Both sides of the fence: Affordability and the housing pathways of lower-income Australians

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Outline of our discussion today

We’re focusing on getting over the barrier and accessing home ownership, providing a snapshot from research undertaken as part of AHURI National Research Venture (NRV) 3: **Housing Affordability for Lower Income Australians**

1. A brief introduction to the scope and remit of NRV3, and a look at the aims and rationale for the fieldwork undertaken for this component

2. An equally brief overview of the methods utilised, and a hint at the challenges raised by the multi-methods approach taken

3. Looking at the ‘barriers’ to ownership from both sides of the fence

4. Concluding observations, and taking those forward within the wider NRV3 framework
NRV 3: Housing affordability for lower income Australians

• AHURI NRV3 – overarching question: ‘how do we assess and address housing affordability for lower income Australians?’

• We’ve looked at:
  – how the problem is conceptualised,
  – the drivers of affordability problems
  – why it matters
  – who has an affordability problem
  – how this has changed, and
  – how we can assess policies intended to improve affordability over time

• Focus today is on one component and of this broader enterprise, getting over the barrier and accessing home ownership
Disaggregating the affordability ‘problem’

• Previous research has built up a good understanding of the scale and extent of those in, or at risk of housing affordability concerns.

• But we wanted to **drill down further** to build a better understanding of the experience of, and impacts arising from, housing affordability concerns at the household level:
  
  – What hardships are experienced, by whom, where, and for how long?
  
  – Choices made, constraints faced and compromises lived through: how affordability is articulated and the coping mechanisms/strategies employed
  
  – How affordability affects perceptions/expectations of home purchase, and how some recent purchasers find themselves on the margins of financial stress
What conceptually drove our approach?

- **Limitations in affordability debate, policy**
  A view that the affordability debate needed unpacking beyond the numbers, and a view that limited (and generalised) policy responses fail to address the increasing complexity of households’ housing ‘careers’.

- **Disaggregating drivers AND responses**
  As well as determining those with affordability problems in terms of household type, age, income etc, there was a need to better understand how different households experience and negotiate those problems.

- **A cross tenure analysis**
  We wanted to understand the housing affordability problems of those renting and likely to remain so in the long-term, those facing barriers to ownership, those who had recently ‘made it’, and pathways between tenures.

- **Living with risk:**
  We wanted to explore the interplay between changing housing markets, labour markets and personal circumstance on how affordability constraints were negotiated by households – the balance of ‘risk’ for individuals and for institutions.
Our research approach

A mixture of quantitative and qualitative techniques.

• Two postal surveys targeted at lower-income Australians led by Terry Burke at Swinburne University:
  – Renters survey to NSW, VIC and QLD, metropolitan and non-metro areas – 1700 responses
  – Recent purchasers survey to NSW, VIC – 400 responses

• ‘Follow-up’ qualitative research with focus groups and in-depth interviews in each of the 3 States
  – 17 focus groups and 20 in-depth interviews

• Survey adds to our knowledge of scale and extent of affordability problem; qualitative insight helps build a more nuanced picture of experience at the household level, but also helps ‘problematisate’ how we use and articulate housing affordability

• Use of multi-methods, and subsequent integration of these data in terms of analysis inevitably raises a number of challenges
Renter and recent purchaser typology

Typology developed in first instance as an analytical tool and means of bridging insight from range of sources.

<table>
<thead>
<tr>
<th>Long-term renter</th>
<th>Strugglers</th>
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<tbody>
<tr>
<td>Backsliders</td>
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<tr>
<td>Pragmatists</td>
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<tr>
<td>Aspirant renters</td>
<td>Aspirant Purchasers</td>
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<tr>
<td>Recent purchasers</td>
<td>Stretched</td>
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<tr>
<td></td>
<td>Focused</td>
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<td></td>
<td>Ambivalent</td>
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Focus: getting over the barrier

• Bringing together insight from renters and recent purchasers helps trace how and where access occurs and helps gain insight into the motivations, strategies and trade-offs shaping that access
  
  – Perceptions and recollections from different sides of the fence help identify what it takes to get over
  – Highlights the affordability ‘gap’ – both subjectively and objectively – how likely are those aspiring to purchase to actually ‘make it’?

• Methods developed to enable degree of consistency and comparability
  
  – Surveys highlighted the differences, primarily related to income and labour market status
  – In focus group discussions and interviews, key differences but also many shared concerns, experiences and perspectives seen. However, quite different points of reference

• Insight from all ‘types’ contribute to our understanding of the barriers faced, strategies adopted in moving from renting to homeownership, however discussion here highlights pragmatic renter and focused purchaser experiences
### Housing costs as proportion of income for lower income renters and purchasers

<table>
<thead>
<tr>
<th></th>
<th>Renter</th>
<th>Recent purchaser</th>
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<tbody>
<tr>
<td>Up to 30%</td>
<td>18%</td>
<td>41%</td>
</tr>
<tr>
<td>30 - 39%</td>
<td>23%</td>
<td>36%</td>
</tr>
<tr>
<td>40 - 49%</td>
<td>26%</td>
<td>14%</td>
</tr>
<tr>
<td>50 - 59%</td>
<td>15%</td>
<td>4%</td>
</tr>
<tr>
<td>60% and above</td>
<td>18%</td>
<td>4%</td>
</tr>
</tbody>
</table>

(Source: NRV3 postal surveys with renters and recent purchasers, conducted 2006 across selected postcode areas in NSW, VIC and Queensland (recent purchaser survey excludes Queensland)).
Barriers – perceived factors limiting ability to purchase home

- Low income, and uncertainty of future income identified as most significant factors by both renters (what was stopping them) and recent purchasers (what had delayed them). Age also a key factor for many long term renters.

