



The State of Affordable Housing in WA, 2006

Shelter WA Occasional Paper 2006-1

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November 2006

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EXECUTIVE SUMMARY

INTRODUCTION

The *State of Affordable Housing in WA, 2006* is Shelter WA's annual overview of the extent to which West Australians are able to access affordable housing. The analysis is based on a range of key housing indicators, and focuses on families in the bottom half of the income range.

HOME PURCHASING

Shelter's *State of Affordable Housing 2004* paper pinpointed a worrying trend in housing affordability. It revealed that from June 2003, the income required to purchase a median price house had started to rise much faster than the actual median income. Previous to this the 'affordability gap' (the difference between the income required to affordably purchase a median priced house and the actual median income was negligible). By June 2006 the 'affordability gap' had risen to 86%, the median income was \$59,000 and the median price house had grown to \$390,500 (up 31% on June 2005). The income required to purchase a median price is now \$110,000.

The outcome of this remarkable growth in housing prices is that none of Perth's 291 suburbs were affordable for households at the top of the Second Income Quintile (\$51,208 gross). From June 2005 to June 2006, 21 more suburbs were added to the unaffordable list for this income group. By June 2006 there were only three suburbs left where households in receipt of the median income could afford to purchase housing. This amounts to 1% of all Perth's suburbs. For this income group, 33 suburbs have become unaffordable over the last 12 months.

PRIVATE RENTAL

The big reduction in housing affordability could be expected to put more pressure on the private rental market. This pressure has already taken hold. The metropolitan region underwent a rapid increase in the median rent, up from \$189 in June 2005 to \$240 in June 2006, an increase of 27%. This is far higher than recent years and provides strong indications that demand is exceeding supply.

Vacancy Rates

Vacancy rates provide an indicator of household movement from private rental to homeownership. Rapid growth in housing prices impacts on the number of low income households able to make the transition from private rental to homeownership. The significant reduction in vacancy rates, from a high in June 2003 of 4.5% to a low in June 2006 of 1.8% indicates that more households are being added to those unable to afford the transition from renter to homeowner.

Private Rental Return

The private rental return (i.e. the median weekly rent/median value of rental properties) is a key indicator of the health of the property investment portfolio. Investors would likely be encouraged by the hike in median rents since 2004. However median rental returns have not kept up with property values resulting in returns falling to 3.2% in June 2006

This return is insufficient to cover various property management costs. In this type of market, investors purchase properties with the expectation that rental losses will be covered by future capital gains.

Commonwealth Rental Assistance (CRA)

Commonwealth Rental Assistance is a non-taxable income support supplement paid by the Australian Government to income support recipients who rent in the private rental market. As at March 2005, 85,122 West Australians received CRA payments. Nearly two thirds (60%) received the maximum amount payable. After receiving CRA, 27.6% of households remained in housing stress, (paid more than 30% of gross income on rent) and 37.6% of recipients were not in housing stress before they received CRA. This means that CRA was successful in eliminating housing stress for just over one third (34.8%) of CRA recipients.

In 2003, CRA was successful in eliminating housing stress for 37.4 % of recipients. Comparing this to the 2005 figure indicates that CRA is becoming less effective in staving of housing stress.

PUBLIC HOUSING

Funding for public housing is provided through the Commonwealth State Housing Agreement (CSHA). Real expenditure on public housing declined by 30% between 1995-96 and 2004-05.

The decline in CSHA funding has left the State Housing Authority with shrinking funds to meet growing demand. Public housing stock has declined from 36,500 dwellings in 1995/96 to 34,500 in June 2006, (a 5.5% reduction). In 1995/96 there were 11,799 households on the waiting list, since then the list has risen to 13,727, an increase of 16%. The 10-year trend indicates that the gap between supply and demand is becoming entrenched. Over the same period there has been a substantial reduction in the number of new public housing tenancies, reducing from 6,559 in 1995/1996 to a ten year low of 3,704 in 2005/06. This constitutes a decline of 44% new households accommodated from the public housing waiting list.

The decline in public housing stock has led to a reduction in its overall presence as a proportion of total housing stock in WA (declining from 6% in 1995/96 to 4.2% in 2004/05).

