off when housing prices rise whereas those who own rental property will be better off. Owner-occupiers may be largely unaffected, since they can be thought of as being 'hedged' against increases in the cost of housing. There are also generational differences. Younger people who have not yet bought homes will be hurt by higher housing prices. Older owner-occupiers may benefit from an increase in prices if they are intending to extract part of the increased value of their homes...both home ownership and ownership of rental property tend to rise with incomes, so it is lower income households that tend to suffer from rising housing prices and higher income households that tend to gain.<sup>19</sup>

High housing costs accentuate financial hardship for low income households by leaving too little in the household budget for non-housing expenses and place some households at risk of being unable to pay their housing costs. This in turn

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<sup>17</sup> Australian Conservation Foundation and the Victorian Council of Social Service, [Housing Affordability](#), 2008 p 4.

<sup>18</sup> Commonwealth Parliament, Legislative and General Purpose Standing Committee, Senate Committee Report into Housing Affordability in Australia (Senate [inquiry](#)), 2008 p 3.

<sup>19</sup> A Richards, [Some observations on the cost of housing in Australia](#), Address to 2008 Economic and Social Outlook Conference The Melbourne Institute, 2008.



increases the potential for homelessness.<sup>20</sup> High housing costs and low affordability can also result in a widening of the wealth distribution between those able to purchase housing and those who cannot.<sup>21</sup> Professor Berry writes that access to housing is:

significantly influenced by the current distribution of income, which in turn reinforces the relative capacity of households to accumulate further wealth. The result over recent times in Australia has seen rising wealth inequalities in housing and all other assets except superannuation savings.<sup>22</sup>

A [study](#) published by AHURI in 2007 surveyed a sample of Australian home owners (with a mortgage) and renter households, to better understand housing affordability and its effects on lower-income Australians. The survey of people who had recently purchased a dwelling highlighted some of the social ramifications of high housing costs by identifying coping strategies used by those experiencing difficulty meeting their mortgage repayments and other household costs. The study found that recent home purchasers had adopted a variety of labour-market related strategies to meet their household expenses. For example, 33 percent of respondents said they were working overtime, 22 percent identified the need to find a better job and 15 percent had taken on a second job.

Employment-based means of generating additional income were especially important for lower income respondents, with 39 percent identifying overtime as a coping strategy. The study found that a "relatively strong economy and employment market" are "pivotal in helping many recent purchasers keep their heads above water."<sup>23</sup> Non-income-raising strategies were also adopted by a significant proportion of the lower-income respondents, such as increasing the balance on credit cards (30 percent), borrowing money from family and friends (27 percent) and drawing on savings (23 percent).<sup>24</sup>

More broadly, housing affordability has implications for the economy, at the national and sub-national levels. Some of the issues were discussed by Professor Berry who observed that, when house prices rise ahead of incomes, this tends to result in short-term economic growth followed by an eventual downturn. Berry writes that the consequences of a downturn can be especially

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<sup>20</sup> M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, AHURI, n10, p 3.

<sup>21</sup> M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, AHURI, n10, p 3.

<sup>22</sup> M Berry, AHURI, n13, p 1.

<sup>23</sup> T Burke and S Pinnegar with P Phibbs, C Neske, M Gabriel, L Ralston and K Ruming, [Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships](#), AHURI, 2007 p 51.

<sup>24</sup> T Burke and S Pinnegar with P Phibbs, C Neske, M Gabriel, L Ralston and K Ruming, AHURI, n23, p 51.



severe for private renters, as "landlords seek to maintain or even increase rents to compensate for declining expected capital gains on rental dwellings, supported by low vacancy rates and chronic under-supply at the bottom end of the rental market. He also suggests that one risk with rising housing stress is the threat that "housing price movements will increase the overall volatility of the economy".<sup>25</sup> Research for AHURI explained that high housing costs force households into excessive debt and makes them "sensitive" to interest rate rises. People in this position tend to reduce their consumption levels to avoid mortgage arrears thereby creating the potential for greater economic instability.<sup>26</sup> This reflects the macroeconomic scale of the housing affordability problem, for example high housing costs and debt levels often deplete a household's savings which can influence household consumption and savings decisions, with implications for the entire economy.

#### **4 MEASURING AFFORDABILITY**

Five key measures used to calculate housing affordability are discussed in this section. It is important to note that not all these measures can be applied to both home ownership and rental market affordability.

##### **4.1 The 30/40 Rule and mortgage stress incidence**

While it is generally accepted that there is a housing affordability problem in NSW, there is still debate over the threshold beyond which housing is considered unaffordable. The '30/40 rule' was introduced in 1991-1992 through the Federal Government's National Housing Strategy and refers to the point at which a household in the lowest 40 percent of income distribution spends 30 percent of its gross household income on housing costs. Anything beyond this and housing is considered to be unaffordable.<sup>27</sup> This measure can be applied to both home ownership affordability and rental market affordability.

In its 2008 report, the Senate Legislative and General Purpose Standing Committee commented that prior to the adoption of the '30/40 rule' the standard measure of affordability included all households, regardless of their income level. Thus any household spending over 30 percent of their gross income on housing costs was considered to be in housing stress. This measure was deemed inherently flawed because high income earners can spend over 30 percent of their gross income on housing and still have sufficient funds left over to pay for non-housing expenses. For this reason the '30/40 rule' is now the preferred measure. The Senate Committee explained that the 30/40 rule "is also used overseas and sometimes called the 'Ontario measure', as a guide to

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<sup>25</sup> M Berry, AHURI, n13, p iv.

<sup>26</sup> M Gabriel, K Jacobs, K Arthurson and T Burke with J Yates, AHURI, n10, p 3.

<sup>27</sup> Urban Research Centre, University of Western Sydney, n8, p 6.

eligibility for government assistance."<sup>28</sup>

Using the '30/40 rule', in 2008, it was estimated that over one million low and middle income families and singles were paying over 30 percent of their gross income on housing costs and were consequently considered to be in 'housing stress'. At the time, this represented ten percent of the Australian population.<sup>29</sup> On a more positive note, while there are large numbers of households facing stress under the 30/40 rule, very few end up defaulting or having their homes repossessed. There are also relatively few household arrears, as observed by the Reserve Bank Deputy Governor, Ric Battellino in 2008:

Housing loan arrears are probably the most tangible indicator of the extent to which households are getting into difficulty on their housing loans... while arrears rates rose somewhat between 2002 and 2006, they remain relatively low by historical standards and, in fact, they fell through much of 2007. Currently [2008], we estimate that there are about 15,000 households in Australia whose housing loans are 90 days or more in arrears. This is quite a low number for a country the size of Australia.<sup>30</sup>

The Senate Committee also drew attention to the distribution of the increase in household debt, indicating that the rise had been "overwhelmingly driven by those households that had the greatest capacity to service it – the middle-aged, high-income group."<sup>31</sup> Also, by getting ahead on their loan repayments when interest rates were low many indebted households were saved from going into arrears. For example, in 2005, around half of all indebted households, including low income households, were ahead on their loan repayments. However, it is likely that as interest rates rise, some of this buffer may be eroded.<sup>32</sup>

The Senate Committee suggested that the low level of defaults and arrears may "just be an indication of how hard Australians try to hang onto their homes even at the expense of scrimping in other 'essential' areas".<sup>33</sup> Cited by the Committee was a 2007 study of families in housing stress, based on the 30/40 rule. It found that many were going to extreme lengths to ensure they met their housing costs (Table 1). For example, 44 percent of renters in the lowest two income quartiles paying at least 30 percent of their income in rent were sometimes unable to heat or cool their home, while 40 percent of respondents' children in this group had missed school excursions or sports to ensure the household met their housing costs.

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<sup>28</sup> Senate [inquiry](#), n18, p 37, para 3.16.

<sup>29</sup> Senate [inquiry](#), n18, p 37, para 3.17.

<sup>30</sup> Senate [inquiry](#), n18, p 39, para 3.23.

<sup>31</sup> Senate [inquiry](#), n18, p 40, para 3.24.

<sup>32</sup> Senate [inquiry](#), n18, p 40, para 3.25.

<sup>33</sup> Senate [inquiry](#), n18, p 41, para 3.26.

**Table 1: Measures taken by stressed households: % of respondents<sup>34</sup>**

	Renters in lowest 2 income quartiles paying 30-40% of income in rent	Renters in lowest 2 income quartiles paying over 40% of income in rent	Home purchasers in lowest income quartile
Sometimes going without meals	21	30	10
Sometimes unable to heat or cool home	44	57	24
Children have missed school excursions or sports	40	42	23
Children go without adequate health or dental care	35	37	18
Sold or pawned personal possessions	32	34	8

The Senate Committee recognised that some households would not appear in the statistics because upon recognising that they are in arrears, they choose to sell their home before the commencement of a formal foreclosure process. Similarly, other households may prevent themselves from going into arrears by living in housing that does not meet their needs or in a location that requires a long commute to work.<sup>35</sup> Yates and Gabriel explain that the 30/40 ratio "provides a conservative estimate of the numbers of lower income households in housing stress compared with alternative residual measures."<sup>36</sup>

## 4.2 Residual income

The residual income measure is concerned with the connection between housing costs and living standards. It measures the disposable income of a household after housing costs have been paid and examines the adequacy of a household's disposable income at this point and its capacity to maintain an acceptable standard of living with this income.<sup>37</sup> The residual income method recognises that housing costs are the largest and least flexible expense on after-tax income for most households. For this reason, the amount of money a household has to spend on non-housing expenses tends to be determined by how much income is left after paying housing costs. This means that a household has a housing affordability problem if it cannot meet its non-housing expenses after paying for housing.<sup>38</sup>

The appropriate indicator to measure the "tension" between housing costs and

<sup>34</sup> Source: Senate [inquiry](#), n18, p 41.

<sup>35</sup> Senate [inquiry](#), n18, pp 41-42, para 3.28-3.29.

<sup>36</sup> J Yates, M Gabriel, [Housing Affordability in Australia](#), AHURI, 2006 p viii.

<sup>37</sup> M Stone, T Burke and L Ralston, [The residual income approach to housing affordability: the theory and the practice, positioning paper](#), AHURI, 2011 p 5.

<sup>38</sup> M Stone, T Burke and L Ralston, AHURI, n37, p 5.

incomes is the difference between them, that being the residual income after paying for housing—rather than the ratio (i.e. the 30/40 rule ratio). Thus by focusing on a household's "after housing" and "after tax" disposable income, residual income usually measures the minimum acceptable levels of income required to meet non-housing expenses.<sup>39</sup> This method establishes benchmarks that reflect household differences, such as household size and type and the measure is usually based on social welfare policies, minimum income levels and household budget standards. Peter Smith has written that:

Whilst it is impossible to develop benchmarks that are applicable for all households, the indicative benchmarks at the very least provide means for individual households to compare their individual circumstances.<sup>40</sup>

The residual income measure is recognised as having played a role in setting the rent levels in the early years of Australia's public housing system. According to Smith, there is potential to develop this measure further as a tool for individual households to examine their 'after housing' disposable income and upon which to make informed assessments about whether that income is sufficient based on their individual circumstances. The measure would rely on a "detailed analysis of both housing and non-housing consumption and expenditure patterns."<sup>41</sup> Yates and Gabriel consider the main advantage of the residual measure to be its ability to consider the impact of household structure on household needs by taking into account differences in non-housing needs for different household types. However, they emphasise that this is also a weakness of the measure because it requires a judgement to be made as to what these non-housing needs are. A perceived further weakness of the residual measure is that it imposes "more onerous data requirements and can be complex and time consuming."<sup>42</sup>

### 4.3 Accessibility/deposit gap

Peter Smith explained that the main variables used in the accessibility/deposit gap method of affordability measurement are house prices, pre-purchase costs, purchaser savings/deposit levels and the purchaser's maximum borrowing capacity.<sup>43</sup> This method only applies to home ownership and attempts to measure the savings/deposit required to purchase a home and the ability of the purchaser to secure the necessary mortgage for the purchase. Dr. Smith noted that often this is seen as the difference between house prices and the maximum

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<sup>39</sup> Dr P Smith, Home Ownership Affordability Measurement - A More Comprehensive and Unbiased Approach, Referee papers presented at the 4<sup>th</sup> Australasian Housing Researchers Conference, 2009 p 3.

