Part I

The first part of this report assesses the current state of the housing market in Australia and outlines the negative social and economic implications of declining housing affordability. It looks at the underlying reasons for this decline, and considers the need for a coordinated intergovernmental effort to address the issue and the role of the Commonwealth therein.

The committee also focuses on falling home ownership rates, and the implications of this trend for individual households and the community as a whole. It considers how policy settings at various levels of government, including taxation settings, influence house prices, and potential steps that might be taken to bring the 'Australian dream' of home ownership back within reach of those who aspire to it.

Chapter 2

Overview of housing affordability in Australia

2.1 Defining concepts as complex as 'housing affordability' and 'affordable housing' can be problematic. What constitutes affordable housing for a particular household, and how pressing a concern housing affordability is for that household, will depend on a number of factors. These include a household's financial situation, the housing market it is in, and where it sits on the housing continuum—that is, whether the household is currently renting or seeking to rent a property, looking to purchase a home, or working to repay a mortgage.

2.2 While no single measure can capture the diversity of Australian experiences of housing affordability, this chapter demonstrates that most indicators point toward a deterioration of affordability in recent decades. This decline is keenly felt by a broad array of people, including people wanting to become homeowners, renters and people living in community and public housing. Homelessness, meanwhile, is a tremendously complex problem, and it would be reductive to suggest it is simply a corollary of housing affordability and nothing more besides. Nonetheless, this chapter suggests that poor housing affordability creates pressures throughout the housing system, and this is clearly a key factor in the poor housing outcomes of people experiencing or at risk of experiencing homelessness.

2.3 The deleterious effects of poor housing affordability are manifold. As explained in this chapter, the inability to afford access to safe, secure and appropriate housing puts people at higher risk of experiencing poor outcomes across the course of their life. Moreover, poor housing affordability damages economic productivity and increases risks to the stability of the financial system.

2.4 The remainder of this chapter considers what is meant by 'housing affordability' and 'affordable housing', assesses whether Australia has a housing affordability problem, and highlights the social and economic implications of poor housing affordability.

Defining and measuring housing affordability

2.5 'Housing affordability' and 'affordable housing' are contested terms, in part reflecting the complexity of the housing market and the diverse experiences of people in accessing and maintaining housing.[1] As the Department of Social Services (DSS) put it in its submission, the housing market:

> …is complex, with many stakeholders, and as such it is problematic to talk about 'housing affordability' or 'affordable housing' in aggregate terms. Affordability instead should be examined on the basis of 'repayment', 'purchase' and 'rental' affordability.[2]

2.6 DSS further explained that the housing market consists of three broad categories of households: those able to afford housing through private ownership; those able to access the private rental market; and those who cannot access the private rental market without government assistance, or who require assistance through public housing or crisis accommodation.[3]

2.7 DSS told the committee that 'housing affordability' meant different things to different people, in part depending on which household category they found themselves in at a given time. Complicating matters further, DSS suggested that policies and programs designed to improve one dimension of housing affordability or improve affordability for a particular cohort of people 'may actually have adverse impacts for other cohorts or for other dimensions of housing affordability':

> For some, their primary concern is rental affordability. For others, it is house purchase or home purchase affordability. For others, it is loan payment affordability. There is no single index or measure that captures the complexity of housing affordability. Further, as some types of affordability improve, others can deteriorate. For example, when interest rates fall, loan repayment affordability and borrowing capacity improve. Conversely, with falling interest rates, house prices typically rise and home purchase affordability declines, obviously.[4]

2.8 The Housing Industry Association (HIA) made a similar point, telling the committee that while housing affordability was an issue for the entire community, it:

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1 In its submission, the Department of Social Services (DSS) notes that the term 'affordable housing' is sometimes used to refer to specific types of low cost housing, such as public or community housing. DSS uses the term more broadly in its submission, to refer to 'the ability of all individuals and households to access housing that is appropriate and affordable to them.' Department of Social Services, *Submission 198*, p. 6. This report prefers the broader definition used by DSS, and therefore unless otherwise specified, the term 'affordable housing' herein should not be taken to refer specifically to public or community housing.

2 Department of Social Services, *Submission 198*, p. 3. In setting out these categories, DSS notes that the first two categories include people who do not have acceptable outcomes—for example, owner-occupiers in mortgage stress and private renters experiencing rental stress or living in inappropriate accommodation.

3 Department of Social Services, *Submission 198*, p. 5.

4 Ms Felicity Hand, Deputy Secretary, Disabilities and Housing, Department of Social Services *Proof Committee Hansard*, 30 July 2014, p. 1.

…impacts on different households in different ways. At one end of the spectrum, you have housing affordability relating to what we describe as a relatively unconstrained decision about how much of the household's income is directed to housing costs. At the other end of the spectrum, the housing affordability challenge relates to a household's capacity or eligibility to access any available shelter, irrespective of whether it is suitable or appropriate for their needs. These two situations, in a way, represent the polar ends of what we would describe as Australia's housing continuum. The housing situation of the majority of Australian households falls somewhere in between these polar ends.[5]

2.9 Likewise, the Reserve Bank of Australia (RBA) noted that there are a number of things people might have in mind when they use the term 'affordability':

Affordability measures will differ depending upon whether we are talking about owners or renters and also on whether we are interested in some specific market segment, such as first home buyers or low-income households. For owner-occupiers perceptions of affordability will depend on many things, including price, household income, the cost and availability of finance and a whole host of factors affecting the needs and aspirations of the buyer.[6]

2.10 Part of the problem with assessing housing affordability is the lack of a commonly agreed measure of what it is. As DSS noted, this is in large measure due to the concept of 'affordability' being influenced by a number of complex and interacting factors. These factors, according to DSS, include: the price of housing; the financial capacity of owner-occupiers and renters; the ability of owner-occupiers and investors to access credit, and the cost of that credit; and the supply of suitable housing stock and rental accommodation.[7] Associate Professor Judith Yates from the University of Sydney suggested that the complexity of housing policy was itself partly due to the difficulty in defining precisely what is and is not affordable housing. There are, she wrote:

…no clear-cut definitions on what we should be expected to pay for housing; there are no clear-cut standards about how much housing is appropriate for each of us and at what point we should be able to have the right to live independently; there are no clear-cut definitions of where this housing should be located; and there are no clear-cut definitions of how much households should pay for, for example, transport costs to get from where they live to where they work.[8]

5 Dr Harley Dale, Chief Economist, Housing Industry Association, *Proof Committee Hansard*, 30 July 2014, p. 43.

6 Dr Malcolm Edey, Assistant Governor, Financial System, Reserve Bank of Australia, *Proof Committee Hansard*, 2 October 2014, pp. 1–2.

7 Department of Social Services, *Submission 198*, p. 6.

8 Honorary Associate Professor Judith Yates, University of Sydney's Senior Visiting Fellow *Proof Committee Hansard*, 10 November 2014, p. 36.