METHODOLOGY

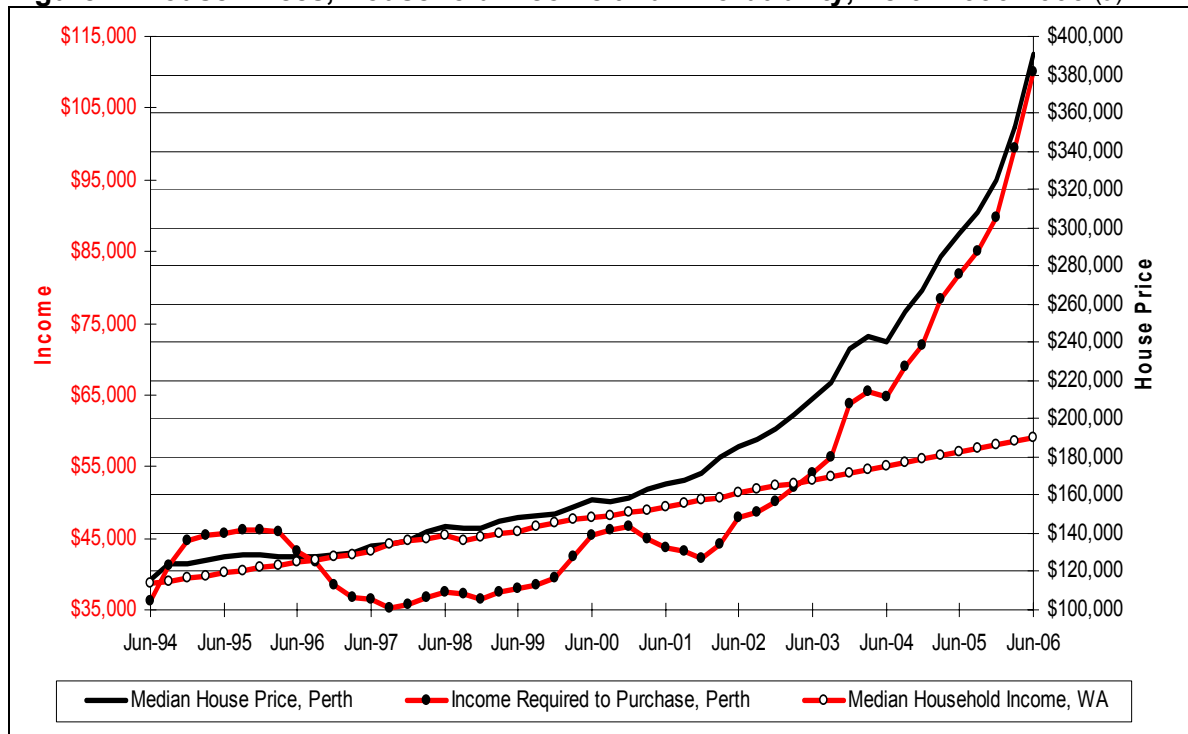
The research uses a longitudinal data collection method to report changes in housing affordability in Western Australia. It regularly records and updates changes in consumer price index, interest rates, wage growth, rents, house prices and household taxation. This data is then used to estimate critical changes to the 'affordability gap'.

The data is sourced from key economic and housing surveys conducted by the Australia Bureau of Statistics, The Department of Housing and Works The Reserve Bank of Australia, The Department of Land Information and the Real Estate Institute of Western Australia

HOME PURCHASING

Figure 1 shows the Perth median house prices, median household incomes and the income required to affordably purchase housing in Perth over the last 12 years. It highlights key changes in housing price growth and affordability. It reveals the emergence of the 'affordability gap' from September 1994, culminating in an affordability deficit of 14% in June 1995.¹ The emergence and subsequent rise of the 'affordability gap' was due to the rise in the average standard variable mortgage rate, up from 8.25% in mid 1994 to 10.5% in mid 1995 and a 10% rise in housing price growth

Figure 1: House Prices, Household Income and Affordability, Perth 1996-2006 (a)



Sources: Real Estate Institute of WA 2006, Reserve Bank of Australia.

(a) The income required to purchase a median price dwelling was calculated assuming a deposit of 10% of the median property value plus 5% costs, average standard variable loan over 25 years with repayments at 30% of household disposable income.

The graph shows the 'affordability gap' gradually closing from 14% in 1995 to 0 in September 1996. This was due to a subsidence in interest rates and an actual decline in housing price growth. This ushered in a period of stability from 1997 to 2000 with housing price growth averaging 5.1% per annum and interest rates fluctuating around the 6.5% mark. During this period the 'affordability gap' remained negative for households earning a median income and home ownership was also a viable option for low income groups

Figure 1 reveals a slight rise in the income required to purchase housing from 2000. During this period and leading up to early June 2002 interest rates were still around

¹ The difference between the income required to affordably purchase a median priced house and the actual median income.

6.5% but annual housing price growth had grown to 12.1%, indicating that the release of the First Home Owners Grant (FHOG) in 2000 was having some effect on median housing prices.

Figure 1 illustrates the gap between housing price growth and household income widening from about June 2002 onwards. June 2003 represented a key shift in housing price growth - it began to accelerate at a rate much faster than the median household income. By June 2006 the 'affordability gap' had risen to 86%, the median income was \$59,000, the median house price had rocketed to \$390,500 (up 31% on June 2005) and the income required to purchase a median price house stood at \$110,000.

ARE THERE ANY AFFORDABLE SUBURBS LEFT?

Table 1 demonstrates that the unprecedented rise in the 'affordability gap' has led to the median house prices in Perth's 291 suburbs becoming out of financial reach of households at the top of the second income quintile (\$51,000 gross per annum). Over the past year, 21 more suburbs were added to the unaffordable list for this income group

The situation is not much better for median income households. In June 2006 there were only three suburbs left where median income households could afford to purchase housing (1% of all suburbs). For this income group, over the last 12 months the median house price in 33 more suburbs have become too expensive.

Although Table 1 reveals there has been a significant decline in the number of affordable suburbs in the metropolitan region, other research has shown that there are still a range of housing prices in some suburbs, which are priced below the median value.² This means there are still some opportunities for median income households, but less so for low income households, to purchase housing.

Nonetheless, escalating housing prices and the growing 'affordability gap' are leading to a scarcity of affordable housing in all metropolitan suburbs. In addition, other research has demonstrated that when housing prices go up first home buyer activity tends to shift to cheaper suburbs, rather than cheaper houses in previously affordable suburbs.³ Leaving a growing number of low income households to compete for a shrinking supply of affordable housing in a limited number of suburbs. The lack of affordable housing will only exacerbate the affordability problem by increasing the transaction costs in terms of time and effort people spend searching for a suitable property.

