

Housing costs are actually the same as in 1993, but renters still struggle

Written by Ben Phillips, Associate Professor, Centre for Social Research and Methods, Australian National University

Even though house prices have risen substantially over recent decades, housing costs as a share of income have barely shifted in over 20 years. Costs relative to disposable income for housing are largely unchanged, at 17% since 1993, although there has been some increase since 2000.

There is no agreed measure for defining housing affordability, but just looking at house prices can be deceptive. Australian households are roughly equally split between purchasing, renting or owning their house outright.

There is no doubt that house prices increased substantially over recent decades. According to [CoreLogic](#) over the past 20 years the median house price in Australia increased from A\$140,000 in December 1997 to A\$540,000 by December 2017 – an annual increase of 7%. Relative to disposable income this represents a 68% increase over the 20-year period.

Read more: [**Five changes that could make make housing better for generation rent**](#)

Australian households are roughly equally split between purchasing, renting or owning their house outright. Highly inflated house prices are more concerning to people wishing to move from renting to purchasing a house (mostly potential first home buyers).

Housing affordability looks very different when we look at actual housing costs relative to income, rather than just house prices. Housing costs increased substantially between 1984 and 1993.

This was a combination of weak income growth and strong increases in housing costs, particularly mortgages with interest rates increasing sharply over this period. Since peaking in

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1993 costs remained relatively stable with rents increasing modestly over the past 10 years, while mortgage costs declined.

Overall, actual housing costs relative to income have remained stable since 1993 at around 16% of disposable income.

We split households into five equal groups from lowest 20% of disposable income up to highest 20%, after adjusting for type of family and household size. Clearly, low-income households spend a lot more on housing relative to their income than higher-income households. The share of housing costs for the lowest income quintile has increased in recent years but is not substantially different from longer term averages.

All other income groups have increased their share of spending relative to income since 1984. Since 1993 the changes have been mixed with the lowest income households and highest income households both spending less as a share of income, while the middle income categories have increased their spending, albeit modestly.

Housing was much more affordable in 1984 with average housing costs at just 11.3% of disposable income.

A number of important changes have occurred over the past 25 years. Interest rates are much lower, living standards have increased substantially for low, middle and high income families and savings rates have also increased – implying that housing costs are increasingly a larger share of expenditure.

Another common measure of housing affordability is housing stress. We use the “30/40” stress rule – a household paying more than 30% of their disposable income on housing costs and also in the bottom 40% of the income distribution.

Using this housing stress measure, we see a significant increase in renter stress, firstly between 1984 and 1993 and then from 2007. Mortgage stress is largely unchanged since 1988 following an increase between 1984 and 1988.

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Housing stress rates are similar for major states. The highest rate is in Queensland with 13.5% of households in stress whereas the combined ACT and NT region has the lowest stress rate at 8.1%, thanks to relatively high incomes. The NSW rate is lower than both Victoria and Queensland.

Home ownership rates in Australia have slowly declined since 1984 from around 72% to around 68% by 2015-16. Ownership rates of households headed by people aged under 35 dropped from 50% in the 1980s to around 35% in 2015-16. Households headed by people aged 35 to 49 have experienced a similar percentage point decline but from a higher base.

The downward trend in ownership rates for younger households has been ongoing since 1988. Surprisingly, the house price boom between 1999 and 2005 in Australia does not appear to have made a significant difference to pre-existing trends.

However, home ownership trends are complex, and are likely driven by a range of factors such as interest rates, higher rents in the 1980s, broader societal changes such as people marrying and having children later in life and a higher divorce rates. Another possibility is a shift away from home ownership, with younger people preferring the flexibility that renting offers.

Overall, housing costs in Australia have been relatively stable as a share of disposable income since the early 1990s. This average does mask problems for low-income renters who are paying an increasing share of their income on housing costs, and rent stress levels have also increased over the long term.

Read more: [**Housing affordability stress affects one in nine households, but which ones are really struggling?**](#)

Changed economic circumstances provide risks for housing affordability. Were interest rates or unemployment to increase sharply there would be risks to households and flow on effects to the broader economy.

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House prices have indeed increased sharply since the late 1990s, well above incomes or inflation. This poses a problem for those wishing to move from the rental market to owning a home as higher house prices imply larger deposits.

While elevated house prices are a concern, the more pressing social problem for Australia remains the lack of affordable rental housing for lower-income families that is close to jobs and services in our capital cities. This has been an ongoing problem in Australia for a number of decades. An ageing population with potentially lower home ownership rates will add to this problem in future years.

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