



# **The State of Affordable Housing in WA, 2004**

Shelter WA Occasional Paper 2004-2

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## **Introduction**

*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 has deteriorated further, particularly with regard to purchasing.

## **Overview**

The central issue for housing in WA in 2003-04 was another major decline in housing affordability for home purchasers. Two interest rate rises and house price growth of 14.4% saw the household income required to purchase a median priced Perth home rise to over \$100,000 per year. By comparison, the median household income is \$55,084 per year.

Another illustration that home ownership is becoming very difficult to achieve is that in June 2001, a family earning at the top of the second income quintile (currently just under \$48,000) had a choice of 49 Perth suburbs in which it could afford to buy a median priced home. By June 2004, the choice had reduced to just 9 suburbs: Armadale, Brookdale, Calista, Koongamia, Medina, Parmelia, Swan View, Wattleup and Westfield.

This analysis does not indicate that prospective home purchasers earning lower incomes cannot buy houses priced below the median outside of these nine suburbs. In fact, there are some indications that a significant number of affordable properties priced below the median are on the market in many suburbs.

However, the above figures do indicate that these home purchasers can no longer rely on their traditional strategy of buying a median priced house in a suburb that they can afford. Instead, they have to spend time and effort in order to find a suitable house that they can afford in areas where most properties will be out of their reach, and where they will be competing with better-heeled investors for the ones that they can afford.

In other words, recent developments in the housing market have increased the transaction costs associated with finding and purchasing properties at the bottom end of the market. The immediate effect, as has been well documented, has been a severe decline in the number of first home buyers.<sup>1</sup>

Until the March quarter of 2004, this fall in first home buyer activity was more than compensated for by investors. While disastrous for first home purchasers, a side effect of this investor activity has been an ample supply of properties for rent. The result has been a limited increase in rents, with the median rent increasing from \$157 per week in June 2003 to \$164 per week in June 2004.

However, there are several indications that rents are about to rise. Firstly, investor activity fell in the June quarter, prompting a slight decline in house prices. Secondly, rising house prices and steady rents have produced a further decline in rental returns: the gross return yield for a median priced house in Perth was 3.5% in June 2004, down from 3.9% in June 2003 and 5.0% in June 1999.

These extremely low rental returns and limited prospects of further capital gains mean that many investors will be looking to sell off their properties over the next few years in order to invest their funds in more promising assets. Barring further interest

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<sup>1</sup> For instance, see Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004

rate rises, this would benefit some first home buyers. At the same time, it would also reduce rental stock and put upward pressure on rents.

Despite the small increase in rents, however, housing stress levels in the private rental market remain high. One of the prime factors is that Commonwealth Rent Assistance, the Government's main demand side assistance program, continues to be particularly ineffective in increasing housing affordability. One third of CRA recipients were not in housing stress before receiving the payment and another third remained in housing stress after receiving the payment. CRA was effective in eliminating housing stress only for the remaining third of recipients.

With home ownership becoming unaffordable, the continuing high degree of housing stress in the private rental sector, and continuing high levels of homelessness and overcrowding, the pressure on social housing to provide an affordable safety net for people on lower incomes is increasing. In 2003/04, the news regarding social housing has been mixed.

On the positive side, the State Government has continued to provide some funding for social housing from its Consolidated Revenue Fund. This appears to have halted the decline of social housing at around 4.9% of total housing stock. However, Shelter WA believes that social housing should be increased to at least 6% of housing stock in order to address the current housing affordability crisis. This would require a funding injection in the order of \$150 million per year in addition to current capital expenditure of around \$130 million.

A second way of increasing the amount of funds available for expansion is to amend the policy of 'targeting' people with high needs and low incomes. This policy jeopardises the financial viability of the sector as it increases tenancy management costs and reduces rental revenue. Unfortunately, there are no signs that this policy is about to be changed.

However, the State Government has pursued a two different ways of increasing affordable housing stock. Firstly, as of 1 July 2004 it has abolished stamp duty for first home purchasers on dwellings below \$220,000, with discounts available for dwellings up to \$300,000. At the time of writing, the impact of this measure was yet to be revealed. Secondly, it is developing a Not For Profit Housing Company, which may create a new source of affordable housing.