<table>
<thead>
<tr>
<th>% respondents agreeing</th>
<th>Lower income renter (major or moderate effect)</th>
<th>Lower income recent purchaser (delayed purchase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low level of income</td>
<td>97%</td>
<td>84%</td>
</tr>
<tr>
<td>Uncertain future income</td>
<td>80%</td>
<td>91%</td>
</tr>
</tbody>
</table>

(NB: Multiple answers allowed. Source: NRV3 postal surveys with renters and recent purchasers, conducted 2006 across selected postcode areas in NSW, VIC and Queensland (recent purchaser survey excludes Queensland)).

- Barriers identified by recent purchasers were often deeper and more widespread across range of factors compared to renters.

- But what about affordability/perceived affordability in the market – had this delayed purchase?
Barriers – the deposit

• For renters, often seen as an insurmountable hurdle

And the deposit. You just don’t earn enough money to save for a deposit. Everyone would love to own their own home, but it is just not feasible with living expenses, to be able to save X amount of dollars. And with those no deposit home loans you are stuck for years and years. You are never going to be able to change your life.”
(F early 50s non metro NSW)

• Recent purchasers tackled the deposit barrier in a number of different ways

I put off buying for so long because it just always seemed out of reach. It’s very hard for a single person who chooses to be single to be able to afford. It wasn’t until I had made a commitment to myself that I’m just going to have to work extra hard, if I can’t get a job that pays better, I’m just going to have to put in extra hours elsewhere, that’s the only way I could have done it.
(F early 40s, metro VIC)

• However, many had relatively small or no deposits, having taken the decision – given the availability of finance – not to wait and save.
Barriers – accessing finance

• While regular employment is important in saving for a deposit, it is crucial in gaining access to home-loan finance.

90% of it is not whether I can raise the deposit… I fall into three categories: I’m too old, I’m unemployed and I’m female. You’re in three of the minority groups. Being female is a major one. Being female unemployed, you can kiss it goodbye. (F early 50s non metro QLD)

What I find appalling is all the banks say 100%, we can lend you 100% … They said, even if you don’t get a deposit together there is no problem because you both work … The manager of the credit union said to us – we only wanted to borrow $300,000 – he did all the calculations and said that we could actually borrow $500,000. Thanks but we are not interested. We only wanted to start of small. (F early 40s metro NSW)

• Clearly a significant hurdle for renters. For some, this related to their circumstances (I’m too old, I have debts) as much as level of income. But also sizeable proportion of purchasers had experienced difficulty initially

• Barriers were compounded by a sense of inconsistency, gate keeping and incoherent advice from providers
Barriers – assistance

• Role of intergenerational wealth transfer – indicated by likelihood/actual assistance provided to first time buyers from family and assistance from parents and family in alleviating the ‘deposit gap’.

• However both the renters and purchasers survey suggested that assistance was relatively limited.
  – Just 12% of renters thought that they’d receive some form of assistance
  – Amongst our purchasers, 12% received a gift, 11% a loan from family

(NB: Multiple answers allowed. Source: NRV3 postal surveys with renters and recent purchasers, conducted 2006 across selected postcode areas in NSW, VIC and Queensland (recent purchaser survey excludes Queensland)).

• Assistance from policy mechanisms such as First Home Owner Grant (FHOG) – mixed opinion amongst renters (saving grace, not enough, not targeted, not eligible), but recent purchasers saw it as an important lever enabling purchase
## Trade-offs and compromises made to get into the market

<table>
<thead>
<tr>
<th>Trade-off</th>
<th>Lower income purchaser</th>
<th>Lower income renter</th>
</tr>
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<tbody>
<tr>
<td>Higher level of rent/mortgage than I wanted to pay</td>
<td>52%</td>
<td>50%</td>
</tr>
<tr>
<td>Smaller dwelling than I wanted (i.e. overcrowded)</td>
<td>41%</td>
<td>36%</td>
</tr>
<tr>
<td>I had to rent/buy a flat when I really wanted a house</td>
<td>13%</td>
<td>30%</td>
</tr>
<tr>
<td>The quality of the dwelling was lower than I wanted</td>
<td>44%</td>
<td>24%</td>
</tr>
<tr>
<td>A lower level of security than I was happy with</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td>I had to relocate to an area I would not otherwise have chosen</td>
<td>37%</td>
<td>22%</td>
</tr>
<tr>
<td>My access to services/facilities decreased</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>My travel time to work increased</td>
<td>32%</td>
<td>12%</td>
</tr>
<tr>
<td>My access to public transport decreased</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Not as close to family/friends as I would have liked</td>
<td>26%</td>
<td>11%</td>
</tr>
<tr>
<td>My children had to change schools</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>My access to childcare was made more difficult</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>I don’t feel that I made any compromises</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>8%</td>
</tr>
</tbody>
</table>

