



# The State of Affordable Housing in WA

Shelter WA Occasional Paper 2003-2, by Karel Eringa (August 2003)

*The State of Affordable Housing in WA* is Shelter WA's annual overview of the extent to which West Australians are able to access affordable housing. The overview is based on a range of key housing indicators, and focuses on families in the bottom half of the income range.

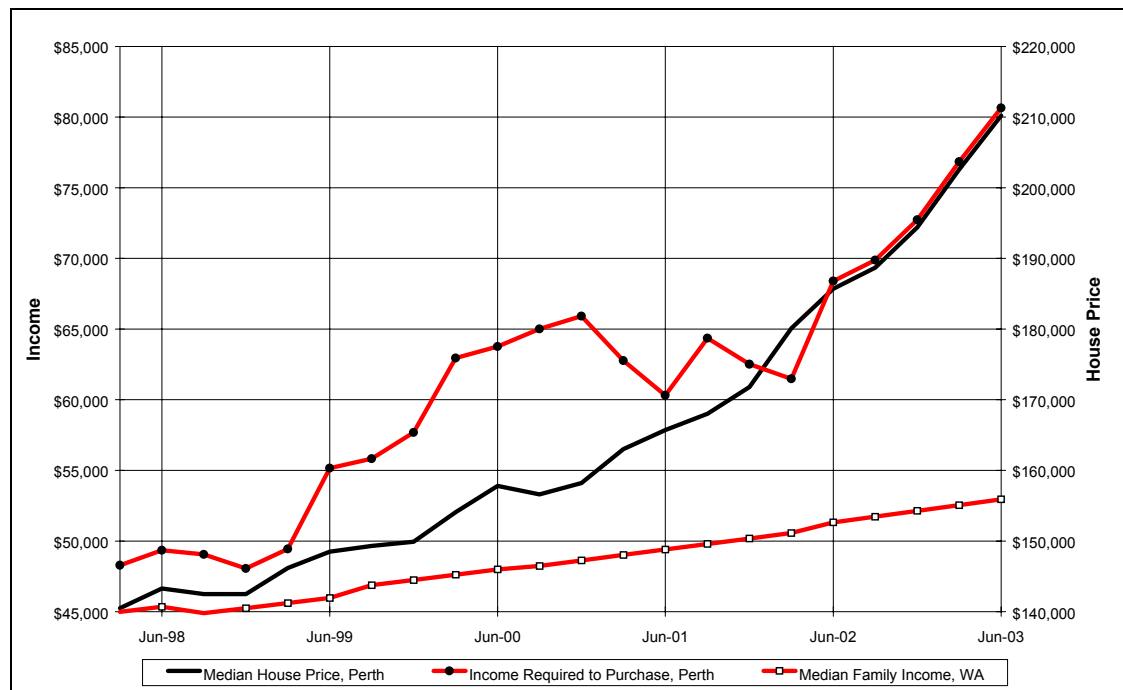
Last year, Shelter WA identified affordability as the most significant barrier for low income families to access appropriate housing. Since then, housing affordability in Western Australia has deteriorated further, particularly with regard to purchasing.

## Home Purchasing

Figure 1 indicates that strong house price growth in 2002-03 meant that reduced affordability became an even greater barrier for families seeking to purchase their own home. Perth's median house price rose by 13.2% over the year, from \$185,700 to \$210,200. The median house price in regional WA increased by 11.4%, from \$138,400 to \$154,200.

Figure 1 also shows that in June 2003, a family required an income of \$80,643 to affordably purchase a median priced home. This compares to \$68,388 in June 2002 and \$49,357 in June 1998 and represents a decline in affordability of 63.4% over the last five years and 17.9% over the last twelve months.

While family incomes have risen by 16.8% (from \$45,344 to \$52,958) since June 1998, this increase has not been nearly sufficient to keep pace with house price rises. In June 1998 a median income family would need to increase its income by 8.8% in order to affordably purchase a median priced house in Perth. By June 2003 this 'affordability gap' had risen nearly six times, to 52.3%. As a result, in June 2003, a median income family could affordably purchase a median priced house in 40 Perth suburbs, down from 71 in June 2001.



**Figure 1: Affordability and House Prices, Perth 1998-2003**

Sources: Real Estate Institute of WA, Reserve Bank of Australia. Income Required to Purchase a Median House calculated assuming a deposit of 10% of the median property value plus 5% costs, average standard variable home loan over 25 years with repayments at 30% of disposable income.

