

**Housing Markets and Household Income Polarisation:  
A Metropolitan and Regional Analysis\***

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# **Housing Markets and Income Polarisation: A Metropolitan and Regional Analysis**

## **1. Introduction**

For at least the last quarter of this century concerns have been expressed about increasing income inequality. Concerns about the relation between increasing income inequality and housing, however, have tended to focus on the impact of low income on housing affordability. Affordability studies have highlighted the relative advantages enjoyed by households who either own their dwellings outright or have access to public housing. Studies of before and after housing poverty have highlighted the difficulties faced by marginal home purchasers and by low income households in the private rental market. Problems of after housing poverty have been seen primarily as a result of low income although they may stem from the choices made by some households.

The theme of this conference, however, reflects a shift in policy emphasis from poverty to social exclusion. This, in turn, raises an important question about the extent to which the housing system impinges upon the capacity of individuals to participate in the society to which they belong.

This paper focuses specifically on the implications of increasing household income polarisation on housing markets. In particular, it argues that housing markets both contribute to, and reflect, increasing income polarisation. Just as household incomes have become more noticeably polarised in the past decade, housing markets in Australia's cities and regions are undergoing structural change.

The paper draws upon data from a number of sources but relies primarily upon the most recent 1996 census data and, for comparison, comparable census data from 1986. Its argument proceeds in a number of steps. The first step is to provide an overview of the extent to which household incomes have polarised. Polarisation, here, is taken to mean a hollowing out of the middle of the income distribution with an increase in the proportion of low and high income households.<sup>1</sup> The second step relates the impact of income polarisation to changes in specific housing market outcomes. In particular, it relates this to a decline in Australia's home ownership rate and the consequent pressures on the private rental market. This will begin to give a sense of the impact of polarisation on housing outcomes.

The paper then examines the spatial implications of this polarisation. Gregory and Hunter in a series of influential papers made a start on measuring the emerging spatial inequality of incomes, but their analysis was conducted in terms of the socio-economic status of areas and so gave no geographical sense of space (Gregory 1996, Gregory and Hunter 1995, Hunter 1996). To date, limited availability of data has

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<sup>1</sup> Hamnett (1996) and Winter and Stone (1999a), both quoting Pahl (1988), use an egg and hour glass image to illustrate the impact of polarisation. This views income as normally being distributed like an egg but being transformed into an hour glass shaped distribution with polarisation. Gregory (1993) and Harding (1997) describe this as 'the disappearing middle'.

meant there has been little analysis of these spatial implications in relation to housing. The data used in this paper enables each of these shortcomings to be addressed. It introduces a geographical sense of space in examining changes in the distribution of household incomes and changes in housing markets. It focuses, in particular, on changes between metropolitan and non-metropolitan regions in each of the States and Territories in Australia.

The final step relies on a spatial analysis of how housing outcomes have been restructured in capital cities and non metropolitan regions to illustrate the linkages between household income polarisation and housing market shifts.

## **2. Income polarisation**

Several studies have documented the extent to which inequality has increased in Australia. Borland and Wilkins (1996), Gregory (1993), Harding (1997), Johnson et al (1995) and Raskall and Urquhart (1993), for example, all find evidence of what has been described as 'the disappearing middle'.<sup>2</sup> Despite different emphases, these studies share a number of common results. All document the impact of widening market incomes, particularly for male employees and decreased opportunities for full time employment. All highlight the role of social security transfers in ameliorating the impact of widening income dispersion.

These trends are readily observable when the unit of analysis is the individual and when the analysis focuses on those potentially in the labour force. However, trends in income distribution are more complex when undertaken at the household level. These complications arise from variations in family types, from variations in the number of income earners in the household and from variations in the propensity of members of the household to find employment.

In the first instance, there are more households of pensionable age because of the aging of the population. On the other hand, in the last 15 years the fastest growing groups receiving social security benefits have been work age people in receipt of unemployment benefits or the sole parent pension. (Saunders, 1994). This suggests that any assessment of the impacts of income polarisation at a household level should, at the very least, recognise the changing age structure of the population. This is particularly important when the focus of analysis is on housing because of the strong life cycle influences on housing choices and because of the different implications of low income at different stages in the life-cycle. The housing experiences of low income aged households are not the same as those for low income households of workforce age.

