

In February 2000, Shelter WA produced a report for the WACOSS Poverty Commission, *Housing for a Sustainable Community: The State of Housing in Western Australia*. This report contained an overview of main housing indicators in WA. Shelter WA aims to produce an annual overview of the way in which some of these indicators are developing. This is the first of these annual overviews.

For 2001-2002, the single most important housing issue for low income housing consumers in WA was once again access to affordable housing. As appropriate housing becomes more unaffordable for low income housing consumers, this means a choice between either spending an ever-increasing proportion of their income on housing, living in inappropriate accommodation, or becoming homeless. The Smith Family estimates that in 1999, 16.2% of Western Australians lived in poverty after they paid their housing costs.¹

The decline in affordability occurred in both the home ownership and the private rental sectors. Figure 1 below demonstrates that home ownership is becoming rapidly less affordable in Perth, with the income required to affordably purchase a median price home rising from \$63,947 in June 2001 to \$68,108 12 months later.

This is due to two factors. Firstly, real house prices have risen increasingly sharply since the introduction of the New Tax System and the First Home Owners grant in mid 2000. Over the twelve months to 30 June 2002, median house prices in Perth increased by 12.1% (from \$165,700 to \$185,700) and by 14.6% in regional WA (to \$138,400).² Secondly, after falling from a high of 8.05% in August 2000 to 6.07% in December 2001, the average standard variable mortgage rate rose to 6.57% by June 2002.³ Figure 1 demonstrates that affordability dropped sharply in the first half of 2002, when both interest rates and house prices were rising.



Figure 1: Affordability and House Prices, Perth 1999-2002

Sources: REIWA, Market Update, March 1999 - June 2002; Bankchoice, Ratewatch, www.infochoice.com.au (accessed 16/8/02); Reserve Bank of Australia, Measures of Consumer Price Inflation, www.rba.gov.au/Statistics/measures_of_cpi.html (Accessed 16/8/02). Income Required to Purchase a Median House calculated assuming a deposit of 10% of the median property value plus all costs, average standard variable home loan over 25 years with repayments of 25% of net income.

¹ Ann Harding & Agnieszka Szukalska, *Financial Disadvantage in Australia – 1999*, Smith Family, 2000, p.17

² REIWA, *Market Update*, June 2002

³ Bankchoice, *Ratewatch*, <http://www.infochoice.com.au> (accessed 16 August 2002)

At the same time, increases in private sector rents are outpacing increases in incomes for the bottom two quintiles. Figure 2 shows that the median real rent in Perth fell from a peak of \$149 per week in March 2000 to \$142 per week in June 2001. However, since then real rents have risen by 6.1% to \$155.⁴ As a result, the income required to rent a median house jumped from \$17,722 in June 2001 to \$19,344 in June 2002.

The decrease in affordability comes despite continuing increases in vacancies in the private rental market. Figure 2 shows that the vacancy rate in Perth rose from 2.3% in March 1999 to an average of 4.5% over the 2001-2002 financial year. In addition, the current fall is of concern because 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.”⁵

One explanation for the pattern of falling real rents in 2000-01 and rising real rents the next year is the impact of the GST. Private sector rents are treated as an input taxed supply, which means that landlords have to absorb the cost of the GST. Although more detailed analysis is required, Figure 2 suggests that landlords are now starting to pass on their increased costs to tenants in the form of higher rents.

