
Housing Affordability and Homelessness: Probing Australian Evidence

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➤ **Abstract** *In Australia, as in many other countries, housing affordability has become a more prominent policy challenge in recent years. While policymaker and media attention tend to focus on the house price threshold for first home ownership, the linked problem of declining rental affordability for low-income tenants should be a matter of equal or greater official concern. As embodied in Australia, this damaging trend is apparent through a variety of metrics. Importantly, while it is usually only implied or asserted rather than conclusively proven, there is sound statistical evidence of the inverse relationship between housing affordability and homelessness in the Australian setting. Surging rental prices seen during the latter phase of the COVID-19 pandemic – particularly in non-metropolitan areas – therefore seem likely to foreshadow a reconfiguration in the geography of homelessness in the immediate post-pandemic era.*

Introduction

Housing affordability describes the relationship between the cost of housing and household incomes. Housing affordability stress is when the former is 'excessive'. Across much of the world it has come to form a prime focus of attention for housing analysts and researchers, but in few countries more so than in Australia.

Housing affordability matters for two main reasons. First, since adequate shelter is a fundamental of existence, having sufficient financial resources to pay for suitable housing is critical to individual welfare and the ability to participate in society as a citizen. Beyond that, if minimum price housing absorbs 'too much' of a low-income person's resources, they may be left with insufficient means to meet other basic requirements such as food and clothing. In other words, a situation of socio-economic deprivation where the person is pushed into poverty by an excessive

rental cost burden. Given that the strong relationship between poverty and homelessness is already well-established (Bramley and Fitzpatrick, 2018), there is an immediate connection here with housing (un)affordability.

The second factor underpinning the priority attached to housing affordability as a public policy issue is the posited benefit of owner occupier status. This is both in terms of stability and control over one's environment, but also as a savings vehicle, and as a means of accumulating wealth that is (in many countries) effectively taxpayer subsidised. Therefore, in nations like the UK and Australia, the affordability of entry-level housing for sale – access to lowest rung of 'the housing ladder' – is nowadays ever-present as a topical issue.

In several high-income countries, a twenty-first century reversal in previously rising home ownership rates has been widely interpreted as due to declining house price affordability. Thus, property price concerns have been elevated to a higher level. In Australia, for example, owner occupation has been trending gradually down since the early 2000s (Burke et al., 2020). Indicating its newfound post-millennial prominence, housing affordability featured prominently in three of the five general elections between 2007 and 2019, despite previously low electoral salience. More importantly for the present paper, an interpretation of rising homelessness as a consequence of growing (rental) housing affordability stress has also recently featured in this debate (e.g., Flood, 2017; Anglicare, 2021).

In Australia, growing concerns about housing affordability as seen over the past 20-25 years are also importantly set against a post-1990s housing policy orthodoxy that it is the private market (and not the State) that can most appropriately accommodate low-income households. Apart from the minimal maintenance of a legacy social rental sector, the government role in enabling access to adequate housing for socio-economically disadvantaged households should be largely limited to demand side assistance – e.g., through income support and 'private rental products' such as tenancy deposit (or 'bond') assistance. Accordingly, Australia's national social housing construction programme effectively ended in 1996 (Pawson et al., 2020). The minor new supply initiatives (e.g., the NSW Government's Social and Affordable Housing Fund – SAHF; the Victoria Social Housing Growth Fund – SHGF) witnessed over the past decade in certain states and territories have been barely sufficient to keep pace with public housing sales and demolitions (Pawson, 2021).

The purpose of this paper is to review recent evidence on the relationship between housing affordability and homelessness as this plays out in Australia. It therefore focuses on rental stress as it affects low-income tenants. Naturally, Australian experience and evidence in this field will be partly specific to national administrative and residential property market circumstances, as well as available statistical data. Arguably, however, Australia's economy, housing, and social security systems have

enough similarity with those of many other high-income countries to facilitate the broader relevance of research evidence from this source. Moreover, such a national focus for the paper can be justified in terms of exploiting the especially extensive analysis of housing affordability by Australian researchers over recent decades.

The hypothesis of housing affordability as a contributory factor for housing precarity connects with long-running debates on the causes of homelessness. In particular, the extent to which the problem reflects personal vulnerability or personal circumstances on the one hand, versus structural economic disadvantage and inadequate housing provision, on the other. Arguably, if the first of these is more important, the appropriate policy response would be stepped-up provision of personal support services, whereas, if the latter, more fundamental reform and/or more substantial investment in income support and/or affordable housing would be called for. Which of these competing hypotheses has greater validity is partly dependent on how 'homelessness' is defined. Dominant conceptualisations of homelessness are themselves, of course, partly the outcome of country-specific national traditions.