Income polarisation within and between households is also affected by changes in participation rates. Between 1986 and 1996 increases in employment primarily arose

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<sup>2</sup> There has been some debate over the causes and outcomes of polarisation and whether or not incomes have actually polarised or whether low income households have simply been left behind. Belchamber (1996), for example, argues that a more accurate term would be "the vanishing bottom" in terms of where job losses have occurred. Saunders (1993) suggests that redistribution has been from the bottom to the top of the income distribution. Similar arguments are found in the international literature, as can be seen in the debate between Sassen (1991) and Hamnett (1994).

from part-time or casual jobs targeted to women who made up an increasing proportion of the workforce (Freeland, 1993). However, increased female participation is a two edged sword in terms of inequality. It reduces the effect of family income inequality where the male is employed (Saunders, 1993) but can add to overall inequality since there is a much higher employment and growth in employment of married women in families where the spouse is employed (Bradbury, 1990).

At the household level, much of the increased income inequality can be attributed to changes in household composition. However, both Harding (1997) and Johnson et al (1995) report increased household inequality on an equivalised basis even though they employ different equivalence scales. Harding, in particular, shows a persistence of the disappearing middle hypothesis even after household size and the tax transfer system is taken into account. She summarises a number of the labour market trends which have contributed to these outcomes.

Whilst it is possible to adjust for differences in household size by measuring equivalent incomes, it is not obvious that such an adjustment is appropriate for an analysis which focuses on housing. It is household income which affects access to housing and which determines capacity to pay for housing.<sup>3</sup> In what follows, therefore, household income is taken as the focus of analysis and trends between 1986 and 1996 are presented separately for all households and those of working age.

The census data employed here reflect the increase in income inequality or increased dispersion of household incomes observed in other studies.<sup>4</sup> A graphic way of indicating this is presented in Figure 1 which clearly indicates the disproportionate growth of households in the lowest and highest income categories at the expense of growth of the middle income households both for all households and amongst households in the working age group.

For working age households, who are primarily dependent upon employment as their main source of income, income outcomes will be highly dependent upon labour market opportunities. Part of the debate about the impact of globalisation has focussed on whether employment growth has occurred amongst both low paid and high paid occupations (Sassen, 1991), or whether growth has only been at the top of the income distribution (Hamnett, 1994). The growth in the proportion of working age households in the lowest income group suggests that these households have not benefited from whatever employment opportunities have arisen from the economic restructuring which took place over the decade. The growth in the proportion of

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<sup>3</sup> A prior question is whether household formation is constrained by inability to meet housing costs. The increased incidence of independent children living at home is one potential indicator of the extent of hidden households. To the extent that such households are multi-earner households, any increased in their incidence will contribute to increases in inequality in household income. Consideration of these issues is beyond the scope of this paper.

<sup>4</sup> The data here suggest household income declined in real terms by 3.2% from \$802 per week in 1986 to \$776 in 1996 (both measured in \$1996). This is an underestimate of the decline in household income measured by ABS HES data. This difference can be attributed partly to the use of categorical data in this study and partly to the inability to generate an exact match in the categories employed. As the data here are presented as a benchmark against which age and spatial differences can be assessed, these weaknesses are ignored. Census data are the only data which can be obtained at the level of spatial disaggregation employed in this study.

higher income households could be due to the growth of incomes for those in privileged occupations; or it could be due to a growth in multiple earner households. A more detailed analysis is required before this can be determined. Such an analysis, however, is not the purpose or focus of this paper.