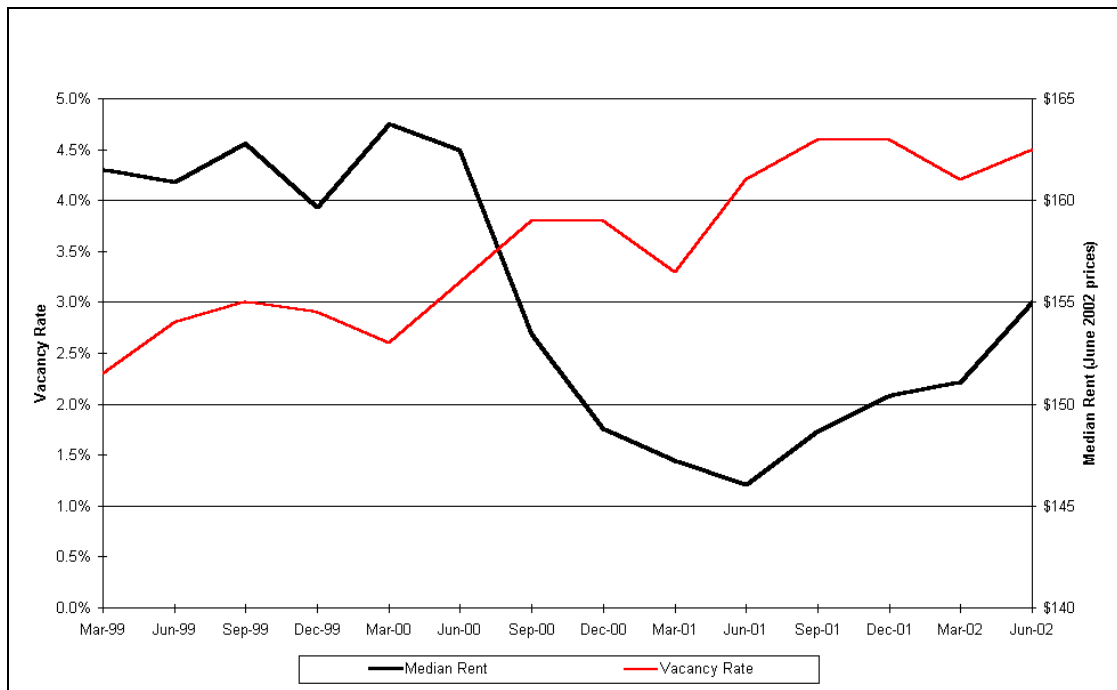


Figure 2: Vacancies and Rents, Perth 1999-2002

Sources: REIWA, *Market Update*, March 1999 - June 2002; Bankchoice, *Ratewatch*, www.infochoice.com.au (accessed 16 August 2002); Reserve Bank of Australia, *Measures of Consumer Price Inflation*, www.rba.gov.au/Statistics/measures_of_cpi.html (Accessed 16 August 2002)

While Commonwealth Rent Assistance goes some way toward improving affordability in the private sector, it is not sufficient. For instance, the 2002 Report on Government Services identified that even after receiving this payment, 28.5% of West Australians still experience housing stress. 6.7% of West Australian CRA recipients spend more than 50% of their income on rent.⁶

⁴ REIWA, *Market Update*, March 1999 – June 2002

⁵ 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.

⁶ Productivity Commission, *Report on Government Services 2002*, Canberra, 2002, Table 16A.42

Falling affordability for both home purchasers and renters means that for an increasing number of people social housing is the only source of affordable accommodation. The total number of dwellings owned by the Department of Housing and Works has increased from 38,556 in 2000 to 38,730 in 2001⁷ and a projected 39,291 in 2002.⁸ However, 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 the public housing waiting list jumped from 12,879 households in 2000 to 15,456 in 2001.⁹

The principal reason why social housing is not growing more rapidly is that capital funding for housing under the Commonwealth State Housing Agreement fell by 14.4% over 1996 - 2001, from \$1.64b to \$1.41b. Without additional funds, social housing will fall relative to total housing stock in WA. Modelling by Shelter WA indicates that even to maintain public housing stock as a proportion of total housing stock in WA, additional funding of \$66.2m per year plus land costs is required on top of current capital expenditure of around \$133m per year.¹⁰

Shelter WA continues to lobby for increased capital funding for social housing, as well as a more equitable way of distributing payments such as Commonwealth Rent Assistance and the First Home Owners Grant. In addition, Shelter WA continues to work on alternative ways of increasing affordable housing stock, such as Local Government Affordable Housing Plans and stimulating private sector investment.

⁷ Department of Housing and Works, *Annual Report*, 1999-2000 and 2000-2001

⁸ Unpublished data from the DHW.

⁹ Department of Housing and Works, *Annual Report*, 1999-2000 and 2000-2001

¹⁰ Karel Eringa, Increasing Affordable Rental Housing Stock in WA, Shelter WA Occasional Paper 2001-2, November 2001.