The remainder of the paper is structured as follows. First, we discuss approaches to measuring housing affordability in relation to people renting on a low income. We then review evidence on recent rental housing affordability trends in Australia as demonstrated by analyses using various metrics. Next, we take an overview of recent Australian homelessness levels and trends. We then review recently published evidence on homelessness drivers that sheds light on the importance of housing affordability. Finally, in our conclusion we briefly reflect on the analysis.

Measuring Housing Affordability

In measuring rental housing affordability, there are two basic approaches – the residual income method and the ratio method. The residual income approach involves calculating a socially defined minimum standard of adequacy for non-housing consumption. Where housing costs exceed a household's 'residual income' above this threshold, a situation of rental affordability stress or 'shelter poverty' exists (Stone, 2006).

However, partly because of associated technical and data availability challenges in calibrating and monitoring the residual income measure of rental stress, the ratio method is preferred by most housing analysts. For a low-income household, a housing affordability problem is generally considered to exist when their housing costs exceed 30% of gross income – essentially a rule of thumb, but one of long standing (Hulchanski, 1995) and wide application. 'Low income' is often defined as the lowest quintile (or sometimes lowest 40%) of the income spectrum. Through a

comparative analysis of different metrics derived from UK survey data, Bramley (2012, p.133) concluded that ratio yardsticks remain “probably the best objective measure [of housing affordability]” available.

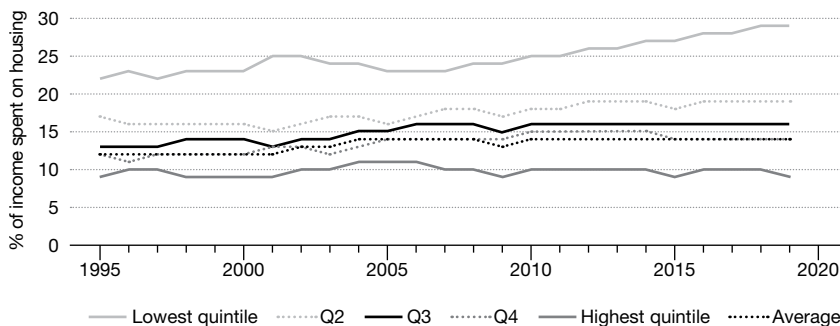
Related to the ‘simple’ ratio method for calibrating the incidence of low-income rental stress is the measurement of actual housing costs borne by households across all tenures. In Australia, a long-running statistical series records average housing expenditures of distinct income cohorts, population-wide (ABS, 2019).

Finally, premised on the argument that housing for low-income groups is most appropriately provided by the market (see above), a series of census-based analyses has tracked the extent to which Australia’s private rental sector in fact generates tenancies affordable (and available) to this cohort (Wulff et al., 2011; Hulse et al., 2015 2019). This is valuable as a means of calibrating low income (private) rental affordability in terms of both change over time and spatial variation.

Housing Affordability Trends and Patterns

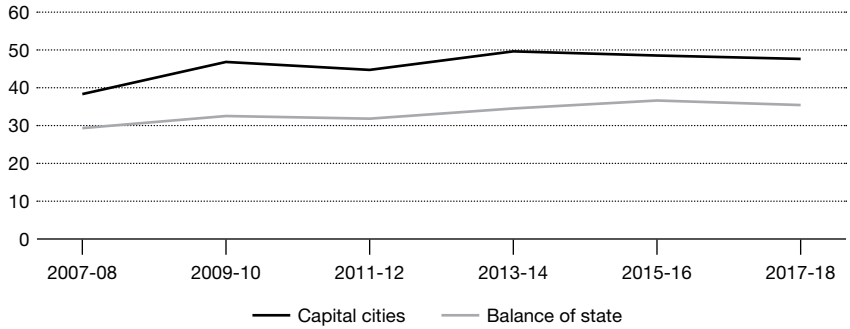
At the national scale, Australian statistics suggest that the past 10-20 years have seen measurably increased rates of rental affordability stress. Firstly, as shown in Figure 1, the period from 2005 saw a marked and sustained housing cost increase for the entire lowest quintile cohort. Most, although not all, of these households will be renters. Secondly, from Figure 2, it can be seen that over the past decade the incidence of rental stress generally rose for both capital city and regional renters, ending the period some nine percentage points higher for the former and six percentage points higher for the latter.

Figure 1: Housing cost ratios by income quintiles, Australia: 1995 to 2018



Source: ABS Survey of Income and Housing – ABS (2019) Table 1.2. Note: Housing cost ratios based on gross household income; income quintiles based on equivalised disposable household income. Data interpolated for missing years.