While these initiatives are commendable, their scope is insufficient to address the housing affordability crisis. The main obstacle to achieving this is the lack of coherent policy direction at a national level. As the National Shelter 2004 Policy Platform argues, "Government intervention in the housing system lacks coherence and is disjointed and ineffective, although extremely expensive. Despite housing assistance and housing related tax exemptions valued at over \$25 billion per year, nearly 100,000 people are homeless, and housing affordability is at an historic low." It is worth pointing out that 11.7% (11,697) of homeless people live in Western Australia.<sup>2</sup>

## **Home Purchasing**

Figure 1 shows the Perth median house price and household incomes for Western Australia over the last ten years. The figure shows that while housing affordability has fluctuated over the period, the reduction in affordability brought on by recent house price rises has been exceptionally large.

The figure shows three distinct periods. Firstly, between 1994 and 1997, house prices increased slowly at an average 3.6% per year. However, the 'affordability gap' between the income required to affordably purchase a median priced house and the

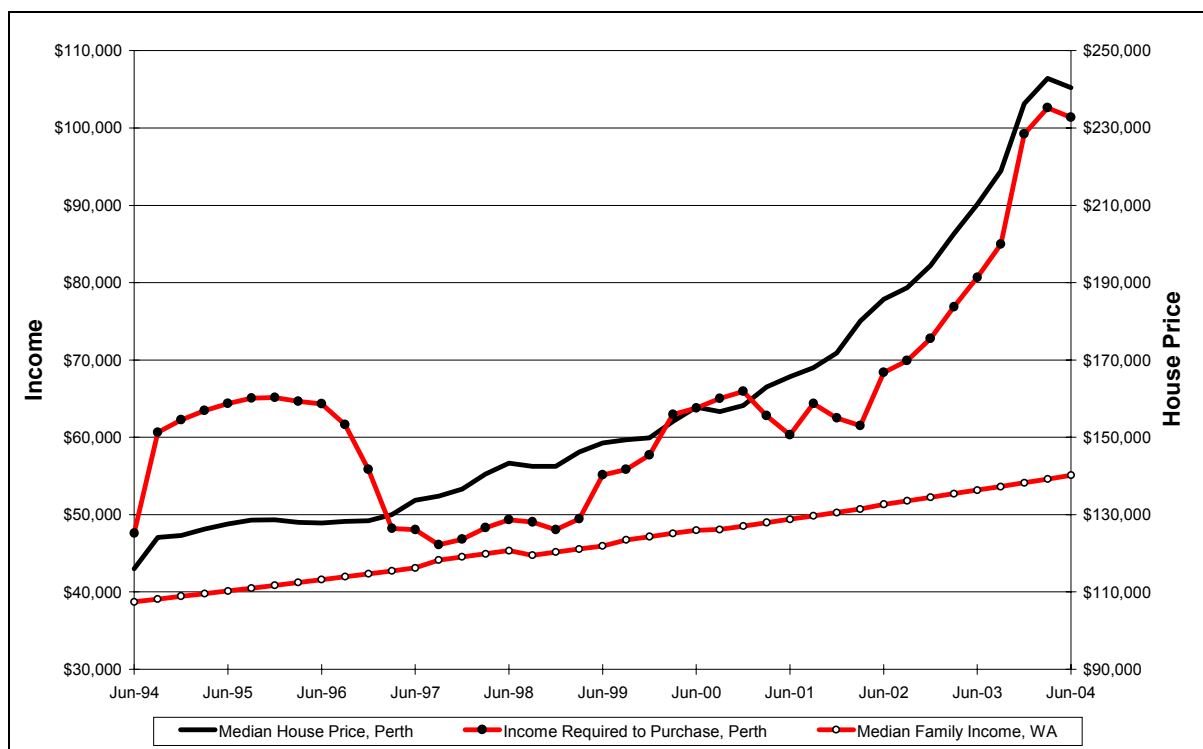
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<sup>2</sup> Chris Chamberlain and David MacKenzie, *Counting the Homeless 2001: Western Australia*, Swinburne University and RMIT University, 2004

actual median household income increased from 22.9% in June 1994 to 60.6% in September 1995 and subsequently fell to 4.5% in September 1997. This was a result of interest rate movements: the average standard variable mortgage rate first increased from 8.75% to 10.50%, then fell to 6.70%.

In the second period, from 1997 to 2002, interest rates were by and large steady. House price growth increased to 6.8% per year, and as a consequence the affordability gap increased slowly to 33.2% in June 2002.

However, over the last two years house price growth has averaged 13.8% per year, while mortgage interest rates have increased from 6.55% to 7.05%. As a result, the affordability gap has widened to 84.0%. The income required to purchase a median priced house has increased from \$68,388 to \$101,359, while median household income has only increased from \$51,324 to \$55,084. Put differently, in June 2002 the median household income was \$17,064 below the income required to purchase a median priced Perth house. By June 2004 this gap had risen to \$46,275.