<sup>40</sup> Dr P Smith, n39, p 4.

<sup>41</sup> Dr P Smith, n39, p 4.

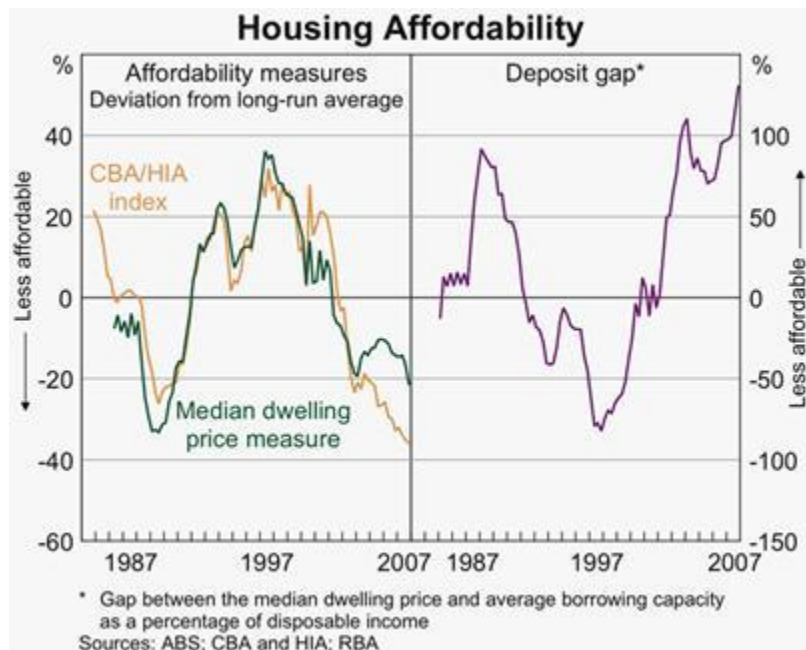
<sup>42</sup> J Yates, M Gabriel, AHURI, n36, p 36.

<sup>43</sup> Dr P Smith, n39, p 2.

borrowing capacity of households, or the gap that needs to be made up by a deposit.<sup>44</sup>

An example of this type of measure is the 'affordability index' compiled by the Commonwealth Bank and the Housing Industry Association (CBA/HIA). The 2008 Senate Committee Inquiry Report identified the 'affordability index' as a commonly-cited measure which takes into account the level of interest rates. The Senate Committee explained that the CBA/HIA index is "calculated as the monthly loan repayment on a typical 25-year mortgage loan large enough to pay 80 percent of the cost of a house with the median price paid by first home-buyers, relative to household income."<sup>45</sup> The 'deposit gap', which is shown in the right-hand panel in Figure 1, is the amount by which the average house price exceeds the amount a household on the average income can borrow. In 2008, this gap was at record highs, suggesting the heightened difficulty for people wishing to purchase a property. It also suggests that the longer a household defers the purchase of a home, the fewer working years they will have to repay their mortgage.<sup>46</sup>

Figure 1:<sup>47</sup>



<sup>44</sup> Dr P Smith, n39, p 3.

<sup>45</sup> Senate inquiry, n18, p 32, para 3.5.

<sup>46</sup> Senate [inquiry](#), n18, p 32-33, para 3.6.

<sup>47</sup> Senate [inquiry](#), n18, p 34.

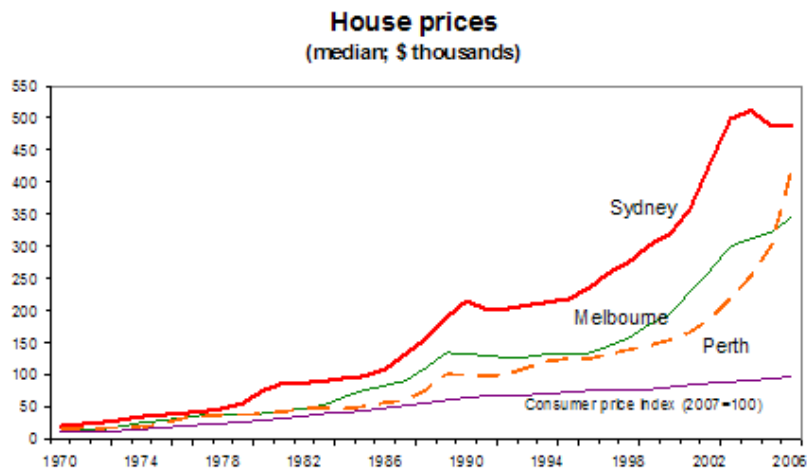
#### 4.4 House price compared to consumer prices or incomes

Another measure of affordability outlined by the Senate Committee is the comparison of house prices with consumer prices or incomes. Using this method, Figure 2, shows that house prices have increased markedly in recent years, by much more than either consumer prices or incomes.

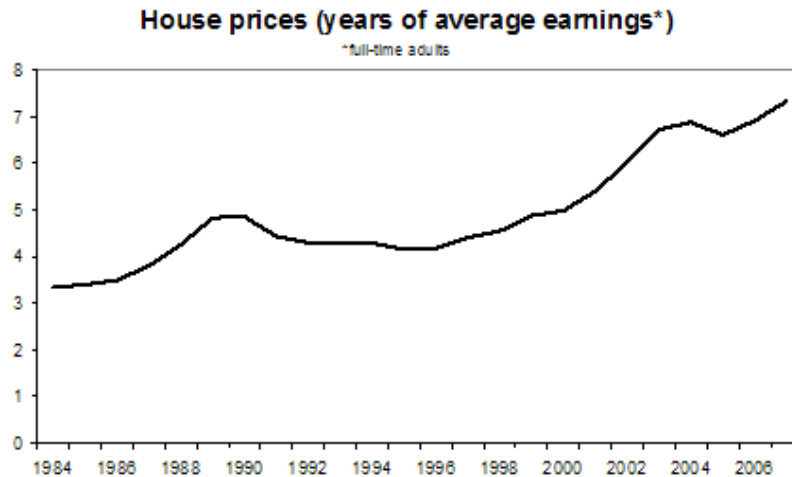
In 1970, both the median house price in Sydney and the consumer price index were less than \$50,000. By 2007, Sydney's median house price had raced ahead to over \$450,000, while the consumer price index sat at \$100,000. Based on this measure, it can be seen that housing affordability in Sydney has been deteriorating at an increasing rate since the 1970s.

The situation in Melbourne and Perth has been similar to that for Sydney. Furthermore, in 1984 the average house price in Australian capital cities was just over three times average earnings. However, by 2007 it had risen to over seven times average earnings (Figure 3). In applying this method, the measure again indicates a decline in affordability over time.

Figure 2<sup>48</sup>



<sup>48</sup> Source: Based on splicing ABS house price data from ABS Cat no. 6416.0 to earlier estimates from Abelson and Chung (2004); the CPI series was constructed by splicing data from ABS Cat no. 6401.0 to that in the ABS 2008 *Australia Yearbook*. Reproduced in the Senate Committee [Inquiry](#) Report, 2008 p 31.

Figure 3<sup>49</sup>

#### 4.5 Effects on home ownership rates

Another approach to assessing the affordability of home ownership is to look at home ownership rates. In Australia, the "overall home ownership rate dropped only marginally, from 66 percent to 65 percent, between the 2001 and 2006 censuses."<sup>50</sup> However, within this period, the proportion of households who owned their home outright dropped from 40 percent to 33 percent.<sup>51</sup>

The age of first home buyers has also been increasing, with home ownership rates for those aged under 35 in decline. The Senate Committee explained that this may reflect a "mix of changing preferences and affordability issues", such as people studying longer and getting married later.<sup>52</sup> The Senate Committee further noted concerns surrounding the number of people reaching retirement age who have not paid off their mortgages. In 2008, this was estimated at around a tenth of these people.<sup>53</sup>

The review of these methods of measuring housing affordability suggests that each method produced a different result

<sup>49</sup> Source: Based on splicing ABS house price data from ABS Cat no. 6416.0 to earlier estimates from Abelson and Chung (2004); the CPI series was constructed by splicing data from ABS Cat no. 6401.0 to that in the ABS 2008 *Australia Yearbook*. Reproduced in the Senate Committee [Inquiry](#) Report, 2008 p 31.

<sup>50</sup> Senate [inquiry](#), n18, p 42 para, 3.30.

<sup>51</sup> Senate [inquiry](#), n18 p 42 para, 3.30.

<sup>52</sup> Senate [inquiry](#), n18, p 42, para 3.30.

<sup>53</sup> Senate [inquiry](#), n18 p 42, para 3.33.

## 5 HOME OWNERSHIP AFFORDABILITY

### 5.1 History of house prices and affordability

According to Anthony Richards, Head of the RBA's Economic Analysis Department, since 1972 house prices in Australia have risen faster than average household incomes.<sup>54</sup> One observation is that the turning point in the 1970s occurred when "inflation took over and housing became important as an asset rather than as something that provided shelter."<sup>55</sup> Less than a decade later, between June 1989 and June 1990, Australia experienced its lowest level of housing affordability when interest rates peaked at 17.5 percent.<sup>56</sup>

As shown in Table 3, in less than four decades, the median house price in Sydney grew from \$68,850 in 1970 to \$530,000 in 2007 and it more than doubled between 1980 and 1990.

**Table 3: Annual median house prices (\$) in Sydney<sup>57</sup>**

Year	Sydney
1970	18,700
1975	34,300
1980	68,850
1985	88,350
1990	194,000
1995	196,750
2000	287,000
2005	525,100
2007	530,000

From the late 1990s to December 2002, strong growth was experienced in real house prices across most Australian capital cities and in many coastal areas. Commonwealth Treasury explained that this growth was in part fuelled by investors in the property market seeking to take advantage of lower interest rates, which were at a low of 6.8 percent in January 2000 [Table 4].

More first home owners were also encouraged to enter the market to take advantage of the First Home Owners' Scheme introduced in 2000.<sup>58</sup> The Commonwealth Treasury went on to say in its Autumn 2003 Economic Roundup:

<sup>54</sup> A Richards, n19.

<sup>55</sup> Senate [inquiry](#), n18 p 183 para 11.2.

<sup>56</sup> R Thrift, [Housing Costs and Affordability in Australia](#), 2008 p 2.

<sup>57</sup> Sources: P Abelson and Demi Chung, *The Real Story of Housing Prices in Australia from 1970 to 2003*, 2006, p.10 and ABS, [House Prices](#), 2007 and R Thrift, [Housing Costs and Affordability in Australia](#), 2008.

<sup>58</sup> Commonwealth Treasury, [Economic Roundup Autumn 2003](#), 2003.



Nevertheless, new house owners have taken on higher levels of debt compared to their income. This makes them more vulnerable to any future interest rate increases (bearing in mind that interest rates are at near historical lows) or a loss in real disposable income. While there are signs that house price growth may have started to abate, any continuation of house price growth at rates experienced over recent years would reduce housing affordability.