### **3. Australia's declining home purchase rate**

These trends in income are beginning to have a distinct impact on housing markets. One of the enduring facts about Australia's housing system has been its high home ownership rate which has remained remarkably stable at about 70 per cent for close to forty years.<sup>5</sup>

However, there are some clear signals that this high rate of home ownership may not be sustained over the next forty years.<sup>6</sup> Work done for the Housing Choices project, highlighted the decline in the home ownership rate amongst young households from the mid 1970s to the mid 1990s. This, in turn, was driven by declines in the home purchase rate. The census data being employed show a 9 percentage point decline in the proportion of young households (that is, those under 35) who are home purchasers, offset by only a small increase in the proportion who are outright owners. This is a massive change over a relatively short period. This decline reduces to a 6 percentage points amongst those in the 35-44 year old age bracket. Amongst the whole working age population (that is, 25-64 year old households) there has been a decline in the home purchase rate of 5 percentage points. This has been partially offset by an increase in the outright ownership of 2 percentage points.

Not surprisingly, declines in home ownership amongst the young have been greatest in amongst those in the lower part of the income distribution. What maybe somewhat surprising, however, is that home ownership rates have declined for households in the critical home buying age groups across the whole income spectrum. These declines have been somewhat lower in the higher income groups because they have been partially offset by some increase in the outright ownership rate. A second potentially surprising outcome is the extent of the increase in outright owners amongst the young in the higher income brackets. These results are summarised in Figure 2 which shows the aggregate change in home ownership for working age households in each income group and the changing pattern of outright ownership and home purchase amongst these households.

Figure 3 clearly shows that there have been marked differences in these patterns between metropolitan and non-metropolitan households. The net decline in home ownership rates is greatest amongst working age households in the lowest income groups in both metropolitan and non-metropolitan regions; in other words, amongst

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<sup>5</sup> The precise figure used depends on how households for whom tenure is not stated are treated. The figure of 70 per cent presumes these are allocated pro-rata. In the census data predominantly employed in this paper, stated home ownership rates are lower because of a high proportion of rent free and not stated responses which are retained in the data because it was not possible to separately identify these in 1986. The relevant home ownership rates for the census data employed here are 68 and 66 per cent respectively.

<sup>6</sup> This observation is made with the qualification that, in the same way that past trends may not provide a firm foundation for predicting the future, predictions based on changes in these trends also may be based on shifting sands.

those households adversely affected by the observed polarisation of household income. However, in non-metropolitan regions, home ownership rates have increased markedly amongst higher income households both as a result of increases in outright ownership and increases in home purchase. They have declined only for lower income households.

In contrast, in metropolitan regions, home ownership rates have declined across all income groups. What may be seen as somewhat surprising is the persistent increase in the incidence of outright ownership in metropolitan regions amongst households in the 25 to 64 year old age group irrespective of income. Such increases are observed amongst the equivalent households in non-metropolitan regions only for high income households.

There are several explanations which might explain such an outcome. The first is that the increased incidence of self-employed persons means that reported or measured income is no longer a good measure of a household's well-being. A second is that an increasing proportion of low income households are accessing home ownership through channels other than mortgage finance. Inheritance, or wealth transfer from parents are two potential channels. Property settlement on divorce or separation is a third potential channel. Consideration of these possibilities is beyond the scope of the paper and the data available.

A detailed analysis of the changes in home ownership rates, however, does show these exhibit very different patterns depending on household structure.<sup>7</sup> This work, however, also suggests, that, regardless of household structure and age, low income households bore the brunt of declining home ownership rates. These declines were greatest for low income households with children, suggesting that children and home ownership are competing rather than complementary decisions made by young couples.

Traditionally home ownership rates have been highly correlated with age and household structure as well with income.<sup>8</sup> For any income and age category, couples and couples with children have had a higher propensity for home ownership than have single persons and sole parents.

Over the past few decades, however, the largest increases in home ownership rates were amongst single persons. This presumably reflects the increased independence of women over this time period.<sup>9</sup> As yet, there is no evidence which suggests that this increased incidence of home ownership amongst young single persons is likely to result in home ownership rates which match those of couples in the same age group. Too many of them have low household incomes.

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<sup>7</sup> These results are based on Yates (1999) using Australia wide data taken from the ABS Household Expenditure Surveys undertaken in 1975 and 1994.

<sup>8</sup> Winter and Stone (1999b) argue that these past relationships no longer as hold as housing careers have become increasingly disconnected from other associated life events, such as marriage and children.