This is the first time since Shelter's annual *Affordable Housing* review was initiated back in 2001 that the median house prices in all Perth's 291 metropolitan suburbs are beyond the borrowing capacity of low income households (max \$51,000 per annum). The income required to purchase a median price property has risen dramatically and is nearly double the median income. As a result the 'affordability gap' is now double that of June 2005. With the annual median housing price growth reaching 32%, the highest growth over the last five years, the affordability gap is set to widen.

² See Anthony, J& N, Milson, 2006, *Who Needs Housing Assistance in WA*, Australian Housing and Urban Research Institute, Curtin University

³ See Reserve Bank of Australia, 2003, *Submission to the productivity Inquiry on First Home Ownership*, Occasional paper no 16, November 2003

Table 1: Affordable Suburbs, Perth 2003-2006 (a)

Suburbs	Jun-06	Jun-05	June 2004	June 2003	Suburbs	Jun-06	Jun-05	June 2004	June 2003
Armadale		✓	✓	✓	Langford			✓	✓
Balga					Leda		✓	✓	✓
Banksia Gr			✓	✓	Lockridge		✓	✓	✓
Beckenha					Lynwood				✓
Beechboro					Maddingt		✓	✓	✓
Bellevue		✓	✓	✓	Medina		✓	✓	✓
Brookdale		✓	✓	✓	Merriwa			✓	✓
Bullsbrook		✓			Middle Sw		✓	✓	✓
Calista			✓	✓	Midland				
Clarkson				✓	Midvale			✓	✓
Coolbellup				✓	Mirrabook			✓	✓
Cooloongu			✓	✓	Orelia		✓	✓	✓
Craigie				✓	Parmelia		✓	✓	✓
East Cann					Queens P				✓
Eden Hill				✓	Rockingh				✓
Forrestfiel				✓	South Lke				✓
Girrawhee		✓	✓	✓	Stratton			✓	✓
Gosnells		✓	✓	✓	Swan Vw			✓	✓
Heathridge					Two Rks				✓
High Wyc			✓	✓	Waikiki				✓
Hillman		✓	✓	✓	Wannero				✓
Huntingdal				✓	Warnbro				✓
Kelmscott			✓	✓	Wattleup			✓	✓
Kenwick		✓	✓	✓	Westfield		✓	✓	✓
Koondoola		✓	✓	✓	Westmins				✓
Koongami		✓	✓	✓	Wexcomb		✓		
Langford			✓	✓					

Sources: Real Estate Institute of WA, Reserve Bank of Australia

(a) The income required to purchase a median price dwelling was calculated assuming a deposit of 10% of the median property value plus 5% costs, average standard variable loan over 25 years with repayments at 30% of household disposable income.

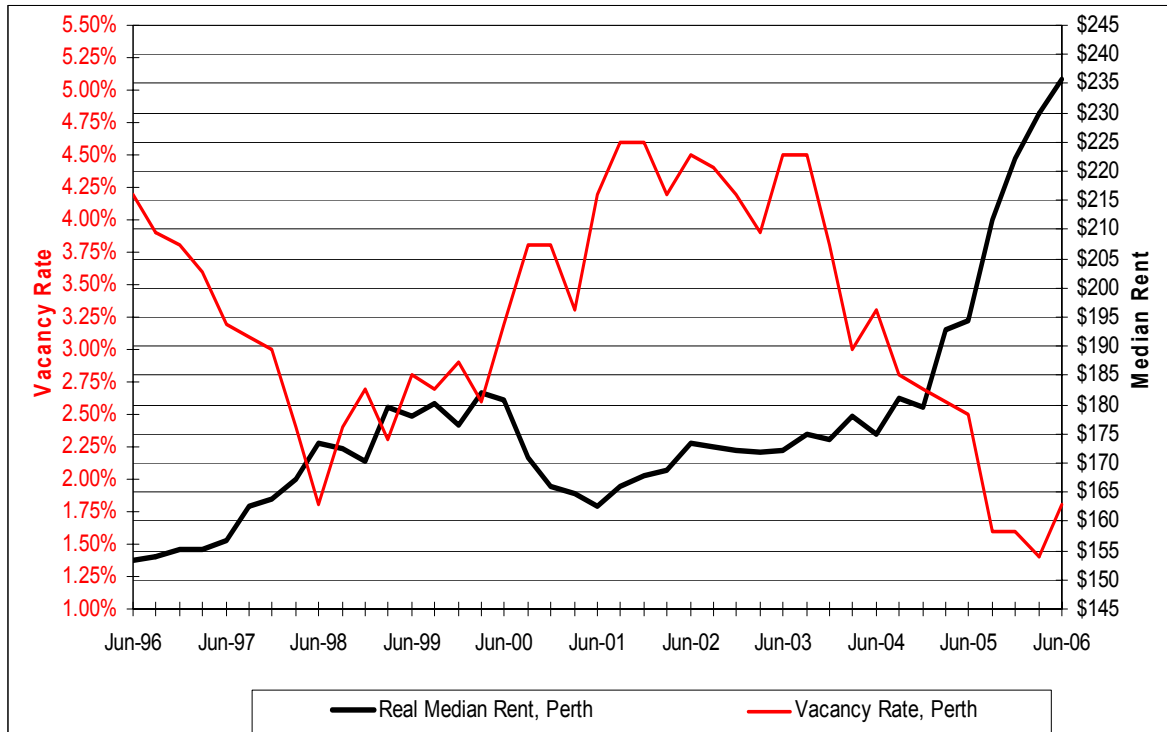
PRIVATE RENTAL

The big reduction in housing affordability could be expected to put more pressure on the private rental market. Figure 2 indicates that this pressure has already taken hold; revealing a rapid increase in the median rent, up from \$189 in June 2005 to \$240 in June 2006, an increase of 27%. This is far higher than recent years and provides strong indications that demand is exceeding supply.

