

# Do Traditional Measures of Housing Stress Accurately Reflect Household Financial Wellbeing?

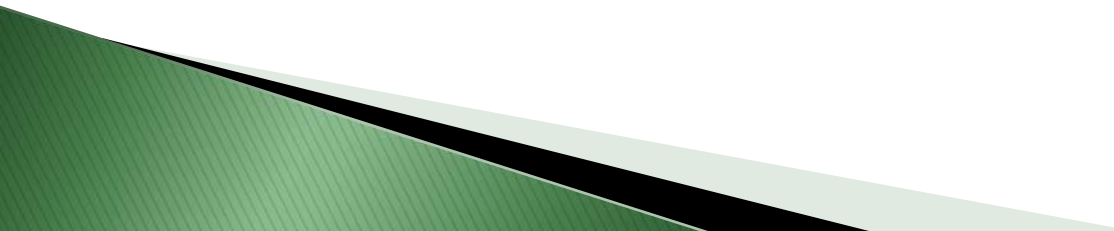
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# Traditional Housing Stress Measures

- ▶ Based on housing cost to income ratios
- ▶ 30% rule
  - Often used by mortgage lenders when evaluating an applicant's ability to repay
- ▶ 30/40 rule
  - Attempts to exclude those who paying more than 30% of income on housing costs by choice
- ▶ Variants include 30/10–40 rule
- ▶ Median dwelling price to income ratios
  - Useful indicator of affordability for new buyers
  - Can be misleading e.g. mining towns in WA

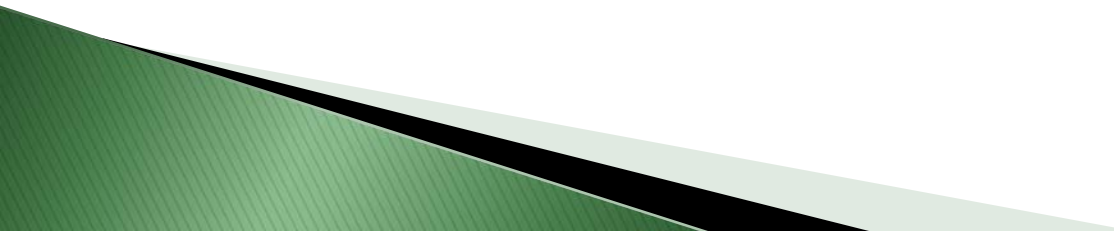
# Problems with Traditional Housing Stress Measures

- ▶ Ignores those who cannot afford to access housing
  - ▶ Does not tell us the extent to which housing is appropriate
  - ▶ Dimensions of wellbeing not captured
  - ▶ Makes a broad assumption that all households in housing stress are suffering financial hardship
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# Data & Method

- ▶ Household, Income and Labour Dynamics in Australia (HILDA) Survey
- ▶ Focus on owner purchasers & private renters
- ▶ Calculation of traditional housing stress measures
  - Owner purchaser: mortgage repayments / disposable income
  - Private renter: rent / disposable income
  - Derive 30% rule, 50% rule, 30/40 rule, 30/20 rule

# Data & Method

- ▶ Financial wellbeing variables
    - Based on 'experiences' of households
    - Perception of level of prosperity
    - Difficulty meeting food and shelter needs
    - Measures required to raise finances in an emergency
    - Difficulty raising \$2,000 in an emergency
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# Trends: Housing Stress vs Financial Wellbeing

**% in housing stress according to traditional housing stress measures**

Housing stress measures	2001	2008
30/40 rule	16.8	18.8
30% rule	26.9	35.7
50% rule	8.9	11.2

**Prosperity given current needs & financial responsibilities, % by column**

Perception of prosperity	2001	2008
Prosperous / very comfortable	12.2	12.0
Reasonably comfortable	50.9	52.0
Just getting along	30.2	30.3
Poor / very poor	5.0	4.2

# Prosperity Given Current Needs & Financial Responsibilities (% by column)

## 30% Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	15.0	10.0
Reasonably comfortable	54.9	45.7
Just getting along	27.7	35.9
Poor / very poor	2.2	8.5

## 50% Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	13.8	10.3
Reasonably comfortable	53.3	40.6
Just getting along	29.3	39.3
Poor / very poor	3.6	9.2