**Table 4: Standard variable home loan interest rates 1980-2007<sup>59</sup>**

Month-Year	Rate (%)
January 1980	9.13
January 1985	11.50
January 1990	17.00
January 1995	10.5
January 2000	6.80
January 2005	7.05
January 2007	7.80
January 2009	6.85
January 2011	7.80

Writing in 2006, Nouriel Roubini from the University of New York explained that upon recognising its growing affordability problem, Australia took measures to stop the "housing bubble" without having "severe effects on growth of asset markets." Roubini wrote that in Australia:

the monetary authorities became seriously concerned about the risks of a housing bubble that had gotten out of control in 2002 (with Sydney house prices increasing as much as 50%). The monetary tightening started in 2003, and by the spring of 2005 short term interest rates in Australia were at a four year high. The monetary tightening succeeded in stopping the housing bubble without having severe effects on growth or asset markets. If anything, the reduced risk of a collapse of housing, because of the pre-emptive monetary tightening, benefited asset prices. Indeed, the local stock market was up 10% in the summer of 2005 relative to its level at the start of the year. The soft landing of the economy was so successful that Australia has...been referred to as a "nirvana" or "goldilocks" economy.<sup>60</sup>

Despite the "housing bubble" being successfully managed, in 2008 housing affordability had slumped to its lowest level since 1990, with a very small proportion of homes sold nationally (only 3 percent) affordable to low-income households.<sup>61</sup> In NSW, only 3.6 percent of homes sold were affordable to low

<sup>59</sup> Source: Loan sense, [Home loan F05 Indicator Lending Rates](#), 2011. Based on dated from RBA and Australian Interest rates from 1959-2011.

<sup>60</sup> N Roubini, [Why Central Banks Should Burst Bubbles](#), Stern School of Business, New York University, 2006 p 11.

<sup>61</sup> Low-income households are classified by the COAG Reform Council as those with equivalised disposable household income around the 30th percentile (where the first

income households. In its 2010 report the COAG Reform Council found that for moderate income households, many more homes were affordable than to low income households. However, the COAG Reform Council did note that the proportion affordable to moderate income households "is rather a low result, given that moderate-income households are those at the 60th percentile and therefore have above-average incomes."<sup>62</sup>

Figure 4 shows that in NSW, 27.4 percent of homes sold in 2007-2008 were affordable to moderate income households; this was very close to the national average (27.5 percent). Comparatively, the highest proportion of homes affordable to moderate income households was in Victoria (40.6 percent), while Western Australia recorded the lowest proportion of homes affordable to moderate income households (9.8 percent). Available data also shows that across all States and Territories affordability was higher outside capital cities. In NSW, 29.3 percent of homes sold outside Sydney were affordable to moderate-income households in 2007-2008.<sup>63</sup>

**Figure 4: Proportion of homes sold that were affordable to moderate-income households, 2007-08<sup>64</sup>**



Richards recorded a significant improvement in affordability in 2008-2009 by

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percentile has the lowest income—see appendix B for an explanation of equivalised disposable household income). The maximum affordable home price for low-income households is calculated by: identifying all households in the 29th, 30th and 31st percentiles of equivalised disposable household income (the three-percentile range is used to reduce the risk of anomalous results which could arise from relying on only one percentile); finding, among households in this range, the median gross household income; determining the maximum amount that a household could spend on a home purchase without repayments exceeding 30 per cent of this gross income figure.

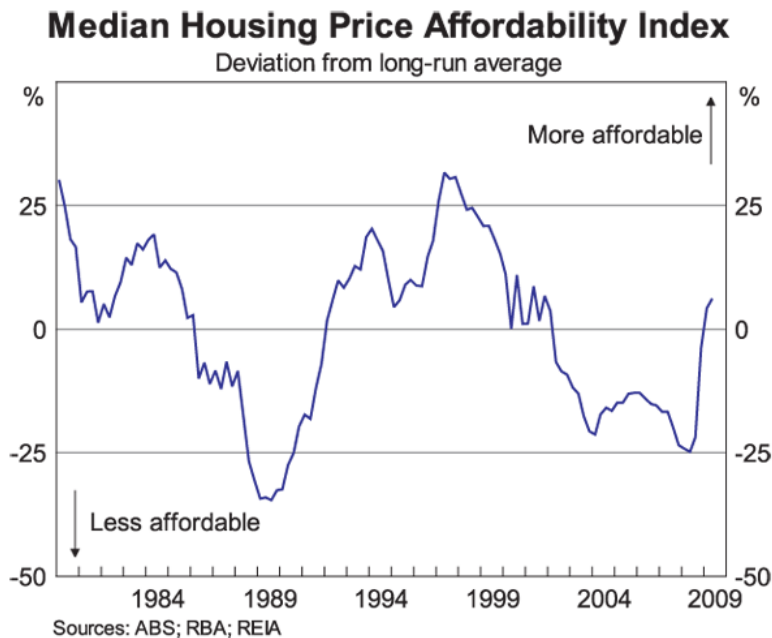
<sup>62</sup> COAG Reform Council, n3, p 68.

<sup>63</sup> COAG Reform Council, n3, p 69.

<sup>64</sup> COAG Reform Council, n3, p 69.

measuring affordability using "the ratio of average household disposable income to the principal and interest repayments on a new mortgage for a median-priced dwelling"<sup>65</sup> (Figure 5). Speaking in September 2009, Richards considered the improvement in affordability in 2008-2009 to be "mainly due to movements in interest rates rather than in house prices", with mortgage rates "particularly low at present".<sup>66</sup> However, he did warn that interest rates would not remain this low indefinitely and that when they do rise towards "more normal levels, discussions of housing affordability will again focus more on the level of housing prices relative to incomes."<sup>67</sup>

**Figure 5**



In March 2011, Shelter NSW reported that Sydney had the "most heated market for private housing amongst capital cities in Australia".<sup>68</sup> From September 2008 to September 2010, median prices for non-strata dwellings in Sydney increased by 22.8 percent and by 14.9 percent across NSW. Based on a report by the NSW Valuer General, it was said that in September 2010 one percent of home purchase stock was found to be affordable for very low income households, six percent was affordable for low income households, and 25 percent was affordable to moderate income households.<sup>69</sup>

<sup>65</sup> A Richards, [Housing Market Developments](#), Talk to CEDA Housing Forum: A National Round-up, 2009.

<sup>66</sup> A Richards, n65.

<sup>67</sup> A Richards, n65.

<sup>68</sup> Shelter NSW, [NSW housing factsheet](#), 2011 p 4.

<sup>69</sup> Shelter NSW, n68, p 4.

According to Shelter NSW, and as shown in Table 5, "although the overall trend in house prices in NSW is upward, there is some variation amongst local housing markets in terms of the extent of the increase."<sup>70</sup>

**Table 5: Variation in median sales price for strata dwellings in select NSW LGAs<sup>71</sup>**

LGA	Median sale price Sept 2008	Median sale price Sept 2010	% Increase
Gosford	\$292,000	\$303,000	3.8
Manly	\$618,000	\$678,000	9.7
Penrith	\$245,000	\$275,000	12.2
Port Stephens	\$300,000	\$340,000	13.3

Based on CommSec's January 2011 *State of the States* report, Table 6 shows that in the September Quarter 2010, wages in NSW experienced an annual change of 4.2 percent.

**Table 6: Annual percentage change in wages and home prices, September Quarter 2010<sup>72</sup>**

	Wages	Consumer prices	Home prices
NSW	4.2	2.6	6.7
Victoria	4.7	3.1	9.5
Queensland	4.3	2.9	-0.7
South Australia	2.2	2.6	3.9
Western Australia	5.3	3.1	-2.3
Tasmania	6.4	2.8	-1.4
Northern Territory	7.2	2.3	8.4
ACT	7.0	2.1	6.9

The same CommSec report went on to say:

Home prices have continued to ease across Australia in recent months in response to an increased supply of new homes and softer demand. But growth rates vary markedly across economies. Melbourne continues to lead the way with home prices up 9.5 per cent on a year ago but in Brisbane, Perth and Hobart home prices are now lower than a year earlier. Real wage growth should be maintained across capital cities in 2011 but for those cities still recording solid growth in home prices, further softening can be expected with growth rates congregating between 3-5 per cent.<sup>73</sup>

<sup>70</sup> Shelter NSW, n68, p 5.

<sup>71</sup> Source: Shelter NSW, n68, p 5.

<sup>72</sup> Source: CommSec, [State of the States](#), 17 January 2011 p.6.

<sup>73</sup> CommSec, [State of the States](#), n72, p 6.

Preliminary estimates from the ABS show the price index for established houses<sup>74</sup> for the weighted average of the eight capital cities decreased 1.7 percent in the March quarter 2011. However, annually (March 2010-March 2011), house prices increased in Sydney by 0.8 percent.<sup>75</sup>

## 5.2 Housing affordability for key workers

The Bankwest Third Key Worker Housing Affordability [Report](#) 2011 found that 84 percent of Sydney's LGAs in 2010 were unaffordable for key workers (police, teachers, nurses, fire fighters and ambulance officers) looking to buy a house. This was up from 77 percent in 2009. However this finding did reflect an improvement from 2005, when 95 percent of LGAs were calculated to be unaffordable. The report classified an area as unaffordable if median house prices are more than five times a key worker's annual earnings.<sup>76</sup> The Report found that police, teachers, nurses, fire fighters and ambulance officers are finding it difficult to enter the Sydney property market, a trend that is reflected in other Australian capital cities, with the exception of Hobart. In regional NSW, 75 percent of LGAs in 2010 were categorised as affordable, with house prices less than five times the salaries of key workers.<sup>77</sup>

The report also found that many key workers are renting for longer or buy in locations where they face both a long commute into work and higher transport costs. The study noted that by key occupation, nurses face the most affordability related problems.<sup>78</sup> The Property Council of Australia (PCA) confirmed the Bankwest report findings, stating:

Housing affordability is a social problem, it is an economic problem, key workers – vital to a diverse and competitive economy – are already being priced out of the housing market.<sup>79</sup>

Tables 7 and 8 show the five least affordable and five most affordable LGAs for key workers in Sydney. The tables show that the least affordable LGAs are located within close proximity of the Sydney CBD, while the most affordable are located in outer areas of Sydney, further from employment centres and in some

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<sup>74</sup> Established houses means detached residential dwellings on their own block of land regardless of land (i.e. including new houses sold as a house/land package as well as second-hand houses).

<sup>75</sup> Australian Bureau of Statistics, [House Price Indexes: Eight Capital Cities](#), 2011.

<sup>76</sup> Bankwest, [Property pain – key workers struggle in Sydney](#), media release, 10 March 2011 p 1.

<sup>77</sup> Bankwest, n76, p 1.

<sup>78</sup> Bankwest, n76, p 1.

<sup>79</sup> Property Council of Australia, [Improving Housing Affordability in NSW A Plan For Industry and Government](#), 2006 p 5.

cases serviced by limited public transport options.

**Table 7: Five least affordable LGAs for key workers in Sydney (median house price)<sup>80</sup>**

LGA	Median House Price \$ (2010)
Mosman	2,484,000
Woollahra	2,166,000
Waverly	1,744,500
Hunters Hill	1,714,000
North Sydney	1,561,500

**Table 8: Five most affordable LGAs for key workers in Sydney (median house price)<sup>81</sup>**

LGA	Median House Price \$ (2010)
Wyong	327,000
Campbelltown	327,000
Wollondilly	358,000
Penrith	368,500
Blacktown	391,500

### 5.3 Mortgage stress for low and moderate income households

A [report](#) prepared by AMP and the National Centre for Social and Economic Modelling Pty Limited (NATSEM) in 2008 explained that mortgage stress is a measure of how much purchasers and owners pay for their housing as a proportion of their income,<sup>82</sup> as typically defined by reference to the "30/40 rule". The 2008 Senate Inquiry commented:

The concept of mortgage stress refers to current rather than aspiring homebuyers. As home prices have increased, the size of the average mortgage has risen, taking household debt to a record proportion of income.<sup>83</sup>

The University of Western Sydney's Urban Research Centre identified the following groups as those most likely to experience mortgage stress: (a) sole parents and families with young children on low incomes; (b) low-income single people; (c) older Australians; and (d) households buying their first homes.<sup>84</sup>

Mortgage stress can result in arrears in mortgage payments to defaults,

<sup>80</sup> Source: Bankwest, n76, p.2.