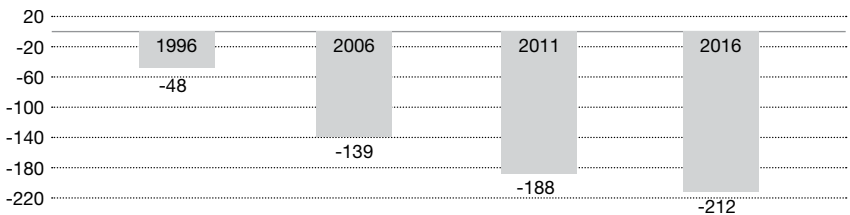
Figure 2: Proportion of lower income renter in rental stress, 2007-2018



Source: ABS Survey of Income and Housing – ABS (2019) Table 21.1. Note: stress measures are based on net housing costs and income (both exclude Rent Assistance) and equivalised disposable household income quintiles (excluding Rent Assistance) are calculated for capital city and balance of state, on a state-by-state basis.

Lastly, as an indirect measure of housing affordability for lower income households, and based on the ‘affordable and available’ analysis noted above, Figure 3 demonstrates the steadily growing national deficit of private rental housing within the means of this cohort. As elaborated by Hulse et al. (2019) (see also Hulse and Yates, 2017), the sector’s rapid expansion over this period has brought little or no additional provision at the lower end of the market – provision needed to affordably accommodate the country’s growing low-income population.

Figure 3: Deficit of private rental properties affordable to income quintile 1 households, 1996-2016



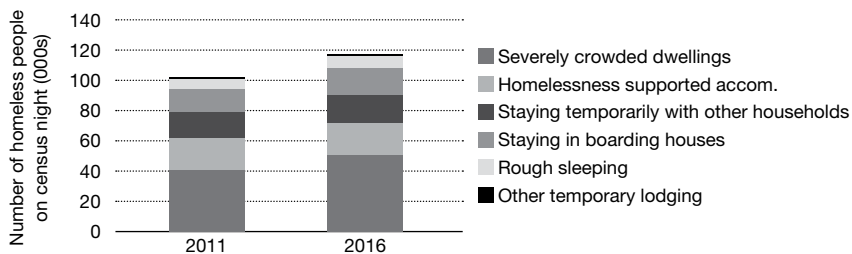
Source: Hulse et al. (2019) Figure A4. Note: Graphed figures calibrate the Australia-wide total of private rental tenancies affordable to quintile 1 households, minus the number of quintile 1 households.

Homelessness Incidence and Trends

In Australia, as in many other countries, the specification and measurement of homelessness is a controversial topic. In part, this relates to the competing conceptualisations of homelessness as rooflessness, versus homelessness more broadly defined. A particular point of contention concerns the inclusion of severe overcrowding within the overall ABS definition¹ (ABS, 2012; d'Abrera, 2018; Shelter NSW, 2019).

Both street homelessness and broader homelessness are enumerated in the five-yearly census, Australia's prime source of homelessness prevalence statistics. Over the most recent five-year period, across the six ABS categories, the overall total rose by 14% (see Figure 4), bringing the 10-year increase to 30% (ABS, 2018). Thus, homelessness can be unequivocally termed 'a growing problem' in that it has been rising at a rate somewhat ahead of overall population growth (9% and 13%, respectively).

Figure 4: Homelessness in Australia, 2011 and 2016 – five yearly census estimates

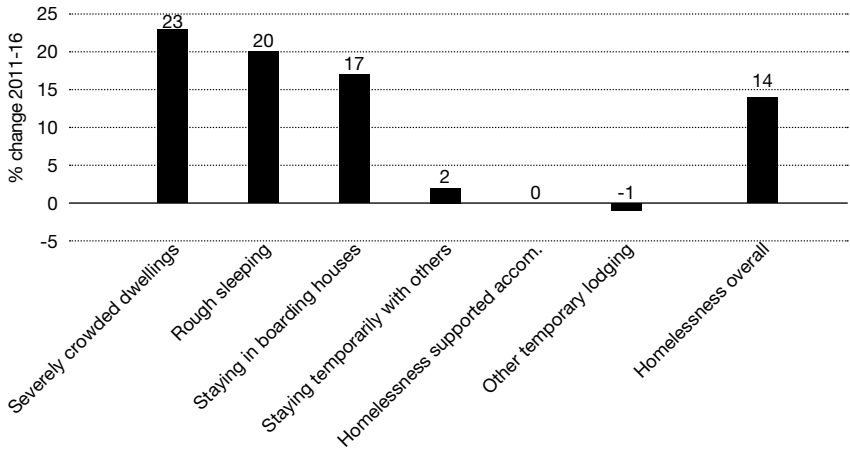


Source: ABS (2018)

Notably, as illustrated in Figure 5, different components of the group of people experiencing homelessness changed at very different rates in the most recent inter-censal period. The cohort subject to severe overcrowding² grew by almost a quarter (23%). Moreover, since this was already the largest single sub-group in 2011, expansion of this cohort alone accounted for the greater part of 2011-16 growth overall.