**Figure 1: House Prices, Household Income and Affordability, Perth 1994-2004**

Data Sources: Real Estate Institute of WA, Reserve Bank of Australia. The income required to purchase a median priced dwelling was 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 household disposable income.

Figure 2 illustrates that rising house prices and interest rates have particularly affected low to median income households. In June 2001, there were 49 suburbs in which a household earning at the top of the second income quintile (currently \$47,756 per year) could purchase a median priced house. By June 2004 the same household could only afford to purchase a median priced house in 9 of these suburbs; 82% of the suburbs that were affordable in June 2001 were no longer affordable three years later. Suburbs such as Girrawheen, Gosnells, Lockridge, Midvale and Orelia have become unaffordable for low to middle income earners over the last twelve months.<sup>3</sup>

<sup>3</sup> One suburb, Swan View, was affordable at the second income quintile cut-off until 2002 and after annual growth of 13.9% became unaffordable in 2003. However, a fall of 5.8% saw this suburb become affordable once more in 2004.

Suburbs affordable for low-median income households					Suburbs affordable for low-median income households				
June 2004	June 2003	June 2002	June 2001		June 2004	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		✓	✓	✓					

**Figure 2: Affordable Suburbs, Perth 2001-2004**

Data Sources: Real Estate Institute of WA, Reserve Bank of Australia. The income required to purchase a median priced dwelling was 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 household disposable income.

Figure 3 shows the geographical location of the suburbs that are still affordable for low to median income earners. This map indicates that these affordable suburbs are now exclusively concentrated around Armadale, Midland and Kwinana. As was noted in last year's edition of this paper, 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."<sup>4</sup>

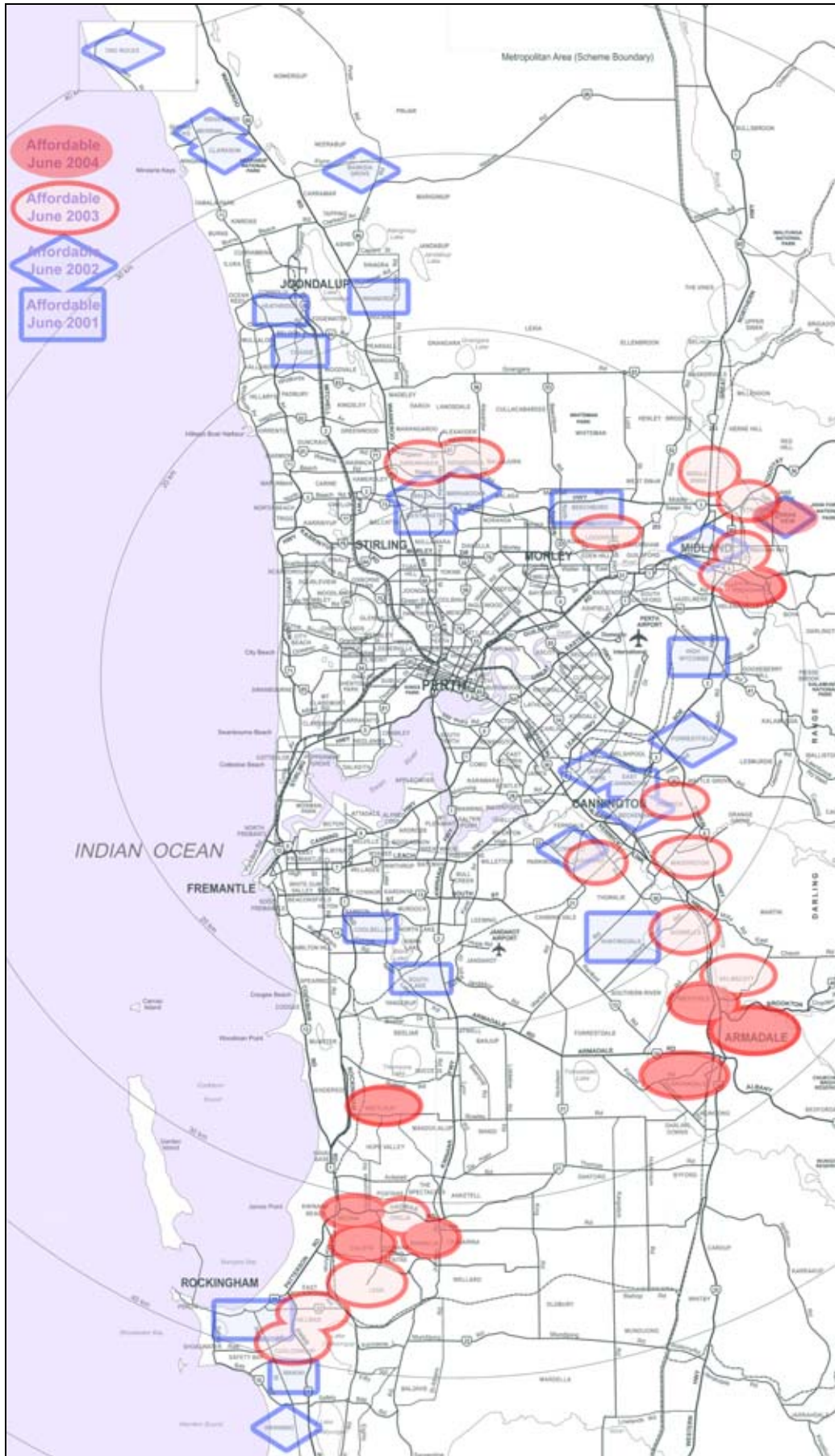
However, it should be noted that the above figures should not be taken to read that there is no affordable housing outside of these nine suburbs. In fact, there are indications that there is a good supply of below-median houses in many more expensive suburbs. On the other hand, there is also ample qualitative evidence that low to median income earners have difficulty purchasing these properties.