While median income families have suffered, the fall in housing affordability has affected low to middle income families even more severely. Figure 2 and Table 1 indicate that in June 2001 there were 49 suburbs where a family earning at the top of the second income quintile (currently around \$45,795) could afford to buy a median priced house. Twelve months later this number had fallen to 37 and by June 2003 the same family could only afford to purchase a median priced house in 24 Perth suburbs. Suburbs such as Balga, Merriwa, Midland, Mirrabooka, Queens Park and Two Rocks were affordable in June 2002 but have become unaffordable over the last twelve months.

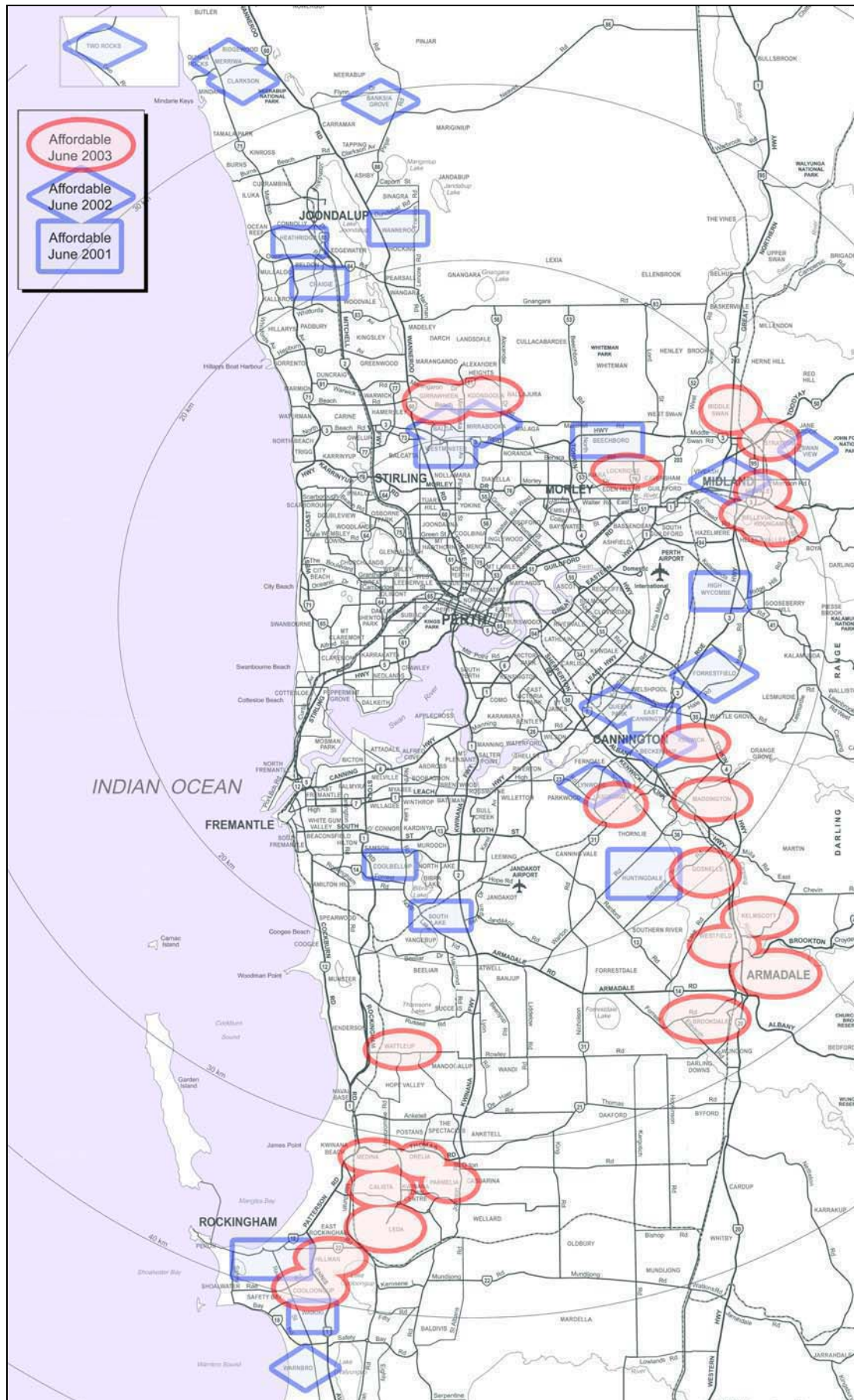
It should be noted that affordability will fall further if interest rates start rising, particularly if house prices continue their upward trend. For instance, a 1% rise in interest rates would put 5 of the 24 suburbs out of the reach of low to middle income families. A 10% rise in house prices would have the same effect. A combined 1% interest rate rise and 10% house price rise would leave only 8 suburbs affordable to these families.