<sup>81</sup> Source: Bankwest, n76, p.2.

<sup>82</sup> AMP, NATSEM, n11.

<sup>83</sup> Senate [inquiry](#), n18, p 34 para. 3.10.

<sup>84</sup> Urban Research Centre, University of Western Sydney, n8, pp 13-14.

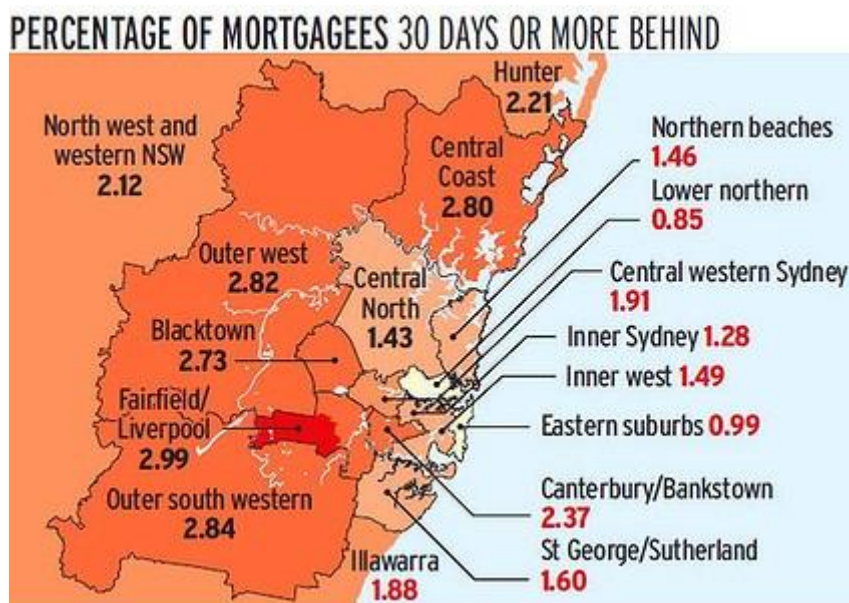


foreclosures and repossessions.<sup>85</sup> The impacts of mortgage stress are described as "complex" and include issues relating to the ongoing financial viability of the affected households, wider neighbourhood effects, and a range of psychological and social impacts.<sup>86</sup> The Urban Research Centre further explained that over the last decade, easier access to finance has enabled people who would previously have failed to satisfy the standards or criteria to qualify for a loan, the opportunity to borrow significant sums of money.<sup>87</sup>

The COAG Reform Council found that, in NSW in 2007-2008, 49.3 percent of low income households with a mortgage were in mortgage stress.<sup>88</sup> This was above the national average of 46.6 percent.

An [article](#) published in the *Sydney Morning Herald* on 15 June 2011 explained that mortgage repayments in NSW are "deteriorating rapidly with as many as one in 50 NSW mortgage holders behind on repayments".

### Map 1



As shown in Map 1, Fairfield/ Liverpool was the worst performing region in NSW, with 2.99 percent of mortgages at least one month overdue. The article

<sup>85</sup> Urban Research Centre, [The Experience of Mortgage Distress in Western Sydney](#), University of Western Sydney, 2010 p 6.

<sup>86</sup> Urban Research Centre, University of Western Sydney, n85, p 9.

<sup>87</sup> Urban Research Centre, University of Western Sydney, n85, p 6.

<sup>88</sup> COAG Reform Council, n3, p 74. However, the COAG Reform Council noted that at this level of disaggregation, the data is not sufficiently robust to make inter-jurisdictional comparisons, other than the rate of mortgage stress in Tasmania is significantly below the national average (at 25.8 percent).

quoted a report by JPMorgan which considered the deterioration in mortgage repayments to be a consequence of the increase in loans issued in 2009 after interest rates were cut in response to the global financial crisis and also the doubling of the first homeowners' grant. The report predicted that if interest rates rise so too will the number of arrears.

## 6 RENTAL MARKET AFFORDABILITY

Although affordability problems for home buyers tend to receive the most media attention, the largest group of households experiencing such problems are households in the private rental market. For renters, housing affordability refers to the relationship between rents and incomes. High levels of rental stress mean that affordability is low and that people are less able to rent housing that meets their needs.<sup>89</sup> According to the [ABS](#), "in general, lower income is associated with higher rates of renting, and as income rises the likelihood of renting falls."<sup>90</sup> However, it is important to note that "although it is often the case that renting is associated with lower income, there are a considerable number of high income households which by choice or circumstance are renting."<sup>91</sup> High income renters tend to be younger, childless households.<sup>92</sup>

Rental prices in Sydney continue to rise. In the December 2010 quarter, the median rent for all dwellings in the Sydney Statistical Division increased by \$10 to \$430 per week. Median rent prices were most expensive in Sydney's Inner Ring, currently \$520 per week, followed by \$430 per week for the Middle Ring, and \$370 per week for the Outer Ring.<sup>93</sup> Table 9, shows location based variation in rent increases for a one bedroom dwelling in a sample of NSW LGAs.

**Table 9: Median weekly rents for one bedroom dwellings in sample of NSW LGAs<sup>94</sup>**

LGA	Median weekly rent Dec 2008	Median weekly rent Dec 2010	% Increase
Gosford	\$190	210	10.5
Manly	\$400	\$450	12.5
Penrith	\$180	\$213	18.3

<sup>89</sup> COAG Reform Council, n3, p 54.

<sup>90</sup> Australian Bureau of Statistics, [Renter Households](#), 4102.0 – Australian Social Trends, 2008.

<sup>91</sup> Australian Bureau of Statistics, n90.

<sup>92</sup> Australian Bureau of Statistics, n90.

<sup>93</sup> Anglicare Sydney, [Rental Affordability Snapshot](#), 2011 p 4.

<sup>94</sup> Source: Shelter NSW, n68, p 10.



Based on Anglicare's figures published in 2011, the greatest increases in the median rent price in Sydney have been as follows:

- 11 percent in the last 12 months for a 1 bedroom unit (Outer Ring).
- 10 percent in the last 12 months for a 2 bedroom unit (Inner Ring).
- 7.6 percent in the last 12 months for a 2 bedroom house (Middle Ring).
- 10.6 percent in the last 12 months for a 3 bedroom house (Inner Ring).<sup>95</sup>

Outside the greater Sydney metropolitan region, median rents for new tenancies for two-bedroom flats/units increased by 2.6 percent in the December quarter 2010 and by 8.1 percent over a 12-month period.<sup>96</sup> Median rents for three-bedroom separate dwellings remained unchanged in the December quarter 2010, but increased by 8 percent over a 12-month period.<sup>97</sup>

### 6.1 Rental affordability for low income earners

According to the [ABS](#) "households with lower incomes are generally more sensitive to rising housing costs than other households."<sup>98</sup> The Urban Research Centre identified that the groups most likely to experience rental stress are predominately the same groups as those most likely to experience mortgage stress:

- Sole parents and families with young children on low incomes.
- Low-income single people.
- Older Australians.
- Households renting in the private market.<sup>99</sup>

In 2005-06, 32 percent of all renter households were classified as lower income households, with 74 percent of these renting in the private rental market.<sup>100</sup> In 2007-08, 45.7 percent of low income renter households in NSW (including all household types i.e. private and social housing markets) were in rental stress. This was the highest of all Australian jurisdictions and significantly above the national average (37.2 percent).<sup>101</sup> The high NSW average was attributed to the disposable income levels for low-income households being a little below the

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<sup>95</sup> Anglicare Sydney, n93, p 4.

<sup>96</sup> Shelter NSW, n68, p 10.

<sup>97</sup> Shelter NSW, n68, p 10.

<sup>98</sup> Australian Bureau of Statistics, n90.

<sup>99</sup> Urban Research Centre, University of Western Sydney, n8, pp 13-14.

<sup>100</sup> Australian Bureau of Statistics, n90.

<sup>101</sup> COAG Reform Council, n3, p 57.

national average, while rental costs were high.<sup>102</sup>

When the private rental market is separated from the social housing sector, rental stress is markedly higher in the private rental market. In 2007-08, NSW recorded the highest percentage of low income households in the private rental market in rental stress at 57 percent. This was considerably higher than the national average (47.5 percent).<sup>103</sup>

Shelter NSW found that in 2006, there was a shortage of 44,000 affordable and available private rental stock for very low income households in Sydney, 5,900 in Newcastle and 3,200 in Wollongong.<sup>104</sup> According to Shelter NSW, for households with very low to moderate incomes in NSW, there is still a shortage of dwellings for rent in the private market. Based on Rental Bond Board figures, in September 2010:

- 13 percent of rental stock was affordable for very low income households.
- 31 percent was affordable for low income households.
- 68 percent was affordable for moderate-income households.<sup>105</sup>

Over three days in April 2011, Anglicare Sydney conducted a [Rental Affordability Snapshot](#) for low-income households in Sydney and the Illawarra. The study focused on rental affordability in the private rental sector for people who receive government benefits. The project involved examining 10,000 rental advertisements in the Sydney and Illawarra Statistical Divisions which were sorted into 17 smaller regional areas for analysis and reporting purposes.

Over this period, there were 9,409 properties available for private rent in the Sydney division. Of these, a maximum of 72 properties were affordable (measured by a household spending no more than 30 percent of income on housing) and appropriate,<sup>106</sup> without placing households reliant upon government benefits into rental stress.<sup>107</sup> By the same measure, Anglicare found that "of the 14 subdivisions in the Sydney Statistical Division, eight subdivisions failed to record any affordable and appropriate rental properties in the less than 30-percent-of income band, irrespective of the household type

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<sup>102</sup> COAG Reform Council, n3, p 57.

<sup>103</sup> COAG Reform Council, n3, p 58.

<sup>104</sup> Shelter NSW, n68, p 9.

<sup>105</sup> Shelter NSW, n68, p 9.

<sup>106</sup> Appropriateness was considered using the following criteria:

- a room in a share house or bedsit was considered only suitable for a single person
- a 1-2 bedroom property was considered suitable for a single person or couple
- a 2-3 bedroom property was considered suitable for parents with children, depending on the number of children

<sup>107</sup> Anglicare Sydney, n93, p 10.

selected."<sup>108</sup> In the Outer Ring subdivisions, for the less than 30 percent of income band only one property was found in Outer South Western Sydney, three in Western Sydney, three properties in the Blacktown subdivision, and four properties in the Fairfield-Liverpool subdivision.<sup>109</sup>

More than half of the affordable and appropriate rental properties in the 30 percent income band were located in the Gosford-Wyong subdivision. However in many cases rental properties in this subdivision were serviced by limited public transport and in some instances were up to a two hour commute from the Sydney Central Business District. The snapshot also highlighted that subdivisions in the lower socioeconomic areas of Sydney were unexpectedly unaffordable for low and fixed income earners, such as Central Western Sydney, Fairfield-Liverpool, Outer South Western Sydney and Outer Western Sydney.<sup>110</sup>

The Illawarra Statistical Division was included in the Anglicare snapshot "in recognition of its role as a dormitory area for Sydney, where people commute to Sydney for work."<sup>111</sup> There, the affordable rental property situation was found to be similar to that for the Sydney statistical division. Anglicare Sydney commented that "there was almost no accommodation for single recipients of the Newstart Allowance, Youth Allowance or Austudy, but the higher rate of the Single Aged and Disability Support Pension yielded better results for these recipients."<sup>112</sup>

Anglicare Sydney considered some of the barriers faced by low income households in obtaining private rental housing as: limited access to public transport; lower literacy and English language skills; or not having a private rental history.<sup>113</sup> It further explained that, as a result of long waiting lists for public housing, low income households:

are forced to compete for rental housing on the private rental market, with working, middle-income or high-income households. As a consequence of a national public and private housing shortage, affordability is becoming a distant dream for these households as rental prices and cost of living pressures continue to rise.<sup>114</sup>

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<sup>108</sup> Anglicare Sydney, n93, p 10.