Instead, most first home buyers rely on buying a median priced house in a suburb that they can afford. When prices go up, first home buyer activity tends to shift to cheaper suburbs, rather than cheaper houses in previously affordable suburbs.<sup>5</sup>

There are three factors that might explain this behaviour. Firstly, other things being equal, first home buyers can purchase a better dwelling or bigger block of land in a cheaper suburb. Secondly, focusing on a suburb where most properties are within the purchaser's price range avoids substantial transaction costs in terms of time and effort spent searching for a suitable property. Finally, a substantial proportion of investors focuses on cheaper properties in slightly more expensive suburbs, where rental returns are higher. By shifting to similar priced properties in cheaper suburbs, first home buyers may be able to avoid having to compete with relatively well-heeled investors for a small number of lower priced properties in higher priced suburbs.

<sup>4</sup> Karel Eringa, *The State of Affordable Housing in WA*, Shelter WA Occasional Paper 2003-2, August 2003

<sup>5</sup> See Reserve Bank of Australia, *Submission to the Productivity Commission Inquiry on First Home Ownership*, Occasional Paper No 16, November 2003.



**Figure 3: Affordable Suburbs, Perth, 2001-2004**

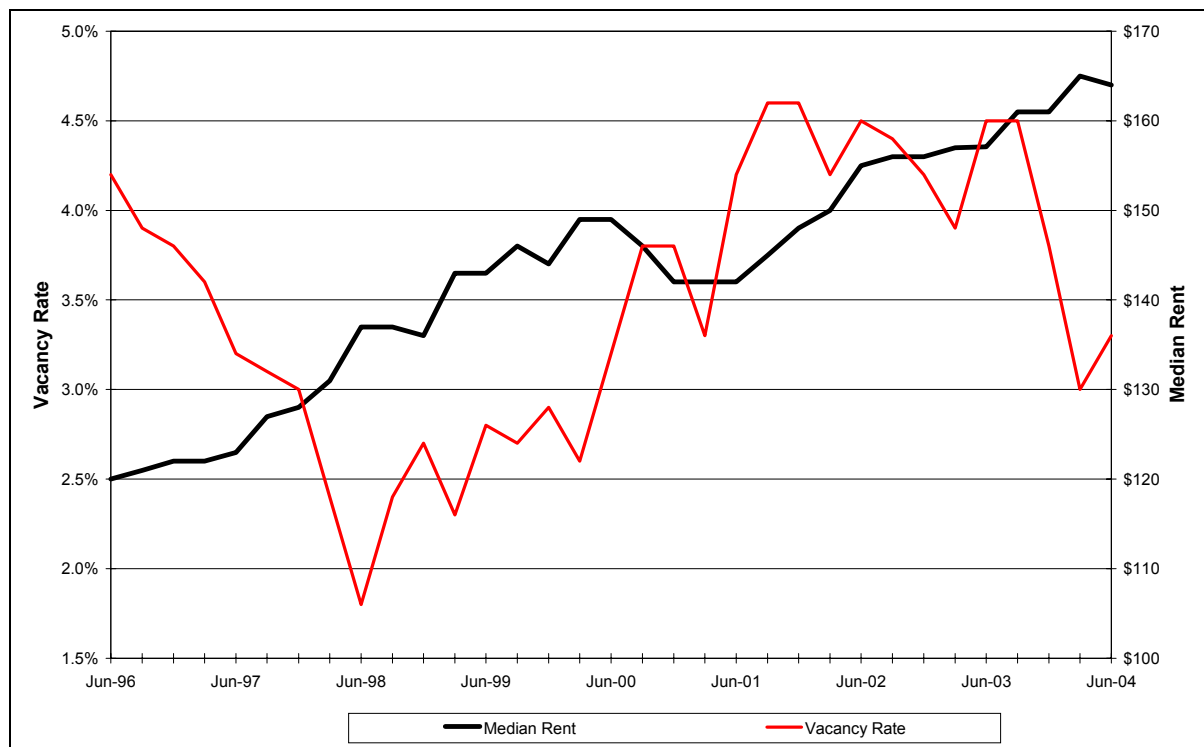
Base map reproduced with permission of the Department of Land Information, P321: see [www.dli.wa.gov.au](http://www.dli.wa.gov.au).