<sup>9</sup> Evidence from ABS surveys supports this presumption. A combination of data from two sources (ABS Cat. No. 6523.0, Table 24, 1988 and ABS Cat No 4102.0, p154, 1999) shows a 15.7 per cent decline in the proportion of income units under 35 who were first home buyers. The only bright spot in this overall decline is a 24 per cent growth in the number of young female headed income units who were first home buyers.

The growth in outright ownership amongst younger households in the top income group and the relative stability of home ownership rates amongst these households do suggest that perceptions that the young are no longer looking to home ownership as an investment should be questioned. The declines in home ownership are systematically related to income. The lower the income, the greater the impact on the decline in home ownership rates for all age groups. The higher the income, the greater the increase in the incidence of outright ownership.

The greater decrease in home ownership rates amongst low income working age households provides considerable support for the argument that the decline in ownership amongst the young results more from the constraints these households face than it does from a lifestyle choice they are making. Nonetheless, the net declines in home ownership amongst households who could afford mortgages of well over \$150,000 (in \$1996) do suggest either additional constraints or lifestyle choices are affecting home ownership decisions.<sup>10</sup> Work done for the Housing Choices project (Mudd et al, 1999; Yates, 1999) suggests that these additional constraints or lifestyle choices account for approximately a 2 percentage point decline in the overall home ownership rate once demographic and economic factors are taken into account.

These income constraints on home ownership raises an important question as to why the housing market does not provide young households with home ownership opportunities which are affordable. A number of explanations may be given. The first set of explanations relate to the operation of the housing finance market and financial constraints; the second to the operation of the housing market. These will only be touched upon here since an attempt to provide such explanations is not the focus of this paper.

Financial market constraints may arise because households are unable to meet deposit requirements even though they can meet repayment constraints.<sup>11</sup> Such constraints may be exacerbated by State based transactions taxes such as stamp duties. They may arise because financial institutions may impose more stringent repayment conditions on households than imposed by the rental sector. They may arise because there is inadequate insurance cover for income or interest rate risk. In other words, capital market imperfections may partly explain constraints on access to home ownership.

The second set of constraints raise questions more directly associated with increases in income inequality. For tenure choices to be unaffected by changes in the distribution of income, housing opportunities must reflect the constraints imposed by income. If there are more low income households, there is an increased need for more low cost or affordable housing.

Low cost housing comes about in a number of ways. In general it will be small and/or low quality, not use much land, or it must be poorly located. The land price premiums associated with central locations in most of our metropolitan cities and many of our

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<sup>10</sup> In 1996, median prices for first home buyers were around \$140,000 based on the HIA/CBA index and only Sydney had median house prices in excess of \$150,000 in 1996.

<sup>11</sup> In the current highly competitive lending environment, however, where a number of lenders are prepared to provide what amount to virtually low deposit loans, it is not obvious that this is still a binding constraint.

major urban localities mean high land prices are likely to counteract any affordability potential of older housing stock. Planning restrictions, building regulations and developer preferences often constrain the production of new housing. Large family homes on the outskirts of urban areas are more likely to serve repeat buyers than marginal first home buyers. Well located higher density developments are more likely to serve non-marginal households.

#### **4. Impact of income and ownership trends on the rental market**

This paper began with the observation that there has been increasing income polarisation amongst Australian households. This has imposed constraints on households adversely affected by this polarisation and has contributed to a decline in home ownership. The outcome of constraints imposed by the failure or inability of the market to provide housing which is affordable for those wishing to meet their housing needs through home purchase is that such households will be forced to turn to the rental market to meet their housing needs. In other words, the decline in home ownership has put pressure on the rental market by those with a limited capacity to pay.

This pressure has been reinforced by changing patterns of behaviour by those who have derived economic benefits from the polarisation of income. Young, affluent households in metropolitan regions have shown a net decrease in the propensity to own their own homes. Their resultant increased demand for rental housing may contribute to gentrification through a pull on what may have once been low cost rental stock. Young, affluent households in non-metropolitan regions have shown a net increase in the propensity to own their own homes, presumably because they face less severe access constraints. However, if the starter homes which provide the initial entry into home ownership sector were initially part of the rental stock in non-metropolitan regions, this, too, may contribute to a loss of low cost stock.