2.11 The lack of a single agreed measure of housing affordability is well recognised. In its submission, DSS set out some of the key measures that are sometimes used to determine housing affordability:

- the '30 per cent rule'—under this rule, housing is considered to be affordable where it takes up less than 30 per cent of a household's gross income before tax;
- the '30/40' rule—under this rule, housing is considered to be affordable where a household spends less than 30 per cent of its gross income on housing where it has disposable household income in the bottom 40 per cent of the income range;
- comparing house prices to consumer prices—under this approach, house prices are compared to growth in the overall consumer price index (CPI) and where house price growth exceeds CPI growth, housing is considered to be increasingly unaffordable;
- comparing house prices to incomes—broadly, housing is considered to be affordable if it costs less than three times household income;
- a comparison of the extent to which average weekly earnings can repay and service a mortgage for a median-priced dwelling;
- determining the deposit gap—this approach measures the gap between the median dwelling price and average borrowing capacity as a percentage of a household's disposable income (a larger deposit gap reflects relatively more unaffordable housing);
- identifying the amount of residual income of a household—this approach looks at the amount of income a household has after paying its housing costs and whether this is sufficient to maintain the household's standard of living; and
- the effects on home ownership rates—a reduction in home ownership rates indicates a reduction in affordability for potential owner-occupiers.[9]

2.12 Many of these measures were used by witnesses in this inquiry to support their respective arguments. Most commonly, submissions used the median income to median price measure (or variations thereof), and either the '30 per cent rule' or the somewhat more targeted '30/40 rule'.

2.13 For example, AHURI submitted that while definitions of housing affordability vary, from a social policy perspective it could be defined using the abovementioned '30/40 rule'. This definition, it explained, could be applied to:

> …housing that is being purchased or housing that is rented through the private, public or community sectors. The rationale behind this definition of housing affordability is that when households on these modest incomes spend more than 30 per cent of their gross income on housing costs, they

9 Department of Social Services, *Submission 198*, pp. 6–7.

> will have insufficient income left for necessities such as food, clothing, health or schooling.[10]

2.14 For its part, the Urban Development Institute of Australia (UDIA) submitted that 'housing affordability', at its basic most level:

> …refers to the level of income required to attain a reasonably adequate standard of housing. Housing may be considered to be unaffordable if it requires a high proportion of household income (above 30% is a common guideline) or if the level of housing expenditure impacts on the ability of households to meet other basic needs.[11]

2.15 A joint submission from Mr Luc Borrowman, Associate Professor Lionel Frost and Dr Gennadi Kazakevitch from the Department of Economics, Monash University, offered a detailed comparison of ratio measures and residual income measures of housing stress. Ratio measures define affordability as a fraction of income used for housing (commonly 30 per cent). The residual income approach, meanwhile, 'defines the normative level of adequacy for non-shelter items as a monetary amount that is independent of income but very dependent upon household composition and the non-housing cost of living as a function of time and place'. Mr Borrowman, Associate Professor Frost and Dr Kazakevitch argued that ratio measures, which are commonly employed by researchers and policy-makers alike, fail to properly reflect the complexity and variance of housing costs across household types. Nor, they argued, do ratio measures reflect how housing costs interrelate with other household costs. While allowing that residual measures lack the inherent simplicity of ratio measures, the submitters suggested that residual measures better reflect the interface between housing and non-housing expenditure. Further residual measures recognise that 'true affordability is sensitive to differences in household composition and income'.[12] They suggested that the:

> …residual affordability measure is adaptable to different household compositions and grounded in its society standard, and therefore allows for informed decisions on housing policies that specifically target the composition of households that are most vulnerable to housing stress.[13]

2.16 HomeGround Services also noted the limitations of the ratio measures in defining housing affordability, noting that residual measures might better represent what constitutes affordable housing for people on very low incomes. HomeGround argued that:

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10 Australian Housing and Urban Research Institute, *Submission 93*, p. ii.

11 Urban Development Institute of Australia, *Submission 190*, p. 6.

12 Dr Gennadi Kazakevitch, Associate Professor Lionel Frost and Mr Luc Borrowman, *Submission 23*, pp. 4–7.

13 Dr Gennadi Kazakevitch, Associate Professor Lionel Frost and Mr Luc Borrowman, *Submission 23*, p. 2.

> …for people on very low incomes, ratio measures of affordable housing are meaningless. When someone pays 25% of their income in rent and still cannot afford other basic necessities such as food and clothing, the result is extreme poverty. Residual measures of housing affordability at least make allowances for the cost of other necessary purchases in calculating what is affordable.[14]

2.17 Housing researchers from the Swinburne Institute for Social Research also argued that residual income measures should be preferred over ratio measures of affordability. They contended that the 30 per cent of household income ratio, while revealing a sharpening of the affordability problem in recent decades, had no solid normative basis as a measure of housing affordability. By contrast, they argued, a residual income approach:

> …recognises that housing makes the largest claim on after-tax income for most households and therefore that non-housing expenditures are limited by how much income is left after paying for housing. This means that a household has a housing affordability problem if it cannot meet its non-housing needs at some minimum level of adequacy after paying for housing.[15]

2.18 Using a residual income approach, the Swinburne researchers were able to develop what they suggested was a more nuanced picture of the housing affordability problem in Australia. This included a clearer understanding of how housing affordability was experienced by different household types.[16] The researchers emphasised that the question of measurement was not simply a technical or academic one. Rather, if targets are set using a flawed method measurement of what constitutes affordable housing, then a less than optimal policy outcome will follow: 'In other words, measurement matters.'[17]

2.19 Mr Adam Mills from the City of Melbourne told the committee that while the definition of 'affordable housing' as housing costing less than 30 per cent of a low to moderate income household's income was useful as a benchmark for policymakers, in reality the situation was often more complex:

> The reality is that the definition varies for every household. It is dependent on particular life circumstances, such as childcare costs, whether you need to own a car, travel to work et cetera.[18]

14 HomeGround Services, *Submission 70*, p. 5.

15 Institute for Social Research, Swinburne University of Technology, *Submission 86*, p. 2.

16 Institute for Social Research, Swinburne University of Technology, *Submission 86*, pp. 2–3.

17 Institute for Social Research, Swinburne University of Technology, *Submission 86*, p. 4.

18 Mr Adam Mills, Senior Strategic Planner, City of Melbourne, *Proof Committee Hansard*, 9 September 2014, p. 29.

2.20 Hobsons Bay City Council suggested the lack of agreed definitions of 'affordable housing' and 'housing affordability' created confusion in discussions about affordability. The Council noted that it had adopted its own definition of 'affordable housing', namely 'housing that is owned and managed by community organisations, state owned public housing or housing that costs not more than 30% of the income of households on the lowest 40% of the income scale'. The Council recommended that federal and state governments 'develop a universal definition that describes what type of housing and income groups fall within affordable housing'.[19]