Overall, home ownership has become much more difficult to achieve over the last few years. The income required to purchase a median priced property has increased dramatically, and the number of suburbs where the majority of properties are affordable at the second income quintile has fallen from 24 to just nine over the last twelve months. While there are still affordable dwellings in many suburbs, high search costs and competition from investors make these properties difficult to access for many low to median income earners. The result has been a much-publicised fall in the number of first home purchasers in the market.<sup>6</sup>

## Private Rental

The big reduction in affordability for home purchasers could be expected to increase pressure on the private rental market by increasing demand for rental accommodation. The associated fall in the number of first home buyers reported above highlights that a proportion of young households are remaining in the private sector for longer.

However, Figure 4 indicates that the associated rent increases have not been as large as might be expected. In fact, over the last three years, Perth's median rent has increased by around 2.5% per year in real terms. This is well below the growth rate of 4.2% experienced between 1996 and 2000.<sup>7</sup>



**Figure 4: Rent and Vacancy Rate, Perth, 1996-2004**

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

The underlying reason why significant rent increases have failed to materialise over the last few years is likely to be vacancy rates, which were consistently been above 4% between 2001 and early 2004. The sustained high vacancy rate appears to be the result of the interplay of three factors.

<sup>6</sup> For instance, see Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004

<sup>7</sup> Perth's real median rent fell by 10.1% in the 2000/01 financial year. However, this year has been left out of consideration in this analysis due to the impact of the introduction of the GST.

The first factor is the number of first home buyers, which soared after the introduction of the First Home Owners Grant in 2001, thus reducing demand for rental accommodation. In addition, net migration into Western Australia was negative, further reducing demand. This resulted in high vacancy rates in this period.

In 2002 and 2003, the number of first home buyers fell, increasing demand for rental accommodation. However, at the same time the number of investors in the housing sector also rose, leading to an increase in the supply of private rental accommodation. The outcome was continued high vacancy rates high.

More recently, however, demand for rental accommodation has increased as a result of further falls in the number of first home buyers and a marked increase in migration into the state. In addition, investor demand has dropped after house prices reached their peak. As a result, vacancy rates have fallen from 4.5% to 3.3% over the last twelve months, although this is yet to feed through into increases in real rents.

Unless house prices fall or rents rise, investment in housing is likely to become a relatively unattractive proposition. Figure 5 shows that prior to 2000, rents rose roughly in line with house prices, leaving a median rental return of around 5%. While low by international standards,<sup>8</sup> this return allowed investors to cover property management costs, maintenance and some finance costs.