# Prosperity Given Current Needs & Financial Responsibilities (% by column)

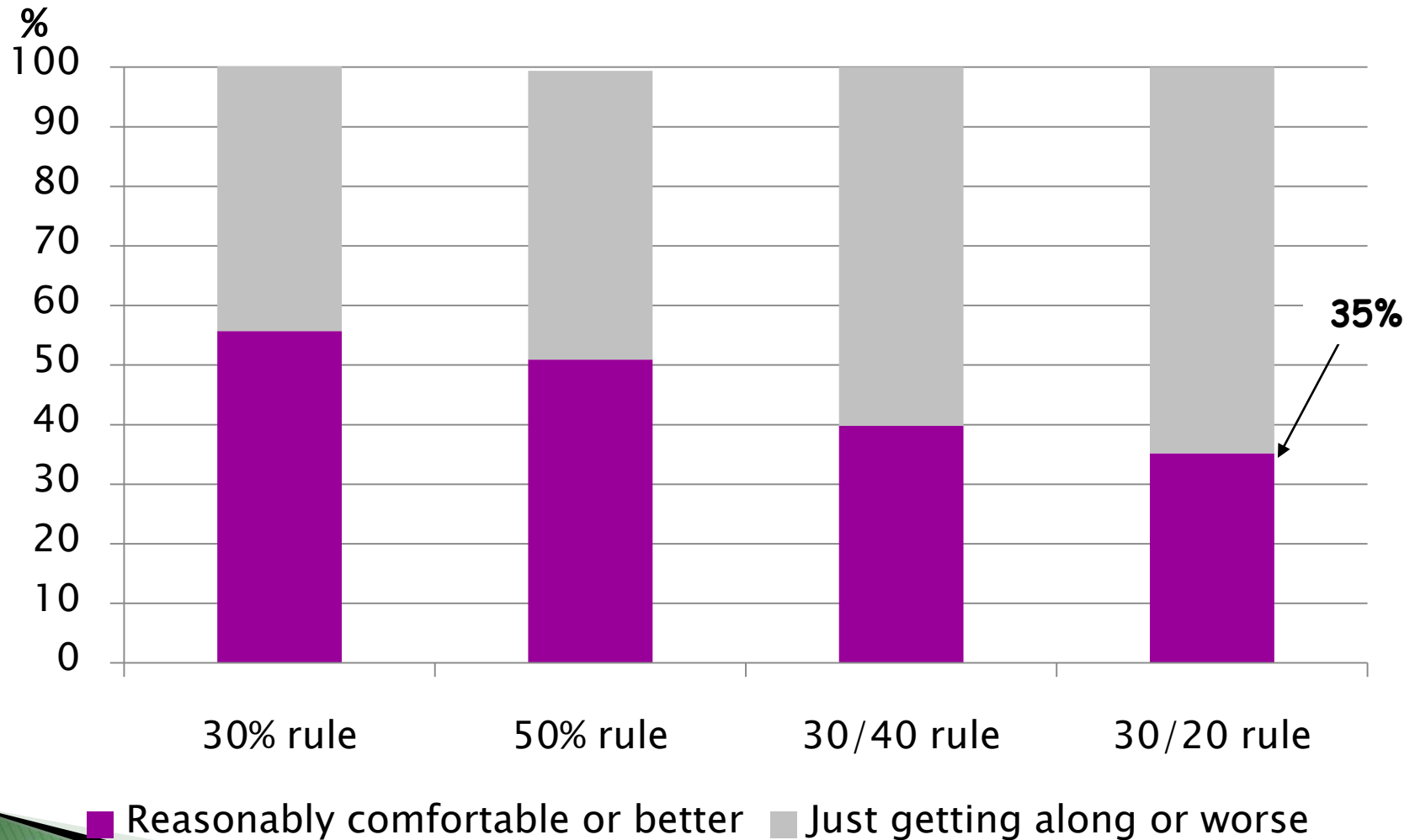
## 30/40 Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	14.8	6.5
Reasonably comfortable	55.6	33.3
Just getting along	27.3	45.9
Poor / very poor	2.4	14.3

