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# UNDERSTANDING HOUSING AFFORDABILITY

## *More than a Numerical Measure*

Exploring the current state, drivers and policy context of housing affordability in  
Australia through a review of the literature

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*Acronyms*

**AAH** – Australians for Affordable Housing

**ABS** - Australian Bureau of Statistics

**AHURI** – Australian Housing and Urban Renewal Institute

**AIHW** – Australian Institute of Health and Welfare

**COAG** – Coalition of Australian Governments

**CRA** – Commonwealth Rent Assistance

**DCSI** - South Australian Department for Communities and Social Inclusion

**FaHCSIA** - Federal Department of Families, Housing, Community Services and Indigenous Affairs

**LCBS** – Low Cost Budget Standard

**MCBS** – Modest Cost Budget Standard

**NAHA** – National Affordable Housing Agreement

**NIHC** – National Indicative Housing Council

**NHSC** – National Housing Supply Council

**NRAS** – National Rental Affordability Scheme

**SA** – South Australia

**SCHAA** – Select Committee on Housing Affordability in Australia

**SPRC** –University of New South Wales Social Policy Research Centre

## Introduction

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*Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.*  
(UN Declaration of Human Rights, Article 25)

The right to housing that is both affordable and adequate is largely determined by a particular household's financial capacities, and households who are limited in this area often find themselves unable to attain the basic right. Housing affordability refers to the relationship between household income and housing costs (rent or mortgage repayments), and is a relationship that allows the household to afford its other essential needs. Historically, the acceptable limit of the affordability relationship was set at 30% of household disposable income, a marker of the concept which, since its founding in the 1980s and 1990s has become standard practice in affordability policy and literature. Where any amount above 30% spent on housing costs pushes a household into housing stress, the lack of affordability becomes a particularly vivid risk for low-to-middle income earners, whose income surplus of 70% might not be able to cover other necessary expenses in any expansive way. Currently, in Australia, this risk is a reality for many, and—according to the traditional measure—the country is currently facing an affordability crisis.

It seems problematic, in this western, first world country, whose national wealth and income continue to progress upwards, that such a basic human right goes unclaimed by many. One of the conceptual goals of this project, then, is to shape an understanding of this paradox and why it is that in such a supposedly liveable country, many struggle to find affordable housing. Through a limited review of available literature on affordability, the scope of which includes both policy and social research, this report aims to coordinate debate and critical perspective on the various facets of the Australian affordability climate. It aims to answer these main research questions:

- How is affordability defined, and does this measure appropriately account for the variety of housing situations within Australia?
- How is the lack of affordability represented and responded to by federal and state bodies?
- What drives unaffordability, and how might the identification of the drivers bring about a solution to the problem?
- How do the two bodies of literature—policy and academia—interact with one another, and how does this affect the state of affordability itself?

The findings of the review, guided by these questions, fall under three broad headings that provide chapter division within the report: measures and definitions; the problem of unaffordability, or housing stress; and policy context. The first chapter draws together debate around the persistence of the 30% income-ratio measure, to which an alternative method is offered, the residual method, which accounts for greater individual household circumstance and needs by calculating an affordable housing-to-income relationship *after* other necessary expenditure. While the literature on the residual method provides greater theoretical support for its use, the supposedly empirical 30% benchmark is still standardised and used in government performance reports. The second chapter brings together the different methods by which unaffordability is represented in the literature, and outlines potential causes of the problem, which are myriad and widespread. The problem is largely presented in quantified terms, with housing stress used as a unit of numerical measurement against which governments are able to judge the performance of housing and affordability-directed policy. The character and effects of the current policy setting are discussed in chapter three, about which various critical opinions, particularly from research perspectives, are collated, many of which point to the out-dated or idealising perspective of policy makers who develop goals based not on current Australian realities, but on a conceptual and potentially unattainable vision of what the Australian housing character should be. What emerges from the literature in terms of policy critique and inefficiency is the imperative for greater integration between levels of government; but what also becomes clear is that greater integration is needed between the research and political realms to produce informed solutions to the affordability problem.

## Methodology

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The research was conducted using online databases, particularly Summon and The Australian Family and Society Abstracts via the Barr Smith Library. The Australian Housing and Urban Renewal Institute (AHURI) online research library was also used as a source for the institute's publications. Key terms such as "housing affordability," "homelessness," "housing policy," and "housing stress" were used as search tools, and search results were usually constrained by Australian relevance and a ten-year retrospect, exceptions being where historical and international comparison and context were needed. Relevant policy information and grey literature was sourced from NGO and government websites, particularly those of the Council of Australian Governments (COAG), the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the South Australian Department for Communities and Social Inclusion (DCSI). Additional data was sourced from the Australian Bureau of Statistics (ABS).

## 1. Measures and Definitions

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There is great focus in the literature on formulating and refining appropriate ways of defining and, more significantly, measuring housing affordability in Australia. Stone et al. (2011:2) suggest that housing affordability is a concept based on the relationship *between* people and their houses; affordability is not an inherent characteristic of the house itself. It cannot be measured based on house price alone, since an affordable house will be different for every person. Thus it is significant that affordability is adequately defined semantically, and that the methodology for measuring it is then sufficiently equipped to account for all the human variables that such a relational concept implies.

At present there are two major routes that data collectors, analysts and research institutes use to calculate affordability levels in Australia<sup>1</sup>. These are the “ratio” (of housing cost-to-income) or “benchmark” method, and the “residual method.” The former is the more widely used of the two and, broadly, applies a 30% benchmark to housing costs; if the proportion of income spent on housing exceeds this, then the house is deemed unaffordable, or in “housing stress.” The residual method is a more recent development, particularly by researchers at the Australian Housing and Urban Research Institute (AHURI) (Henman and Jones 2012; Burke et al. 2011), and calculates affordability—as the name suggests—according to what is left, *after* other necessary household expenditure. This section of the review will draw into comparison literary opinion about the various benefits and shortcomings of each measure, and direct attention to the fact that, for proper understanding of affordability, there is first the imperative need for a proper *definition* and *measure* of the relationship between housing and income.