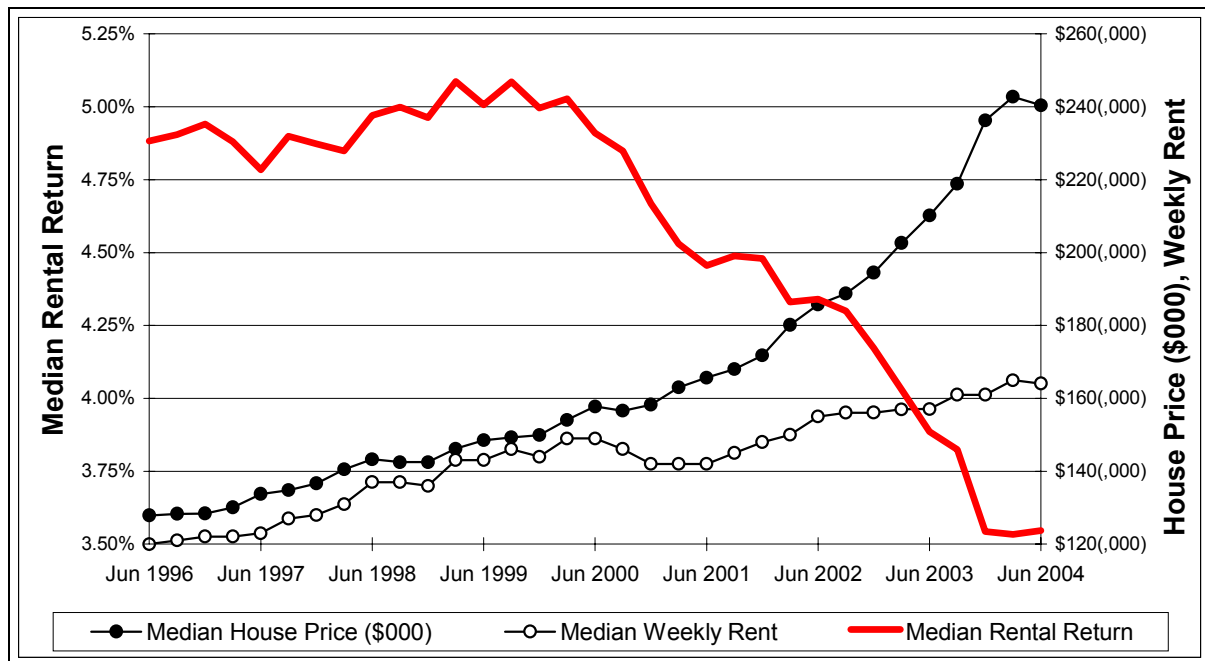


Figure 5: Gross Rental Return, Perth 1996-2004

However, over the last three years rent increases have not kept pace with increases in property values. As a result, the median rental return has fallen to just over 3.5% in recent times. This return is insufficient to cover property management costs and maintenance, let alone the costs of finance. In this type of market, investors purchase properties with the expectation that rental losses will be covered by future capital gains.

Finally, it should be noted that while overall affordability in the private rental sector appears to be much better than for home purchasers, it does not follow that there is no affordability problem in this sector. In particular, the use of averages may mask developments in different market segments. Research by AHURI has confirmed that

<sup>8</sup> See Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004, pp.22-23

very little accommodation is available at the bottom (affordable) end of the market,<sup>9</sup> while vacancy rates are substantially higher at the top end. This implies that housing affordability in the rental sector is much more of an issue for people on lower incomes.

This is confirmed by data on Commonwealth Rent Assistance (CRA), which “is a non-taxable supplementary payment to help with the additional cost of private rental housing.”<sup>10</sup> CRA aims to provide “customers with more choice about where they live and the quality of their housing.”<sup>11</sup> However, figures collated in the Productivity Commission 2004 Report on Government Services indicate that CRA failed dismally in delivering such choice.

The report indicates that in June 2003, 86,244 West Australians received CRA payments.<sup>12</sup> 54.6% received the maximum amount payable and the average entitlement was \$73.89 per fortnight.<sup>13</sup> 28.7% of recipients were still in housing stress after taking CRA into account, and 33.9% of recipients were not in housing stress even before they received CRA. This means that CRA was successful in eliminating housing stress for only 37.4% of recipients.<sup>14</sup>

In addition, some groups who experience housing stress are unable to access CRA. This includes working families on low incomes, who are ineligible for CRA as well as single young people, who have to spend in excess of 25% of their Youth Allowance on rent before they receive a single dollar of CRA due to the impact of the rental threshold.

One outcome has been that homelessness and overcrowding rates in the state continue to be high, particularly among Indigenous people. Despite this, expenditure on CRA is increasing while expenditure on social housing under the CSHA is falling. In 2002/03, government expenditure on the CSHA was \$1.39 billion, while expenditure on CRA was \$1.85 billion.

## **Social Housing**

The final tenure, social housing, has continued to decline in importance relative to home ownership and private rental. Figure 6 shows that while the total number of dwellings owned by the Department of Housing and Works increased slightly in 2003/04 (from 39,181 to 39,215), social housing as a proportion of total housing stock has fallen from 5.4% to 5.2% over the year.<sup>15</sup>

Social housing stock has increased by around 0.5% since 1997, when it represented 6.1% of all occupied dwellings. This decline is caused by two factors. Firstly, funding for social housing in WA under the Commonwealth State Housing Agreement (CSHA) has fallen by 26.5% since 1996/97 in real terms.<sup>16</sup> This has coincided with a move to ‘target’ social housing increasingly to people with high needs and low incomes. As a result of targeting, tenancy management costs for social housing providers have increased while rental income has fallen.