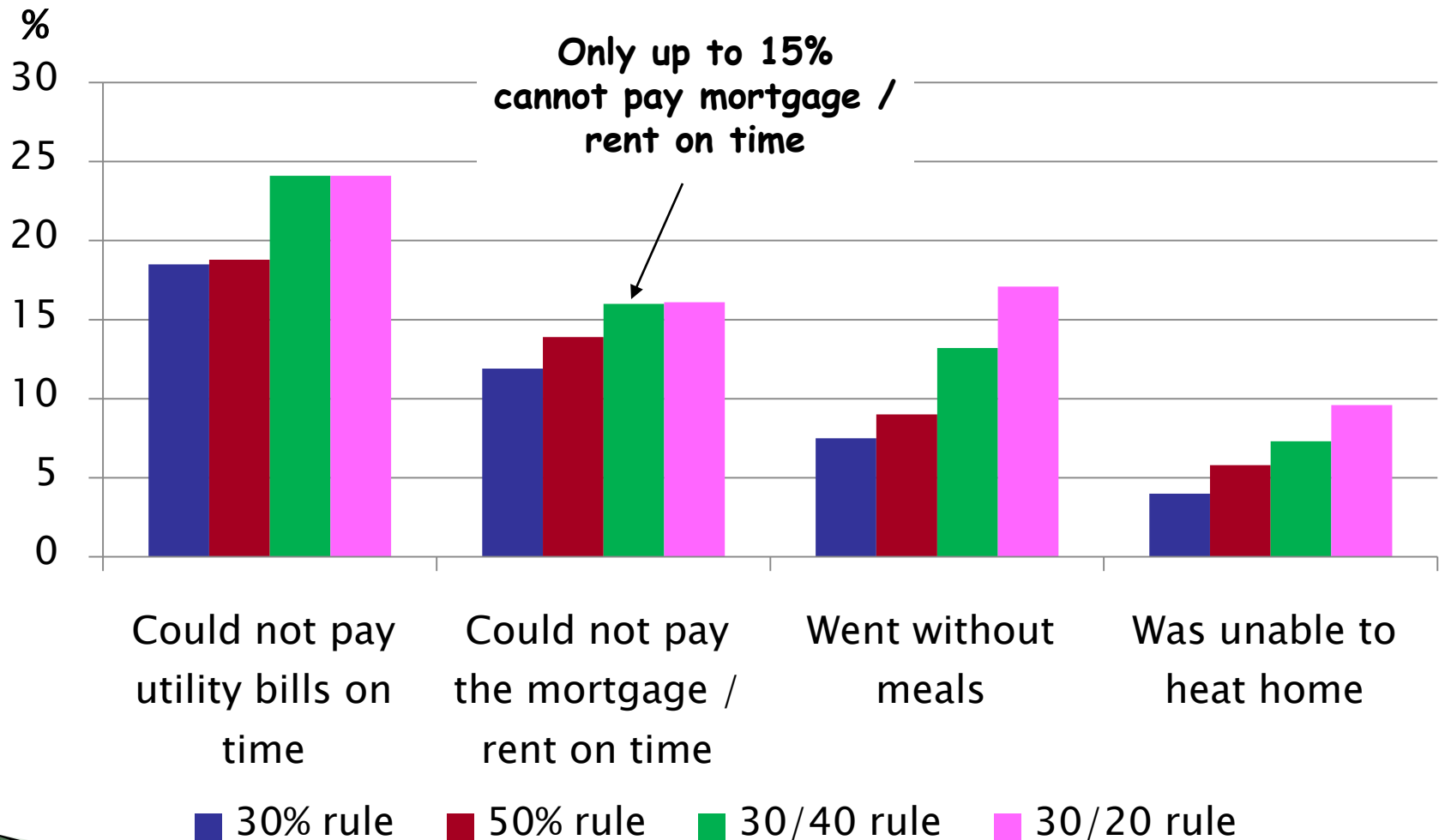
## 30/20 Rule

Financial wellbeing measure	Not in housing stress	In housing stress
Prosperous / very comfortable	14.1	6.2
Reasonably comfortable	54.3	29.0
Just getting along	28.8	45.0
Poor / very poor	2.7	19.8