The combined effect of this push from below and pull from above means that there is considerable pressure on the low cost end of the private rental stock. Over a period when the number of households in Australia grew by 23 percent, the numbers in private rental grew by 34 percent. A disproportionate share of this increased pressure on the private rental market has come from those under the age of 65.

Because of the differences in economic and demographic change in different locations, this pressure has not been felt evenly across all housing markets.

Table 1 summarise the most important of these. Despite, or because of, the pressures on the private rental market, the low cost rental stock has declined by a massive 28 per cent. In other words, none of the 34 per cent growth in the rental market has resulted in even one more low cost dwelling.

At the same time there has been a significant growth of low income households in the private rental sector. Most of this growth has been amongst the lower income households for whom any stock other than that in the lowest two rental categories is unaffordable. These changes are summarised in Table 2. As a consequence of these changes, the mean rents of the available rental stock available have increased by 11

per cent in real terms at a time when average household incomes of those in the rental sector have declined by 6 per cent.

In other words, in the rental market has not responded to the changes in income distribution in the same way that the housing market has not responded in terms of providing opportunities for home ownership.

Low cost rental, in this analysis, has been defined as less than \$100 per week (in \$1996). It is the only stock which is remotely affordable for the 20 per cent of households in the private rental market with incomes below \$300 per week. While the demand for low cost stock has virtually doubled, this stock has declined.<sup>12</sup> This decline has meant that, even before the location of the low cost stock is taken into account, and before the fact that not all low cost stock is occupied by low income households, there is an absolute shortage of affordable rental housing in Australia of some 50,000 dwellings.

There are several reasons why this estimate of a shortage of 50,000 low cost rental dwellings should be regarded as an underestimate of the extent to which the private rental sector has failed to respond to the needs of low income households. These most significant of these can be summarised in terms of allocation and location.

#### *Allocation of low cost stock*

The allocation effect arises because not all the low cost rental stock in the market is occupied by low income households. In 1996, for example, only 42 per cent of the low cost stock was available for low income households. The rest is occupied by households who could afford to pay more. This means that 100,000 of the 177,000 low cost dwellings remaining in the private rental market in 1996 were occupied by households who could have paid another \$50 per week and still be paying less than 30 per cent of their income in meeting their housing costs. As a result of what might be described as a stock misallocation, the estimated shortage of affordable housing increases from 50,000 to 150,000 dwellings on an Australia wide basis.

The impact of higher income households residing in lower cost housing is to reduce the already limited choices open to lower income households because of their more limited capacity to pay. Because there is a considerable proportion of high income households in the low cost stock there is, as a consequence, a considerable proportion of low income households in the higher cost stock.

Between 1986 and 1996, there has been an increase in the concentration of low income households in the low cost private rental stock. Although only 42 per cent of the low cost stock was occupied by low income households in 1996, this represents an increase from 1986 when the figure was only 28 per cent. The proportion has increased as the stock as decreased. This increased concentration of low income

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<sup>12</sup> For the low and low to moderate cost stock, the situation is not quite as severe. Stock with a rental cost of \$150 pw or less grew at 61 per cent in the intercensal period in contrast with a growth in households who could afford to pay no more than \$150 per week of 72 per cent. This slower growth reduced the extent of the slack in the system. However, by 1996 there would have been sufficient affordable rental stock to meet the needs of households on incomes upto \$500 per week low if the location of that stock could be ignored and if that stock had been available to those on low incomes.

households in the low cost rental stock in 1996 could be taken as a further indication of the increased polarisation which has occurred in housing markets as a result of income polarisation. Table 3 provides estimates of this "mismatch" based on households in the top two and bottom two income categories.

Even though it may be undesirable to have low income households in high cost stock, it is not at all obvious that it is undesirable to have high income households in low cost stock. Any other outcome raises the question of whether it is desirable to have only low income households in low cost dwellings, particularly if these dwellings are spatially concentrated.

#### *Location of low cost stock*

The second reason why the initial estimate of the shortage of low cost rental stock is likely to be an underestimate is that low cost stock in Hobart is of little use to households in Sydney and vice versa. More generally, low cost stock in non-metropolitan regions is of little use to low income households in metropolitan regions.