Figure 2 shows that many of the areas that are still affordable to lower income families are situated in the South East corridor (Kenwick to Armadale), out from Midland and in the Rockingham / Kwinana area. All three of these areas are characterised by higher than average unemployment and a relative lack of accessibility to services such as public transport. This implies that low to middle income families can't afford housing with access to jobs or education, affecting not only their own life prospects but also those of their children.

	Affordable in				Affordable in		
	June 2003	June 2002	June 2001		June 2003	June 2002	June 2001
Armadale	✓	✓	✓	Leda	✓	✓	✓
Balga		✓	✓	Lockridge	✓	✓	✓
Banksia Grove		✓	✓	Lynwood		✓	✓
Beckenham		✓	✓	Maddington	✓	✓	✓
Beechboro			✓	Medina	✓	✓	✓
Bellevue	✓	✓	✓	Merriwa		✓	✓
Brookdale	✓	✓	✓	Middle Swan	✓	✓	✓
Calista	✓	✓	✓	Midland		✓	✓
Clarkson		✓	✓	Midvale	✓	✓	✓
Coolbellup			✓	Mirrabooka		✓	✓
Cooloongup	✓	✓	✓	Orelia	✓	✓	✓
Craigie			✓	Parmelia	✓	✓	✓
East Cannington			✓	Queens Park		✓	✓
Forrestfield		✓	✓	Rockingham			✓
Girrawheen	✓	✓	✓	South Lake			✓
Gosnells	✓	✓	✓	Stratton	✓	✓	✓
Heathridge			✓	Swan View		✓	✓
High Wycombe			✓	Two Rocks		✓	✓
Hillman	✓	✓	✓	Waikiki			✓
Huntingdale			✓	Wanneroo			✓
Kelmscott	✓	✓	✓	Warnbro		✓	✓
Kenwick	✓	✓	✓	Wattleup	✓	✓	✓
Koondoola	✓	✓	✓	Westfield	✓	✓	✓
Koongamia	✓	✓	✓	Westminster			✓
Langford	✓	✓	✓				

**Table 1: Affordable Suburbs, Perth, 2001-2003**

Source: Real Estate Institute of WA



**Figure 2: Affordable Suburbs, Perth, 2001-2003**

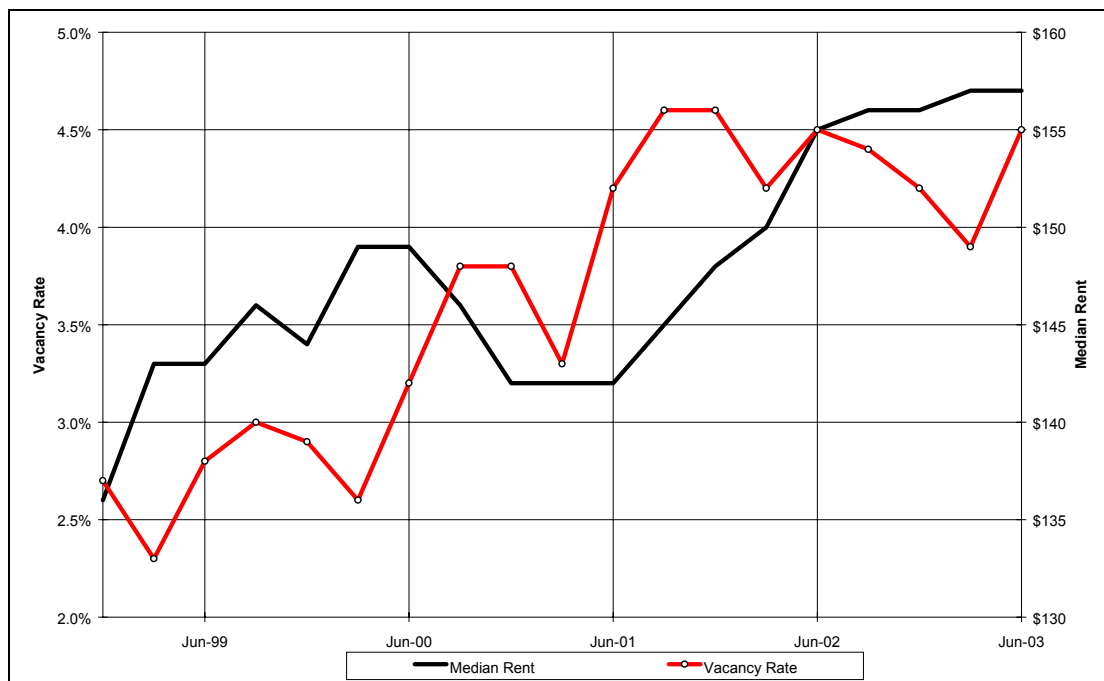
Base map reproduced with permission of the Department of Land Information, P321: see [www.dli.wa.gov.au](http://www.dli.wa.gov.au).