<sup>109</sup> Anglicare Sydney, n93, p 10.

<sup>110</sup> Anglicare Sydney, n93, p 35.

<sup>111</sup> Anglicare Sydney, n93, p 35.

<sup>112</sup> Anglicare Sydney, n93, pp 10-11.

<sup>113</sup> Anglicare Sydney, n93, p 35.

<sup>114</sup> Anglicare Sydney, n93, p 3.

The University of New South Wales City Futures Research Centre explained that as the sector has contracted in inner city areas, lower income households in the private rental sector have been increasingly dispersed into outer suburbs. These areas tend to have lower levels of employment opportunity and significantly poorer public transport infrastructure. The research found that 53 percent of private rental lower income households in Sydney live in flats, while between 60 and 70 percent of these are lone person households and single parent families.<sup>115</sup>

[Research](#) into affordability, occupation and location outcomes for renters and owners alike suggests that people who live and work in inner city areas experience greater housing affordability problems compared to those who work in the inner city but live elsewhere. Yates et al, conclude:

The consequence is that the inner high cost regions of the city will be populated by the young, those who rent, the affluent and those without children. This suggests a bigger issue that needs to be addressed is whether such spatially polarised cities are sustainable in the long run.<sup>116</sup>

In effect, a lack of appropriate affordable housing means that many workers either pay a high proportion of their incomes to live in expensive inner city areas or choose to live in cheaper outer suburbs but travel longer distances to work in their chosen location.<sup>117</sup>

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<sup>115</sup> University of New South Wales City Futures Research Centre, [Senate Inquiry into Housing Affordability in Australia](#): Submission, 2008 p 3.

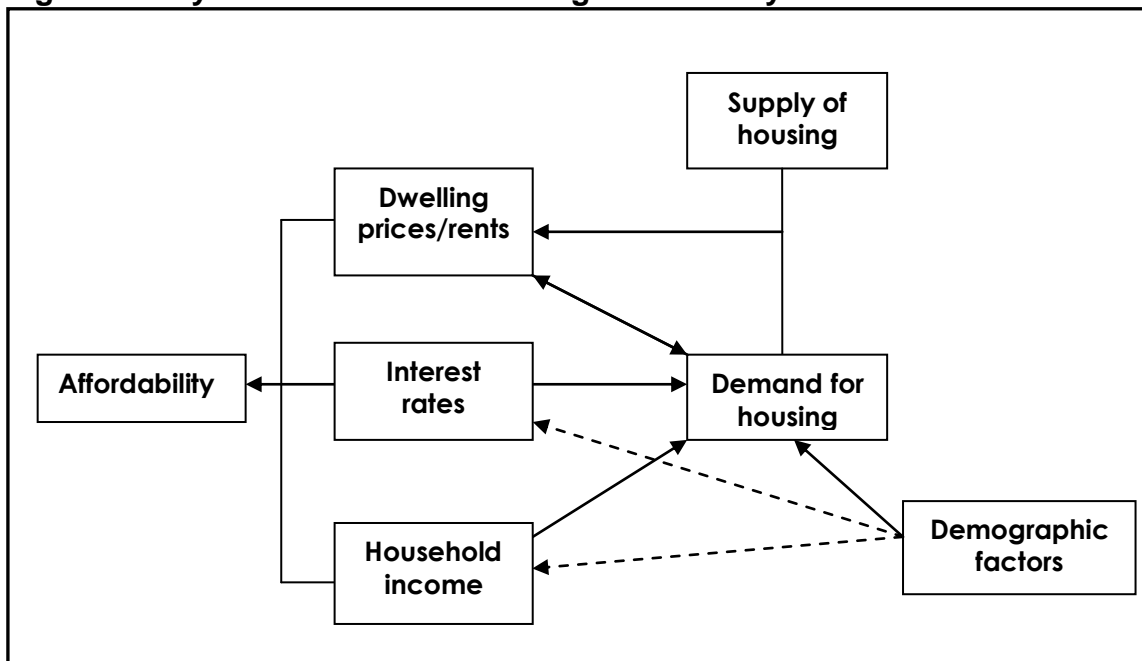
<sup>116</sup> J Yates, B Randolph, D Holloway, [Housing Affordability occupation and location in Australian cities and regions](#), AHURI, 2006 p x – xi.

<sup>117</sup> Urban Research Centre, University of Western Sydney, n8, pp 13-14.

## 7 FACTORS AFFECTING HOUSING AFFORDABILITY

Research published by AHURI in 2007 suggested that the "causes of affordability problems are complex and diverse" with "major driving factors...found both within the housing system and beyond it."<sup>118</sup> Figure 6 illustrates that the two pivotal factors are the supply of, and demand for housing, with a host of other issues in turn influencing housing demand.

**Figure 6: Key determinants of housing affordability<sup>119</sup>**



### 7.1 Increased demand for housing

For the Senate Committee, many issues are considered to be responsible for the increase in demand for housing and in particular for home ownership, including:

- Higher incomes and more double income households.
- Decreasing average household size due to later marriage, fewer children and increased incidence of separation and divorce.
- Population growth underpinned by higher immigration rates.
- Decline in standard home loan interest rates from the mid 1990s to early 2002 reflecting a low inflation environment.
- Greater credit availability including from non-bank lenders.

<sup>118</sup> J Yates, V Milligan with M Berry, T Burke, M Gabriel, P Phibbs, S Pinnegar and B Randolph, [Housing Affordability: a 21<sup>st</sup> Century problem](#), AHURI 2007 p 1.

<sup>119</sup> Source: J Yates, V Milligan with M Berry, T Burke, M Gabriel, P Phibbs, S Pinnegar and B Randolph, [Housing Affordability: a 21<sup>st</sup> Century problem](#), AHURI 2007 p 14.

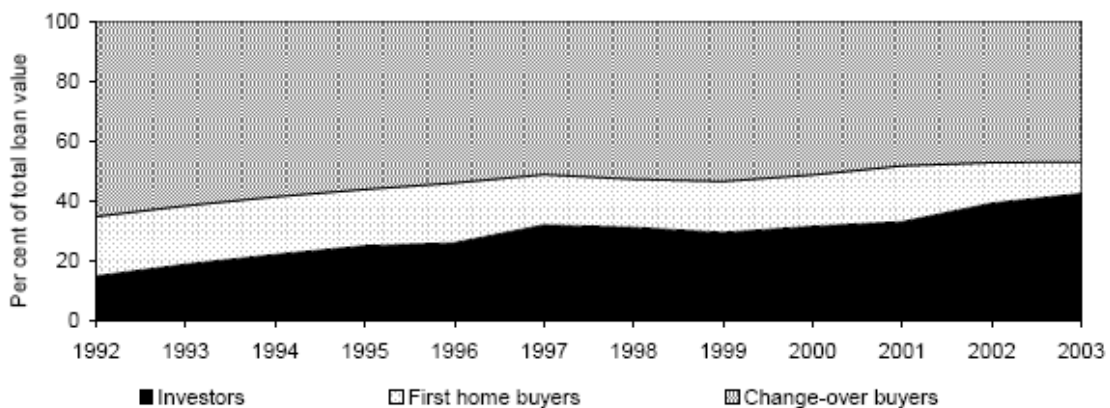
- Taxation system incentives including negative gearing and capital gains tax which encourage investment in second and third properties.
- Speculative demand which leads to the purchase of investment property.<sup>120</sup>

The last two of these factors are discussed in more detail below.

In addition to the demand from people wanting a house in which to live, there is a speculative element to the demand for housing. Lower interest rates and expectations of rising house prices encourage greater investment in rental properties, much of it by existing owner occupiers. In 2008, investors accounted for around one third of new home loans.<sup>121</sup> The Productivity Commission explains that the "investor-driven component of demand for housing was further stimulated by the downturn in the share market from 2000 to early 2003", which encouraged people to invest in property because it was considered a safer investment option.<sup>122</sup>

Figure 7 shows the shift in house finance commitments by type of borrower in Australia between 1992 and 2003. The percentage of total loan value attributed to first home buyers steadily declined over this period, while relative to this, the percentage of total loan value held by investors increased.

**Figure 7: House finance commitments by type of borrower<sup>123</sup>**



The Senate Committee considered that the speculative demand for housing "may be encouraged by some aspects of the taxation system, which makes investing in housing (and sometimes other assets yielding capital gains) more

<sup>120</sup> Senate [inquiry](#), n18, 2008 pp 1-2.

<sup>121</sup> Senate [inquiry](#), n18, p 58 para 4.33.

<sup>122</sup> Productivity Commission, [First Home Ownership Productivity Commission Inquiry Report](#), No.28, 31 March 2004,, p xviii.

<sup>123</sup> Productivity Commission, n 122, p xix.

attractive than alternative investments." An assessment of this was provided by Professor Julian Disney and reported on by the Senate Committee in its 2008 Inquiry report:

a major cause of our problems is that we have excessive exemptions for owner-occupiers from capital gains tax, land tax and the pension assets test. They are so generous that they have driven up housing prices. They have ended up being not in favour of home ownership; they are in favour of current homeowners but they are not in favour of home ownership.<sup>124</sup>

Also quoted in the report, is a comment made by economics journalist, Ross Gittins, on the tax systems influence over housing affordability for both potential home buyers and those in the rental market:

Do you see what the special tax-free status of housing does? By pushing up the price of homes it makes it that much harder to attain the state of being a home owner, but makes the benefits of home ownership even greater if you manage to make it. The jackpot's bigger, but harder to win. And a system that is biased in favour of owner-occupiers is a system that is biased against renters. That's unfair to people who spend all their lives as renters, as well as making it harder for would-be home owners to make the leap.<sup>125</sup>

The 2009 Henry Report into the Australian taxation system is discussed in the next section of this paper.<sup>126</sup>

## 7.2 Housing supply shortfall

The 2008 Senate [Inquiry](#) into housing affordability found that the "problem of affordability in Australia has been a function of both strong demand and limited supply". Commenting on the demand-supply imbalance, the Committee stated:

There seems to be a consensus that the 'underlying' demand for dwellings is growing by around 180,000 dwellings a year, around 30,000 more than is the stock of dwellings.<sup>127</sup>

The Committee explained that affordability "cannot be adequately addressed without increasing the supply of housing". However, it stressed that this was "not simply a matter of constructing a certain number of dwellings in Greenfield sites." Instead, it considered that "housing supply must be well located and

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<sup>124</sup> Senate [inquiry](#), n18, p 30 para 4.36.

<sup>125</sup> Senate [inquiry](#), n18, p 60, para 4.37.

<sup>126</sup> Commonwealth Treasury, [Australia's Future Tax System Final Report](#), 2009, Part 1, Overview, Executive Summary.

<sup>127</sup> Senate [inquiry](#), n18, p 48, para 3.52.

serviced with jobs, public transport and social and community infrastructure".<sup>128</sup> The Committee also emphasised that housing supply must be "suited to the needs and the means of purchasers...it would be appropriate for there to be different housing options which offer a choice of dwelling size, tenure type and price."<sup>129</sup>

Such a diverse housing mix is considered important to "ensure that Australia's cities are not segregated according to housing types and, therefore demographics and income."<sup>130</sup> The Committee considered Western Sydney to be an example of a region where housing diversity is a problem because the supply of housing does not adequately address the needs of low income households.