VACANCY RATES

Figure 2 reveals that from June 2001 to June 2003 vacancy rates remained comparatively high. This coincides with the period when the income required to affordably purchase a median price house remained below the median household income (see Figure 1). Suggesting the prevailing housing market had a steady supply of affordable housing on offer for low income households to choose from. These market conditions would enable low income households make the transition from private rental to homeownership and help maintain a supply of low cost private rental.

Figure 2: Rent and Vacancy Rate, Perth Metropolitan Region, 1996-2006



Source: Department of Land Information, 2004; REIWA, Property Market Indicators, 2006

The graph highlights a considerable reduction in vacancy rates, from a high in June 2003 of 4.5% to a low in June 2006 of 1.8%. It shows that rental values began to soar from late 2004 in line with a significant drop in available rental properties. The impacts of a tight vacancy rate and a high median rent could leave very little accommodation available at the bottom end of the market.

When vacancy rates are low and demand is increasing landlords are able to choose from a larger pool of applicants. Higher income groups' fair better in this type of competitive market. Their greater spending power is likely to have been a key factor in the rapid increase in the median rent over the past year.

The reduction in vacancy rates over the past few years provides evidence that the current mix of housing and taxation policy (namely negative gearing) is doing very little to improve supply at the low cost end of the market.⁴ Other research has shown that the tax benefits due to negative gearing for high marginal tax rate landlords, concentrated at the high value end of the rental market, actually reinforce relatively high rental levels at the low rent end.⁵ Implying that rents at the bottom end may be higher than they would be without the distorting effects of current taxation policy.

⁴ Negative gearing refers to an applicant or their partner who reduces their taxable income by claiming a loss against rental property. See Department of Education, Science and Training, 2006, *Negative Gearing*, <http://www.dest.gov.au/>

⁵ See Berry, M, 2002, *Affordable housing Project: Background paper*. Prepared for the Brotherhood of St.Laurence, Melbourne

The Federal government continually resist calls to address negative gearing, even though there are strong indications that it is causing underinvestment at the affordable end of the market.

There is now mounting evidence that the market is either failing or is too slow to respond to demand. This implies there is a need for government intervention. Shelter WA urges the State government to address supply-side constraints through providing incentives for increased private investment in low cost housing and by providing more public housing.⁶ Local government can also tackle the lack of low cost housing by use of their local zoning laws to enable land for housing to be used more efficiently.

The significant increase in the proportion of single parent households and single households in WA indicates there is latent demand for smaller sized dwellings. Yet in 2005 to 2006 multi dwelling units comprised of less than 10% of all housing approvals in Western Australia.⁷ Shelter's concern is that density regulations might be artificially dampening demand for smaller dwellings and therefore driving part of the affordability problem.⁸

THE FIRST HOME OWNERS GRANT (FHOG)

The First Home Owners Grant (FHOG) represents a demand-side policy provided to households to improve their capacity to purchase housing.⁹

Figure 3 shows that the doubling of the FHOG from \$7,000 in 2001 to \$14,000 in 2002 led to a large increase in the use of the grant to purchase new dwellings. The introduction of the FHOG occurred at the same time as the income required to purchase a median price house remained below the median income (see Figure 1 above). The doubling of the FHOG appears to have provided the additional incentive to enable a higher proportion of new home buyers to transfer from private rental to homeownership.

In regards to affordability, the FHOG is not means tested and is therefore poorly targeted. Much of the funding has gone to higher-income households bringing forward home purchase and for the purchase of existing rather than new housing.¹⁰ This is illustrated in Figure 3 which shows a consistently higher number of established dwelling applications. This has tended to underpin and accentuate the gathering inflation in house prices, thereby intensifying the affordability crisis.¹¹

⁶ Supply side mechanisms are government incentives used to increase the stock of decent housing available to low income households. See Gans, J & King, S, 2003, *Policy Options for Housing for Low Income Households*, The Menzies Research Centre, <http://www.mrcld.org.au>

