

## Cost of living

The cost of housing is the single biggest cost of living issue in Australia today. Compared to other expenditure items, housing costs comprise the biggest share of household budgets – accounting for 18 per cent of household spending on average<sup>i</sup>.

While the average is 18 per cent, over 720,000 low to middle income households pay more than 30 per cent of their income on housing – what we call ‘housing stress’, and more than 460,000 households spend more than half their income on housing costs.<sup>ii</sup>

### Housing affordability fact

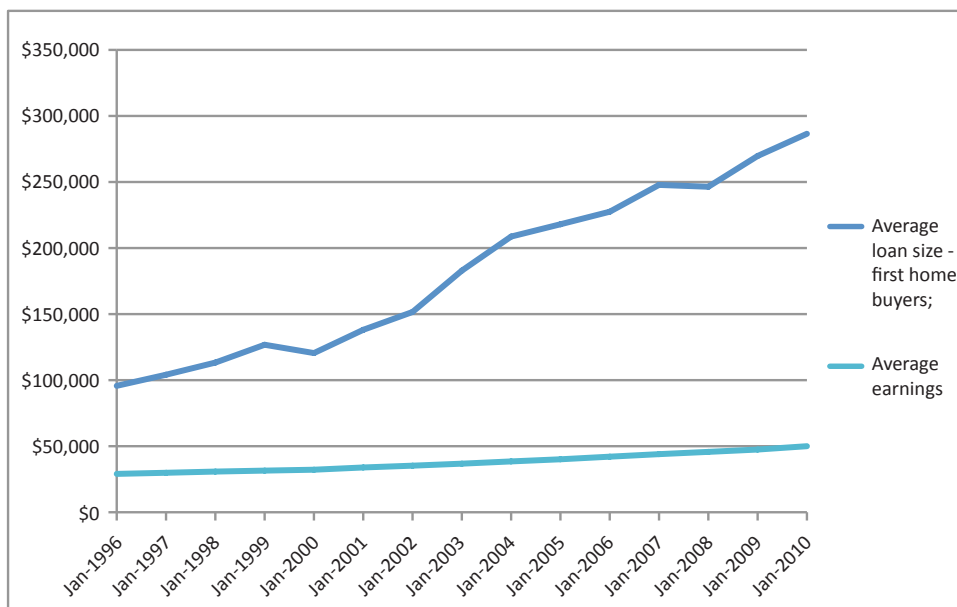


Between 2003-04 and 2009-10 the amount households spent on housing increased by 55 per cent, more than any other expenditure item<sup>iii</sup>.

## House prices rising faster than incomes

In the last ten years house prices have risen by 147 per cent while incomes have risen by 57 per cent<sup>iv</sup>. Despite interest rate falls, households are paying more on interest repayments than they were in the 1980s<sup>v</sup>.

### First home buyers pay more than ever



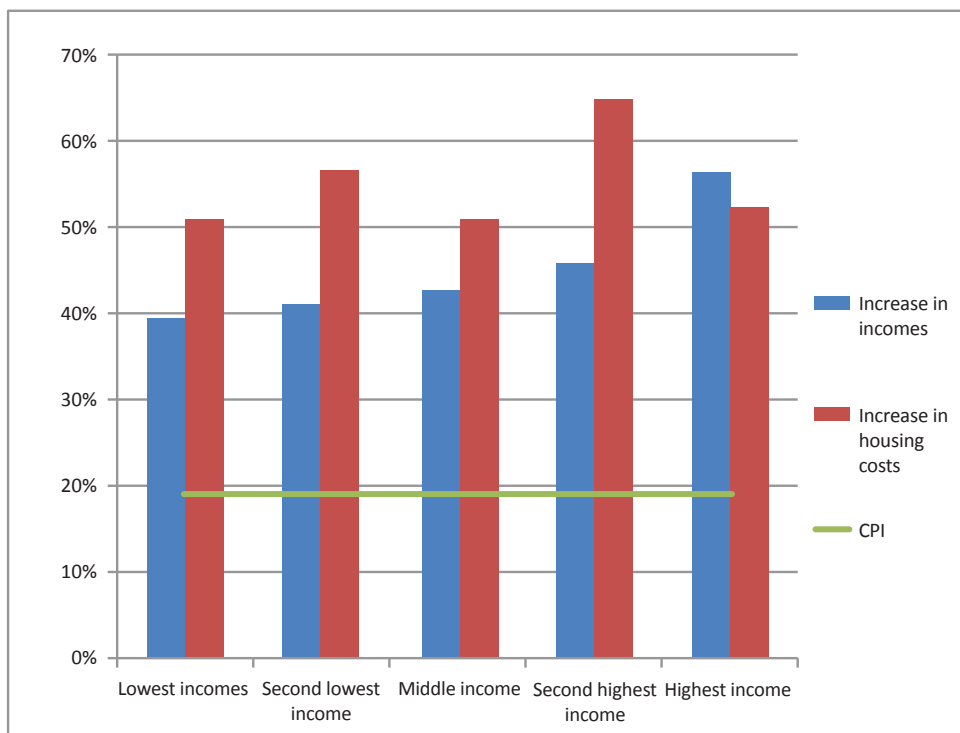
## Housing affordability fact

Median home prices in Australia were between three to four times the average annual income from the 1960s to 1990s. Since then they've skyrocketed to between seven and eight times average incomes<sup>vi</sup>.