The Gillard Government's [Sustainable Australia – Sustainable Communities strategy](#) acknowledges Australia's housing supply gap:

Central to the liveability of our communities is ensuring the availability of adequate affordable housing. In addition to the fundamental right to shelter, targeting housing to community needs has implications for individual wellbeing and community cohesion. Currently, Australia has a substantive housing supply gap that is impacting on housing affordability, particularly low income households. Housing supply has struggled to keep pace with demand, and continued population growth is likely to mean continuing strong underlying demand for housing.<sup>131</sup>

According to the [National Housing Supply Council](#), the gap between demand and supply in Australia resulted in a cumulative shortfall of 178,400 dwellings in the year ending 30 June 2009. The Council anticipated the gap will continue to rise and estimated a cumulative shortfall across Australia of 640,600 dwellings in 2029.<sup>132</sup> Demand for separate houses is expected to grow proportionately less quickly than demand for flats, units and apartments.<sup>133</sup> After a slowdown in 2009-2010, supply is expected to grow, although not fast enough to bridge the gap between demand and supply which will continue to rise.<sup>134</sup>

For the Senate Committee, a variety of factors were said to be responsible for

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<sup>128</sup> Senate [inquiry](#), n18, p 79, para 5.28.

<sup>129</sup> Senate [inquiry](#), n18, p 95, para 6.1.

<sup>130</sup> Senate [inquiry](#), n18, p 97, para 6.10.

<sup>131</sup> Australian Government, Department of Sustainability, Environment, Water, Population and Communities, [Sustainable Australia-Sustainable Communities](#), 2011 p 52.

<sup>132</sup> National Housing Supply Council, [2<sup>nd</sup> State of Supply Report](#), 2010.

<sup>133</sup> National Housing Supply Council, n 132.

<sup>134</sup> National Housing Supply Council, n 132.



this shortfall, including:

- Complex planning processes;
- State Government taxes; and
- Developer infrastructure charges.

### **7.2.1 Complex planning processes**

The Senate Committee acknowledged "the importance of efficient and effective planning processes and the influence they can have on improving housing affordability."<sup>135</sup> It also identified local and State Government planning process as overly complex, costly and sometimes subject to lengthy delays. Such factors have the potential to impede the release and rezoning of land for housing, often adding to developer costs which are sometimes passed on to the home buyer.<sup>136</sup>

### **7.2.2 State government taxes**

The Senate Committee commented that stamp duty is the "most visible and substantial" State Government tax imposed on home buyers<sup>137</sup> and argued that "State Governments have failed to adjust stamp duty thresholds to keep pace with house prices. This led to a substantial increase in the average rate of stamp duty on a median priced house."<sup>138</sup> The Committee expressed concern that:

Stamp duties are inefficient. They discourage people from moving to more appropriate housing types as their circumstances change. They may encourage first home buyers to buy a larger home than they need at the time to avoid paying further duty should they relocate.<sup>139</sup>

### **7.2.3 Developer infrastructure charges**

The Committee also considered the role and cost of infrastructure charges paid by developers. In the past, infrastructure was paid for by the Government and was often installed after residents had moved in. Today, infrastructure is typically installed as land is developed and is in part funded by infrastructure charges on developers. Many developers believe that infrastructure charges in NSW are too expensive and have been instrumental in restricting housing supply.

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<sup>135</sup> Senate [inquiry](#), n18, p 84, para. 5.47.

<sup>136</sup> Senate [inquiry](#), n18, p 84, para. 5.47.

<sup>137</sup> Senate [inquiry](#), n18, p 3.

<sup>138</sup> Senate [inquiry](#), n18, p 3.

<sup>139</sup> Senate [inquiry](#), n18, 2008 p 3.

Between 2006 and 2010, the former NSW Government introduced a series of reforms to reduce housing costs by limiting developer infrastructure charges on new housing.<sup>140</sup> The reforms included the introduction of a maximum rate for contributions that can be charged; restricting the types of development for which a levy may be imposed; limiting the types of local infrastructure that can be funded from local contributions; and adjusting developer charges payable in Sydney's growth centres.<sup>141</sup>

Further, GST is applied to the construction of new housing, however not to sales of existing housing. The Committee reported that the NSW Division of the Urban Development Institute of Australia (UDIA) regarded GST as "the largest single impediment to the supply of new dwellings." The UDIA considered GST to be a "tax on a tax" and argued that all state and local government taxes "should be considered part of the land cost and removed from the GST margin."<sup>142</sup>

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<sup>140</sup> Department of Planning, [Infrastructure Contributions](#), Planning Circular PS07-018, 6 November 2007.

<sup>141</sup> L O'Flynn, [History of Development Contributions under the NSW Planning System](#), e-brief 3/2011.

<sup>142</sup> Senate [inquiry](#), n18, p 118, para 7.49.

## 8. ADDRESSING AFFORDABILITY

For many years the cost of housing in Australia, and in NSW in particular, has been a concern for government, industry, and the community and individual households. It has also been the subject of extensive research and from this it is clear that there is no simple solution to the complex issue of housing affordability.

The Urban Research Centre considered that "housing affordability problems are generating a complex set of policy challenges for Commonwealth, State and local governments."<sup>143</sup> Similarly, the 2008 Senate Committee Inquiry commented that:

Governments at all levels have an important role to play in ensuring that all members of the community, regardless of means, can access appropriate and affordable housing.<sup>144</sup>

The Senate Committee acknowledged that Australia's housing affordability problem is structural rather than cyclical and urged governments to seek longer term responses to the situation.<sup>145</sup> It also noted that resolving the problem is:

likely to take a long time, especially if policy makers are unwilling to take steps that involve large falls in house prices...if house prices are just constrained to growing no faster than consumer prices then it would take until almost 2070 to return house prices to three times earnings.<sup>146</sup>

The Committee identified regional development and decentralisation policies as mechanisms available to allow more people access to housing that is affordable. One among many recommendations was that:

the forward plans of the Australian, state and territory governments incorporate policies for mid-size regional cities to ensure they are better able to form sustainable communities, to cope with the transport impacts of peak oil and climate change, and to invest in infrastructure.<sup>147</sup>

NSW local and State Governments, in cooperation with the Commonwealth Government, have sought to implement a range of measures to improve housing affordability.

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<sup>143</sup> Urban Research Centre, University of Western Sydney, n8, p 15.

<sup>144</sup> Senate [inquiry](#), n18, p 29, para 2.53.

<sup>145</sup> Senate [inquiry](#), n18, p 183, para. 11.1.

<sup>146</sup> Senate [inquiry](#), n18, p 183, para 11.3.

<sup>147</sup> Senate [inquiry](#), n18, p 185, para 11.14.

## 8.1 National Affordable Housing Agreement

On 1 January 2009, the [National Affordable Housing Agreement](#) (NAHA) came into effect. The NAHA provides a framework for Commonwealth, State, Territory and Local Governments to improve housing affordability, reduce homelessness and reduce housing disadvantage for Indigenous people.<sup>148</sup> The NAHA identifies the "roles and responsibilities of each level of government and establishes a performance framework against which the key outcomes of the agreement are measured."<sup>149</sup> The NAHA is supported by a Commonwealth Specific Purpose Payment of \$6.2 billion over five years paid by the Commonwealth to the States to help achieve [NAHA key outcomes](#).<sup>150</sup>

According to the COAG Reform Council, the NAHA "aims to ensure all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation."<sup>151</sup> Through the Agreement, the Commonwealth and NSW Governments have committed to a range of reforms to improve housing affordability, including:

- Improved integration and coordination of assistance to people who are homeless or at risk of homelessness.
- Improvements to social housing arrangements to reduce concentrations of disadvantage and improve the efficiency of social housing.
- Improve access by Indigenous people to mainstream housing, including home ownership and contributing to the 'Closing the Gap' targets.
- Other reforms to increase the supply of affordable housing.<sup>152</sup>

The NAHA is supported by three National Partnership Agreements on [social housing](#), [homelessness](#) and [Indigenous Australians living in remote areas](#). The NAHA replaced the [2003 Commonwealth-State Housing Agreement](#) between the Australian Government and the States and Territories.<sup>153</sup> The CSHA, effective from 1 July 2003 to 31 December 2008, provided more than \$5.2 billion of Commonwealth funding for housing assistance such as public and community housing, Indigenous housing, crisis accommodation, home purchase assistance and private rental assistance.<sup>154</sup> The NAHA differs from

<sup>148</sup> COAG Reform Council, n3, p 9.

<sup>149</sup> COAG Reform Council, [Fact Sheet National Affordable Housing Agreement](#), p 1.

<sup>150</sup> COAG, [Intergovernmental Agreement \(IAG\) on Federal Financial Relations](#), 2011.

<sup>151</sup> COAG Reform Council, n149, p 1.

<sup>152</sup> COAG Reform Council, n149, p 1.

<sup>153</sup> Commonwealth Government, Department of Families, Housing, Community Services and Indigenous Affairs, [National Affordable Housing Agreement](#), 2009.

<sup>154</sup> Commonwealth Government, Department of Families, Housing, Community Services and Indigenous Affairs, n153.

the CSHA in that it is a broader ongoing agreement with no set time limit. It covers measures at all levels of government that impact on housing affordability and provides greater flexibility for the Commonwealth and the States to address the housing issues that are specific to their jurisdiction.<sup>155</sup> In 2009/10, the Commonwealth Government provided \$315 million to NSW for housing under the NAHA.<sup>156</sup>

The COAG Reform Council prepares an annual baseline performance report on the NAHA. Its first [report](#) was released last year for performance in 2008-09.

## 8.2 Commonwealth Government initiatives

In addition to the National Affordable Housing Agreement, the Commonwealth Government has introduced several other measures to address the issue of housing affordability across Australia. It is said in this respect that:

While there has been some Commonwealth response, largely focused on ownership through First Home Owner Grants and tax breaks and on the private rental market through Commonwealth rent assistance (CRA), there is increasing concern, particularly at the state level, that current policies are not sufficient to address the problems being experienced by many low income households.<sup>157</sup>

When the Rudd Government was elected in 2007, it introduced a policy package to address housing affordability, which included a [first home owner's savings account](#), the [national housing affordability fund](#) (see below), and the establishment of the [National Housing Supply Council](#) in 2008. Also, for the first time a national housing minister was appointed.

The issues of affordable and social housing, although not discussed in detail in this paper, have also been addressed by the federal Government. An example of this is the Commonwealth's introduction of the [National Rental Affordability Scheme](#), which aims to increase the supply of new affordable rental dwellings by up to 50,000 by June 2012. The [National Building Economic Stimulus Plan](#) also aimed to increase the supply of social housing. Funding of over \$5 billion was allocated to the Social Housing Initiative from 2008-2009 to 2011-2012 for the construction of new social housing and a further \$400 million over two years for repairs and maintenance to existing social housing dwellings.<sup>158</sup>

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<sup>155</sup> COAG Reform Council, n149, p 2.

<sup>156</sup> Housing NSW, [Annual Report 2009-2010](#), 2010 p 156.

<sup>157</sup> UWS Urban Research Centre, [Housing Affordability Literature Review and Affordable Housing Program Audit](#), 2008, p 15.

<sup>158</sup> Commonwealth Government, [Nation Building Economic Stimulus Plan: Social Housing](#), 2011.