¹ According to the ABS definition, a person is 'homeless' if, without accommodation alternatives, their current living arrangement is in a dwelling that is inadequate; or has no tenure, or if their initial tenure is short and not extendable; or allows them no control of, and access to, space for social relations.

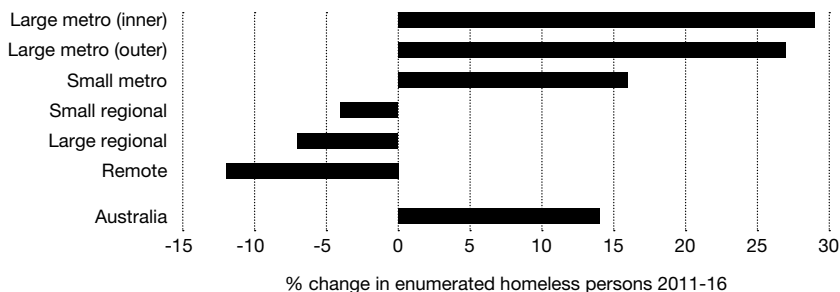
² This relates to residents of dwellings needing four or more extra bedrooms to adequately accommodate the household.

Figure 5: Homelessness in Australia – 2011-2016 change by sub-group

Source: ABS (2018)

Just as in comparable ‘settler societies’, such as Canada, an important feature of homelessness in Australia is that the problem is far more common for Indigenous people than for the population as a whole. The incidence of census-defined homelessness involving Australia’s Aboriginal and Torres Strait Islander populations is ten times that of the population-wide figure. Albeit involving numbers very small in absolute terms, rates of Indigenous homelessness are extraordinarily high in remote outback communities – as further discussed below. However, a major remote Indigenous housing initiative enacted by the Australian Government in the early 2010s (mainly in the Northern Territory) (Commonwealth of Australia, 2017) was probably a major factor underlying the marked reduction in homelessness recorded in remote localities in the 2011-16 period – see Figure 6. Under the National Partnership Agreement on Remote Indigenous Housing (NPARIH), 4 000 homes were built across 300 remote Indigenous communities in the period 2008-2018 (National Indigenous Australians Agency, 2021).

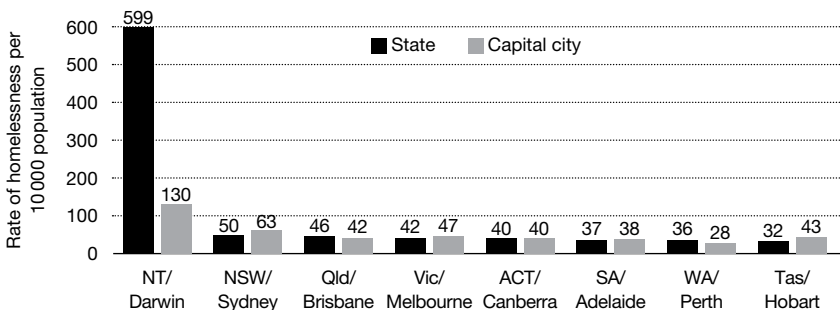
Figure 6: Change in the incidence of homelessness 2011-16 by settlement type



Source: Original data from ABS Census of Population and Housing – ABS (2018); Pawson et al. (2018).

Rates of homelessness are also highly variable across Australia. Setting aside remote areas containing very small populations, Parkinson et al. (2019) calculated the 2016 homelessness rate for capital cities as 47 per 10000 people, as against 31 per 10000 for regional (non-remote) areas. However, especially when remote areas are included (as in Figure 7) – and mainly due to its proportionately large Indigenous population – the Northern Territory homelessness rate (especially outside Darwin) is of a completely different scale to the rest of Australia.

Figure 7: Homelessness rates by state and capital city, 2016



Sources: Original data from ABS Census of Population and Housing – ABS (2018); Pawson et al. (2018).