⁷ See ABS, 2006, *Building Approvals*, Cat. No. 8731.0, Jan 2006, www.abs.gov.au

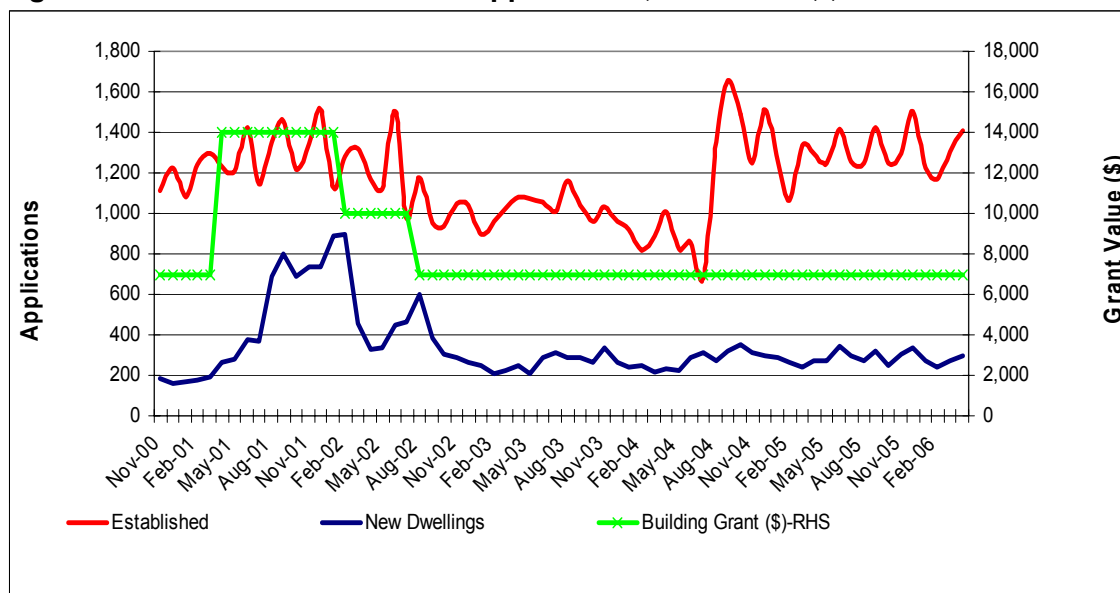
⁸ DiPasquale, D, 1996, *The Economics of Housing Subsidies*, City Research, Boston, www.cityresearch.com

⁹ Demand side policies target specific types of households and assist these households in gaining housing through the private housing market.

¹⁰ See Berry, M, 2002, *Affordable housing Project: Background paper*. Prepared for the Brotherhood of St. Laurence, Melbourne

¹¹ Ibid.

Figure 3: First Homeowner Grant Applications, 2000-2006 (a)



Source: Office of State Revenue

(a) Approximately 95% of FHOG applications have been accepted.

PRIVATE RENTAL RETURN

The private rental return (i.e. the median weekly rent/median value of rental properties) is a key indicator of the health of the rental investment portfolio.¹² The rental return needs to be at least 5% for private rental to become an attractive investment proposition.¹³ Figure 4 demonstrates that from 1997 to 2000 the increase in median rents tracked the median house price. It shows that during this period the median rental return oscillated between 4.8% and 5%.

Despite the fact that median rents have soared since 2004, they have not kept pace with increases in property values. As a result the median rental return had fallen to 3.2% by June 2006. This return is insufficient to cover various property management costs.¹⁴ In this type of market, investors purchase properties with the expectation that rental losses will be covered by future capital gains.¹⁵

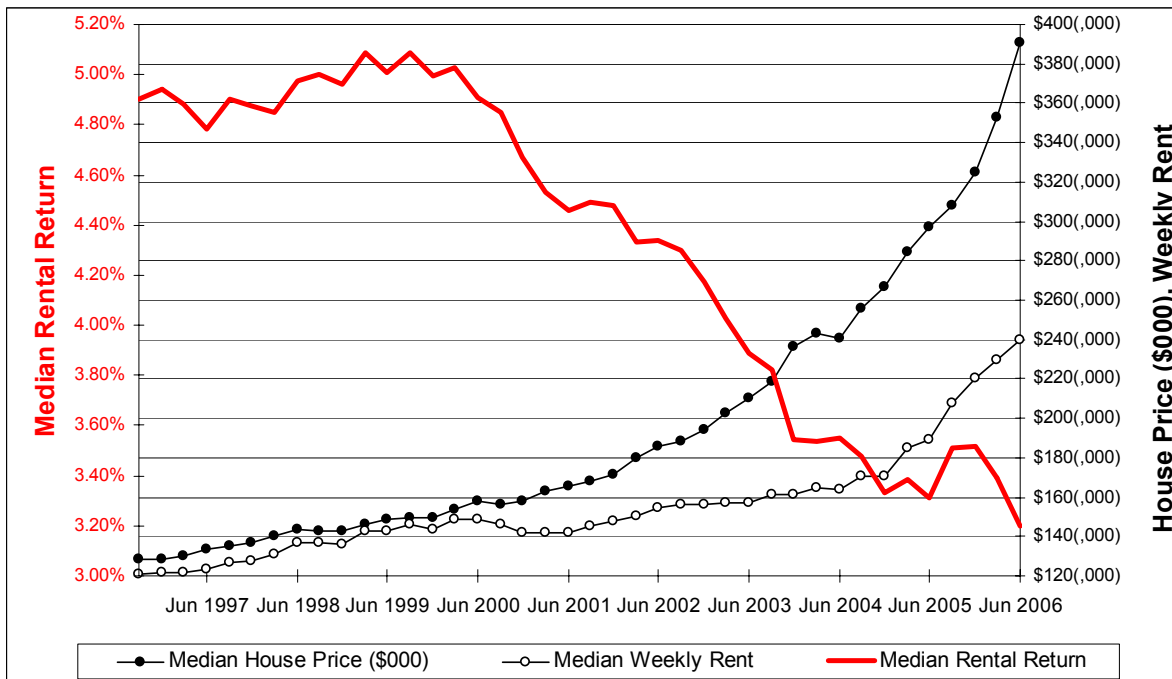
¹² The median rental return is a measure of rental income as a proportion of current property values. The median weekly rent is divided by the median value of rental properties. This is a gross measure of yields and does not take account of expenses incurred in owning a rental property, rental vacancies, or depreciation of a rental property.