Where the greatest pressures are on the low cost end of the rental market will depend both on the demand for and availability of that stock.

In the decade to 1996, the number of households in non-metropolitan regions grew more rapidly than it did in metropolitan regions. In other words, there has been a redistribution of households away from the cities. In particular, the number of low income households in non-metropolitan regions grew more quickly than it did in metropolitan regions. In other words, there has been a redistribution of low income households away from the cities although there is still a greater incidence of low income households in metropolitan Australia. This redistribution is even more pronounced within the private rental market.

Figure 4 illustrates the relative growth of low income households in the private rental sectors of both metropolitan and non-metropolitan Australia and provides an indication of the extent to which there has been a redistribution of low income private renters between metropolitan and non-metropolitan Australia.

These changes are in marked contrast with the trends in the stock of low cost housing. Despite (or, as suggested in an earlier section, because of) a greater increase in low income households in non-metropolitan regions, there has been a greater relative decline in the low cost rental stock in non-metropolitan regions than in metropolitan Australia. Non-metropolitan Australia still boasts a higher share of the low cost rental stock in Australia, but the advantage it offered to households seeking lower housing costs is rapidly declining. A graphic representation of this is provided in Figure 5.

At the same time, there has been a greater polarisation of income in non-metropolitan Australia than in metropolitan Australia. This is shown in Figure 6 for all households.<sup>13</sup>

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<sup>13</sup> The polarisation of income for all working age households suggests greater relative growth of low income households in metropolitan Australia than illustrated in Figure 6 and lesser relative growth of high income households for metropolitan households (when standardised for the overall growth of households in metro and non-metro Australia).

One explanation for the relatively greater decline in the low cost stock in non-metropolitan Australia is that it reflects a greater demand for low cost rental stock in these regions because of above average increases in the proportion of low income households. An alternative explanation is it reflects a rural equivalent of gentrification in response to a disproportionate increase in demand from higher income households.

The resultant changes in tenure by income in metropolitan and non-metropolitan regions seen in Figure 3 suggest that, for non-metropolitan regions, it is solely the first of these two explanations. In other words, the losses of the low cost rental stock in non-metropolitan Australia arise from the push from low income households rather than from the direct pull from high income households in the rental sector.

The disproportionate growth of high income households in non-metropolitan Australia, however, impose a different kind of constraint on housing markets. Their increased demand for homeownership may well have resulted in a transfer of dwellings from the rental to the owner-occupied sector. As such, this would contribute to the upward pull on the private rental market even when such households do not compete for rental housing.

In the same way that the pressures on the rental market have differed between metropolitan and non-metropolitan regions, they have also differed between states and within each state.

Figure 7 highlights the uneven growth of low income households across Australia.<sup>14</sup> This shows that Sydney has faced a significantly lower growth in the numbers of low income households in the private rental sector compared with all other regions. The greatest relative growth has been in non-metropolitan Victoria and, on a significantly smaller base, in the ACT.

Similar differences arise with the loss of the low cost rental stock. In all states there has been a reduction in the proportion of the rental stock which is low cost. Figure 8 shows the outcomes for the metropolitan and non-metropolitan regions in each state.<sup>15</sup> Although generally declines in the low cost rental stock have been relatively more severe in non-metropolitan Australia, the greatest declines have been in the Sydney metropolitan region. In Sydney, there was a massive 61 per cent decline in the low cost stock between 1986 and 1996.

As a result of these combined effect of these housing market and household changes, regions which suffered relatively minor declines in the stock of low cost rental housing between 1986 and 1996 had significant shortages of affordable housing by 1996. In 1986, Sydney was the only region where there was an aggregate shortage of rental dwellings affordable for households on low incomes. By 1996 almost all

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<sup>14</sup> Table A.2 in the Appendix to this paper provides the data underlying this chart.