How far can the incidence and changing rate of (census-defined) homelessness in Australia be ascribed to housing affordability variations and trends? To put this more broadly, how much is the problem subject to housing market conditions? Certainly the very marked variations in recent rates of change for different geographies (see Figure 6) strongly suggest that housing market and/or other regionally specific economic factors exert significant influence.

Beyond this, employing regression analysis, Parkinson et al. (2019) explored possible explanatory factors underlying varying rates of homelessness as calibrated by the 2016 census (see Figure 7). As an affordability indicator, the analysis focused, in particular, on the local availability of private rental housing affordable to households in the lowest quintile of the income distribution – as calculated by Hulse et al. (2019).

Albeit excluding the (relatively small) supported accommodation cohort, identified as a confounding factor, Parkinson et al. (2019) identified a measurable relationship between affordability and homelessness. Thus:

A 1 per cent increase in the supply of affordable private rentals to those in the lowest 40 per cent of the income distribution decreases the area rates of homelessness by around 0.7 per cent' [Additionally] for every \$10 increase in area-based median rents, homelessness rates rise by 1.1 per cent. (pp.56-57)

The relationships were even stronger in relation to the rate of homelessness involving 'severely overcrowded' households.

The Parkinson et al. (2019) conclusions also build on earlier Australian work by Johnson et al. (2015) that identified a positive relationship between private market rents and the incidence of homelessness. Specifically, "an increase in the median market rent of \$100 [a 30% increase at the national median weekly rent] lifts the risk of entry [to homelessness] by 1.6 percentage points, or from a sample mean of 8% to 9.6% (a 20% increase in risk)" (Johnson et al., 2015, p.3). These findings are, moreover, consistent with robust international evidence on the inverse relationship between housing affordability and homelessness (e.g., Bramley and Fitzpatrick, 2018; Quigley et al., 2001).

Conclusion

This paper has briefly reviewed the concept and measurement of housing affordability as it relates to low-income renters, exemplifying this through affordability analyses, illustrating the recently changing scale of the rental stress in Australia. It has related these assessments to the recorded incidence of homelessness – in particular, recent changes in the scale and spatial distribution of people experiencing homelessness. Building on this story, it has highlighted statistical evidence on the relationship between census-defined homelessness and the local availability of rental housing affordable to low-income populations. It is hoped that in highlighting some Australian rental affordability metrics, the paper may provide inspiration for parallel research in other countries.

The severity and/or extent of rental housing affordability stress no doubt varies from country to country, and the same will be true in terms of change over time. However, although there is an OECD series that attempts to do this (OECD, 2020), cross country comparisons on this issue are fraught with difficulty due to varied national contexts. It is, in particular, difficult to control for differences in the scale, distribution, and administrative treatment of housing allowances and other social security payments, as well as varied levels of social housing provision. Major cross-country inconsistencies in definitions of housing precarity and homelessness also, of course, apply (Edgar et al., 2007; Clair et al., 2019).

For all the above reasons, a cross-country comparative statistical analysis of housing affordability stress and homelessness would probably be possible only through reference to transnational survey data such as EU-SILC – albeit that adequate coverage of populations at the margin of homelessness is challenging for data collection methods of this type. Nevertheless, the interconnectedness of national economies and finance systems in the modern world makes it likely that meta-level processes exacerbating rental stress during the 2010s – and thereby increasing homelessness pressures – in countries such as Australia will be felt in many other countries.

In the immediate past, of course, the COVID-19 pandemic has wrought huge impacts on housing markets as well as on household incomes and economic activity. In many high-income countries, effects on rental affordability and homelessness were substantially dampened by emergency measures early in the public health emergency.

As the crisis progressed into 2021, however, Australia saw rapidly accelerating market rents. Nationally, in the year to June 2021, rents rose by 6.6% – the highest rate of rental inflation for more than a decade (CoreLogic, 2021). Similarly in the UK, rents were up 5.9% over the same period, again an unusually large rise, far ahead of CPI (HomeLet, 2021). Meanwhile in the US, rents rose at three times the typical rate in the first half of 2021 (Long, 2021). More importantly, however, all these countries have seen a striking tendency for elevated rates of rent inflation outside of the largest cities. For example, rents rose by 11.3% in Australia's regions in the year to June 2021 compared with only 5% in (state/territory) capital cities; and while London's rents rose by 1.5% over this period, the comparable figure for the remainder of the UK was 8%. Such patterns are likely influenced by pandemic-generated 'remote working' practices, perhaps at least partially embedded for the long term. If the relationship between rental affordability and housing insecurity reported in this paper remains true, it seems likely that the geography of homelessness will be likewise reconfigured, with non-metropolitan populations disproportionately impacted.

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