### 1.1 The Income Ratio Measure

The 30% measure is a historically standardised one, adopted by the COAG Reform Council to measure housing stress and affordability. It is a relational and benchmark approach by which housing is deemed affordable where no more than 30% of

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<sup>1</sup> Other minor methods not detailed in the scope of this review include various tenure-specific indexes like the CBA or BIS-Shrapnel Home Loan Indexes. These are detailed in Andrew Worthington’s Quarter Century Report on Housing Affordability (2012); Other measures are also being developed with foci on things like topographical and geographical variance (Beer and Baker, 2007), or on expanding the income based categories so that more than median or equivalised data can be used to measure affordability (Gan and Hill, 2008).

household disposable income is spent on housing costs. The method has a number of variables. When applied with specific reference to houses in the lowest income bracket (the bottom 40%) the method becomes the 30/40 rule. Yates and Milligan suggest that this is an effective variation, as “it provides a robust rule of thumb as a benchmark indicator of households likely to be at risk of problems associated with a lack of affordable housing” (2007, p.9). The COAG adopt the 30/40 rule, and adjust the ratio measure further according to tenure type: renting, home purchase and mortgage-paying affordability. For purchasing and mortgage-paying households, affordable house prices are calculated by equivalising the average household incomes at the top of both the low and middle income brackets and applying the 30% rule for monthly mortgage repayments (based on the assumption of a 10% deposit) (COAG 2011:16).

### *Benefits*

Much of the literature using the ratio method does so for, broadly, two reasons: that it is simple to apply to large population samples, because of the little need to factor in extreme variables; and that it is historically and internationally prevalent, therefore accommodates comparison with these data-sets and the tracking of time-based and global affordability patterns.

### *Shortfalls*

One glaring conceptual flaw of the 30/40 rule, as noted by Henman and Jones (2012) is that there is apparently no concrete rationale behind the chosen benchmark, apart from its widespread application. It is essentially arbitrary and largely the ratio literature leaves reasoning behind its use as a benchmark unsaid. In fact, only one report in the review of recent literature identifies *why* it is a standard; it was the result of a government housing inquiry in the early 1990s (SCHAA 2008, p.35).

Interestingly, the same National Housing Strategy inquiry uses a reverse-residual-based definition, describing affordability as:

The notion of reasonable housing costs in relation to income: that is, housing costs that leave households with sufficient income to meet other basic needs such as food, clothing, transport, medical care and education (1991).

This seems to convolute the claim that the ratio and residual systems are “conceptually and methodologically distinct approaches to housing affordability” (Henman and Jones 2012, p.3). While the two approaches are, today, distinct in their

applications, they are grounded historically within the same concept. This suggests that perhaps the ratio method has become distanced from the terms conditioning the use of a 30% benchmark and that it has come to focus more on the monetary dimensions of “housing costs,” and less on what constitutes the “other basic needs.” This trajectory of distancing in itself seems to destabilise the historical reasoning behind the ratio method.

In terms of input, Worthington (2012) suggests that, especially in relation to home purchasing, the method’s simplicity relies on an intentional ignorance of such affordability factors as house financing costs and standard variable rates. Others point to the limits of the method’s binary outcome (Henman and Jones, 2012; Stone et al 2011; Burke et al. 2011). The way it divides households into only housing stressed or non-stressed limits the identification of other types of periphery or unstable household statuses, such as those at-risk of housing stress; essentially it is only relevant to owner-purchasers and private renters since other household types like outright-owners or public housing tenants will not be paying more than 30% of their income (Rowley and Ong 2012, p.10). Most significantly, the 30% measure, with its binary outcomes, cannot fully account for the variance in household composition across state and national populations that, naturally, these large and socially diverse groups present. For instance, when the 30/40 rule is applied to all tenure types—both rental and homeowners—the proportion of those living in housing stress is, apparently, very low (Rowley 2012).

### ***1.2 The Alternative: Residual Income Measure***

The alternative method for measuring housing affordability is the residual method, which approaches affordability from a budgeting angle and calculates housing costs *after* other necessary household expenditure, thus allowing for variance in household type and composition. Housing stress as defined by the residual method occurs if there are insufficient funds left for mortgage or rental payments within the residual proportion of household budgets; the household has an affordability problem. The largest amount of literature generated on the method comes from AHURI, who weigh the method and its results against the same results produced by the ratio method.

Essential to the residual method is the development of appropriate budget standards for different household and tenure types. This constitutes the first part of the residual method equation: the expenditure of household necessities. The AHURI residual method draws from models of budget standards developed by the Social Policy Research Centre of the University of NSW (SPRC) in the late nineties. In the 1997 report, various “baskets of goods” were assembled using over 700 potential necessary items, 50 categories of household composition, and nine areas of household expenditure: housing; energy; food; clothing; household goods and services; health; transport; leisure; and personal care. The researchers argued that if at least 75% of the population uses any particular item from the sample of 700, then that item should be incorporated into the most basic, or “low cost” budget standard. If between 74 and 50% of the population uses the item, then it falls into a “modest but adequate” budget standard.

Henman and Jones describe their use of budget standards within the residual approach:

The *budget standards* methodology involves the identification of a basket of goods and services required by a specific household type in a given location to achieve a specified standard of living. The ‘basket’ is then costed at local market prices to attain a benchmark disposable income required by that household type to achieve the standard of living specified. Budget standards do not measure what households actually achieve, but they explicitly define what is possible with a given income level and, in this sense, they represent a shift toward measurement of outcomes (2012, p.12).

The SPRC budget standards are translated into the “housing costs” unit in the residual formula adopted by AHURI: “Residual household income = total household disposable income – housing costs” (*ibid.* p.18).

### *Benefits*

The benefits of the residual method are largely identified against the shortcomings of the ratio measure; researchers ground their support of the residual method where it compensates for what the other lacks. The largest gap within the ratio system is its incapacity to account for large variance or the quality of the housing. The residual method proposes to fill this through its use of budget standards and packages, which

ushers in a qualitative dimension to the otherwise quantified concept of housing stress.

### *Shortfalls*

The residual measure is still in its very early stages of development and application. It is a tested method<sup>2</sup>, but not widely so; as Shelter SA recommends in their submission to the Green Paper, it is a method that needs investigation *then* implementation.

AHURI residual literature admit to this limitation of the method, suggesting that their method and its basic tenets provides a template that should be tweaked and stretched to fit the requirements of parties interested in using residual analysis (Burke et al. 2011, p.5).