<sup>15</sup> Although there have been falls in its relative share, there have not been absolute falls in the low cost rental stock in all states. Adelaide is the one shining example where there was an increase in the low cost stock. However, this could result from a transfer of ownership of public housing. Table A.1 in the Appendix to this paper provides data for the private rental stock equivalent to the data on the income distribution of private tenants in Table A.2.

metropolitan and non-metropolitan regions were experiencing such shortages to a greater or lesser extent.

## **5. Summary observations**

This paper began with the observation that there has been increasing income polarisation amongst Australian households. This has imposed constraints on households adversely affected by this polarisation and has contributed to a decline in home ownership. This decline in home ownership has put an upward pressure on the rental market by those with a limited capacity to pay.

This pressure on the rental market has been reinforced by changing patterns of behaviour by those who have derived economic benefits from the polarisation of income. Many of these young, affluent households have relatively limited housing demands in terms except for the critical aspect of location. Any decrease in their propensity to purchase dwellings will add to the pressure on what may have once been low cost rental stock and contribute to gentrification.

The combined effect of this push from below and pull from above means that there is considerable pressure on the low cost end of the private rental stock.

Because of the difference in pressures in different locations, this is not felt evenly across all housing markets. However, there are significant common trends. The most important of these is that the low cost rental stock has declined in absolute terms. Implicit in this observation is a failure of the private rental market to respond to with a supply of low cost housing sufficient to meet the needs of the increasing numbers and proportion of low income households in the private rental market in Australia.

As with the issues raised in relation to homeownership, this outcomes raises the fundamental question of why has there been no supply side response to meet the increasing needs of low income households. Why is it that the response to the increased demand for rental housing in the decade has occurred disproportionately at the top end of the rental market when the growth in households in the rental market has been disproportionately at the bottom end of the income distribution?

A number of explanations might be given for the failure of the rental market to provide an increased supply of low cost stock in response to the changing pressures upon it. Many of these are the same as those raised earlier in relation to reduced home ownership opportunities. There are, however, a number which are likely to be specific to the rental market.

One of the major gaps in housing research in Australia (as in many countries) has been information on the factors affecting the supply of rental housing. As a result of two recent ABS surveys of investors in private residential property (one in 1993 and one in 1997), we now know considerably more about residential investors than we did in the past. We know, for example, that the majority (at least 50%) of rental housing is supplied by individual landlords who own one or two properties and we know something of their motivations.

These investors are predominantly in the 35-54 year age group, more so in 1997 than in 1993. The relative decline of younger investors raises the question whether new the generation will take on mantle of rental investment. In part this will depend on their motivation as well as their capacity to do so.

We know that, at present, most invest in rental property as a secure long term investment. However, the young have greater superannuation coverage than their elders and more are now investing in rental property buying for their own use. Such investment is guaranteed to meet the needs of future owner-occupiers but it will not meet any increase in demand for rental housing. This again raises queries about the future capacity of the rental market to meet increasing needs.

Some exploratory analysis undertaken by Wood (1999) using the 1993 Investor survey suggests that the most marginal investors in rental property (that is those most likely to leave the market) are those who currently invest in the lower cost stock. His predictions have been supported by the observations of what happened to the low cost rental stock between 1986 and 1996.

The ABS surveys, on which the above comments rely, apply only to household investors and cover little more than 50 per cent of the rental market. Little is known about the investors who own the remaining 50 per cent of the remaining stock. In principle, the ABS surveys cover stock owned by investors through private companies but they do not cover stock supplied by non-profit institutions, by employers, by corporations or by non-resident overseas investors

Recent interview based research, however, has provided some information on factors which are likely to affect the supply response from financial institutions. Both Berry (1998) for Australia and Crook and Kemp (1999) for the UK, for example, report a number of concerns. Amongst these are high management costs, the lack of adequately sized and professionally run property companies, the difficulties of building up investment portfolios of an adequate scale and the lack of geographically defined information on rents, costs and yields for investment in residential rental investment. Finally, for those interested in indirect investment, they report concerns about the lack of a suitable investment vehicle.

The one common conclusion which the authors of these studies have drawn is that nothing will happen without someone making it happen.

## **6. Concluding remarks**

The data used in this study show there has been a disproportionate growth of those in rental housing amongst working age households, and this is more noticeable in regional Australia than it is in the higher cost metropolitan regions. Our data cannot tell us whether these households are unemployed because they live in regions where employment opportunities are lower or whether they live in such regions because they are unemployed.