¹³ While low by international standards, this return allowed investors to cover property management costs, maintenance and some finance costs, See Productivity Commission, 2004, *First Home Ownership – Productivity Commission Inquiry Report No.28*, March 2004, pp. 22-23, www.pc.gov.au

¹⁴ Shelter WA, 2004, *The State of Affordable Housing in WA, 2004: Shelter WA Occasional Paper 2004-2*, www.shelterwa.org.au

¹⁵ Ibid.

Figure 4: Gross Rental Return, Perth 1997-2006



Source: Shelter WA, 2006

POPULATION GROWTH

Population growth trends are also key indicators of housing demand. Western Australia recorded the second fastest population growth of the states and Territories in 2004–05, increasing by 1.6% (32,000 people).¹⁶ This trend is set to continue with the Federal government increasing immigration levels from 120,000 to 140,000 for 2005/06 as part of meeting the current skills shortage. The implication of stronger population growth is an increase in the underlying housing requirement.

COMMONWEALTH RENTAL ASSISTANCE (CRA)

Commonwealth Rental Assistance is a non-taxable income support supplement paid by the Australian Government to income support recipients who rent in the private rental market.¹⁷ CRA aims to provide recipients with more choice in regards to where they live and the quality of housing. CRA is capped and the amount paid to households is dependent on family size and amount of rent paid. Income limits apply for eligibility.¹⁸ It is not designed to address regional variations in market conditions.¹⁹

¹⁶ ABS, 2006, *Demographic Statistics Australia, September Quarter 2005, Cat., No.3101*, www.abs.gov.au

¹⁷ See Productivity Commission, 2006, *Report on Government Services 2006: Housing*, www.pc.gov.au

¹⁸ Australian Institute of Health and Welfare, 2005, *National Data Collection Annual Report, 2004-05: Public rental housing*, Table A2.4 Low income B cut-off measures, AIHW, Canberra

¹⁹ Luxford, L., 2006, *Housing Assistance and Disadvantaged Places*, Research and Policy Bulletin Issue 85, www.ahuri.edu.au

As at March 2005, 85,122 West Australians received CRA payments.²⁰ Nearly two thirds (60%) received the maximum amount payable.²¹ After receiving CRA, 27.6% of households remained in housing stress, (paid more than 30% of gross income on rent) and 37.6% of recipients were not in housing stress before they received CRA. This means that CRA was successful in eliminating housing stress for just over one third (34.8%) of CRA recipients.²²

In 2003, CRA was successful in eliminating housing stress for 37.4 % of recipients.²³ Comparing this to the 2005 figure indicates that CRA is becoming less effective in staving of housing stress.

There is no available data on the numbers of households in housing stress which are not entitled to CRA. However, it is reasonable to assume that there are a significant number of low income working families and single young people (the latter have to spend in excess of 25% of their Youth Allowance on rent before they receive CRA) experiencing housing stress.

The ABS *Housing Motivations and Intentions 2005 WA* survey provides some indications of the difficulties low income households are facing in the rental market.

Table 2: Number of Persons using Private Rental in WA, by Region and Income as at October 2005 (a)

Region	Less than \$40,000 per/year	\$40,000 to less than \$90,000 per/year	\$90,000 or more per/year	Don't know/Refusal	Total
Central Metropolitan Statistical Region	7.2	9.4	10.0	2.2	28.9
East Metropolitan Statistical Region	21.2	17.6	5.2	2.0	45.9
North Metropolitan Statistical Region	33.1	29.9	15.1	3.5	81.7
South West Metropolitan Statistical Region	20.3	17.3	7.5	2.9	48.0
South East Metropolitan Statistical Region	28.4	19.3	10.2	1.1	59.1
Perth Total	110.3	93.5	48.0	11.7	263.5
Lower Western WA Statistical Region	23.6	15.8	4.5	1.2	45.0
Remainder-Balance WA Statistical Region	8.4	9.0	11.8	0.3	29.4
Balance of WA Total	32.0	24.8	16.3	1.4	74.4
Total WA	142.3	118.3	64.2	13.1	337.9

Source: Australian Bureau of Statistics, 2005, *Housing Motivations and Intentions WA, October, 2005*, Cat.No, 8710.5, www.abs.gov.au

(a) Includes a small number of public housing renters

²⁰ See Productivity Commission, 2006, *Report on Government Services 2006: Housing*, Table 16A. 50. www.pc.gov.au ,

²¹ Ibid, Table 16A.60

²² Ibid Table 16A.63

²³ Shelter WA, 2004, *The State of Affordable Housing in WA, 2004: Shelter WA Occasional Paper 2004-2*, www.shelterwa.org.au

Table 2 cross tabulates the survey's data and demonstrates that 142,300 persons in receipt of incomes less than \$40,000 per year were residing in rental accommodation – this was just under half of all WA renters (42%). The greatest proportion of these persons (77.5 %) was residing in the metropolitan region.

If we assume that the persons in receipt of an income of less than \$40,000 in Table 1 were drawn from the 85,122 low income households that received CRA in 2005. This would suggest that over half (59.8%) are in receipt of CRA and that a substantial number of persons (57,178) not using CRA (the working poor) are on very low incomes.²⁴ These assumptions imply that there is likely to be a substantially larger group of low income households encountering housing stress than the official estimates provided by the Productivity Commission for households in receipt of CRA.²⁵

In light of this, Shelter WA urges the Department of Housing and Works and the WA Bond Administrator to collaborate with the aim of producing reliable estimates of the number of low income households experiencing housing stress in WA that are not in receipt of CRA. This could be used to develop affordable housing policy targeted at low income households in the private rental market.