## 1.3 Comparing the Methods

The distinction between the residual and ratio methods becomes particularly clear when comparing their results on measuring levels of housing stress in Australia. The table below details the levels of housing stress as calculated using the different measures:

**Table 1: Percentage of Households in housing stress according to Residual and Ratio Methods<sup>3</sup>:**

	Residual Method Using Modest Cost Budget Standard (MCBS)	Residual Method Using Low Cost Budget Standard (LCBS)	Ratio Method using 30% benchmark
All households	14.1%	30.7%	16%
Lowest 40% - Rental Households	47.7%	85.2%	41.7%
Lowest 40% - owners with mortgage	56.2%	88.9%	42%

<sup>2</sup> For example, Burke and Ralston (2003) compared ratio affordability measures to the Henderson poverty line after-housing measure; Waite and Henman (2006; 2010) apply budget standards research to an analysis of the wellbeing and affordability levels of Centrelink recipient households in Queensland; International research, especially in the U.K also uses the residual method as an alternative (e.g. Bramley 2011)

<sup>3</sup> Data sourced from COAG 2011 report, and Burke et al. 2011, AHURI Final Report, no. 176

While the residual MCBS and the ratio methods produce close results, especially for rental stress and all households, the LCBS method produces significantly higher results. This suggests that, perhaps the ratio method underestimates the rate of housing stress in particularly low-income households – the type of households who can only afford the bare essentials of the low-cost budget standard. In 2011, Shelter SA conducted a consumer consultation a part of their assessment of the State Housing Strategy Green Paper. The results of this consultation help to conceptualise the disjuncture between the different affordability results that the residual and ratio methods produce. Participants were first asked to calculate the percentage of their income spent on rent or mortgage, all of whom found they were paying 30% or more. However, when asked to factor in costs tied to utilities and food, many were paying upwards of 50% of their disposable income on these living costs alone; some households with dependents, therefore, would find themselves unable to provide an adequate living standard for themselves and their families (Greenland and Clark 2012, p.12). Unlike the ratio measure, the residual measure would account for these otherwise unrecognised stressed households in affordability performance reports since it puts living costs before housing costs, not after.

#### **1.4 A Wellbeing Measure?**

An essential difference between the two measures, then, is that the residual method has the ability to be developed as a wellbeing measure, while the ratio method does not. Rowley and Ong (2012) talk about household wellbeing as a matter of individual choice, writing that when housing affordability is measured, the specific consumption choices of particular households go unaccounted. They offer an example to illustrate:

A household may take on a high housing cost burden in order to consume housing in a location which minimises travel to work costs or is within close proximity to that household's existing community. The consumption choice may place an unreasonable burden on that household's finances *but they are securing other benefits from the decision*" (2012, p.9, emphasis added).

The residual method has the ability to take into account consumption choices, the freedom of which Rowley and Ong equate with wellbeing. This is because the

residual method, which has a mid-way focus between inputs and outcomes, has the potential to determine whether a certain household is deprived of something in their budget package because of housing costs, and from this determine whether a household is meeting a particular living standard (Henman and Jones 2012, p.23). By contrast, the input-focussed ratio method is unable to incorporate qualitative measures such as these.

**Recommendation 1: Researchers and policy makers should conduct more testing of the residual method on a wider range of population samples so as to integrate it as a new, if alternate, standard.**

**Recommendation 2: More research about the qualitative dimensions of affordability is needed so that a qualitative, or ‘wellbeing’ measure might be incorporated into affordability assessments.**

## 2. The Unaffordability Problem

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### 2.1 Facets of unaffordability

At its most basic level, housing stress describes a household that finds housing costs encroaching on funds needed for other household essentials; essentially, it is the flip-side of the broad affordability definition discussed in the preceding section. The concept of housing stress is variously worded in the literature; Rowley (2012) suggests that housing stress can be considered as a unit of measurement used to quantify housing affordability in any given area. Alternately, Andrew Beer writes: “Housing stress is a product of both low household income and high outlays on housing” (2007, p.168), suggesting that the concept is defined largely by the external factors that cause it. These classifications of housing stress also guide the type of literature produced on the topic of housing stress, which focuses on quantifying the problem, and examining the drivers behind it.

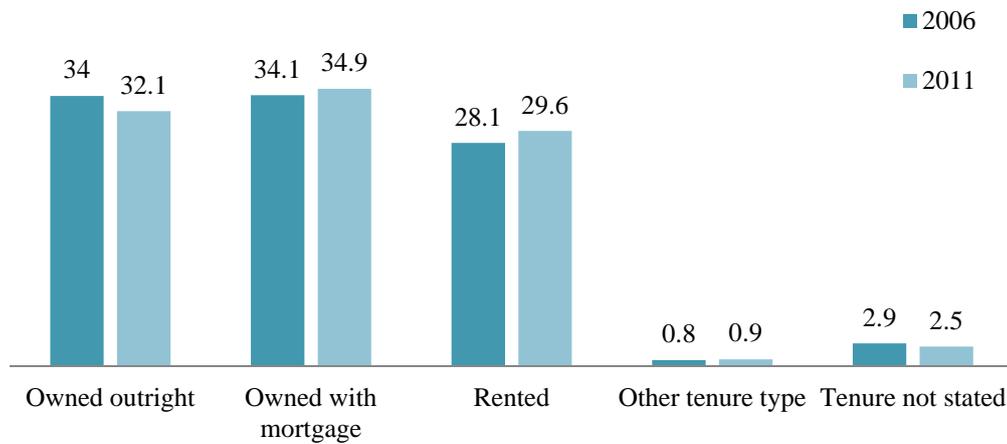
### 2.2 Quantifying the problem

To understand the unaffordability problem, all the literature includes some numeric or quantified demographic data. Largely the data is sourced from the ABS, or is conducted by the institution funding the research. As suggested in chapter one, the representation of housing stress is largely still numeric and not a lot of work has aimed at consolidating housing stress and household wellbeing. Nonetheless, it is likely that for the lowest groups of income earners, financial housing stress will have some impact on their standard of living.

#### *2.2.1 Housing Stress and Tenure types*

According to the latest Australian census data, the largest proportion of households in Australia are owner-occupiers with a mortgage, followed by outright-owners. Closely behind this are households in the private rental sector. Significantly, households in the rental sector increased by 1.5% between census years, while mortgage-paying households increased by only 0.8%, and households who owned-outright decreased by 1.9% (see table 2 below).