In many ways it does not matter what the answer to this question is. What matters is that increasing income polarisation has meant there is an increasing proportion of

households who no longer can gain access to home ownership. For these households, housing opportunities are increasingly limited. Those who have benefited from increased income impose an upward pressure on those parts of the housing market which provide ready access to employment opportunities or which provide a desirable life-style for those not in the labour force. Those who have been disadvantaged by this income polarisation compete for low cost rental stock. The restructuring of housing markets and the loss of low cost rent rental stock as a result of these pressures suggests that housing markets are exacerbating the disadvantage reflected in the polarisation which has occurred in household incomes over the past few decades.

Examination of policy options is not a focus of this paper, but there are a number of broad options which do arise from the work presented.

A number of the more important policy options lie outside of the housing system. One such option is regional development programs which address the emerging imbalance between labour markets and housing markets. A second is to improve mobility between spatially distinct housing and labour markets. This could mean policies as diverse as decreasing barriers to information about what jobs are available to reducing the transport barriers which prevent ready access to those jobs. It could mean increasing affordable child care facilities to remove the constraints faced by those with young children. Such suggestions emerge from the re-merging spatial mismatch literature (eg Kain 1992, Ihlanfeldt and Sjoquist 1998). On the whole, however, these are policies which operate outside of housing markets.

Within housing markets, the increasing polarisation of housing opportunities could be addressed by replacing or supplementing the existing private rental market. Replacement can arise through creation of a secondary rental market such as occurs with head leasing by a social landlord. In general, the private rental market will allocate the limited low cost stock available according to capacity to pay subject to an assessment of risk and information available. As a result, households with a capacity to pay more occupy much of the very limited low cost stock. One solution, which is already being implemented on a small scale in different states, is to head lease low cost properties as they become available. These could be offered at the set market rent with no additional subsidy. This effectively involves creation of a secondary market for low income tenants. It does not run the danger of holding up low end of market, because the primary market acts as a constraint. It replaces the primary market only in so far as allocation policies can be based on need rather than capacity to pay. Spatial concentration can be avoided by choice of whether or not to take on properties. However, the declining numbers of low cost rental properties means that such an approach ultimately is limited.

A second solution within existing housing markets is that of market supplementation. This could occur, for example through the development of a social housing sector committed to expanding the range of affordable housing available. If such an initiative cannot be directly funded by central or state governments, there maybe scope for supporting institutions committed to providing the financial support needed to guarantee funds raised by would be housing providers. Because market supplementation policies are likely to need the financial support provided by rent assistance to ensure the financial viability of their projects, such policies highlight the need to ensure rent assistance is both guaranteed and is available as a supply side

measure. In general, old stock is likely to be cheaper than new stock unless the new stock fills gaps in the market (such as providing boarding house style accommodation).

In broad terms, a market supplementation policy highlights the need to work towards building institutional structures which can increase control over the supply of affordable rental accommodation.

These institutional structures could encompass all or some of a fund raising arm, a set of appropriate financial instruments, a housing provider and a housing manager. These roles do not have to be undertaken by the one institution and not all may be necessary. What is appropriate at any time will depend on the current economic environment and on whatever windows of opportunity arise. At present, for example, the current uncertainties associated with taxation reform provide some opportunity for negotiation. Likewise, the recent emergence of income securities (seen by some analysts as overtaking property trusts) could provide an obvious vehicle for investors more concerned with income streams than capital gain. In light of higher rental yields and lower capital gains on lower valued properties, such securities may be attractive to investors interested in indirect investment in rental property.

Raskall et al (1994) concluded their study with a quote from John Kennedy:

"Change is the law of life. And those who look only at the past or the present are certain to miss the future."

This paper has unashamedly looked at both the past and the present. It leaves open the question of what is to be the future. It is to be hoped that the workshops at, and follow ups from, conferences such as this are informed by the research reported here and elsewhere and that this is used to develop policies in which housing ameliorates rather than accentuates the effects of social exclusion.

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