(NB: Multiple answers allowed. Source: NRV3 postal surveys with renters and recent purchasers, conducted 2006 across selected postcode areas in NSW, VIC and Queensland (recent purchaser survey excludes Queensland)).
The rise of the long-term pragmatic renter?

You’d constantly be worried about it, especially if you lost a job or something. I’d always be panicking about if I got a mortgage whether I’d overcommitted to it. I’d hate to be paying that much in a mortgage that if something happens, I couldn’t do it

(M early 40s non metro VIC)

I don’t like the idea of being held hostage to interest rates – having that unpredictability … I know the future is unpredictable – but with renting, I’ve got a fair idea of the parameters in terms of what I’m going to pay, what I can expect down the track give or take a bit, it gives me the freedom to move whenever I want, I’m not locked in, I’m not obligated to a bank, so yeah, I might be helping pay someone’s unit off, but with that comes a heck of a lot of freedom for me … I did the maths and I pay $9000 a year rent, so if I was to pay that over the next 30 years that’s $270,000. Now I couldn’t get anything for that – maybe I could get a nice unit or something but I’m 41 and I thought I’d prefer to have the extra money.

(M early 40s metro NSW)
Ontological security, or uncertainty and heightened risk?

[it’s] stressful, if I lose my job tomorrow, what’s going to happen to me? I don’t want to rely on my mum because she’s lovely, she doesn’t have money but she’ll still try to help. I don’t want to rely on that, I don’t want to have to have the booming thought of ‘I have to have my job today because I have to pay a bill’ that’s really insensitive … Or what happens if my wage decreases?

(F late 20s metro QLD)

I found when I first bought the house, the saying ‘it’s an albatross around your neck’ and it really was. It wasn’t just the finances but it was the commitment you’d undertaken with the banks and I ended up staying in a job that I should have left years [ago]… I ended up staying at this particular job 3 years … but I was so worried about having to make these financial commitments that I just couldn’t counsel looking for another job and the risk of being out of work and falling behind in my payments. It was quite an irrational thing to do but it really made me very inward looking and I didn’t explore the options that were available, and that was a big stress actually.

(M late 30s metro VIC)
Focused strategies to manage risk

_There’s give and take. Either I just do one job and not do very much and be very careful with every cent and analyse whether I need this and want that kind of thing or I work crazy, pay it off as quickly as possible, and have less of a social life. So you’re still having to make compromises. I still have to make compromises even though I can afford to pay more than I have to a month I have to make other sacrifices to be able to do that so in some ways … My life’s been put on hold for a few years. So I’ve got stress in other things but I see this as the priority, my focus at the moment._

(F early 40s metro VIC)

_I don’t see it, I don’t feel it. And at the end of the day I’ve got to look at it from my perspective of ‘I pay the double now so I’m going to be paying a lot less later’ … I believe if I just stress my balls out now nothing can hurt me later on. I’ve tried my best and if it doesn’t work, it doesn’t work._

(F late 20s metro QLD)
Observations - is getting across the hurdle worth it?

- While most recent purchasers are happy with their decision to buy, large majority face higher housing costs than before

- Unexpected costs of being an owner, interest rate rises, paralleled in some markets by house price falls. Here, a significant proportion are at risk with limited safety nets (highly geared in terms of home loan borrowing, limited savings, high levels of non-mortgage debt).

- Few felt they were at immediate risk of losing home, however many stretched and dependent on the buoyancy of current economic and labour market conditions. Work related strategies (2nd job, better job, extra overtime) to meet extra costs

- Insecurity and fear of losing home – strategies adopted to cope/protect against future risks (e.g. changing circumstances). Transfer of insecurity as renter to on-going, long-term affordability constraints as an owner.

- **BUT** very determined to stay in home ownership if possible – this reduces the risk for financial institutions
Concluding observations

• Highlights the stretching affordability gap and what it takes to get over barrier

• Indicates that the landscape of affordability constraint and how households negotiate it is changing, responding to the risks and uncertainty faced.

• Points to both a growing number of long-term renters, not necessary under severe affordability constraint, have become pragmatic, resolved, resigned to remaining in the tenure

• Also points to a complex picture of stress and strain felt by recent purchasers (sometimes self-imposed) and centrality of risk in shaping household decisions. Over 40% of recent purchasers felt they were worse off than their parents; less than 30% thought they were better off

• Provide a contribution towards a case for more differentiated policy responses which respond not only to what we know about household characteristics and income, but the different ways lower-income Australians negotiate choice, constraint and opportunity in their housing outcomes