



KPMG's Affordable Living Index

**Affordable living, not just
affordable housing – helping
build community resilience**

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Introduction

The gap between high income and low income households in Australia has been widening since the turn of the century.¹ After taking into account housing costs, it is estimated that 3.24 million Australians are living below the poverty line today.²

These trends coincide with a number of dramatic transformations in our major cities, including rapid population growth and changes to the structure of the economy. This has made living in our major cities an extremely expensive exercise for most Australians. Housing costs are a key component of the cost of living. Melbourne and Sydney, in particular, rank alongside Hong Kong, Vancouver and Los Angeles as some of the least affordable housing markets in the world.³ Policy responses to high living costs have historically concentrated on making housing more affordable. 'Demand-side' subsidies such as the first home-owner grant and the HomesVic shared equity scheme are some recent examples. Although such initiatives are important, they only address part of the problem.



Measuring housing stress

Traditionally, levels of housing stress are measured by reference to the proportion of household income spent on housing costs. The Australian Housing and Urban Research Institute identifies a household as being in financial stress if it is in the bottom 40 percent of income distribution and pays more than 30 percent of its income on housing costs. The focus on the bottom 40 percent of the income distribution ensures the most vulnerable Australians are the priority. The allowance of 30 percent of income on housing costs ensures that a household has 70 percent of its income for other critical expenditures such as transport, utilities, food, education and health.⁴

While the 30/40 rule offers an objective, simple assessment tool for policy makers, it does not provide a comprehensive measure of household need or living costs.

¹ Melbourne Institute: Applied Economic & Social Research, Living in Australia A snapshot of Australian society and how it is changing over time, p. 12

² ACROSS and UNSW SYDNEY, Poverty in Australia 2020, Part 1: Overview, p. 9.

³ 16th Annual Demographia International Housing Affordability Survey: 2020 <http://www.demographia.com/dhi.pdf> p. 40

⁴ Australian Housing and Urban Research Institute, Understanding the 30:40 indicator of housing affordability stress, 23 May 2019, <https://www.ahuri.edu.au/policy/ahuri-briefs/3040-indicator>

Changes to the economic structure, combined with reduced housing affordability, mean that there is an increasing imbalance between where people live and where people work.⁵ People are not able to live close to jobs, health, education and human services. This is contributing to longer, more frequent travel. These structural factors can contribute to a heavier reliance on cars where there is no viable or convenient public transport option. The cost of transport can be especially challenging for households in the bottom two income quintiles.

As an example, the typical equivalised⁶ income of a household in the bottom two income quintiles⁷ in Frankston is \$717 per week.⁸ Frankston is approximately 50 kilometres from Melbourne's CBD. A train line connects Frankston to the CBD, but there are limited public transport options to access non-CBD locations. In 2018, a household in the bottom two income quintile in Frankston had a typical transport cost of \$184 per week.⁹

Although housing in Frankston is relatively more affordable at \$305 per week, when compared to the rest of Melbourne, transport costs are high.¹⁰ There is a direct trade-off between affordable housing and transport costs for households in the bottom two income quintiles in Frankston. This trade-off is being played out in households across all of our major cities.

The trade-off between housing costs and transport costs is fairly well understood by policy-makers. A number of government policies, such as the Victorian Government's Plan Melbourne, recognise the need to manage the supply of housing in the right locations to support a sustainable city.¹¹ However, there is not a simple and effective mechanism for quantifying the degree of this impact. For this reason, KPMG has developed the Affordable Living Index (ALI). To illustrate its benefits, the ALI has been applied here to Greater Melbourne.



Affordable Living Index

KPMG's Affordable Living Index (ALI) is a tool that has been developed to capture two of the most significant factors that influence living affordability – housing costs and transport costs. It is a composite index that combines housing affordability and transport affordability into a single score. A score is then generated for each statistical area.

To undertake this analysis, KPMG uses its Melbourne Activity and Agent Based transport Model (MABM) to estimate the cost of housing and transport for households in the bottom two income quintiles.