A final consequence of declining housing affordability is that homelessness continues to be a significant issue in Western Australia. Over the last three years, Shelter WA has conducted four surveys into the nature of homelessness in WA. In these surveys, children (14 years and under) consistently represented roughly one third of homeless people, with young people (14-24 years old) representing a further one third. In addition, roughly half of the homeless people in each of the surveys identified as Indigenous.

### Private Rental

On the positive side, however, Figure 3 shows that rents in the private market increased by less than inflation, at 1.3%. This small increase can be linked to the vacancy rate, which has returned to 4.5% after falling to 3.9% earlier in the year.

However, these averages mask some important developments. Recent REIWA data shows that vacancy rates are very low at the bottom (affordable) end of the market, but high at the top end. This means that there is currently upward pressure on low rents, but downward pressure on high rents. Housing affordability is therefore likely to get worse for people on low incomes, whereas people on higher incomes may be paying less rent.



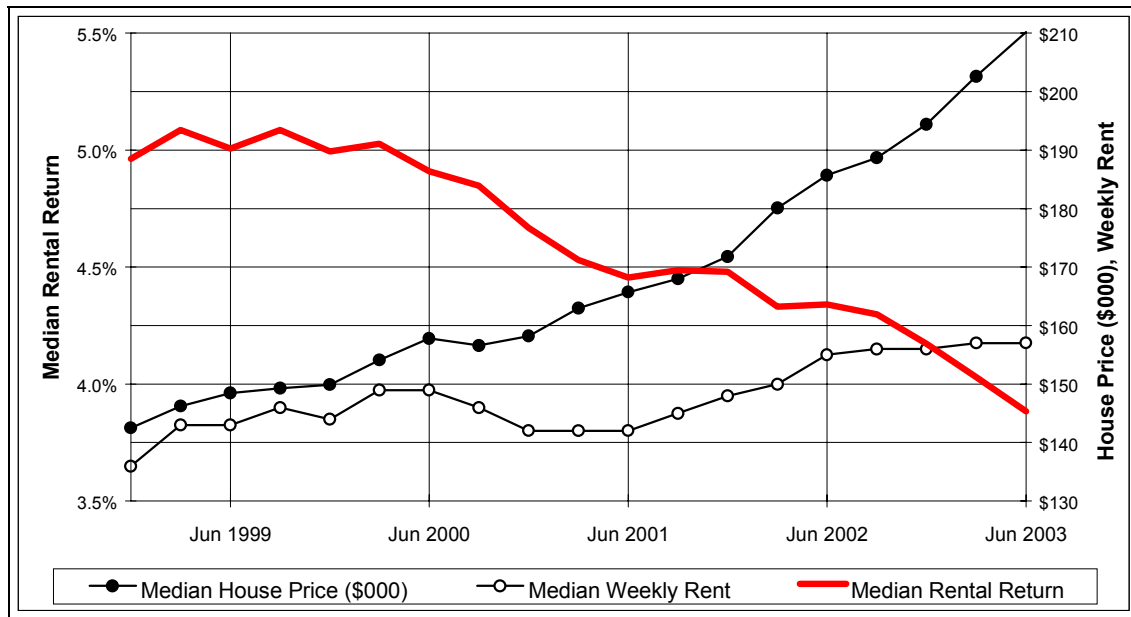
**Figure 3: Vacancies and Rents, Perth 1999-2003**

Source: Real Estate Institute of WA

It is of concern, however, that rising property prices and stagnant rents have again reduced rental returns for investors: gross rental returns fell from 4.3% in June 2002 to 3.9% twelve months later. In order to cover tenancy management, asset management, maintenance and depreciation on the building, rental returns on a typical property should be at least 6%. The current low rate of return is likely not to encourage investment in affordable housing.