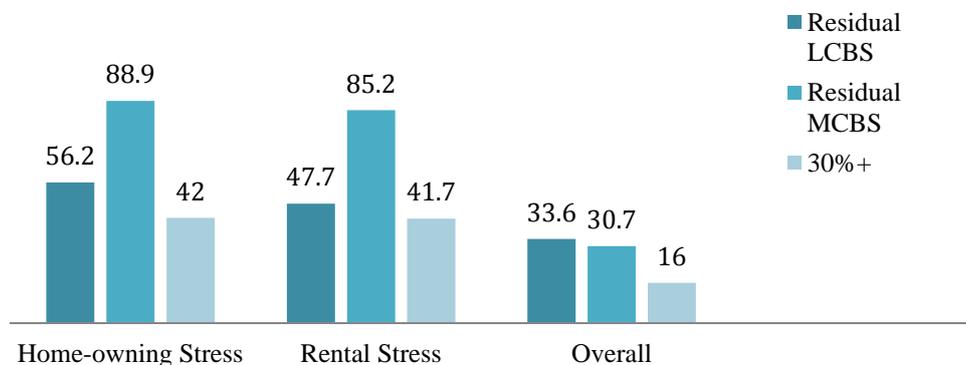
**Figure 1: Australian Households by Tenure Type: 2006 and 2011**



Data source: ABS 2006 and 2011 censuses. Available at:  
[http://www.censusdata.abs.gov.au/census\\_services/getproduct/census/2011/quickstat/0](http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/0)

The methods of measuring affordability as discussed in chapter 1 provide the means by which to gauge housing stress from a quantitative perspective. As table 3 illustrates, the residual method, in all areas, suggests that the ratio method may underestimate housing stress where it does not consider a great deal of variation in household composition or living costs. However, in both the residual and ratio cases, housing stress is divided almost evenly between tenure type:

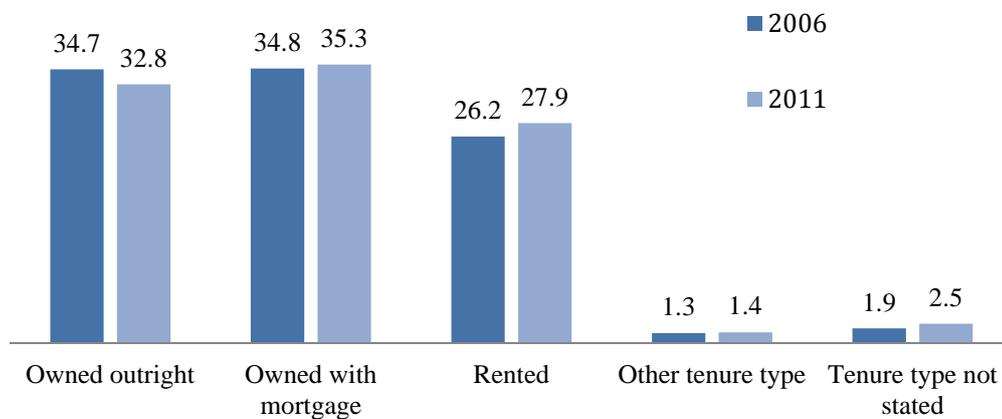
**Figure 2: 2010-2011 Housing Stress by Tenure Type: Lowest 40% Income Bracket (Adapted from Table 1, above)**



### 2.2.2 Localizing the Problem: South Australia

With a population of 1,596,572 people and 619,041 households, South Australia accounts for, respectively, 7.42% and 7.977% of the national population. In terms of tenure type, South Australian data corresponds roughly to national dispersal. However, there is a greater gap between the number of homeowners and the number of renting households.

**Figure 3: South Australian Households by Tenure Type: 2006 and 2011**



Data source: ABS 2006 and 2011 censuses. Available at: [http://www.censusdata.abs.gov.au/census\\_services/getproduct/census/2011/quickstat/4](http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/4)

Housing stress in SA, according to the COAG 2010-2011 performance report, fares significantly lower than the national average levels and especially in comparison to the eastern states, where housing stress levels are most severe. However, local research shows that less than 2% of available accommodation is both affordable and of an appropriate living standard for most low-income households (Anglicare 2012, p.44). Another survey reveals that 36% of Commonwealth Rent Assistance (CRA) recipients in SA are in housing stress (Toohey 2012), suggesting that, while less severe on a national scale, SA's housing stress status is still in need of attention.

### 2.2.3 Quantifying via input: Specialist Service Usage

Another gauge used to determine levels of National and state housing stress is the tracking of assistance program usage. This is a particularly effective measure, as it is able to identify things like homelessness and households in crisis, for which ABS data

and affordability trackers are unable to account. It complements, or compensates for the binary measure because it accounts for those without housing at all, as well as providing a qualitative perspective, asking what, outside of financial stability, the housing stressed seek. For example, the Australian Institute of Health and Welfare (AIHW) Specialist Homelessness Services Collection report estimates that 98,742 clients were assisted by specialist homelessness agencies in the 2011 December quarter<sup>4</sup>. The report provides statistics about the type of people seeking services: 59% were female and 41% male; 48% of clients were aged under 25; 21% of clients were Aboriginal and Torres Strait Islander people. It provides the types of services clients sought, short-term or emergency accommodation being the most common. The report also, significantly, provides the reasons for seeking assistance and details how the clients' circumstances changed with support, providing a qualitative perspective on cases of severe housing stress.

### *Is Australia Housing Stressed?*

But what does this data mean? *Does* Australia have an unaffordability problem? The one broad consensus emerging from the reviewed literature suggests that yes; Australia does have an affordability problem, no matter the different methods used to reach this conclusion. Even South Australia, which according to national comparison is in a better condition than the Eastern states, still has an affordability problem. Until every person, especially those in the lower income bracket can be afforded their UN right to adequate housing, the area will have an affordability problem.

## **2.3 Drivers of the Problem**

There is no consensus in the literature that points to a single driving force behind Australia's housing unaffordability problem. Instead, it is agreed, and implied by the amount of literature produced on locating potential drivers, that the problem is a result of a number of factors. The Australians for Affordable Housing (AAH) write: "There is no single cause of Australia's housing affordability crisis. Rather, it is the result of a range of problems in the home ownership, private rental and public housing markets, all of which need to be tackled in a comprehensive and coordinated way" (2011, p.3). A more extreme view is taken by Burke et al., who write:

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<sup>4</sup> The AIHW publishes four reports annually, 6 months behind the quarter reported on. These are available at their website: <http://www.aihw.gov.au/homelessness-publications/>

In Australia, we still do not know enough about what drives house prices and rents, about the decision-making of market actors (consumers, builders, investors) and how they might respond to changing policy environments. In a context where the external environment for housing users and producers is becoming more complex as a result of demographic growth, sustainability needs, government fiscal constraints and rising consumer expectations, this lack of understanding of market dynamics is troubling (2011, p.6).