2.21 On the relative merits of the various measures of housing affordability, DSS wrote that all measures:

> …have their relative strengths and weaknesses. However, it should be noted that most standard measures of affordability show an improvement when household income is growing faster than house prices, or when interest rates fall and increase the borrowing capacity of households. It should also be noted that applying some of these measures to total populations including, for example, home owners that have already paid off their homes, can limit the usefulness of particular measures, and that the methodology used to calculate house prices and household income can have a significant impact on measurement of affordability.
>
> Given the different characteristics of owner-occupiers, potential purchasers and renters, a generic measure of housing affordability that seeks to measure affordability across all three types of household is unrealistic.[20]

2.22 The RBA also pointed out that that while it was necessary to make use of summary measures in any analysis of housing affordability, it should nonetheless be acknowledged that such measures 'will inevitably gloss over the diversity of experience across different types of households'.[21]

Committee view

2.23 How housing affordability is measured matters. As Mr Borrowman, Associate Professor Frost and Dr Kazakevitch observed, measures of affordability inform policy design and targeting, including the provision of housing subsidies.[22]

2.24 Notwithstanding the importance of identifying and utilising robust measures of housing affordability, the committee also notes that the many different measures currently in use do not always tell the same story or point in the same direction. The committee does not believe it is in a position to assess which of these measures is the

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19 Hobsons Bay City Council, *Submission 39*, p. 4.

20 Department of Social Services, *Submission 198*, pp. 6–7.

21 Dr Malcolm Edey, Assistant Governor, Financial System, Reserve Bank of Australia, *Proof Committee Hansard*, 2 October 2014, pp. 1–2.

22 Dr Gennadi Kazakevitch, Associate Professor Lionel Frost and Mr Luc Borrowman, *Submission 23*, pp. 4–5.

'best'. Indeed, on the basis of evidence received, it believes it highly unlikely that a single 'best' measure of housing affordability exists, or that it would necessarily be productive for governments to agree official measures of affordability. At the same time, as discussed further below, it is plainly evident that, taken in aggregate, these indicators show that home ownership is becoming less and less affordable and rental affordability is trending in the wrong direction.

2.25 The distinction used by DSS between 'purchase', 'rental' and 'repayment' affordability appears to the committee a useful one—as such, this distinction is used throughout this report. Similarly, the committee notes DSS's point that housing affordability will vary across household types, which can be separated into three broad categories: those able to afford housing through private ownership, those able to access the private rental market, and those who cannot access the private rental market without government assistance or who require assistance through public housing or crisis accommodation. This report considers the experience of all three household types.

Does Australia have a housing affordability problem?

2.26 It is important to maintain a sense of perspective when considering housing in Australia. While it is certainly the case that the Australian 'housing system' is failing some people, for the most part, as Mr Saul Eslake pointed out, Australians are:

> …well housed—at least in a physical sense. Although it hasn't always been the case, and it isn't the case for all Australians today (not least for Indigenous people), most of us live in houses or apartments that are well-constructed, amply fitted with various devices that make the accomplishment of household tasks easier than it was in our great-grandparents' day, and replete with other appurtenances and chattels that in some way or other provide us with enjoyment or add meaning to our lives.[23]

2.27 However, after discussing the declining rates of home ownership in Australia, which he explained as at least in part a consequence of declining affordability, Mr Eslake added:

> Although most Australians are, as I noted at the beginning, *physically* well housed, it can no longer be said that we are, in general, *affordably* housed; nor can it be said that the 'housing system' is meeting the needs and aspirations of as large a proportion of Australians as it did a quarter of a century ago. And in making that assertion I am thinking of the extent to which the housing system meets the needs and aspirations of those who don't want, or can't and won't ever be able to, become home-owners, as well as of those who do seek that status.[24]

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23 Mr Saul Eslake, *Submission 2*, p. 2.

24 Mr Saul Eslake, *Submission 2*, p. 7.

2.28 An overwhelming majority of witnesses agreed with Mr Eslake's contention that housing affordability in Australia had deteriorated in recent decades and was continuing to trend in the wrong direction. For example, it its submission AHURI noted that the 2011 Census of Population and Housing revealed the number of households paying more than 30 per cent of their income to buy a home had risen by 17.8 per cent since 2006.[25]

2.29 The City Futures Research Centre (CFRC) submitted that Australia's housing markets are among the most expensive in the world, and housing affordability had become an entrenched structural problem. It argued that the problem could not be addressed simply through lower interest rates or cash subsidies, and would likely further deteriorate on current trends in supply and demand (as discussed in the next chapter):

> House prices have continued to outpace household incomes and low to moderate income households face fewer affordable housing options. There is no sign that housing markets operating under current policy settings will offer more affordable housing.[26]

2.30 Similarly, the UDIA pointed to a troubling set of indicators in relation to housing affordability, including a worsening median household income to median house price ratio. It added:

> Worsening affordability is also reflected in falling rates of home ownership, with fewer households owning their homes outright, and an increasing proportion of households forced to rent. This trend is particularly stark when considered in light Australia's aging population, which other things [being] equal should result in a growing proportion of households with outright ownership.[27]

2.31 Master Builders Australia (MBA) presented the committee with the findings of a detailed study it had conducted on housing affordability in 2012. The study revealed that whereas housing in all states except for New South Wales was in the 'affordable' range in 2001 (as measured using the median household income to median house price ratio), by 2011 none of the states qualified as 'affordable' and four were rated 'severely affordable' (see Figure 1).[28]

2.32 United Voice highlighted the 'dramatic divergence' between wage growth and the cost of housing in the past 15 years. It noted that:

> …while the cost of housing had until 2001 risen in proportion to income growth, since 2001 the boom in housing prices has vastly outstripped growth in household incomes. NATSEM [National Centre for Social and

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25 Australian Housing and Urban Research Institute, *Submission 93*, p. 4.