COMMENTARY

Perth's low vacancy rate and escalating median rent provide evidence of market failure at the bottom end of the rental market. CRA is a demand-side incentive which means that as well as providing housing assistance to low income households it could be used to encourage investment in low cost private rental. The decline in vacancy rates and rental returns indicates that investors are not convinced that the current CRA funding regime provides enough financial guarantees to merit investment in low cost private rental.

PUBLIC HOUSING

Public housing provides a significant number of low income Western Australian households with security of tenure at affordable rents.²⁶ It is a housing tenure utilised by many households which are in housing need (i.e. would pay more than 30% per of their income on private rent - if they were to obtain accommodation in the private rental market).²⁷

Funding for public housing is provided through the Commonwealth State Housing Agreement (CSHA).²⁸ Real expenditure on public housing declined by 30% between 1995-96 and 2004-05. In contrast, real expenditure on CRA increased by 7.8 per cent

²⁴ There are significant differences in market rents in metropolitan and regional WA therefore it may be the case that a proportion of persons on low incomes do not require CRA because they are paying market rents below the qualifying rent for receipt of CRA.

²⁵ See Productivity Commission, 2006, *Report on Government Services 2006: Housing*, www.pc.gov.au

²⁶ The SHA applies a household rental policy where rents are capped at 25% of household income.

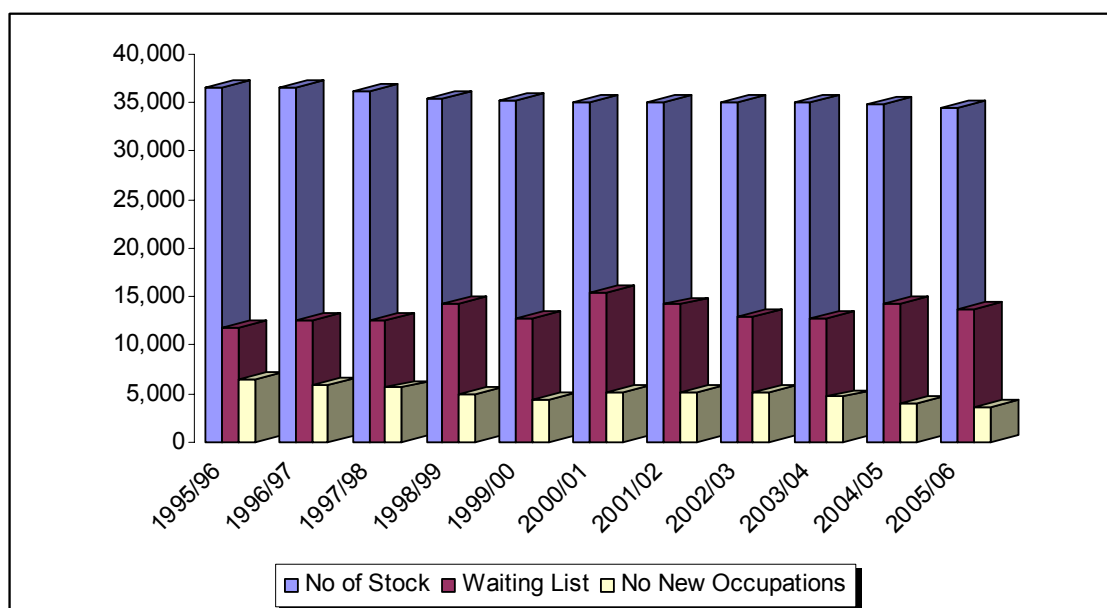
²⁷ People in housing stress are those with household incomes in the bottom 40% of the distribution of equalised disposable income, and are paying greater than 30% of their household income on housing costs.

²⁸ An agreement made between the Australian, State and Territory governments under the *Housing Assistance Act 1996* (Cwlth) to provide strategic direction and funding certainty for the provision of housing assistance. See Productivity Commission, 2006, *Report on Government Service; Housing 2006*, www.pc.gov.au

over the same period.²⁹ By the end of 1996, government funding for CRA (for the first time on record), was greater than government funding for public housing. This trend has continued unabated with Australian, State and Territory governments providing \$1.3 billion for public housing and the Federal government paying \$2.1 billion for CRA in 2004-05.³⁰ The difference now stands at 61% in favour of CRA

The decline in funding has left the State Housing Authority with shrinking funds to meet growing demand. Figure 5 introduces three key indicators which highlight the impacts the reduction in CSHA funding is having on public housing supply. It shows public housing stock has declined from 36,500 dwellings in 1995-96 to 34,500 in June 2006, (a 5.5% reduction). In 1995-96 there were 11,799 households on the waiting list, by June 2006 the list had risen to 13,727, an increase of 16%. The 10-year trend indicates that the gap between supply and demand is becoming entrenched. Over the same period there has been a substantial reduction in the number of new public housing tenancies, reducing from 6,559 in 1995-96 to a ten year low of 3,704 in 2005-06. This constitutes a 44% decline in new households accommodated from the public housing waiting list.

Figure 5: Trends in Public Housing Waiting list, Stock Numbers and New Tenancies in WA from 1995/96 to 2005/06



Sources: Department of Housing and Works, 2005, *Snapstats 2004-2005*; State Housing Commission, 2005, *Market Presence Report, 2005*; State Housing Commission, 2006, *Annual Report, 2005-06*.