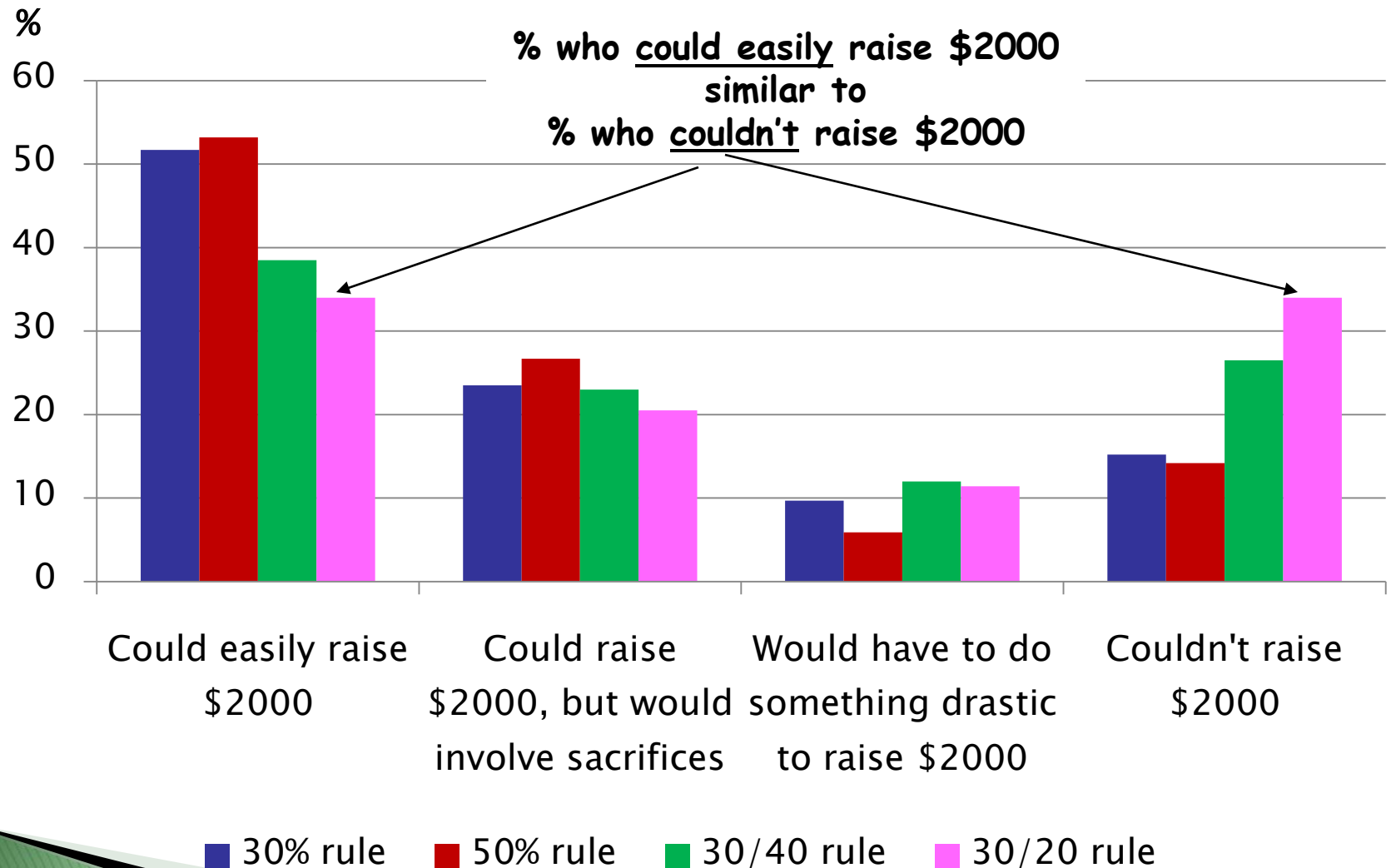
# Perception of Financial Prosperity amongst those in Housing Stress



# Difficulty Meeting Food & Shelter Needs by those in Housing Stress



# Difficulty Raising \$2000 in an Emergency by those in Housing Stress



# Summary

- ▶ Some correlation between traditional housing stress measures and financial wellbeing
- ▶ But traditional housing stress measures are not reliable indicators of financial wellbeing
  - E.g. significant proportions of households considered to be **in housing stress** under the traditional rules actually rate their financial prosperity as **'reasonably comfortable' or better**
- ▶ Need to generate new accurate measures that captures dimensions of wellbeing
  - Financial, health, neighbourhood conditions etc.