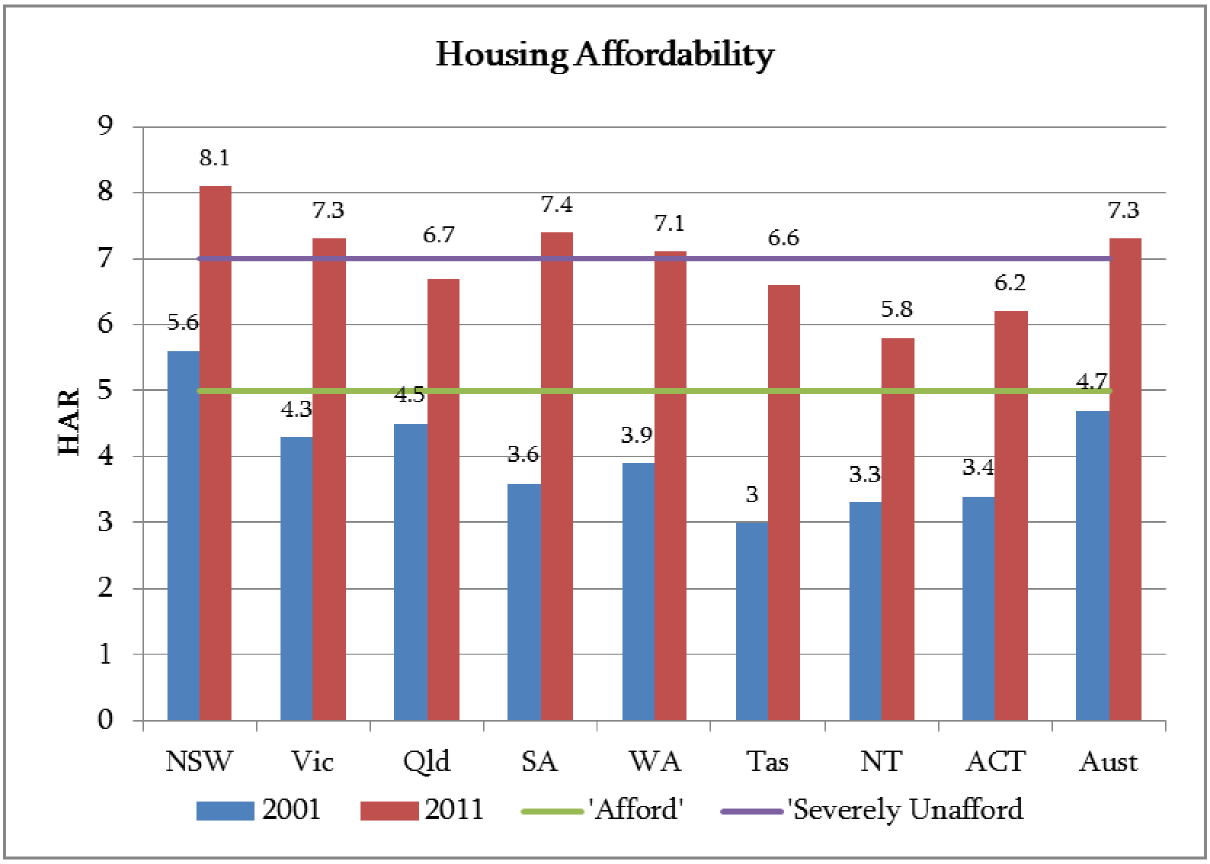
26 City Futures Research Centre, UNSW, *Submission 152*, pp. 7–8.

27 Urban Development Institute of Australia, *Submission 190*, p. 6.

28 Master Builders Australia, *Submission 48*, pp. 9–10.

Economic Modelling] data shows that house prices increased by 147 per cent compared to income growth of just 57 per cent between 2001 and 2011. In dollar terms, the median price of a house more than doubled from $169,000 to $417,500 while after tax income increased from just $36,000 to $57,000. Whereas in 2001 an average home price in Australia was 4.7 times the average income, by 2011 this had increased to 7.3 times.[29]

Figure 2.1: Housing Affordability in Australia



'HAR' is the 'Housing Affordability Ratio', and is measured by dividing the median house price by the median income of the house purchaser. A ratio of 5 or less (that is, below the green line) is considered 'affordable'; a ratio of 7 or more (that is, above the purple line) is considered 'severely unaffordable'.

Source: Master Builders Australia, *Submission 48*, p. 10.

2.33 Dr Julie Lawson and Professor Mike Berry from the Centre for Urban Research (RMIT University) pointed to what they regarded as a developing affordability crisis in the rental sector. They argued that this emerging crisis was in part due to pressure on other parts of the housing system:

29 United Voice, *Submission 169*, p. 5.

> Falling home ownership rates and a declining public housing sector are resulting in rising demand for private rented housing. However, existing market failure in the private rented sector means that increasing numbers of lower income and otherwise disadvantaged households are struggling to access housing suitable to their needs and resources. There is developing a structural shortage of low rent dwellings in Australia's cities and regions.[30]

2.34 Some witnesses used international comparisons to demonstrate the deterioration of housing affordability in Australia. In this regard, the Salvation Army referred to the Demographia International Housing Affordability Survey results for the third quarter of 2013. The survey noted that of 360 international housing markets assessed for housing affordability across nine countries:

> …Melbourne is ranked as sixth least affordable city in the cohort with Sydney ranked fourth. Hong Kong is the least affordable city, followed by Vancouver and San Francisco. London is more affordable than Melbourne. Overall, Australia has 25 severely unaffordable localities. Demographia states that severely unaffordable housing markets are very attractive to investors, especially international investors seeking extraordinary returns on their investment by seeking high profits in the short term.[31]

2.35 Professor Andrew Beer, the Director of the University of Adelaide's Centre for Housing, Urban and Regional Planning, also referred to the Demographia index, noting that Australia often appears:

> …at the very top end of unaffordable housing. Most years Sydney is the most unaffordable housing globally. In 2012 it was actually Port Macquarie that had the most unaffordable housing in the world. It is not an index that you want to win.[32]

2.36 It might be noted at this point that housing affordability is far from uniform across Australia, with dramatic differences across (and indeed within) housing markets. As the Real Estate Institute of Australia (REIA) noted during its appearance before the committee:

> The housing market in Australia is a patchwork quilt of affordability. You can purchase a three-bedroom family home in Broken Hill for $39,000, while the median price in Sydney has pushed through the $800,000-mark—and it is now $811,837.[33]

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30 Dr Julie Lawson and Professor Mike Berry, Centre for Urban Research, RMIT University, *Submission 24*, p. 3.

31 The Salvation Army, *Submission 114*, p. 6. The nine countries assessed by Demographia were Australia, Canada, Hong Kong, Ireland, Japan, New Zealand, Singapore, the United Kingdom and the United States.

32 Professor Andrew Beer, Director, Centre for Housing, Urban and Regional Planning, University of Adelaide, *Proof Committee Hansard*, 28 July 2014, p. 16.

33 Ms Amanda Lynch, Chief Executive Officer, Real Estate Institute of Australia, *Proof Committee Hansard*, 30 July 2014, p. 72.

2.37 Similarly, Professor Carolyn Whitzman (University of Melbourne) and Professor Tony Dalton (RMIT University) told the committee that in order to understand housing affordability in Australia, it was necessary to recognise the diversity of housing markets in Australia. The noted that Australia has multiple housing markets and submarkets, rather than a single undifferentiated market.[34]

2.38 Some witnesses took issue with the idea that housing affordability had materially declined in recent years. For instance, Rismark pointed to evidence that the cost of housing relative to household disposable income had, in fact, remained essentially constant over the past decade. Rismark's submission also included data suggesting median house prices have risen in alignment with increases in the borrowing capacity of Australian households. Rismark acknowledged that certain cohorts were unable to access affordable housing in certain areas—for instance, essential workers in inner suburban areas. Yet Rismark argued that assessments of affordability often focused disproportionately on the most expensive segment of the housing market, namely detached housing in capital cities:

> What is often forgotten is that this most expensive segment only achieves its price levels due to high income households competing for the most desirable assets at prices that these households can afford. Interestingly, a focus on this particular segment of the market ignores attached dwellings (that is, flats, apartments, townhouses, etc.) which represent 25.1% of the capital city housing stock. Further, fully detached capital city dwellings only represent 43.2% of the nation's total housing stock. It is for this reason that many people are surprised to learn that the median price of all dwellings sold nation-wide in the December quarter of 2013 was only $450,000.[35]

2.39 Whereas Rismark implied that housing affordability was essentially a problem for certain market segments within the larger capital cities, other submitters, including the Tamworth Regional Council, maintained that housing affordability was also an issue in many rural and regional communities.[36] Housing Alliance, meanwhile, noted that a 2011 study by Professor Beer, which had focused on rural and regional centres, had 'identified that regional Australia has faced a similar trend to larger cities in terms of the rapid escalation in house prices and rents in the period since 2000'.[37]

2.40 In contrast to claims by Dr Lawson and Professor Berry (among others) that an affordability 'crisis' was developing in the rental sector, Mr Cameron Murray argued that rental affordability had remained more or less constant over the last two decades. Mr Murray also suggested that home ownership was 'comparatively

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34 Professor Carolyn Whitzman, Professor of Urban Planning, University of Melbourne, and Professor Tony Dalton, Professor of Urban and Social Policy, RMIT University, *Proof Committee Hansard*, 9 September 2014, p. 28.

35 Rismark International, *Submission 64*, pp. 2–3.

36 Tamworth Regional Council, *Submission 12*, p. 3.

37 Housing Alliance, *Submission 73*, p. 5.

affordable by historical standards, due to the reduction of interest rates, stagnant home prices, and wages growth since the financial crisis of 2008'. In light of this data, Mr Murray argued, 'the housing affordability situation in Australia could be described, with reference to recent historic norms, as highly affordable'.[38]

2.41 In its February 2014 submission to this inquiry, the RBA reported that at a macro level, 'pressures on affordability on both purchased and rental housing' had eased somewhat since the Senate Select Committee on Housing Affordability's final report in June 2008.[39] The RBA suggested this was due in part to the fall in variable mortgage interest rates. It acknowledged, however, that the experience of specific groups in the population would differ from this overall trend. Moreover, it noted that investor driven demand in Sydney may have resulted in some potential home owners being priced out of certain parts of the market.[40]

2.42 The Australian Bankers' Association (ABA) suggested that Australian house prices, when measured using the median dwelling price to income ratio, are actually close to the Organisation for Economic Co-operation and Development (OECD) average. The ABA also noted that interest rates and arrears rates were at low levels relative to historical averages, and the HIA-Commonwealth Bank Housing Affordability Index 'shows that housing affordability increased during the September 2014 quarter to 75.1 and is at its highest (best) level since June 2002.'[41] However, the ABA also observed that home ownership rates were declining, particularly for younger Australians:

> These facts mean we need to give consideration to housing policy and the impact of home ownership on pre and post retirement income, expenditure and wealth.[42]

2.43 Drawing out its abovementioned point about the different experiences of housing affordability for various household types, DSS outlined distinct (if interrelated) trends in recent decades in terms of purchase, rental and repayment affordability:

> Over the past 30 years, arguably, the most challenging aspect of housing affordability has been purchase affordability, with a particular impact on first home buyers. Since 1986, established house prices have increased by almost 6½ times, whereas CPI, consumer price index, has only increased 2½ times. Low-income households also face affordability challenges and limited choices in the private rental housing market, a challenge that has been exacerbated by a period of higher than CPI rent growth between 2007

38 Mr Cameron Murray, *Submission 17*, p. 5.

39 Select Committee on Housing Affordability in Australia, *A good house is hard to find: Housing affordability in Australia* (June 2008).

40 Reserve Bank of Australia, *Submission 14*, p. 1–3.

41 Australian Bankers' Association, *Submission 197*, p. 7.

42 Australian Bankers' Association, *Submission 197*, p. 9.

> and 2013. On average between 2007 and 2013 private rental costs have grown significantly faster than CPI. Most recently, growth in rents has slowed and in the year to June 2014…rents actually grew more slowly than CPI for the first time since 2006.
>
> Since the early 1990s, repayment affordability has benefited from the relatively low interest rate environment that has prevailed in comparison with interest rates in the seventies and the eighties.[43]

2.44 DSS suggested that without reform to existing policy settings:

> …the current issues with housing affordability will not recede, and indeed are more likely to intensify given the current low interest rate environment. This will lead to an increase in the number of Australians excluded from owning their own home, which is likely to put further pressure on the private rental market, and in turn, community and public housing and Commonwealth budget outlays through Commonwealth Rent Assistance.[44]

Committee view

2.45 The overwhelming weight of evidence received by the committee demonstrates that Australia has a housing affordability problem. As Mr Eslake put it in his submission, while most Australians are 'physically *well* housed, it can no longer be said that we are, in general, *affordably* housed'. Sustained growth in median housing costs above the rate of median household income growth in recent decades has made it increasingly difficult for a growing proportion of Australians to afford housing that is safe, secure and appropriate to their needs. Added to the general decline in housing affordability, and indeed compounding the trend, the stock of affordable housing—that is, housing appropriate to the needs of low to moderate income households—has failed to keep pace with demand in recent decades.

What are the implications of poor housing affordability?

2.46 As Dr Lawson and Professor Berry put it in their submission, 'Few material concerns are more important to Australians than the homes they live in'.[45] The ability to afford access to safe, secure and appropriate housing is a key determinant of good life outcomes. Equally, the affordability of housing and the state of the housing market more broadly plays a central role in shaping economic and productivity outcomes in Australia. The influence of housing on wider social and economic outcomes was noted by Anglicare Australia:

> Everything we do is linked to housing. Our employment, our social lives, our civic lives—everything. When the housing market is broken, everything

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43 Ms Felicity Hand, Deputy Secretary, Disabilities and Housing, Department of Social Services *Proof Committee Hansard*, 30 July 2014, p. 1.

44 Department of Social Services, *Submission 198*, p. 3.

45 Dr Julie Lawson and Professor Mike Berry, Centre for Urban Research, RMIT University, *Submission 24*, p. 5.

> else that links to it is broken. We have to think more broadly about housing than just [as] a wealth creation asset. It is an infrastructure issue. It is a productivity issue. It is a social issue. On that basis, it affects us all.[46]

2.47 Similarly, the Australian Council of Social Services (ACOSS) noted that housing affordability had a significant impact on life outcomes for individuals, on economic growth and on the wellbeing of the community as a whole:

> Housing, affordability and location are integral to enabling population growth, and labour mobility, supporting improvements in participation rates and improving productivity. The housing and construction industries are also key drivers of economic activity, and associated jobs growth. Adequate housing is also a basic necessity and human right which impacts on education, health and employment outcomes, as well as the overall wellbeing of the population. Having a private place to be which is decent and over which we have some real control is fundamental to the wellbeing of every one of us as individuals and communities. In this sense, affordable housing is both vital economic and social infrastructure.[47]

2.48 The relationship of housing affordability to social and economic outcomes is explored further below.

Housing affordability and social outcomes

2.49 A wide range of experts to the committee that access to affordable housing is a key determinant of wellbeing across a person's life course. Housing, they argued, can profoundly influence educational attainment, employment outcomes, physical and mental health and social participation, among other things.