The assumption is that there is a collective eclipse in understanding of the housing market's internal mechanisms. There is, however, a large amount of critical attention devoted to understanding the very characteristics of the *external* housing environment that Burke et al list. In this review, two areas in particular emerged above the rest in terms of the literature dedicated towards them: demographic growth dynamics and the consequent need for land planning reform; and, though not mentioned above, the financial climate, which consists of an uneven rise in house prices and income and a tax environment that encourages investors rather than owner-occupiers to buy or develop housing.<sup>5</sup>

### *2.3.1 Supply Deficiency*

The above issues fall into the wider problem of a national supply deficiency in relation to an increasing demand for affordable and adequate housing. Andrew Worthington explains how supply and demand are deeply entrenched within the affordability system:

The demand for and supply of housing determine housing prices, while interest rates and household incomes not only determine housing affordability directly, but also via their influence on housing demand. Myriad macro factors then affect both the demand and supply of housing, household incomes and interest rates. (2012, p.238).

The slump in supply stock and an increase and diversification of demand that has occurred in Australia over the past decades have led to rising house prices, and,

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<sup>5</sup> Other issues not covered in the scope of this review include, but are not limited to the implications of social changes; the economic impact on employment and personal income; the variation of supply and demand across location (states and suburbs) over time; tenure and environmental sustainability concerns; living costs related to accommodation, including transport and council rates; and the concurrent need for development of affordable housing and self-reliant communities.

working through the cycle, decreasing affordability levels. To illustrate the problem on the supply side, the National Housing Supply Council (NHSC) offers an annual dwelling gap, which for 2011 was estimated at 228,000 houses – an increase from the 2010 estimate of approximately 200,000, and an extreme ten-year increase from only 21,000. The literature points to supply as a main driver of unaffordability largely where it is included at the top of strategic plans for improving state and national housing affordability,<sup>6</sup> suggesting that it *is* a recognised issue; however, the perpetual supply slump also points to an inefficient system of planning and development response.

### *2.3.2 Planning Systems*

The inflexibility of supply response to demand suggests larger problems within the system that controls supply: planning, development and construction. Much of the literature suggests that land use planning systems play a critical and central role in meeting a quota of new and affordable housing stock (see: HSAR 2010; Hulse et al 2012; Goodman et al 2010; Gurran et al 2008; Lawson et al 2012 Williams and Macken 2012). Thus, when the planning system of a particular area is inefficient or public policy restrictive, undersupply is often a result. The NHSC's dwelling gap, which indicates this very result, would then also seem to suggest that there are problems within Australian planning systems.

Some of the issues the literature highlights with respect to this include the drawn-out development and approval processes, on state and local government levels, that slow the increase of supply and discourage developers from creating new, affordable dwellings; the consequent high costs of these processes for developers and home owners; policies that stipulate the containment of urban growth areas. Further, while there is a great diversion of demand for rental properties (as evident in table 2, above and in table 5, below), few multi-unit or high-density infrastructure developments are designed specifically for private rental tenancies (Hulse et al. 2012, p.23).

The issues with planning, construction and overall supply deficiencies are significant in that they are a result of weaknesses on multiple levels of government – council and

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<sup>6</sup> Examples of strategies and plans that include supply or land use reform as a priority include the SA Strategic Plan; the AAH 4-point Plan, the McKell Institute Plan, the SCHAA Report, Shelter SA's Strategic Plan 2012-2014, and the NAHA

local, state, and federal. Council regulations, state zoning and land use policy, and federal funding and tax conditions all effect the lack of supply increase in some way, presenting a negative interaction between these public bodies, rather than one that delivers positive outcomes.

The widespread problems within the planning and construction system do not, however, contribute solely to the greater affordability problem. The Housing Supply and Affordability Reform (HSAR) report provides commentary on the fact that, while greater supply efficiency would go some way to lowering house prices, this may not totally undo the unaffordability problem:

Other structural and cyclical factors — such as population growth and interest and unemployment rates — also play a major role in determining the level and growth of house prices and rents... The issue of (un)affordable home ownership may be largely confined to a lack of means for some segments of the population to purchase or rent a dwelling, rather than a physical lack of supply of dwellings (HSAR 2010, p.3).

This comment points to the fact that the crux of the apparent undersupply or national dwelling gap is not simply a lack of new properties, but also an underuse of available dwellings. As an illustration, the ABS reports that 934,471 (10.7%) Australian dwellings were unoccupied at the 2011 census; this figure is an increase from 2006, where 830,376, or 10.4% of dwellings were unoccupied.

### *2.3.3 Demand Dynamics*

The dynamics of demand for housing in general are characterised by natural population increase, immigration, international student populations and the increasing rate of new household formation (through the rise of single-person or elderly households, or through household break-ups) (Hulse et al. 2012, p.7). The demand for more *affordable* housing is, in a large sense, due to the imbalanced increase in average house prices and incomes which affect this population increase. In the past ten years, for instance, house prices have increased on average by 147%, where incomes have increased by only 57% (*Broken Housing System Report 2012*). Although affordability is judged as a relationship between income and housing cost,

these two variables are not set by one another – that is, income dynamics do not adjust those of the housing and rental markets.

The lack of available, affordable homes and the gradual privatisation of public housing stock have meant that housing demand for lower-to-middle income groups has been diverted into the private rental sector. This is revealed in the slow decrease of outright owners and mortgage payers as revealed by census data (see figure 1), and in neoliberal policies that reduce public housing stock so as to move tenants into the free market (Wiesel et al. 2011 p.26). However, this has also meant that the rental sector has become increasingly supply-deficient in terms of providing affordable options for those unable to purchase or ineligible for public housing accommodation. For example, the 1996 surplus of 26,000 affordable private rental dwellings transformed into a shortage of 71,000 in only ten years (Wulff et al. 2011 p.12). The rental supply problem is heightened by the gradual entry into the private rental sector by higher-income households who, because of the under-supply, are unable to enter ownership (*ibid.* p.26); or because of a favourable tax environment and the investment incentive of negative gearing, which has led to a widening of investment rather than a deepening (Hulse et al. 2012, p.29). More investors are purchasing single rental properties, wherein the potential for sustainable capital gain is lowered, and thus rental rates are pushed up. The essential consequence of this is that while private rental ideally offers a more affordable alternative to home-purchase, or a more sustainable alternative to social housing, the role of the sector as an investment opportunity destabilises both these: affordability and sustainability. Supply therefore slumps in all three tenure areas.