For first home buyers, the average home loan was three times average annual income in 1996. Only 15 years later, the average first home loan is six times average income<sup>vii</sup>.

House prices are rising faster than incomes for all but the highest income Australians – as illustrated below.

## House prices rise faster than incomes for 80% of Australians



## Housing affordability fact

In the last 5 years (from 2006 – 11) rents have risen at twice the rate of inflation<sup>viii</sup>.

## Housing stress

The high cost of housing puts pressure on other areas of essential spending such as food, healthcare, transport and the costs of education.

### Housing affordability fact

#### *For home buyers*

50 per cent of low income home owners are in mortgage stress<sup>x</sup>

More than 380,000 home owners with a mortgage also report that they have experienced significant financial hardship in the last 12 months<sup>x</sup>

### Housing affordability fact

#### *For renters*

Even after receiving rent assistance almost 460,000 low income households still pay more than 30 per cent of their income on rent<sup>xi</sup>.

Over 740,000 renters also report that they have experienced significant financial hardship in the last 12 months<sup>xii</sup>

## The causes

There is no single cause of Australia's housing affordability crisis. Rather, it is the result of a range of problems in the home ownership, private rental and public housing markets, all of which need to be tackled in a comprehensive and coordinated way.

The Australian tax system has a significant adverse impact on housing affordability in Australia. Tax breaks such as negative gearing and capital gains tax exemptions encourage investors to make speculative investments in the housing market. They also subsidise investors to compete with first home buyers. This activity pushes up houses prices.

### Housing affordability fact

The combination of negative gearing tax breaks and capital gains tax exemptions has led to a situation where housing investors went from claiming a collective income of \$700 million in 1998-99 to a collective loss of \$6.5 billion in 2008-09<sup>xiii</sup>

Increased house prices have led to first home buyers staying in the rental market for longer, competing for properties and pushing up rental prices. Since 2005 rents in Australian cities have risen at twice the rate of inflation<sup>xiv</sup>. This means that rents are racing ahead of government benefits and rental assistance, leaving low income households in severe housing stress. Not only are these households financially stressed, annual rent hikes see many households having to move year after year in order to find a rental property they can afford.

## There is simply not enough low cost rental housing in Australia

Between 1997 and 2007 the number of public housing properties in Australia shrunk by 30,000<sup>xv</sup>. During this same time the population grew by over 2 million people. Despite the significant, but one off investment in social housing through the Nation Building Stimulus package, Australia still has fewer public housing units than in 1996. Overall there is less low cost rental housing to go around.

The solutions highlighted by industry commentators to increase first home owner grants, cut stamp duty and release land don't address the fundamental underlying problems in our housing market. These solutions help people who make money from selling houses, they don't improve the situation for those who live in them. At best they'll provide a quick fix that doesn't last long; at worst they drive up house prices even further.

### Housing affordability fact

There are 173,000 Australians waiting for public housing<sup>xvi</sup>

There is a shortage of 493,000 low cost rental properties that are available to low income<sup>xvii</sup>

## The consequences

Housing affordability is a problem for individual households, causing financial stress, housing instability and contributing to homelessness, but Australia's dysfunctional housing system also poses broader problems.

### *For the economy...*

Existing housing is a non-productive investment – it doesn't generate wealth or add to production once it is built. High house prices mean that Australians are spending a large proportion of their income on a non-productive asset which could otherwise be spent on wealth generating services, either through investment or consumption.

Housing that's affordable, either to rent or buy is mostly located in outer suburban areas where there are fewer jobs and less public transport. This drives up the cost of living for people on the fringes<sup>xviii</sup>. In this case affordable housing does not equal affordable living.

## *For the community...*

The most extreme manifestation of the dysfunctional housing market is the number of Australians who find themselves without a safe place to sleep on any given night. While the causes of homelessness are complex, the issue cannot be solved without access to affordable and safe housing.

### **Housing affordability fact**



On any given night around 105,000 Australians are homeless<sup>xix</sup>

## *For future generations...*

Over the last 20 years the rates of home ownership for households under 35 years of age have declined steadily, and if this trend continues it will herald a generational shift in rates of home ownership<sup>xx</sup>. Alarming, this means that fewer households of this generation will have the financial security of home ownership into their retirement.

Much of our social welfare spending, particularly in retirement relies on home ownership to secure a decent standard of living. If declining rates of home ownership continue they will have serious consequences for the quality of life in retirement for future generations.

### **Housing affordability fact**



In the last 20 years home ownership among the 25-44 age group has declined by 15 per cent<sup>xxi</sup>

## References

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