2.50 Professor Beer was asked by the committee about the 'everyday effects' on people of living in unaffordable housing. He responded that because housing was commonly the biggest expense for households, how much a household paid for housing tended to have a flow-on impact on how much it spent on other necessities:

> We pay our housing first. Then, if you have a small income at the beginning, you have less for those other things: education, transport, food, medical care. So we have pretty good evidence that, as soon as people are paying off that top bit for their housing, all of those other things suffer down the line.[48]

2.51 The CFRC underscored the interconnectedness of housing outcomes and broader social outcomes. Housing, it noted, is:

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46 Ms Michelle Waterford, Director, Research and Policy, Anglicare Australia, *Proof Committee Hansard*, 10 November 2014, p. 24.

47 Australian Council of Social Service, *Submission 108*, p. 1.

48 Professor Andrew Beer, Director, Centre for Housing, Urban and Regional Planning, University of Adelaide, *Proof Committee Hansard*, 28 July 2014, p. 17.

> ...a key pillar of social policy: the ways that housing and housing assistance are provided influence not only housing affordability, appropriateness and security but, more broadly, the employment, educational and health outcomes of citizens. Spatially housing plays a core role in shaping our cities and their economic, social equity and environmental performance.[49]

2.52 Dr Emma Baker, Deputy Director of the University of Adelaide's Centre for Housing, Urban and Regional Planning, outlined the relationship between housing affordability and health outcomes. Dr Baker referred to her research findings showing that poor housing affordability and poor health outcomes tend to reinforce one another—that is, people with health vulnerabilities are more likely to have to live in unaffordable housing, and people living in unaffordable housing are more likely to experience health vulnerabilities.[50]

2.53 The Department of Education explained the importance of housing affordability in supporting children's development, education and overall wellbeing.[51] Similarly, Professor Beer highlighted the causal relationship between poor housing affordability and poor educational attainment in children. Children in households occupying unaffordable housing, he explained, are less likely to have the resources needed to support their education:

> They may not have separate space for study, they may not have adequate nutrition, they may not have adequate parental supervision as the parents are working very long hours to achieve the outcomes they are looking for.[52]

2.54 The Australia Institute suggested that high house prices also tend to reinforce intergenerational income inequality. It explained that:

> …households who own a house have a greater ability to help their children buy property, while those who could not afford to buy a house themselves will be unlikely to be in a position to provide equivalent assistance to their children. The result is an intergenerational transfer or continuation of income inequality.[53]

2.55 Poor housing affordability can also reinforce intergenerational inequality because it fosters greater spatial disadvantage in urban areas. That is, low to moderate

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49 City Futures Research Centre, UNSW, *Submission 152*, p. 4.

50 Dr Emma Baker, Deputy Director, Centre for Housing, Urban and Regional Planning, University of Adelaide, *Proof Committee Hansard*, 28 July 2014, p. 14. The research findings Dr Baker referred to are presented in Emma Baker, Kate Mason, Rebecca Betley and Shelley Mallett, 'Exploring the Bi-directional Relationship between Health and Housing in Australia', *Urban Policy and Research* 32, No. 1 (2014): 71–84.

51 Department of Education, *Submission 142*, pp. 5–8.

52 Professor Andrew Beer, Director, Centre for Housing, Urban and Regional Planning, University of Adelaide, *Proof Committee Hansard*, 28 July 2014, p. 14.

53 Ms Molly Johnson, Researcher, The Australia Institute, *Proof Committee Hansard*, 30 July 2014, p. 60. Also see The Australia Institute, *Submission 92*, pp. 5–6.

income earners are often forced to move to areas with relatively poor access to employment, services and transport infrastructure in order to access housing they can afford. This dynamic, which is discussed in greater detail in chapter seven, was identified in a submission from the Tenants Union of Victoria. It told the committee that the general lack of good amenity in suburbs with affordable rents was 'creating a horrible social problem for the future', and this problem needed to be addressed in order to avoid an intergenerational transmission of poverty and inequality.[54]

2.56 Dr Lawson and Professor Berry also argued that the lack of affordable housing was a threat to intergenerational equity and social inclusion. Existing market dynamics were, they argued, driving poor affordability outcomes and damaging Australia's ability to:

> …adequately house not only its current population but also future generations of households. The benefits of rising house prices have not been shared evenly and the trickling upwards of housing wealth is diminishing social and inter-generational equality.[55]

2.57 Conversely, good housing affordability and housing outcomes generally enhance the likelihood of positive social outcomes. Some witnesses drew the committee's attention to the beneficial impact of home ownership (as discussed in chapter eleven). As the REIA put it, these benefits could include:

> …improved educational levels for children, better mental and physical health, and greater social connectedness and participation in community and voluntary organisations.[56]

2.58 Similarly, the UDIA submitted that affordable home ownership provides people with the financial and social stability they need to:

> …plan for long term decisions such as having children or forming a household, and provides an added measure of certainty and security to their future. Households that struggle to meet their housing needs are likely to have a lower quality of life, and may struggle to satisfy their need for other essentials such as health care, education, and social engagement.[57]

The social costs of severe housing stress and homelessness

2.59 Referring to the difficulties faced by low-income and other people forced into insecure accommodation, the Kingsford Legal Centre (University of New South

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54 Mr Mark O'Brien, Chief Executive Officer, Tenants Union of Victoria, *Proof Committee Hansard*, 9 September 2014, p. 44.

55 Dr Julie Lawson and Professor Mike Berry, Centre for Urban Research, RMIT University, *Submission 24*, p. 6.

56 Ms Amanda Lynch, Chief Executive Officer, Real Estate Institute of Australia, *Proof Committee Hansard*, 30 July 2014, p. 72.