In 2011, the Gillard Government reconfirmed its commitment of \$20 billion across a range of programs to address housing related issues, including affordability.<sup>159</sup> From this funding, \$1.1 billion will go into the National Rental Affordability Scheme and another \$100 million into the [Building Better Regional Cities Program](#). \$450 million has been set aside for the Housing Affordability Fund to help reduce the cost of new homes by providing local and State Governments with grants to reduce housing related infrastructure and planning costs. Savings are to be passed onto new home buyers. The Commonwealth has also set aside additional funding for social housing initiatives.<sup>160</sup> The Commonwealth Government notes that it is currently:

working with the states and territories through the COAG Housing Supply and Affordability Reform agenda to examine issues such as zoning and planning approval processes, infrastructure charges, environmental regulations, and opportunities to identify currently underutilised land.<sup>161</sup>

### **8.2.1 The Henry Taxation Review Report**

In 2008 the Commonwealth Government commissioned a review of Australia's tax system. The review report titled '[Australia's future tax system – report to the Treasurer](#)' (the 'Henry Taxation Review Report'), found that over the last decade housing affordability has worsened while the future holds "further stresses on housing affordability and pressure on urban amenity."<sup>162</sup> According to the Review:

While the overall demand for housing is increased by favourable tax and transfer provisions particularly for owner-occupied housing, these provisions are of very long standing and have deep community support. The sharp deterioration in affordability in recent times is more likely to reflect demand and supply factors such as high rates of immigration and household formation and government land use policies.<sup>163</sup>

The review anticipated that strong population growth and favourable tax transfer treatment of owner-occupied housing would continue into the future and on this basis, it proposed a series of changes to improve equity and market efficiency:

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<sup>159</sup> Commonwealth Government, Department of Sustainability, Environment, Water, Population and Communities, [Sustainable Australia-Sustainable Communities](#), 2011 p 52.

<sup>160</sup> Commonwealth Government, Department of Sustainability, Environment, Water, Population and Communities, n159, p 52.

<sup>161</sup> Commonwealth Government, Department of Sustainability, Environment, Water, Population and Communities, n159, p 54.

<sup>162</sup> Commonwealth Treasury, 'Australia's future tax system – report to the Treasurer, Part 1, Overview, Executive Summary.

<sup>163</sup> Commonwealth Treasury, n 162, Executive Summary.

- Maximum rates of Rent Assistance for income support recipients should be substantially increased and linked to movements in market rents.
- Subject to transition arrangements, public housing rent concessions should be replaced by Rent Assistance and a new form of assistance for high-needs tenants, to improve equity and work incentives.
- Over a long transition period, a land tax should be introduced on all land on a more efficient and uniform basis linked to unit land values, removing disincentives for institutional investment in rental property and integrated over time with property rate assessments.
- Over a similar period, transfer taxes on property should be reduced, and ultimately removed, with revenues replaced by efficient taxes, preferably an annual land tax.
- Subject to transitional provisions, and following action to improve the current shortfall in housing supply, a more neutral personal income tax treatment of private residential investment should be introduced, with less volatile market effects, through a 40 percent discount on all net residential rental income and losses, and capital gains.<sup>164</sup>

The Review further considered policy changes outside the "tax and transfer systems" as necessary "to better match aggregate housing supply and demand if overall housing price pressures are to be alleviated."<sup>165</sup> While the federal Government released its [response](#) to the Henry Review in 2010, to date the Review's recommendations to improve housing affordability have not been included in the Government's tax reform measures.

### 8.3 NSW Government initiatives

The Governor's speech on 3 May 2011 reinforced the significance of housing affordability as a critical issue for NSW. The speech outlined measures considered important for easing housing stress: extending the "Empty Nester" Transfer Duty Concessions to those 55 and over (currently available for people over 65) and the repeal of the "Homebuyers Tax".<sup>166</sup> On 6 May 2011, NSW Treasurer, Mike Baird, confirmed that the O'Farrell Government will undertake these measures with the aim of improving housing affordability in NSW.<sup>167</sup> The "Empty Nester" Transfer Duty Concessions were in fact extended by the *Duties Amendment (Senior's Principal Place of Residence Duty Exemption) Act 2011*, while the "Homebuyers Tax" was repealed by the *Real Property Amendment (Torrens Assurance Levy Repeal) Act 2011*. As for the former, the Agreement in Principle speech explained that it was intended to assist those over 55 to downsize to more suitable accommodation, stating:

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<sup>164</sup> Commonwealth Treasury, n 162, Executive Summary.

<sup>165</sup> Commonwealth Treasury, n 162, Executive Summary.

<sup>166</sup> *NSWPD*, 3/5/2011, p.6.

<sup>167</sup> [NSWPD](#), 6/05/11, p.43.



The concession, described in the bill as the "senior's principal place of residence exemption", provides that individuals aged 55 years or over will pay zero transfer duty if they are selling an existing property and buying a newly constructed home costing up to \$600,000. The empty nester concession applies to new home or off-the-plan purchases entered into between 1 July 2011 and 30 June 2012. To be eligible the person must sell his or her existing home and reside in the new home for a continuous 12 month period. This will enable seniors to move from their current home into a new home that better meets their changes in lifestyle.<sup>168</sup>

In the lead up to the 2011 State election, the NSW Coalition [announced](#) a \$630 million action plan to "Make Sydney Liveable Again". Under the plan, the Coalition will encourage 40,000 households from Sydney to move to regional NSW by offering a \$7,000 regional relocation grant.<sup>169</sup> This has been provided for under the *Regional Relocation (Home Buyers Grant) Act 2011*.

The previous NSW Labor Government introduced a series of initiatives to help increase the availability of, and access to, affordable housing. It established the [Centre for Affordable Housing](#) and created affordable home purchase opportunities under the [First Home Plus One](#) scheme. The scheme was designed to exempt first home buyers from paying stamp duty on properties valued up to \$500,000 and on land valued up to \$300,000. It also discounts the duty payable on properties valued between \$500,000 and \$600,000 and land valued between \$300,000 and \$450,000. The benefit was further extended to cover any shared ownership mortgage schemes provided the first home buyer purchases at least 50 percent of the property.<sup>170</sup> The former Government also participated in the joint State/Federal [First Home Owner Grant Scheme](#) that provides a one-off \$7,000 grant to first home buyers to assist with purchase costs.

A range of planning mechanisms in NSW seek to improve affordability, retain existing low-cost housing stock and secure contributions towards affordable housing through the development process. Key policies include [SEPP \(Housing for Seniors and People with a Disability\) 2004](#) and [SEPP \(Affordable Rental Housing\) 2009](#). In May 2011, the O'Farrell Government repealed<sup>171</sup> the affordable housing SEPP stating that it imposed inappropriate development on suburbs.<sup>172</sup> Transitional provisions have been introduced and an affordable

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<sup>168</sup> [NSWPD](#), 9 May 2011, p 468.

<sup>169</sup> NSW Coalition, [Making Sydney Liveable Again](#), 2011.

<sup>170</sup> NSW Government, Housing NSW Centre for Affordable Housing, [NSW Government Initiatives](#), 2010.

<sup>171</sup> The O'Farrell Government has prepared a [factsheet](#) on the repeal of SEPP Affordable Housing. Visit.

<sup>172</sup> B Hazzard, [Developments that destroy communities stopped](#), 20 May 2011.



housing taskforce will be established to help develop a new "Affordable Housing Choice SEPP".<sup>173</sup>

In other developments, land supply has been increased to help reduce pressure on land prices, as has the supply of affordable housing through the planning system in areas such as Ultimo/Pymont, Green Square and Willoughby.<sup>174</sup> Reforms were also undertaken to reduce infrastructure contributions which are often blamed for increasing the cost of new housing.<sup>175</sup>

Like the Commonwealth Government, the provision of social housing – in the form of [public housing](#), [community housing](#) and [Aboriginal housing](#), is an important measure used by the NSW Government to address the housing affordability problem. For example, [Housing NSW](#) assists more than 500,000 people on low incomes through the provision of public housing and community and Aboriginal housing programs. It also provides services such as [Rentstart](#) and the [Mortgage Assistance Scheme](#) which offer financial help to homeowners experiencing temporary difficulties with repayments due to certain personal circumstances. Interest free loans of up to \$12,000 are available, repayable when borrowers have overcome their financial difficulties.<sup>176</sup>

#### 8.4 Local Government initiatives

Some of Sydney's local councils have introduced measures to help improve housing affordability in their area. The most commonly adopted measure is the inclusion of provisions in a council's planning policies to allow for the council to levy development contributions (or infrastructure levies) from developers for the provision of affordable housing. For example, Waverley Council introduced an [affordable housing program](#) to help "maintain social diversity and improve sustainability through the promotion of equitable, secure and accessible affordable housing."<sup>177</sup> The program was the first of its kind to permit a greater Floor Space Ratio (FSR) for developers in return for monetary contributions to finance affordable housing.<sup>178</sup> Other examples of local government areas which have introduced measures to help improve housing affordability include North Sydney Council's affordable housing [strategy](#), Willoughby Council's [affordable housing policy and guidelines](#) and the City of Sydney's [draft Green Square affordable housing program](#).

<sup>173</sup> B Hazzard, n172.

<sup>174</sup> NSW Government, Housing NSW Centre for Affordable Housing, n170.

<sup>175</sup> L O'Flynn, [History of Development Contributions under the NSW Planning System](#), e-brief 3/2011.

<sup>176</sup> NSW Government, Housing NSW Centre for Affordable Housing, n170.

<sup>177</sup> Waverley Council, [Waverley Affordable Housing Program Information Sheet](#), publication date unknown.

<sup>178</sup> Urban Research Centre, University of Western Sydney, n8, p 29.

## 9. STAKEHOLDER PROPOSALS

Interest groups and stakeholders are vocal in presenting their favoured solutions to the housing affordability problem in NSW and across Australia. This section looks at only a selection of stakeholder perspectives on the housing affordability debate.

According to the [Housing Industry Association](#) (HIA), research shows that "while many factors contribute to the housing affordability problem, a major cause of falling affordability is that house price growth has outpaced growth in average wages over recent years."<sup>179</sup> The HIA considered that "large structural supply side obstacles" have been a key issue affecting housing affordability, such as infrastructure levies and taxes on new housing development and Government planning systems. The HIA recommended amongst other things that planning processes be streamlined and taxes on residential buildings overhauled.<sup>180</sup>

In a [policy paper](#) prepared by the [Property Council of Australia](#), the supply of land was identified as the "key factor" affecting affordability. The paper made a series of recommendations for improving housing affordability in NSW, several of which include:

- Increasing the supply of land and releasing surplus government lands for affordable housing projects.
- Lowering taxes to reduce the cost of development and funding infrastructure through debt borrowing not levies and phasing out stamp duties to promote home ownership.
- Targeting the First Home Owners Grant to the needy and offering key worker housing subsidies.
- Issuing Government bonds to the private sector to raise funds for investment in affordable housing by offering a 'guaranteed minimum' after tax return.
- Transferring public housing to the private sector for management and redevelopment.<sup>181</sup>

In a submission to the Senate Committee Inquiry in 2008, the [Urban Development Institute of Australia](#) (UDIA) wrote that there are many reasons for the decline in housing affordability, such as State Government land management policies.<sup>182</sup> Like the Property Council of Australia, the UDIA

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<sup>179</sup> Housing Industry Association, [It's time to do something about housing affordability](#), media release, 24 January 2011.

<sup>180</sup> Housing Industry Association, n179.

<sup>181</sup> Property Council of Australia, [Improving Housing Affordability in NSW A Plan For Industry and Government](#), 2006 p 3.