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<sup>9</sup> Maryann Wulff, Judith Yates and Terry Burke, *Low Rent Housing in Australia 1986 to 1996*, 2001. See also Judith Yates, Maryann Wulff and Margaret Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, Australian Housing and Urban Research Institute, March 2004

<sup>10</sup> Productivity Commission, *Report on Government Services 2004*, Canberra, 2004, p.16.13.

<sup>11</sup> *Ibid*, p.16.72.

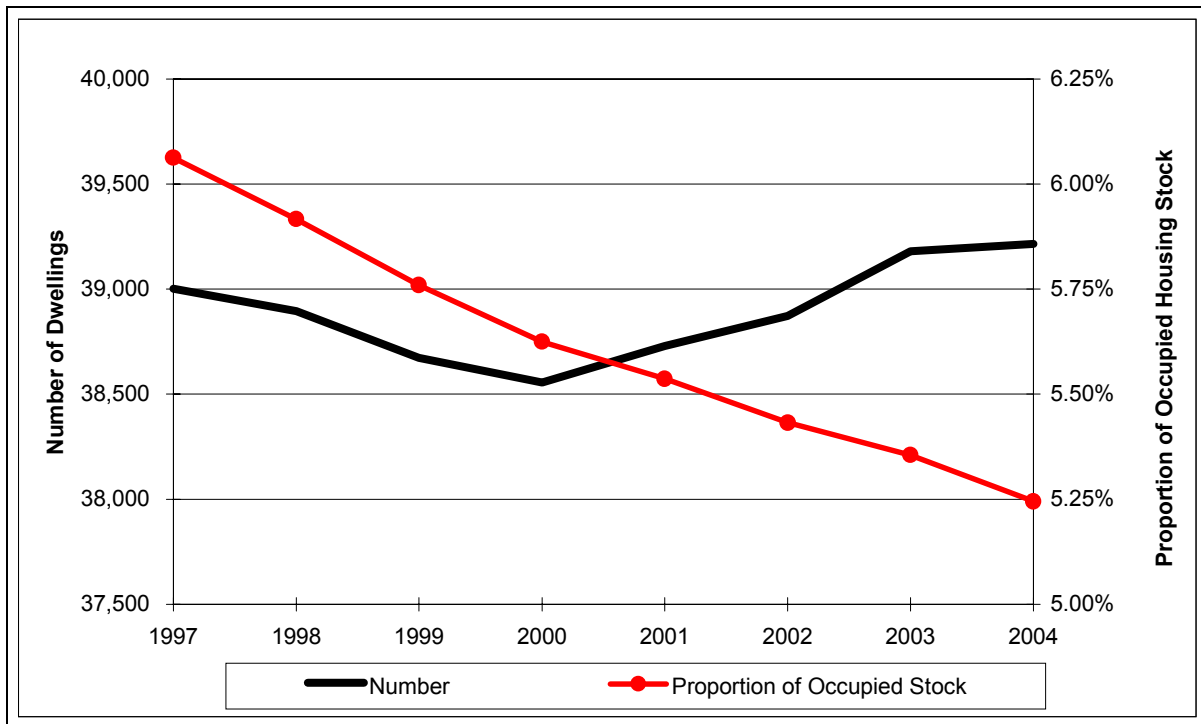
<sup>12</sup> *Ibid*, Table 16A.44

<sup>13</sup> *Ibid*, Tables 16A.50 and 16A.52

<sup>14</sup> *Ibid*, Table 16A.63

<sup>15</sup> These proportions are based on occupied housing stock, which increased from 731,660 to 747,740 dwellings in 2003/04. If the around 75,000 unoccupied dwellings in the state are included, social housing stock fell from 4.9% to 4.8% of total housing stock.

<sup>16</sup> From \$148.7 million to \$133.0 million.



**Figure 6: Social Housing Stock, WA, 1997-2004**

Data Source: Department of Housing and Works Annual Reports 1997-2004

In order to make some inroads into housing needs, Shelter WA believes that social housing must be increased to at least 6% of total housing stock.<sup>17</sup> This would allow the social housing sector to house all of the people on the waiting list, which has oscillated around the 13,000 mark for the last two decades. In addition, it would allow the sector to house a small proportion of households who are currently living in housing stress in the private rental sector.