Further detail about the ALI and [MABM is available here](#).

⁵ Infrastructure Australia, Future Cities: Planning for our growing population, 27.

⁶ Equivalised means: total household income is household income adjusted by the application of an equivalence scale to facilitate comparison of income levels between households of differing size and composition, reflecting that a larger household would normally need more income than a smaller household to achieve the same standard of living. ABS, Equivalised Total Household Income (weekly) (HIED), <https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/2901.0Chapter31502016#:~:text=Equivalised%20total%20household%20income%20is,household%20to%20achieve%20the%20same>

⁷ The ABS ranks households from lowest to highest income, and then divides households in five equal groups with 20% of the population each in group (quintiles). The Affordable Living Index and this analysis focuses on households in the bottom two quintiles.

⁸ KPMG Affordable Living Index, 2018.

⁹ KPMG Affordable Living Index, 2018.

¹⁰ KPMG Affordable Living Index, 2018.

¹¹ Plan Melbourne, p. 46.

Living affordability

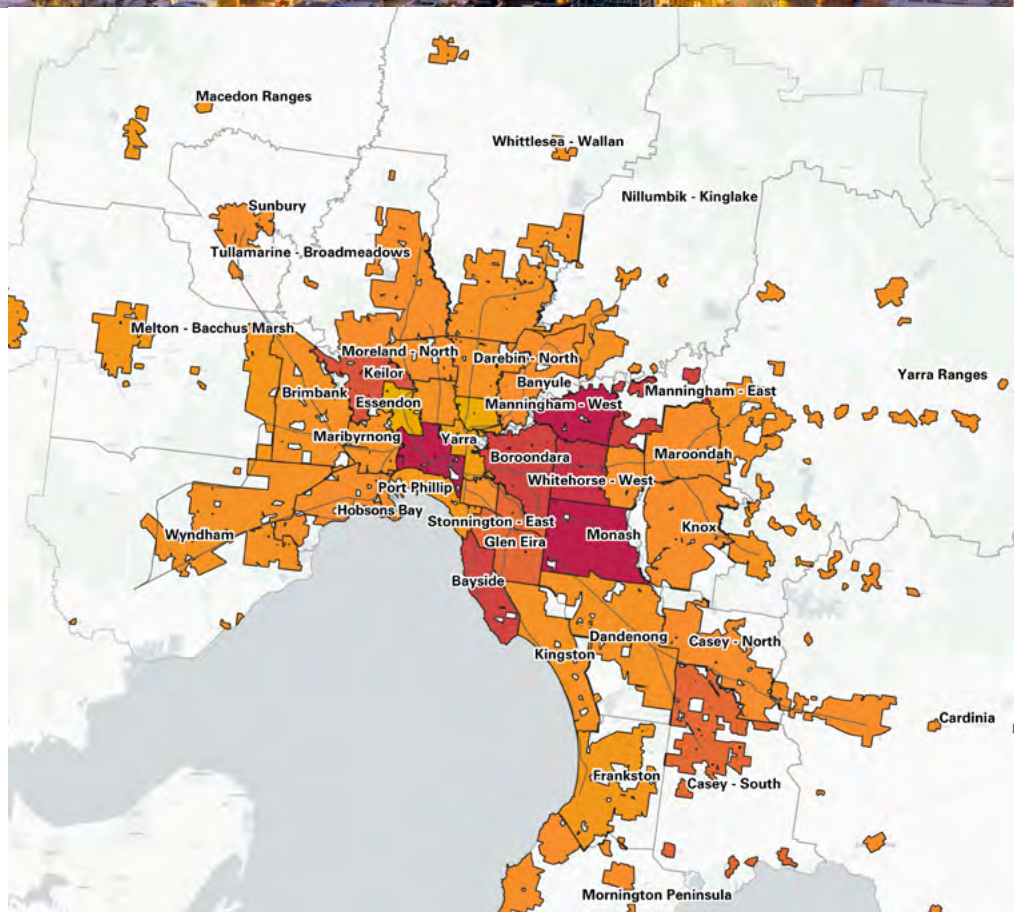
in Greater Melbourne