**Recommendation 3: Consider the factors that influence change on both the demand and supply side of affordable housing; supply and demand do not mutually or exclusively inform one another and supply not only needs to increase, but diversify along with the dynamics of housing and affordability needs.**

**Recommendation 4: Look into land-planning best-practice models to close the dwelling gap and balance supply with demand.**

**Recommendation 5: Research other drivers of the issue not included in the scope of this review; affordability and housing stress are driven by a myriad of factors, and require the same scale of response.**

### 3. Policy Context

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In 2008, the Rudd-Labor government commissioned the National Affordable Housing Agreement (NAHA), which, effective as of January 2009, has pledged a financial commitment of \$6.1 billion to the development of national and state policies and schemes to improve overall housing affordability, and addressing the areas where housing stress affects the most severe impact: social housing; private rental accommodation; homelessness; and first-home buying. In South Australia, the State Housing Strategy published its Green Paper in 2011, which sets out a 30-year plan for improving and maintaining an adequate affordability standard for the state.

The stipulations of these agreements have had a significant impact on the shape of current policy context, nationally and in South Australia. This section of the review will outline this policy context and address whether policy attention adequately reflects the conditions of affordability as outlined in chapter 2, and whether the literature has any impact on focussing this policy attention, or vice versa.

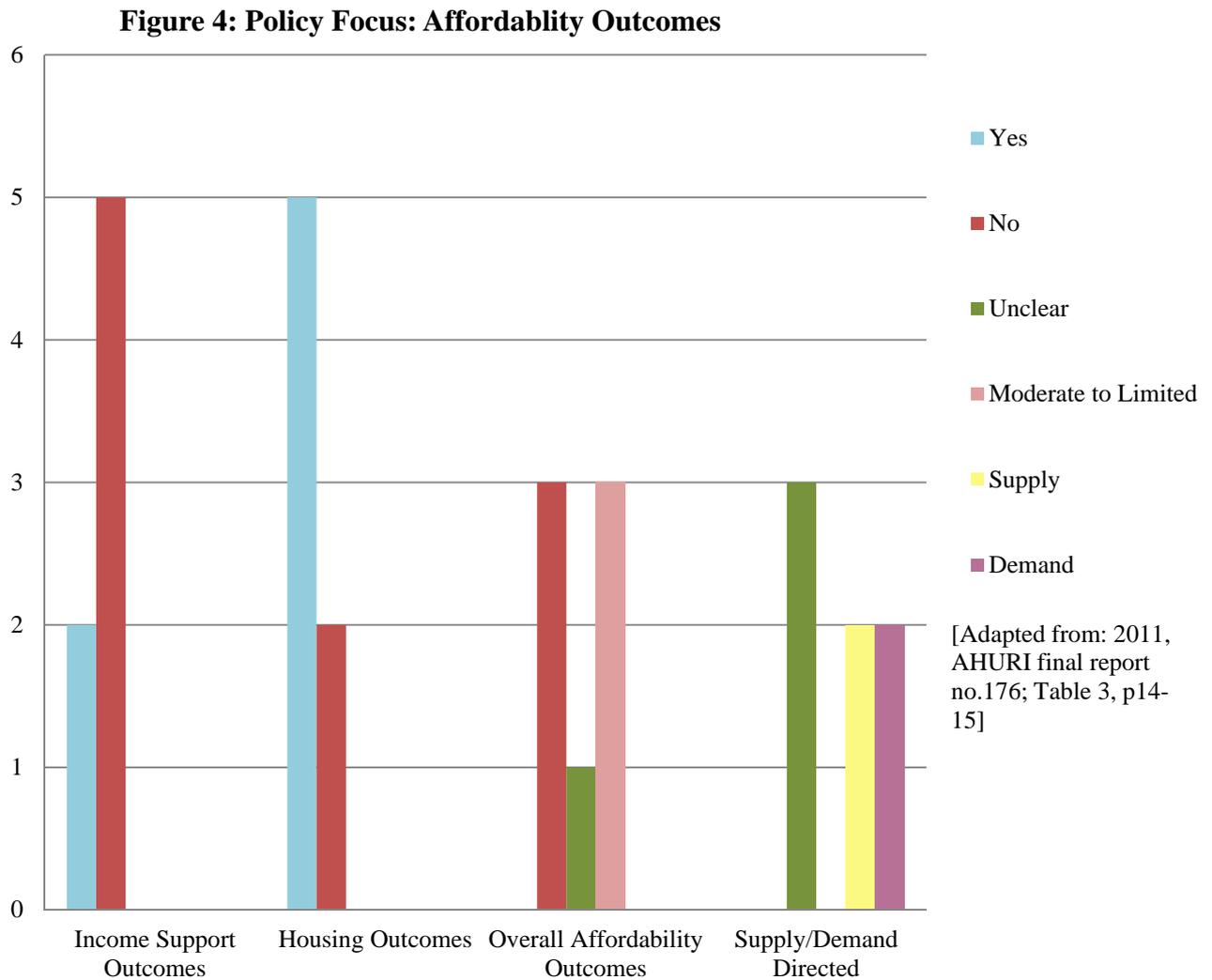
#### 3.1 Policy Instruments

Public housing policy is principally divided according to tenure type, and varying rates of policy attention are given according to the differing conditions of these. For instance, in the financial year 2010-2011, the greatest amount of governmental, monetary commitment was given to rental assistance, at approximately \$3.5 billion (inclusive of a number of programs). On the other end of the scale, a comparatively meagre approximation of \$8.1 million was allotted to home purchase and mortgage assistance (see table 2 below). Some prominent national and South Australian schemes developed under the NAHA are detailed below:

**Table 2: Major National and South Australian Policy Instruments**

<b>Program or Instrument</b>	<b>Focus</b>	<b>Funding Details</b>
Housing Affordability Fund	National: Increasing supply of private, affordable housing stock	Approximately \$500 million over 5 years
National Rental Affordability Scheme (NRAS)	National: Increasing supply of high density infrastructure purpose-built for affordable rental tenure	Initial pledge of \$4.3 billion paid in various subsidies and tax offsets to developers who offer rent at no more than 80% of the market rate
Commonwealth Rent Assistance (CRA)	National: Subsidising high rents for low-to-middle income earners	\$3.1 billion was distributed in 2010-2011 as rental subsidies
The Social Housing Initiative	National: Stimulating the construction of new social dwellings and maintaining existing stock	\$5.638 billion So far, South Australia has received \$29.98million in repairs and maintenance, and \$404,263,000 for new house planning and construction
“A Place to Call Home”	National: increasing the supply of housing available to homeless and at-risk households	\$150 million federal funding with additional contributions from state and territories
First Home Owner’s Grant	SA: Encouraging entry into home-owning through grants and subsidies	\$15,000 grant paid towards the purchase of a new home; \$5,000 grants paid towards the purchase of an established home – both with property value at \$575,000
Affordable Homes Program	SA: Encourages home ownership in households earning up to \$72,907	Houses offered at around \$250,000 to eligible households
Housing Construction Grant	SA: Increasing construction and purchase of new houses	\$8500 grants paid to purchasers to buy newly-built homes