<sup>182</sup> Urban Development Institute Australia, [Submission to the Senate Select Committee on Housing Affordability in Australia](#), 2008 p 10.

considered land supply constraints to be "seriously impacting on housing affordability."<sup>183</sup> The UDIA believed the best approach to addressing affordability included improved planning and regulatory processes and encouraging cooperation between all levels of government and the private sector.<sup>184</sup>

Recently Chief Executive of ANZ Bank's Australian division, Philip Chronican, identified negative gearing as a significant contributor to rising house prices in Australia. He suggested that "Governments might want to look at whether the current extent of negative gearing tax breaks are fostering an unhealthy focus on housing as an investment vehicle, thereby compounding affordability issues."<sup>185</sup> Chronican also urged Australians not to regard real estate as a speculative wealth generating investment mechanism, but as "a place to live in, sleep, eat and raise your family."<sup>186</sup>

According to the [Australian Institute of Architects](#), long term housing affordability requires the incorporation of environmentally sustainable design techniques into the design of new homes and the modification of existing homes. The Institute emphasised that affordability relates to a household's access to transport, services, facilities and employment and education. Such access is considered important in preventing concentrations of low to moderate income households living in socially and economically isolated locations.<sup>187</sup> The Institute identified a role for architects in delivering "more affordable housing both in initial purchase and cost of occupation." It also identified opportunities for the Government to improve affordability, for example, through encouraging densification of cities, streamlining planning approval processes and developing policies that introduce an "appropriate mix of affordability and sustainability."<sup>188</sup>

In [Anglicare's](#) Rental Affordability Snapshot, the organisation made recommendations for improving rental affordability. It suggested that the Commonwealth Government increase the supply of social housing and commit to the construction of 220,000 new affordable public and social housing dwellings by 2020 to meet current need.<sup>189</sup> It also recommended that the current rate of Commonwealth Rent Assistance for low and fixed income earners be increased and that consideration be given to new innovative funding

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<sup>183</sup> Urban Development Institute Australia, n182, p 6.

<sup>184</sup> Urban Development Institute Australia, n182, pp 11-12.

<sup>185</sup> E Johnston, [Negative gearing unhealthy, says ANZ boss](#), Sydney Morning Herald, 3 June 2011.

<sup>186</sup> E Johnston, n185.

<sup>187</sup> The Australian Institute of Architects, [Affordable Housing Policy](#), 2009 p 4.

<sup>188</sup> The Australian Institute of Architects, n187, pp 5-6.

<sup>189</sup> Anglicare Sydney, n93, p 36.

models to expand affordable housing in Australia. Anglicare urged COAG to revise the [NAHA](#) to recognise the role of public transport and other community services in enabling social and economic participation and suggested that a taskforce be established to look at controlling and reducing the cost of living in Sydney and NSW.<sup>190</sup>

[Shelter NSW](#) has identified nine affordability related problems and recommended solutions to help encourage affordable and appropriate housing in NSW (Table 10). Many of the solutions presented are considered to be in addition to existing government efforts.

**Table 10: Problems and solutions to the NSW housing affordability problem**<sup>191</sup>

Problem	Solution
Declining access to home ownership	Households struggling with mortgage repayments because of reasons that are temporary should be helped by a government-backed shared-equity scheme in which the government buys a portion of the dwelling in return for a share of the capital gain.
Declining supply of low rent private rental housing	Extend the State Government's incentive to private providers of rental housing that is let to tenants at very low rents by exempting them from land tax. The exemption should apply to all inner-ring suburbs of Sydney and to the Newcastle and Wollongong LGAs.
The risk of homelessness	Extend the private rental subsidy currently in place for women escaping from domestic violence to private renters who are at risk of homelessness because of unexpected financial difficulty.
Private renters squeezed by high rents	Increase Housing NSW budget for ongoing social housing programs.
Aboriginal people disadvantaged in housing	Need sufficient resourcing of Aboriginal community housing organisations to allow them to be real partners in change.
A stigmatised public housing system	Improve the image of public housing estates to overcome negative image of social housing generally. Any approach should start with the residents themselves – a 'top down' approach.
Housing stock not built for resident's disability and ageing	Use environmental planning mechanisms to assist in building appropriate housing stock including the standard LEP template.
Non-sustainability of dwellings	Target older residential flat buildings where the structural condition of the building inhibits efficiencies. The state government should supplement the Commonwealth's free home sustainability assessment for owners and residents of individual dwellings, by paying for free sustainability assessments for owners corporations of older residential flat buildings to have an assessment of the whole building.
Building standards are inadequate for greater density	Review SEPP 65 Design Quality of Residential Flat Development. Align SEPP with the need for resident's quiet enjoyment, and include standards on acoustic amenity.

<sup>190</sup> Anglicare Sydney, n93, p 36.

<sup>191</sup> Source: adapted from Shelter NSW, [Access choice livability](#), housing directions 2011 pp iv-viii.

## 10 CONCLUSION

Extensive use has been made in this paper of the 2008 Senate Committee inquiry report, both in respect to the empirical research about housing affordability and in relation to the more discursive issues involved. The [Executive Summary](#) to that report started by stating:

The majority of Australians aspire to home ownership. It should be an aspiration that through prudent management of household finances they are able to realise. Currently, there is a significant problem with housing affordability in Australia. In certain regions of the country the problem is particularly acute.

The issue of housing affordability is of major concern to many NSW households, as part of the broader concern about cost of living pressures. It is an issue which can be considered from the perspective of individual households, as well from a range of other levels, from State planning and land release policies to debates about macro-economic and broad demographic trends.

Housing affordability is an issue for all levels of government in Australia. The challenges are many and substantial. The University of Western Sydney Urban Research Centre has commented in this respect:

Though much has been written on housing affordability in the Australian context, it has proved difficult to secure agreement about the right mix of responsibilities for housing policy among the various tiers of government and how best to address housing affordability.<sup>192</sup>

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<sup>192</sup> UWS Urban Research Centre, [Housing Affordability Literature Review and Affordable Housing Program Audit](#), 2008, p 15.

## APPENDIX A

***Population, housing and transport indicators for NSW, NSW Parliamentary Library Research Service, Statistical Indicators 4/11 by Talina Drabsch, pp 23-25.***

## Housing costs

The lack of affordable housing in NSW has attracted much attention in recent years, as has the topic of mortgage/rental stress as the cost of housing seems to absorb an ever-increasing portion of income. Some are having difficulty in meeting mortgage repayments, for various reasons. The top nine regions in Australia in 2008 when ranked by incidence of 30 plus days of mortgage arrears were in NSW.<sup>193</sup>

1. Fairfield – Liverpool
2. Gosford – Wyong
3. Outer South Western Sydney
4. Outer Western Sydney
5. Newcastle
6. Central Western Sydney
7. Wollongong
8. Blacktown
9. Canterbury - Bankstown

The table below compares housing costs as a proportion of gross income for each of the States and Territories. Of those who required a mortgage to purchase a home in Sydney in the three years before 2008, the median ratio of housing costs was 27% of gross income. This was the second highest of the States and Territories, second only to Tasmania where the ratio was 30%. The median ratio for private renters in Sydney was a little lower at 21% of gross income in 2008, the highest of the capital cities together with Brisbane and Adelaide. NSW had the second highest average loan for first home buyers at \$300,300 (up from \$180,900 in 2002). Northern Territory had the greatest average loan for first home buyers at \$302,700.

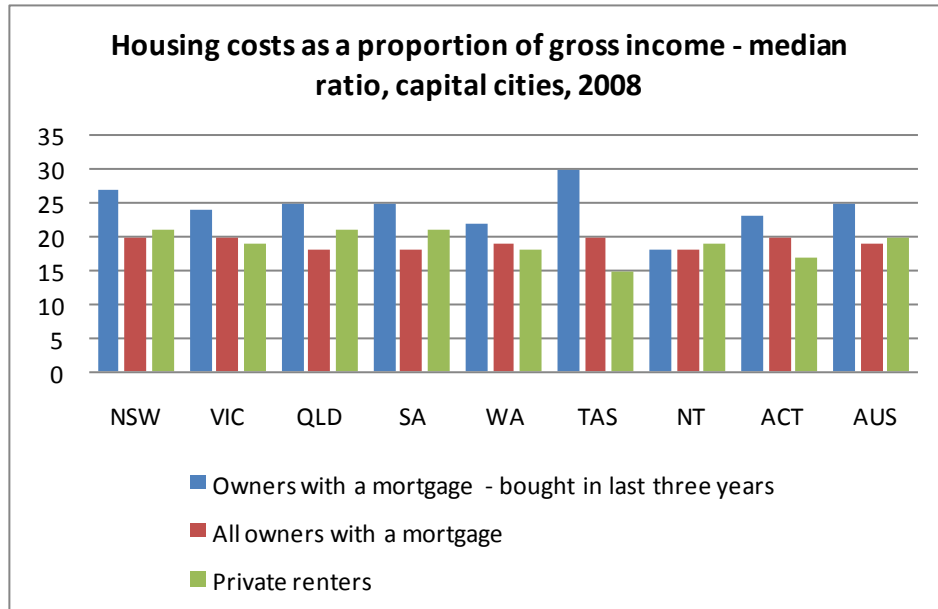
### Housing costs as a proportion of gross income – median ratio

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Recent home buyers in the last 3 years – Owners with a mortgage – Capital city (2008)	27	24	25	25	22	30	18	23	25
All owners with a mortgage – Capital city (2008)	20	20	18	18	19	20	18	20	19
Private renters – Capital city - (2008)	21	19	21	21	18	15	19	17	20
First home buyers average loan – State/Territory – mean - \$'000 (2010)	300.3	271.9	279.6	237.1	292.7	199.6	302.7	287.7	281.6

Source: ABS, *NSW State and Regional Indicators, December 2010*, 1338.1, January 2011.

<sup>193</sup>

Urban Research Centre, *The experience of mortgage distress in Western Sydney*, UWS, 2010, p 13.



The following table provides some more detail on housing costs in NSW. It compares the housing-related costs in Sydney with the rest of NSW. It looks at the housing costs for: those with a mortgage; those without a mortgage; renters; as well as NSW as a whole. For owners with a mortgage, the median housing costs per week in Sydney were \$432, with a median gross weekly household income of \$2153. For the balance of NSW, the median housing costs were \$283 per week for owners with a mortgage out of a median gross weekly household income of \$1656.

Renters in Sydney were paying a median price of \$300 per week out of a household income of \$1383, compared to \$188 out of a median weekly household income of \$887 for renters in the rest of NSW.



## Housing occupancy costs, NSW, 2007-08

		Owners with a mortgage				Owners without a mortgage	Private renters	Total households
		Recent first home buyers	Recent change over buyers	Total recent home buyers	Total owners with a mortgage			
<b>SYDNEY SD</b>								
Housing costs as a proportion of gross income–median ratio	%	27	23	27	20	3	21	16
Median housing costs per week	\$	577	639	583	432	30	300	220
Median gross weekly household income	\$	2,000	2,748	2,296	2,153	972	1,383	1,435
Proportion of all households	%	4.2	5.1	9.4	36.5	28.0	27.7	100.0
Estimated number of households	'000	67.9	82.2	150.1	585.3	449.5	444.6	1,603.0
<b>BALANCE OF NSW</b>								
Housing costs as a proportion of gross income–median ratio	%	28	19	25	18	3	21	10
Median housing costs per week	\$	436	324	382	283	26	188	83
Median gross weekly household income	\$	1,483	1,657	1,635	1,656	684	887	1,041
Proportion of all households	%	3.5	4.4	7.9	31.2	40.8	19.8	100.0
Estimated number of households	'000	36.9	45.8	82.6	327.6	427.6	207.5	1,048.7
<b>NSW</b>								
Housing costs as a proportion of gross income–median ratio	%	28	22	26	19	3	21	14
Median housing costs per week	\$	527	471	495	371	28	260	155
Median gross weekly household income	\$	1,919	2,152	1,990	1,963	805	1,251	1,285
Proportion of all households	%	4.0	4.8	8.8	34.4	33.1	24.6	100.0
Estimated number of households	'000	104.8	128.0	232.8	912.9	877.2	652.1	2,651.7

Source: ABS, *NSW State and Regional Indicators*, December 2010, 1338.1, January 2011.