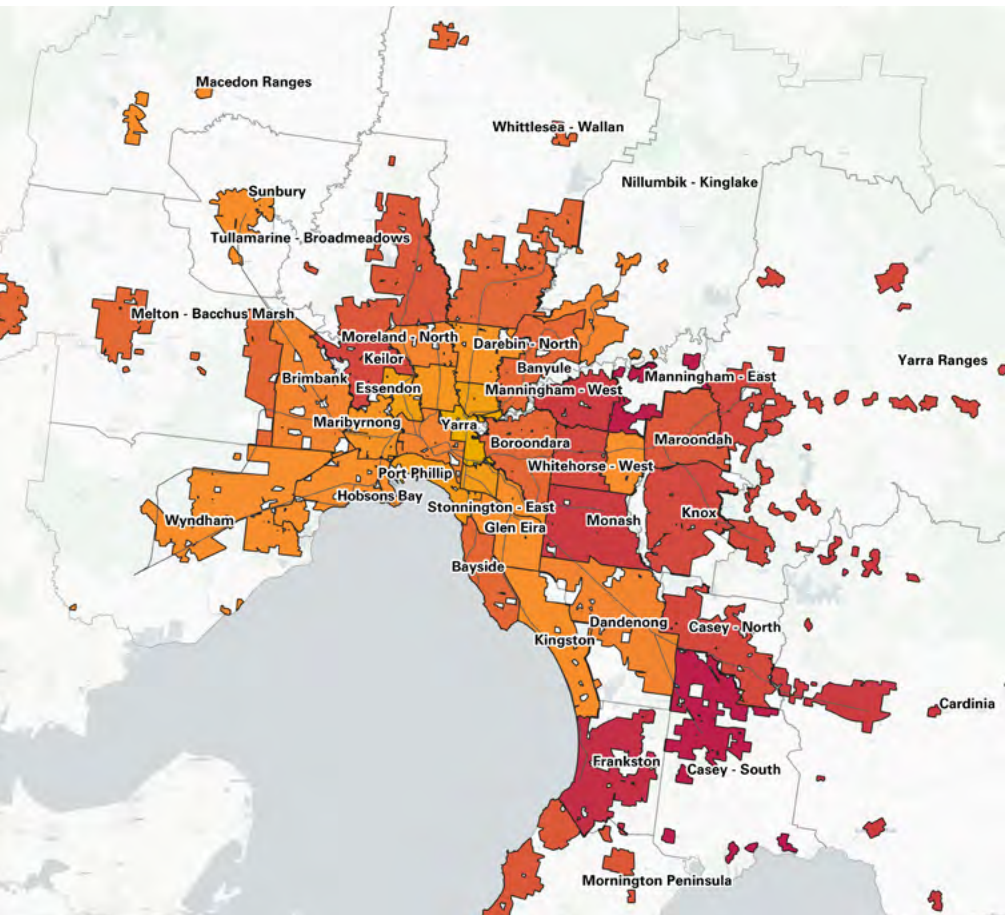


Affordable Housing Index, 2018

Housing costs are high across most of Greater Melbourne. Suburbs such as Bulleen, Mont Albert and Chadstone are particularly unaffordable for households in the bottom two income quintiles (refer Figure 3).

Housing costs as a percentage of household income





Affordable Living Index, 2018

The true cost of living in Melbourne becomes apparent when transport costs, derived from KPMG's Melbourne Activity Based Model tool, are added (refer Figure 4).

Housing and travel costs as a percentage of household income



A number of themes emerge from the patterns of living affordability in Greater Melbourne. Suburbs such as Cranbourne, Knoxfield and Rowville have high living costs, despite more affordable housing. This indicates that high transport costs in these suburbs are outweighing the benefits of relatively affordable housing. Many residents in these suburbs will be driving long distances to work or to access services, recreational and cultural opportunities. After allowing for housing and transport costs, households in the bottom two income quintiles in these suburbs have only a fraction of their income left for other essentials.