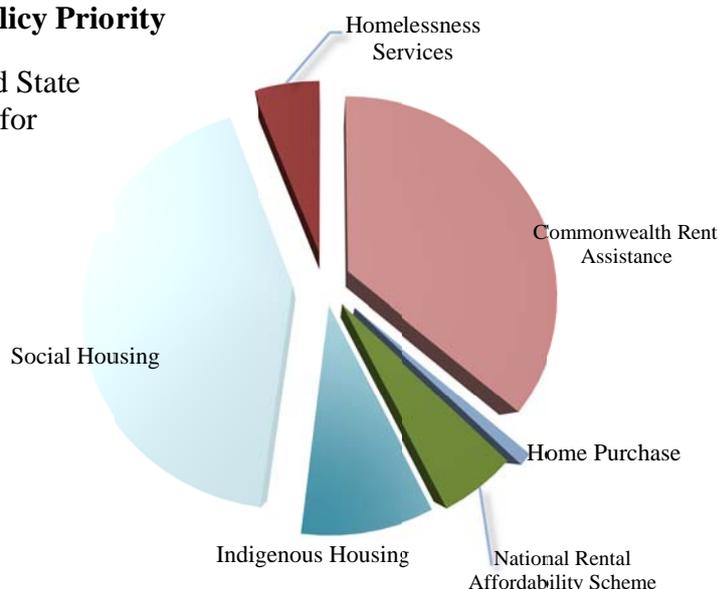
Burke et al. (2011) arrange a number of these national housing-related policy instruments according to whether they are directed towards the supply or demand side of the issue, pursue explicit housing outcomes or income support outcomes, and provide overall affordability outcomes. Their analysis is graphed below:



Another way to arrange the policy focus is in terms of government financial commitment. The below chart arranges policy by type and by the funding these areas received in the financial year 2010-2011<sup>7</sup>:

**Figure 5: Financial Policy Priority**

[Reported Federal and State Funding Distribution for Housing Assistance 2010-1011]



Data adapted from: ABS and the AGPC 2012 Report on Government Services

### 3.2 Policy vs. the literature

Whether or not policy attention and funding allocation reflects affordability realities is an issue that some of the literature addresses, as well as a question that this review of both policy documents and policy appraisal raises.

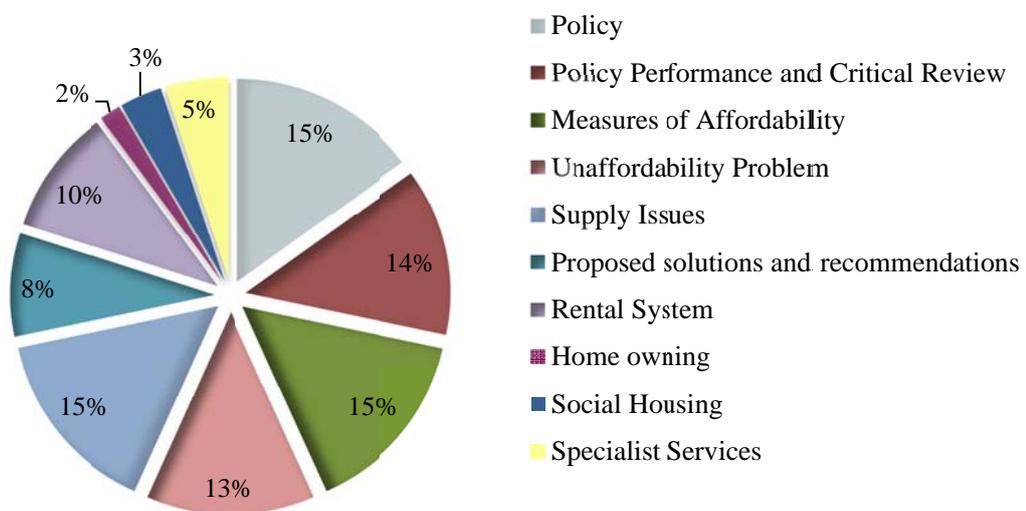
Burke et al. (2011) suggest that policy reforms are largely initiated by escalating interest rates, rents and house prices. The same report notes, however, that literature is not generally an influential factor on policy adjustment, and that, in fact, as the

<sup>7</sup> This data represents only what is publically available, and is not all-inclusive in terms of how state governments are spending their NAHA funding allowances. As Sarah Toohey of the AAH suggests: “We don’t know enough about what states are doing with funding under the National Affordable Housing Agreement to actually solve this problem” (29 June 2012, < <http://housingstressed.org.au/2012/06/29/housing-affordability-falls-further-coag-report-shows-australian-governments-fail-housing-reforms/>>)

quantity of research and analyst-based affordability literature increases and becomes more dynamic, policy reform tends to stay stagnant: “the more [reports and studies] there appear to be, the less that happens” (Burke et al. 2011, p.6).

This observation seems supported by the fact that in this limited literature review, policy and related documents only make up a small proportion of the total literature produced within the temporal scope of this review. Moreover, the amount of literature that is produced seems to address a variety of issues, rather than the issue of affordability in broad or singular terms. Table 7 represents the division of focus within the literature reviewed. While policy and associated documents represent 15% of the review, the remaining 85% is constituted by journal and institutional research on a wide but relatively evenly spread range of issues that affect a specific area of the broader affordability problem.

**Figure 6: Foci of the Literature** (read for this review)



### 3.2.1 The possibility of research-policy linkages

There is a wide amount of literature, outside of the affordability scope, on the relationship between research and policy-making, and the idea that social science and

related disciplinary research should be used as a base for policy development has been around for a number of decades. However, while it might be an ideal model of practice, frustration is experienced on both sides when the process is attempted and researchers and policy-makers each perceive a lack of understanding in the other: the complexity and compromises involved in policy development stifle researchers, while policy-makers perceive research as ill-communicated for policy relevance (Jones and Seelig 2004, p.23). Jones and Seelig offer a broad model for developing a better system of communication between researchers and policy-makers:

We need to continuously clarify our aspirations and expectations, understand the nature of research-policy relations, seek to develop structures and processes that reflect our understandings and goals, and engage in a process of continuous improvement of our practices that seek to link research and policy in tangible and practical ways (*ibid* p.38).

Conceptually, it might be said that the absence of this model is where the research-policy opposition within affordability literature originates; there is a system of misunderstanding between the two areas of the literature in terms of aims and expectations. This has led to a number of instances where the research recommendations and critical perspectives fail to consider policy practicalities, or, on the other hand, policy assumes a position that seems idealistic next to the realities that research reveals. These instances are outlined in section 3.2.2.

