Just how stressed are we when it comes to housing affordability?

May 9 2013, by Gennadi Kazakevitch, Lionel Frost & Luc Borrowman

Credit: AI-generated image (disclaimer)

Property pundits are hoping the Reserve Bank of Australia's latest cut to interest rates will help stoke the country's flat property sector into life.

But Australia's housing remains highly over-valued, according to some sources, with worryingly high levels of private debt carried by

households, particularly mortgage debt.

A high proportion of households consider themselves under housing stress; but this is something that is surprisingly hard to define.

The common benchmark for housing stress in Australia is a ratio of 30% of income spent on housing.

This is a misleading measure of housing affordability because it does not distinguish those on the brink of homelessness from those who can afford and choose to spend more than 30% of their incomes on high-quality housing.

An alternative is to calculate a household's "residual income" – the difference between disposal income and actual housing costs.

The "residual income" measure can be used together with Indicative Budget Standards for Australia, which are designed for benchmarking the poverty line components of expenditure for different types of households at a given point in time.

If we omit poverty-line housing costs from these budget standards and compare them with the residual income of households, we can identify the type of households for whom residual incomes are below the budget standards without poverty line housing costs. These people are in housing stress because they cannot afford non-housing necessities after they have met their current housing costs.

The residual housing stress measure is easy to apply, because detailed data sets are available from Australian Bureau of Statistics Expenditure and Housing Surveys, as well as the more detailed HILDA household surveys conducted by the Melbourne Institute.

This is a more effective measure of housing affordability in several ways. The ratio approach applies the same percentage figure for every household type. The residual income measure uses benchmarks that vary for each household type, with an allowance made for changes in budget constraints and the fixed nature of housing costs in the short term. This makes it easier to develop policies that are targeted more effectively at issues of housing poverty.

For example, migrants and unemployed people are more likely to be in housing stress than those born in Australia and employed. Reducing barriers to social exclusion and helping migrants to find jobs would be effective policy against housing stress.

Policies such as the first home owner grants and first home saver accounts, assume homeowners will be in a better financial situation than renters, especially in the long run. Money spent on buying a residential property may be recouped when it is sold or used as a mortgage-free residence. Tenants do not get a return on their rent payments. However, such policies may be flawed if households are unable to sustain repayments over the period of their home loan.

In fact, households repaying mortgages are more likely to be in housing stress than those that are paying rent in the private market. (Although public housing tenants, who pay 25% of their income in rent, can often be classified as not being in housing stress.)

Both the first home owner grants and first home saver accounts, which are topped up by the government, add an inflationary component to property prices and may create an illusory hope among vulnerable households on the relative ease of the first step into buying property. Policies that provide industry incentives to increase the supply of properties for both owner-occupation and rental would be more effective.

The use of a residual approach may also be more relevant to public housing tenants. Unfortunately, the use of the ratio approach has discouraged research into the affordability of public housing.

While private sector rents are set by market forces, public housing tenants pay 25% of their income in rent, which is below the 30% threshold and results in them being classified as not in housing stress.

The residual approach measures a household's ability to consume a basic level of non-housing goods. The measure captures the stress experienced by households as changing circumstances (such as an increase in family size) require increased spending on non-housing items.

While the overall impact on the housing affordability in these two housing sectors is uncertain, use of the residual income approach reveals that in the past 10 years, the incidence of housing stress has shifted from private to public sector tenants.

This suggests that federal and state governments would be advised to consider changes in the ways that welfare benefits and public sector rents are structured.

Source: The Conversation

Citation: Just how stressed are we when it comes to housing affordability? (2013, May 9) retrieved 20 September 2024 from https://phys.org/news/2013-05-stressed-housing.html