In contrast, suburbs further from the CBD, such as Sunbury, have more expensive housing but better living affordability. This indicates that people living in Sunbury are probably less likely to travel long distances for work and are able to access their daily needs locally. In some instances, the cost of housing alone is enough to make a suburb unaffordable for households in the bottom two income quintiles. For example, in suburbs such as Mount Waverley and Blackburn that are closer to the CBD and with good access to public transport, housing costs are very high making the suburbs unaffordable overall.

Approximately 253,800 households in the bottom two income quintiles in Greater Melbourne live in the 10 areas¹² that are deemed to be the most unaffordable by KPMG's Affordable Living Index. This represents nearly 25 percent of households in the bottom two income quintiles in Greater Melbourne. Rockbank and Cranbourne East, which experienced some of the highest rates of population growth in 2018 – 2019, have some of the worst living affordability.¹³ Analysis by KPMG shows that under a business as usual scenario, affordable living pressures are expected to worsen across the city. Between 2016 and 2031, 18 percent of Melbourne's total population growth is projected in the 10 most unaffordable areas.¹⁴

¹² In this context, area means Statistical Area 3, as used by the ABS.
¹³ KPMG Affordable Living Index, 2018.
¹⁴ In this context, area means Statistical Area 3, as used by the ABS.

Case studies

Supermarket shelf stackers and nursing support and personal care workers

Low wages combined with high living costs leave households with little to spend on essential items such as utilities, fresh food, education, healthcare and telecommunications.

High-living costs can drastically affect a household in the bottom two income quintile’s economic resilience, long-term wellbeing and life satisfaction outcomes. For example, some households may not be able to afford to connect the internet or use heating. As we have seen during the COVID-19 pandemic, lack of internet access and heating can affect an employee’s ability to work from home (if possible within their occupation) or a child’s ability to learn and participate fully in school.

To illustrate this point, a typical supermarket shelf stacker in Casey is left with approximately \$198 per week after accounting for housing and transport costs (refer Figure 5).



A supermarket shelf stacker worker household in Casey

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Living Costs (per week)

 - \$333 Housing

 - \$170 Transport

.....

A Typical Household in Casey is left with

 \$198 each week for other expenses

e.g. Fresh Food, education, health, Utilities

A typical nursing support and personal care worker in Melton is left with approximately \$266 after accounting for housing and transport costs (refer Figure 6).



A nursing support and personal care worker household in Melton

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Living Costs (per week)

 - \$298 Housing

 - \$137 Transport

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A Typical Household in Melton is left with

 \$266 each week for other expenses

e.g. Fresh Food, education, health, Utilities



COVID-19 pandemic

exacerbating financial hardship

The COVID-19 pandemic is gravely affecting Australian households. As the economy was brought to a grinding halt, long lines of people queuing for government assistance were commonplace – such scenes have not been witnessed in Australia since the Great Depression. The pandemic is an acute and unprecedented economic shock that has exacerbated existing pressures facing the most vulnerable Australians.

Emerging evidence indicates that women, the young and the elderly have been disproportionately impacted by job losses during the crisis. The number of payroll jobs undertaken by women decreased by 6 percent between 14 March and 27 June, compared with a 5.4 percent decrease in payroll jobs undertaken by men.¹⁵ In the same period, payroll jobs undertaken by people under 20 years old reduced by 5.2 percent. There was also an 8.6 percent reduction in jobs undertaken by people aged 20–29 years old. Jobs undertaken by people aged 70 years and over reduced by 8.7 percent. These groups in our community are already generally economically vulnerable. For example, in 2017–2018, around half of all single mothers were living in households in the bottom two income quintiles.¹⁶ Women are also less economically secure as they age – the median superannuation balance for women approaching retirement is only \$119,000, compared to \$183,000 for men.¹⁷

The pandemic has also dramatically affected how we travel in our cities. The most severe lockdown restrictions – as are currently in place in Melbourne – aim to limit all non-essential travel. People have shifted to working from home where possible and schooling is again being undertaken remotely.