This is of particular concern, as it comes on top of a longer term trend: over the 1986 – 1996 period “low cost rental stock fell by 19.8% in Perth and by 62.5% in non-metropolitan WA. In the same period, the number of low income private renter

households grew by 79.4% in Perth and by 88.8% in the rest of the state.”<sup>1</sup> In addition, the 1999 Australian Housing Survey revealed that 57% of West Australian private sector tenants in the bottom two income quintiles live in housing stress.



**Figure 4: Gross Rental Return, Perth 1999-2003**

Source: Real Estate Institute of WA

### Social Housing

The final tenure, social housing, is declining in importance relative to home purchase and private rental. In June 1997, the State Housing Authority owned 39,001 dwellings, or around 5.5% of total housing stock in Western Australia.<sup>2</sup> Since then, stock numbers have remained more or less stagnant, rising marginally to 39,135 dwellings by June 2003.<sup>3</sup> However, with recent construction activity rapidly expanding housing in the private sector, social housing now represents only 4.9% of total housing stock. In other words, social housing is now an option for a significantly smaller proportion of West Australian households than it was five years ago.

The failure to expand social housing stock is due in part to falling Government funding for social housing. Commonwealth Government funding for social housing in WA under the Commonwealth State Housing Agreement has fallen from \$108.6 million in 1996/97 to \$106.7 million in 2001/02 and \$97.4 million in 2002/03 – a fall in real terms of 24.5%.

While the State Government has compensated for a small part of this decline from its Consolidated Revenue Fund, there is significantly less funding for social housing than there was seven years ago. However, modelling by Shelter WA indicates that additional funding of \$146.0 million per year (increasing with house prices) would be required to maintain social housing stock at its current proportion (ie. below 5%) of

<sup>1</sup> Karel Eringa, Increasing Affordable Rental Housing Stock in WA, Shelter WA Occasional Paper 2001-2, November 2001; figures from M.Wulff, J.Yates & T.Burke, *Low Rent Housing in Australia 1986 to 1996*, 2001, pp.25 and 29.

<sup>2</sup> Department of Housing and Works, *Annual Report*, 1996/97. As at 30 June 1997 social housing stock consisted of 36,232 Homeswest, 1,934 community housing and 835 Indigenous Remote dwellings.

<sup>3</sup> Department of Housing and Works, unpublished report, August 2003: preliminary figures. As at 30 June 2003 social housing stock consisted of 35,025 Homeswest, 2,995 community housing and 1,115 Indigenous Remote dwellings.

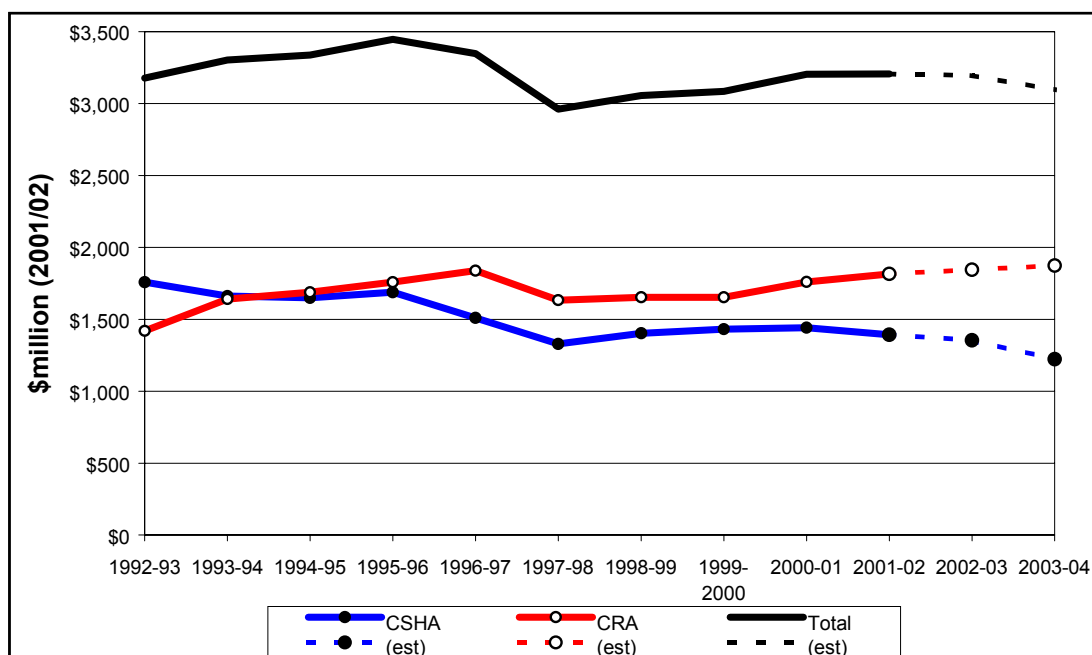
total housing stock in WA. This figure is in addition to current capital expenditure on social housing of \$131.5 million.