57 Urban Development Institute of Australia, *Submission 190*, p. 7.

Wales) noted that a lack of affordable housing was not only a 'source of great stress for individuals', but also has:

> …huge impacts on our local community because relationships are severed when people are forced to vacate their homes and relocate. This causes major disruptions to families, and is particularly disruptive to the schooling of children.[58]

2.60 In a joint submission, Anglicare Sydney, Churches Housing and BaptistCare likewise suggested that the lack of affordable housing for low income households had serious detrimental impacts on individual, family and community wellbeing:

> Appropriate, affordable and sustainable housing is essential to the wellbeing of both individuals and community. When people are uncertain about the sustainability of their housing situation, they experience what the literature refers to as housing insecurity. A lack of stable, secure and affordable housing has significant impacts on individual and family wellbeing. It can exacerbate financial hardship which impacts on the acquisition of basic necessities including food, adequate clothing and heating. It can lead to transience and dislocation, compromising people's sense of place and belonging in communities. The stress and anxiety which housing insecurity generates can lead to relationship breakdown. Often people who live with housing insecurity are transient and may be forced to move to locations which are cheap but have poor transport infrastructure, creating barriers to employment. The lack of stable housing impacts on children's developmental milestones which can compromise their educational and employment opportunities over the life course.[59]

2.61 Looking to the extreme end of housing stress, HomeGround Services explained that homelessness hurts both individuals and society more broadly:

> Decent, sustainable, affordable housing matters because without it people can lose hope. Hope gives an individual the determination and will to reach their goals and implement strategies that overcome adversity. The social and economic costs that are associated with people experiencing housing crisis and homelessness impact on us all. Coping with crisis leaves people with little capacity for initiating longer range strategies for improving their lives and dealing with other contributing issues. These stresses also contribute to negative outcomes in terms of health and social participation. Where these issues become acute during childhood, the costs to society may be very high indeed.[60]

2.62 Both the Community Housing Council of South Australia and the Council to Homeless Persons noted that, in addition to the profound impact on individuals experiencing homelessness, the economic and productivity costs to the community of

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58 Kingsford Law Centre, *Submission 68*, p. 3.

59 Anglicare Sydney, Churches Housing and BaptistCare, *Submission 85*, pp. 8–9.

60 HomeGround Services, *Submission 70*, p. 6.

homelessness are substantial. These costs can include added imposts on the justice system, the health system and emergency services, and the costs associated with unemployment or low levels of economic participation.[61]

2.63 While the drivers of homelessness are more complex than housing affordability, the evidence nonetheless suggests a strong causal relationship between declining affordability and the incidence of homelessness and housing stress. As the St Vincent de Paul Society put it, 'Unless we address housing affordability in Australia we will never succeed in eliminating poverty and homelessness.'[62] The relationship between, on the one hand, homelessness and, on the other, poor housing affordability and a lack of supported affordable housing stock, is addressed in chapter 18.

Broader economic and productivity impacts

2.64 The performance of the housing sector, including the state of housing affordability, is directly related to Australia's overall economic performance. As the CFRC put it in its submission, the housing sector 'has potentially profound implications for macroeconomic performance and economic management and productivity'.[63] In part, this is a function of the sheer size of the housing sector. As DSS noted in its submission, at the close of 2013 the Australian residential property market was made up of approximately 9.3 million dwellings, which had an estimated total value of just over $5 trillion (with $1.26 trillion in loans outstanding against those dwellings).[64]

2.65 Housing costs can also have a fundamental impact on the financial wellbeing of individuals and their ability to accumulate wealth. Beyond the fact that housing is often the most significant household cost, regardless of tenure type, a key reason for this is that housing in Australia is an important store of private wealth. According to the ABS, in 2011–12 owner-occupied property accounted for 43 per cent of household assets, and represented a value of $370,000 (net of liabilities) when averaged across all households. Nearly 20 per cent of households also owned property (residential and non-residential) other than their home; the value of this property averaged $129,000 across all households, and accounted for 15 per cent of total assets. In total, 58 per cent of all household assets were property. Nearly 90 per cent of household

61 Ms Maria Palumbo, Chair, Community Housing Council of South Australia, *Proof Committee Hansard*, 28 July 2014, p. 39; Ms Sarah Toohey, Manager, Policy and Communications, Council to Homeless Persons, *Proof Committee Hansard*, 9 September 2014, pp. 55–56

62 St Vincent de Paul Society, National Council of Australia, *Submission 189*, p. 2.

63 City Futures Research Centre, UNSW, *Submission 152*, p. 3.

64 Department of Social Services, *Submission 198*, p. 5.

liabilities, meanwhile, could be attributed to property loans (57.5 per cent for owner-occupied housing and 32.4 per cent for other property loans).[65]

2.66 DSS noted that house price inflation had worked to the significant financial benefit of existing home owners and investors. However, it had had:

> …the opposite impact on potential first home owners, potential up-graders, renters and those households in public and community housing.
>
> While the most noticeable impact of the reduction in the availability of affordable housing is the reduction in home ownership experienced by younger Australians, it is also having an impact upon labour force participation, household formation and historical consumption, investment and retirement trends.[66]

2.67 The UDIA outlined the myriad ways in which poor housing affordability damaged the economy. These included the need for households to spend increasing proportions of income on housing, thus reducing spending on other goods and services. High housing costs, it argued, also undermined the health of the construction industry and increased the cost base for businesses, reducing their international competitiveness. In sum, high housing and land costs:

> …flow throughout the entire economy, increasing the cost of doing business, destroying jobs, damaging productivity, and reducing the international competitiveness of Australian businesses. The high level of charges on new housing, a major contributor to poor housing affordability, also damages activity and employment in the property development and construction industries, one of the largest sectors of the Australian economy.[67]

2.68 In addition to noting the whole-of-economy importance of housing affordability, JELD-WEN emphasised the economic significance of the housing sector itself. According to JELD-WEN, more than a million Australians are employed in the home building sector or in businesses supplying products and services to the sector. New home construction and renovations, JELD-WEN noted, generate more than $200 billion a year throughout the Australian economy, and housing industry and related business activity make up 15 per cent of the national economy. A responsive, stable housing sector, JELD-WEN wrote:

> …can avoid bouts of damaging super house price inflation and encourage builders, manufacturers and suppliers to become more innovative and to adopt more efficient technology and processes to remain competitive. A housing market that is able to provide affordable housing enables

65 Australian Bureau of Statistics, *Household Wealth and Wealth Distribution, Australia, 2011–12*, 21 August 2013, pp. 4, 19.

66 Department of Social Services, *Submission 198*, p. 4.

67 Urban Development Institute of Australia, *Submission 190*, pp. 4, 7.

householders to respond more quickly to new work opportunities; it fosters economic growth and jobs.[68]

2.69 National Shelter told the committee that housing was in part a productivity issue, particularly if people were not well located to employment, health and education services.[69] Similarly, PowerHousing Australia, a network for community housing providers, argued that a lack of affordable housing in areas where new jobs were being created was acting as 'a handbrake on economic growth'.[70] Regional Development Australia, Gold Coast, suggested that such productivity costs were hurting economic activity in the Gold Coast, with the lack of affordable housing hindering efforts to attract new investment to the city and diversify the local economy.[71]

2.70 Associate Professor Yates also noted that poor housing affordability can affect the efficient operation of the labour market, both in terms of people having access to appropriate employment and employers having access to appropriately skilled labour. Productivity was further damaged, she argued, by congestion associated with urban sprawl and the search for affordable housing. Associate Professor Yates further noted that excessive reliance on debt to finance housing potentially added to financial and economic instability (an issue addressed in the next section of this chapter).[72]

2.71 National Shelter suggested that current policy settings and high house prices in Australia were distorting investment decisions and reducing the pool of capital that might otherwise be directed towards productive forms of investment. In part, National Shelter argued, this was a consequence of a tax system that encouraged both owner-occupiers and investors to overinvest in housing, at the expense 'of other forms of productive investment'. Moreover, because house prices were so high, large amounts of capital that might otherwise be directed to other productive activities were tied up simply in finding and holding a place to live.[73]

Housing costs and risks to financial stability

2.72 Since 2011, when the RBA started its current cycle of cutting interest rates, median house prices in Australia have climbed 21 per cent. In Sydney, prices have

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68 JELD-WEN Australia, *Submission 54*, p. 3.