At this stage, it is unclear whether these trends will persist in the longer-term and if they will impact transport costs. It is also unclear how these trends will affect households in the bottom two quintiles.

Nearly 50 percent of workers who earn a weekly income that falls within the bottom two quintiles work in retail, hospitality and accommodation, health care and social services, manufacturing, and electricity, gas, water and waste services – jobs that generally cannot be undertaken remotely. A supermarket shelf stacker and nursing support and personal care worker also cannot work from home. Not being able to take advantage of remote working will further entrench the disadvantage already experienced by these households.

¹⁵ ABS – Weekly Payroll Jobs and Wages in Australia, Weekly Payroll Jobs and Wages in Australia, Week ending 27 June 2020, 6160.0.55.001

¹⁶ ABS, Gender Indicators, Australia, Nov 2019 <https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Nov%202019~Main%20Features~Economic%20Security~4>

¹⁷ ABS, Gender Indicators, Australia, Nov 2019

Our response

Supporting households and creating jobs is central to both Federal and State governments' post-COVID-19 recovery. The Federal Government is implementing its HomeBuilder scheme which grants households up to \$25,000 to build a new home or to substantially renovate an existing home.¹⁸

The Victorian Government announced it is investing almost \$500 million to build and upgrade community and public housing.¹⁹ Similarly, the Western Australian government announced a \$444 million housing stimulus which (among other things) is designed to support jobs and deliver more social and affordable housing options for Western Australians.²⁰ The New South Wales Government is using land tax cuts to incentivise build-to-rent housing projects in order to increase housing diversity and increase supply. The New South Wales Government is also seeking to reduce transport cost pressures and stagger patronage by providing a 50 percent discount for commuters travelling on public transport in Sydney during the off-peak.²¹

While these initiatives are to be commended, there is a greater opportunity to shape the long-term living affordability of our cities by ensuring we provide affordable housing in locations that support affordable living.

Building more housing in suburbs that are assessed to be affordable, from a more holistic perspective, will help ensure that the policy objectives of supporting vulnerable Australians are fully realised. We also need to ensure that we invest in transport to make more suburbs more accessible to jobs, education, health and community services. A two-pronged approach to living affordability will help make Australian cities more resilient to similar economic shocks in the future.



¹⁸ <https://treasury.gov.au/coronavirus/homebuilder>

¹⁹ <https://www.dhhs.vic.gov.au/news/social-housing-boost-to-strengthen-our-economy>

²⁰ <https://www.mediastatements.wa.gov.au/Pages/McGowan/2020/06/New-444-million-dollar-housing-stimulus-for-Western-Australia.aspx>

²¹ [https://www.nsw.gov.au/news/half-price-off-peak-travel-on-public-transport#:~:text=From%20Monday%206%20July%202020,Sydney%20during%20the%20off%20peak.&text=Travel%20outside%20these%20times%20will,bus%20\(currently%207am%20to%209am\)](https://www.nsw.gov.au/news/half-price-off-peak-travel-on-public-transport#:~:text=From%20Monday%206%20July%202020,Sydney%20during%20the%20off%20peak.&text=Travel%20outside%20these%20times%20will,bus%20(currently%207am%20to%209am))

The opportunity

Governments must seize the opportunity of new stimulus investment into infrastructure and affordable housing to effectively tackle affordable living pressures so that inequality is addressed and the vulnerable Australians are more resilient to future shocks.



KPMG recommends the following action to policy makers.

- While it is well understood that housing costs and location drive affordable living costs, a tool such as KPMG's ALI is required to effectively quantify this impact to support more nuanced policy responses.
- New housing investment must be undertaken with a more holistic view of affordability pressures.
- New housing policies and initiatives (including in respect of community and public housing) should encourage housing at the right price point and in the right locations. Affordable housing should be prioritised in areas with good access to jobs, education, health and community services.
- In parallel, we also need to invest in public transport and encourage employment growth in areas closer to where people live. This highlights the need for an integrated approach to housing, transport and economic planning.



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