Whilst a very significant factor, lack of funding is not the only cause of the stagnation of social housing stock. A second important factor is the policy of 'targeting' people with high needs and low incomes. Because of the higher needs of this group, targeting has increased tenancy management costs and, because of their lower incomes it has reduced rental revenue. This means that the policy of targeting has reduced the financial viability of social housing providers.

Be that as it may, the social housing sector is by no means large enough to provide an alternative for a significant number of people. One indication of this is that as of 30 June 2003 there were 12,981 families on the public housing waiting list.<sup>4</sup> However, it should be noted that this does not include families waiting for community housing. In addition, waiting lists are notoriously poor indicators of the need for social housing.

### Commonwealth Rent Assistance

Since the early 1990s, there has been an increased emphasis on housing assistance through to tenants in the private rental sector, through the Commonwealth Rent Assistance (CRA) program. Figure 5 shows that by 2001/02, expenditure on CRA was \$1,815 million compared to \$1,392 million for the CSHA. With the removal of GST compensation, Government expenditure on the CSHA will drop substantially in 2003/04.



**Figure 5: Real Government Expenditure: CSHA and CRA (2001-02 dollars)**

Source data: Productivity Commission, Report on Government Services 2003, Canberra, 2003, Table 16A.74

The 2003 Report on Government Services indicates that as at 30 June 2002, 86,956 West Australian families received CRA payments. Payments averaged \$71.64 per fortnight in Perth and \$69.38 per fortnight in the rest of WA.<sup>5</sup> However, the Report also finds that 28.9% of these families still experienced housing stress after receiving

<sup>4</sup> Department of Housing and Works, unpublished report, August 2003: preliminary figure. This is down from 14,194 as at June 2002 (Department of Housing and Works, *Annual Report*, 2001-2002).

<sup>5</sup> Productivity Commission, *Report on Government Services 2003*, Canberra, 2003, Table 16A.56.

CRA – up from 28.5% last year. In addition, 7.0% of West Australian CRA recipients spent more than 50% of their income on rent – up from 6.7% last year.<sup>6</sup>

These figures are hard to reconcile with the Commonwealth Government's statement that CRA provides "customers with more choice about where they live and the quality of their housing."<sup>7</sup> In fact, the current policy parameters of CRA make it financially very difficult for lower income tenants to move to areas with better employment opportunities.

### *Addressing the Affordable Housing Crisis*

Increasing demand and falling supply of housing that is affordable for low to middle income earners mean that a housing crisis is emerging in Western Australia, with rapidly declining affordability as its key feature. Since housing is a key economic and social driver, both the State and the Commonwealth Government need to urgently address housing affordability.

As a previous paper in this series argued, this can be done either by increasing Government funding for social housing, providing consumer or provider subsidies to encourage private rental, or by developing innovative partnerships between the private, community and Government sectors.

While all four options have their strengths and drawbacks, two important points need to be made. Firstly, taken in isolation all options and combinations of options will be expensive. For instance, Shelter WA's projections indicate that increasing social housing to 6% of total housing stock would cost a minimum of \$13.7 billion over 20 years.

Secondly, significant savings can be obtained if inconsistencies and contradictions are removed from the current system of housing taxes, payments and subsidies. In fact, housing affordability outcomes could be improved dramatically at little or no additional cost to the taxpayer if schemes such as the First Home Owners Scheme, the Commonwealth State Housing Agreement, Commonwealth Rent Assistance, negative gearing provisions, capital gains tax exemptions, stamp duties, land taxes and other tax provisions are re-targeted to deliver consistent housing affordability outcomes.

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<sup>6</sup> Productivity Commission, *Report on Government Services 2003*, Canberra, 2003, Table 16A.49. Data collected at 30 November 2001.

<sup>7</sup> Comments provided by the Commonwealth Government to Productivity Commission, *Report on Government Services 2003*, Canberra, 2003, p.16.78.