69 Mr Adrian Pisarski, Executive Officer, National Shelter, *Proof Committee Hansard*, 10 September 2014, p. 33.

70 PowerHousing Australia, *Submission 79*, p. 19.

71 Ms Kerrie Young, Committee Member, Regional Development Australia, Gold Coast, *Proof Committee Hansard*, 10 September 2014, p. 26.

72 Honorary Associate Professor Judith Yates, University of Sydney's Senior Visiting Fellow *Proof Committee Hansard*, 10 November 2014, p. 36.

73 Mr Adrian Pisarski, Executive Officer, National Shelter, *Proof Committee Hansard*, 10 September 2014, p. 34.

increased 37 per cent over the same period.[74] At various points during the inquiry the committee considered the rapid growth in house prices, particularly in Sydney, and the attendant risk to financial stability of a sudden price correction.

2.73 Witnesses disagreed on whether housing price growth in Australia could be characterised as a 'bubble'. Prosper Australia was particularly strong in its insistence that the preferential tax treatment of land, as it saw it, and excessive borrowing had created a property bubble. Ultimately, Prosper Australia argued, the value of land will revert to the mean and the bubble will burst, causing 'tremendous economic damage' in the process—'a lot of people will lose a great deal of money and our country will suffer very, very badly.'[75]

2.74 Associate Professor Roger Wilkins from the University of Melbourne was rather more sceptical as to whether house price inflation constituted a 'bubble':

> International and historical comparisons suggest that prices are above what some sort of notion of fundamentals would suggest they should be; but, if it is a bubble, it is a very long running bubble. Over the last 10 years real prices have not actually net grown that strongly. Sure, in the last few years they have picked up again, but the real growth has not been that strong. It suggests to me that there are perhaps some longer-running structural drivers of this high price growth.[76]

2.75 Dr Ian Winter, Executive Director of AHURI, told the committee that arguments over whether or not a 'bubble' existed somewhat missed the point. The key issue, he suggested, was the need to address the structural drivers of poor housing affordability, which 'have been in place for the past 25 or 30 years and are steadily getting worse'.[77]

2.76 Asked directly if there was a bubble in the Sydney housing market, the RBA's Head of Financial Stability, Dr Luci Ellis, responded that the RBA did not think this was a useful way to frame the problem. Rather, the issue was whether there was excessive speculation in the housing market and what that might mean for the price

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74 Benjamin Purvis, 'Housing boom is 'lesser evil' for RBA, says Goldman Asset', *AFR*, 23 March 2015.

75 Mr David Collyer, Policy Director, Prosper Australia, *Proof Committee Hansard*, 9 September 2014, p. 1; Mr Philip Soos, Researcher, Prosper Australia, *Proof Committee Hansard*, 9 September 2014, pp. 2–3.

76 Associate Professor Roger Wilkins, Principal Research Fellow, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, *Proof Committee Hansard*, 9 September 2014, p. 27.

77 Dr Ian Winter, Executive Director, Australian Housing and Urban Research Institute Limited, *Proof Committee Hansard*, 9 September 2014, p. 28.

cycle. And, Dr Ellis added, at the moment the RBA felt there was 'more speculative activity than we are comfortable with'.[78]

2.77 Dr Malcolm Edey, Assistant Governor (Financial System) of the RBA, explained that while the RBA's concerns were focused on speculative investor activity in the Sydney and Melbourne housing markets, there was a broader material risk to the economy as a whole:

> We have said that this is a risk concentration problem, but it is big enough to have impacts on the national economy. That is what we are worried about in the end. Our mandate is the performance of the national economy, the stability of the economy and, eventually, the financial system itself. Sydney and Melbourne are a big part of the economy; they are a big part of the lending focus for the banks.[79]

2.78 The RBA outlined in its submission the risks that speculative booms present to overall financial stability:

> Any increase in demand for a good or service will be met with some combination of an increase in prices and an expansion in quantity supplied. It is unrealistic to expect prices to be completely unaffected as demand increases. In the housing market, the price responses seem to dominate the quantity supply responses, which can have undesirable consequences. A period of rapidly rising prices does not only make it harder for first home buyers to purchase a home; if the price growth is extrapolated into expectations about the future, it can engender a speculative boom that, with its attendant increase in leverage, could be harmful to financial stability.[80]

2.79 The RBA was asked by the committee to describe the kind of macroeconomic risks posed by excessive investor activity in the housing market. Dr Ellis responded that the RBA's principal concern at the moment was the impact price falls might have on the financial stability of households:

> In particular, the more you have an upswing in housing prices now, being driven by investors in particular, the more likely it is that the end of that boom will be a more severe decline in housing prices. That can catch out certain households—potentially, not the ones that were engaged in bidding house prices up to begin with.[81]

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78 Dr Luci Ellis, Head, Financial Stability, Reserve Bank of Australia, *Proof Committee Hansard*, 2 October 2014, p. 10.

79 Dr Malcolm Edey, Assistant Governor, Financial System, Reserve Bank of Australia, *Proof Committee Hansard*, 2 October 2014, p. 11.

80 Reserve Bank of Australia, *Submission 14*, p. 7.

81 Dr Luci Ellis, Head, Financial Stability, Reserve Bank of Australia, *Proof Committee Hansard*, 2 October 2014, p. 5.

2.80 If households found themselves in negative equity following a fall in house prices, more borrowers would default, impacting on spending and the wider economy. Dr Edey added:

> The important thing to remember is that distribution matters. A one per cent fall in household wealth does not make much difference if it is evenly distributed. But if it manifests as, for example, one per cent of households losing their homes, that will have quite a severe effect on household spending and welfare. So that is what we are really concerned about. It is a slightly complicated transmission from the current developments to the shock that we are worried about. It is very hard to calibrate exactly how large that is because it is not something we have seen in Australia before. But it is certainly something I do not want to find out how big it is when it happens; I would prefer to avoid it.[82]

Committee view

2.81 The committee is keenly aware that declining housing affordability is not a new problem. In fact, few public policy issues have been subject to as much commentary and debate in recent years as the cost of housing in Australia. The current inquiry has nonetheless served to underline for the committee the extent to which poor housing affordability threatens the social and economic fabric of the nation, while throwing into sharp relief the increasingly urgent need for well-considered policy responses.

82 Dr Malcolm Edey, Assistant Governor, Financial System, Reserve Bank of Australia, *Proof Committee Hansard*, 2 October 2014, pp. 5–6.