In order to achieve this by 2025, social housing stock must increase by around 1,500 dwellings per year. Even maintaining social housing stock at its current level of 5.2% of total housing stock would require funding an additional 800 dwellings per year. Shelter WA estimates that this would require a total CSHA funding of around \$260 million per year – nearly double the current amount of \$133 million.

## Addressing the Housing Crisis

The continuing decline in housing affordability in WA has produced a situation in which households earning less than \$50,000 per year now have severe difficulty accessing housing that they can afford and that is appropriate to their needs. Perth is now suffering a housing affordability crisis, with affordability a major issue for both home purchasers and private renters. The social housing sector is unable to meet existing need.

Addressing the housing crisis can be done either by increasing housing assistance or by increasing the effectiveness of existing subsidies. As noted above, Shelter WA believes that funding for public housing should be doubled, and the policy of targeting amended. In addition, Commonwealth Rent Assistance should be retargeted towards delivering affordability. Finally, all grants and tax incentives should be reviewed in order to ensure consistency.

In view of the magnitude of the crisis, the response should include all three levels of government. In this regard, Shelter WA is happy to report that on the State

<sup>17</sup> The target of 6% is advocated by a number of organisations, including the Australian Council of Social Service (ACOSS), National Shelter,

Government level, the housing affordability crisis has been taken seriously. In 2003/04, the Western Australian Government has developed a number of initiatives aimed at delivering more affordable housing, including:

- Stamp duty exemptions and concessions for lower priced dwellings starting 1 July 2004,
- Developing a Not For Profit Housing Company,
- A requirement for 15% of all new developments on State Government land to be set aside for affordable housing, and
- Continuing limited funding for social housing from consolidated revenue.

While the scope of these initiatives is insufficient to make any real difference, they do indicate that the WA Government has taken the housing affordability crisis seriously. The same cannot be said about the Commonwealth Government, which has chosen to ignore its responsibilities, trying to pass on responsibility for addressing the crisis to the States and Territories.<sup>18</sup> This is despite increasingly urgent calls to address the affordable housing crisis from sources as varied as the Senate Community Affairs Committee,<sup>19</sup> the Productivity Commission,<sup>20</sup> National Shelter,<sup>21</sup> and a National Housing Affordability Summit conducted by a coalition of building unions, industry associations and community organisations.<sup>22</sup>

The Commonwealth Government's inaction is particularly worrying in view of National Shelter's finding that a lack of consistency and coordination in the way housing assistance and housing related tax exemptions valued at over \$25 billion per year are allocated. "For instance, the First Home Owners' Grant aims to reduce the deposit gap faced by prospective home owners. However, negative gearing provisions encourage investment demand, thus putting upward pressure on house prices."<sup>23</sup> Shelter WA strongly supports developing a National Housing Strategy and establishing a Commonwealth Housing Minister as a first step to finding a solution to the housing affordability crisis.

Finally, at the local government level, responses to housing affordability have been patchy. Most local governments have, at least to some extent, developed housing strategies that focus on planning issues but include some reference to social responsibilities including housing affordability. In addition, a number of country shires provide subsidised accommodation for employees and one local government, the City of Subiaco, has developed a housing strategy that explicitly recognises affordability as a key issue that the City needs to address. On the other hand, a small number of local governments, including the Cities of Perth and Fremantle, continue to deny their responsibilities with regard to homelessness and housing affordability.

On the whole, if our housing crisis is to be addressed, all levels of government must increase their efforts, preferably guided by a National Housing Strategy.

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<sup>18</sup> For an example of this, see a press release by Treasurer Peter Costello, Release Of The Productivity Commission Report On First Home Ownership, 23/6/2004, <http://www.treasurer.gov.au/tsr/content/pressreleases/2004/051.asp>

<sup>19</sup> See Senate Community Affairs References Committee, *A hand up not a hand out: Renewing the fight against poverty - Report on poverty and financial hardship*, March 2004

<sup>20</sup> See Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004

<sup>21</sup> See National Shelter, *Rebuilding the Australian Dream - National Shelter Policy Platform 2004*, June 2004

<sup>22</sup> National Housing Alliance, *Four-point Plan*, May 2004 and National Summit Housing On Affordability, *Improving Housing Affordability - A Call for Action*, June 2004

<sup>23</sup> National Shelter, *Rebuilding the Australian Dream: A National Approach - National Shelter Election Platform 2004*, June 2004