### *3.2.2 Out-dated Idealising and Research Realities*

Critical opinion on the NAHA points to the essential inefficiency of the agreement in terms of affordability outcomes and developing an integrated governmental approach, opinion that is warranted by the results of the COAG 2011 report, which suggest a worsening rather than an improvement of affordability. National Shelter recommends, for instance unifying CRA with the NAHA to provide more efficient funding and greater flexibility in delivering housing assistance (Richardson 2012, pp.3-5). Meanwhile, the AAH suggest a complete overhaul, suggesting that the states and territories re-negotiate the agreement before affordability continues the trajectory of decline recorded in the COAG report (Toohey 2012b). Outcomes seem to suggest that the NAHA and the policies in place under it are largely out-of-touch with housing conditions, choices and realities for many, and particularly low-income Australians.

### *Home Ownership*

The SCHAA report and other literature refer to home ownership as a major aspiration for most Australians, regardless of income. They suggest that it holds “a special place in the Australian psyche,” (2008 p.15) providing social and long-term financial benefits that shorter-term accommodations, like private rental, do not. However this ideology seems destabilised by what Hulse et al. (2012) view as the changes in attitudes towards renting, as well as by the gradual diversion of tenure population from ownership into the rental sector (table 2). Flood and Baker (2010) suggest that home owning, as an increasingly implausible financial goal, has also become less prominent as an ideological aspiration, especially in mindset of newer generations. They cite the fact that home ownership among 25-44 year-olds has decreased in the past 20 years by 15% (p.3). On a similar point, the ABS (2009) notes that 23% of 24 and 35 year-olds live with their parents, and that 31% leave but return later because of the financial restrictions that the housing market presents to young or first homebuyers (p.25). This generational descent is supported by Shelter’s consumer consultation, where home ownership was not mentioned at all on the housing “timelines,” while middle-aged participants had abandoned the pursuit (Clark 2011, p.24).

### *The Rental Sector*

Hulse et al (2012) suggest that policy concerning the rental sector is characterised by a “dual paradox” (p.6); they say that while some policy settings have responded and adapted to the changing character of the private rental sector, others have made only minor adjustments (if any at all), ultimately effecting a disjuncture between the roles that the sector and its policy setting play. They highlight that the policy setting has not responded adequately to the changing character of the rental sector, which is no longer solely a transitional space for households working towards home ownership, but, increasingly, a place of stability for former social housing tenants who are not provided sufficient or long-term housing, the only viably affordable option for low and middle-income earners, and as an investment opportunity against favourable tax and profit-driven outcomes. In this context, Rental Assistance, which receives a large amount of federal financial attention, is currently ineffective, since competition from investors and higher income households has caused an increase in average rental

prices. This is supported, in a South Australian context particularly, by the fact that more than 30,000 households receiving CRA still find themselves in housing stress (Toohey 2012). On the other hand, or on the supply-directed side of policy, the NRAS is viewed more optimistically where it is “stimulating a supply response, which...is directed at achieving key outcomes in terms of eligible households, submarket rents, design and locational criteria, and new supply” (Hulse et al. 2012, p.22). Despite this, the COAG 2011 report indicated that rental affordability worsened, while home owning and purchase affordability stayed the same, a statistical circumstance that seems to support the overwhelming response from affordability literature that public policy is largely out-of-touch with certain housing realities.

**Recommendation 6: Locate and understand policy goals and develop more clarity around why policy responds to some things where it doesn't others.**

**Recommendation 7: Update policy to better correspond with the current state and the changing perspectives on housing and housing goals in the contemporary Australian context.**

**Recommendation 8: Develop models by which social researchers and policy-makers can be in better conversation to develop evidence-based policy and policy instruments.**

**Recommendation 9: Conduct further reading on the issues mentioned in this review to get a better and more informed perspective on what experts are saying about affordable housing.**

## Conclusion

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This limited literature review presents a cohesive effort to bring together what academic and political voices of affordability have said and are saying about the Australian housing condition. The results, while covering only a limited scope in relation to the available literature stock, give rise to a number of issues both in terms of housing affordability itself, and about how the literature functions within and affects the affordability context.

Housing affordability is an issue that, while defined largely in financial terms, extends outside of numerical constraints in its influence on people and their lived experience. It is an issue that in essence concerns people's livelihoods, but is handled by researchers and policy-makers in largely theoretical and quantitative ways. There is a fundamental disconnect here, which is in some ways based in practicality; every person living in Australia has the right to housing and is therefore affected by the conditions of the housing market, but because it is so widespread, it is difficult to account for every household's qualitative experience of their own affordability situation. The residual method in some way works towards amending this disjuncture, and the debate concerning the very way affordable housing is measured is an encouraging sign of revision and update as it presents a reworking of the word from its very conceptual and definitional foundations. Similarly, where there is an increasing acknowledgment of the communicative flaws between affordability researchers and policy-developers, there is also a sign of process towards greater integration of and interaction between the two.

The limited scope of this review requires that further reading and research be conducted; however, the review and its findings will be adaptable as an informative aid and evidence base for the development of future policy positions on housing affordability. It can also be updated as changes occur in trends of housing supply and demand, consumption choices and policy action, since, if this review can reach any single conclusion, it is that the conditions of housing affordability—the various drivers and influences—are extremely widespread, diverse, and dynamic, and require constant survey and analysis to gauge an adequate understanding of the issue and make progress towards solution.

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## APPENDIX 1: List of Recommendations

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**Recommendation 1:** Researchers and policy makers should conduct more testing of the residual method on a wider range of population samples so as to integrate it as a new, if alternate, standard.

**Recommendation 2:** More research of the qualitative dimensions of affordability is needed so that a qualitative, or ‘wellbeing’ measure might be incorporated into affordability assessments.

**Recommendation 3:** Consider the factors that influence change on both the demand and supply side of affordable housing; supply and demand do not mutually or exclusively inform one another and supply not only needs to increase, but diversify along with the dynamics of housing and affordability needs.

**Recommendation 4:** Look into land-planning best-practice models to close the dwelling gap and balance supply with demand.

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**Recommendation 7:** Update policy to better correspond with the current state and the changing perspectives on housing and housing goals in the contemporary Australian context.

**Recommendation 8:** Develop models by which social researchers and policy-makers can be in better conversation to develop evidence-based policy and policy instruments.

**Recommendation 9:** Conduct further reading on the issues mentioned in this review to get a better and more informed perspective on what experts are saying about affordable housing.