The decline in public housing stock has led to a reduction in its overall presence as a proportion of total housing stock in WA (declining from 6% in 1995/96 to 4.2% in 2004/05).

In light of the significant housing affordability issues affecting low income households, Shelter WA views it as a matter of priority that the State Housing Authority set about

²⁹ Ibid, Figure 16.2 and Figure 16A 75.

³⁰ Ibid.

increasing the market presence of public housing across the State to the 1996 level of 6%. This would mean that 15,909 new dwellings need to be constructed and the current stock needs to be maintained (an increase of nearly one third on the current stock).³¹ This would allow the current waiting list to be cleared and provide additional stock to house some of those low income households which experience Post CRA housing stress.

The 1996 CSHA reforms also required State Housing Authorities to target available public housing to households in greatest need.³² The outcome of this policy is that in 2006, 90% of all public housing tenancies in WA receive most of their income from government support payments - leaving the SHA with a very low income base from which to reduce the gap between rental income and expenditure.

The key problem here is that Australia State governments do not compensate their SHA's for funding the housing subsidy required to maintain rental affordability (i.e. the difference between the household rent and market rent). In Canada, New Zealand and Western Europe, Public Housing Authorities are paid a subsidy from central government which meets the difference between the household rent and the market rent or cost rent.³³ This ensures their financial viability and tenant affordability. The WA State Housing Authority is now running up operating deficits per dwelling which threaten its long term financial viability and its capacity to respond to demand.³⁴ Shelter WA considers this a crucial policy area which needs to be addressed by the State government.

A TARGETED POLICY RESPONSE

In 2004 Shelter WA argued that the most efficient way to deal with the Nations chronic shortage of low cost housing is through the development of a National Housing Strategy involving the three tiers of government and the community.³⁵ We still await the development of a National Housing Strategy. In the meantime housing affordability has declined for a growing number of households and the uncoordinated provision of housing assistance is reinforcing, rather than addressing the current housing problems.³⁶

In the short-term the Western Australia government is in a very strong position to respond to the housing affordability crisis. It has guided the State through a period of sustained economic growth, continues to receive significant royalties from WA's growing resource sector and recently benefited from a Budget surplus of \$2.1 billion

³¹ The cost of building nearly 16,000 new dwellings would be well over 2.2 billion dollars (this is based on the current cost of building a two-bedroom dwelling so is clearly a considerable underestimate). This policy would require a long term plan with the development of a public housing renewal fund central to a new public housing expansion project.

³² See Department of Family and Community Services, 2003, *Commonwealth State Housing Agreement 2003-2008*, DFACS, Canberra.

³³ See McNelis, S & Burke, T, 2004, *Rental Systems in Australia and Overseas*. Positioning paper, <http://www.ahuri.edu.au>

³⁴ See Berry, M & J Hall, 2004, *Operating Deficits and Public Housing: Policy options for reversing the trend*, Final Report. <http://www.ahuri.edu.au>

³⁵ See Shelter WA, 2004, *The State of Affordable Housing in WA, 2004: Shelter WA Occasional Paper 2004-2*, www.shelterwa.org.au

³⁶ See Berry, M, 2002, *Affordable Housing Project: Background paper*. Prepared for the Brotherhood of St. Laurence, Melbourne

dollars.³⁷ This is an opportune time to provide additional housing assistance to the growing number of households caught up in the housing crisis.

As this research has shown, there needs to be a greater focus on maintaining and increasing the supply of social housing and affordable private rental.³⁸ Shelter WA views it as a matter of priority that the State Housing Authority develops a long-term plan with the aim of increasing the market presence of public housing across the State to the 1996 level of 6%.

In addition, Shelter WA strongly urges the State government to consider funding the State Housing Authority with a housing subsidy per dwelling or a Community Service Obligation which meets the difference between the household rent and the market rent. This would compensate the SHA for housing low-income tenants and improve their financial viability

In regards to homeownership the affordability problem is starting to bite households receiving a median income of \$59,000 in 2006. This income is no longer enough to purchase appropriate housing due primarily to housing price growth outstripping wages growth. From the viewpoint of affordability, the FHOG is poorly targeted and needs to be increased and targeted at households that are in need of housing assistance to purchase housing.

Finally, Shelter WA strongly believes that the development of a long term National approach to housing affordability is the only way to ensure co-ordinated provision and efficient targeting of housing assistance. We endorse the *National Affordability Housing Forum* recommendations for:

- ✚ The immediate appointment of a *Commonwealth Housing Minister* ;
- ✚ A *National Affordable Housing Agreement* between Commonwealth, State/Territory and local governments to integrate, rationalise and strengthen government assistance for affordable housing;³⁹
- ✚ A *Public Housing Renewal Fund* to help strengthen the effectiveness of government-owned housing by broadening its range of locations and household eligibility to access public rental and;
- ✚ An *Affordable Housing Innovations Fund* to facilitate private sector and local government investment in provision of affordable housing.

³⁷ See Department of Housing and Works, 2006, *Housing Industry Projections 2005/06 & 2006/07*, www.dhw.wa.gov.au

³⁸ In WA social housing comprises public housing, regional housing associations and community housing organisations.

³⁹ See National Affordable Housing Forum, 2006, *Achieving a National Affordable Housing Agreement; A national approach to a national, problem*, Background paper 1