

Affordable Housing in Australia: Pressing Need, Effective Solution



Policy Options for
Stimulating Private
Sector Investment
in Affordable Housing
across Australia

Affordable Housing
National Research Consortium



September 2001

Membership of the Affordable Housing National Research Consortium

The Affordable Housing National Research Consortium (AHNRC) is a national committee comprising representatives from the housing, building and development industries, trade unions and not-for-profit organisations.

Its members are as follows:

Chairman: Dr Kim Hawtrey

- Housing Industry Association
- Australian Council of Social Service
- Real Estate Institute of Australia
- Australian Council of Trade Unions
- National Community Housing Forum
- Urban Development Institute of Australia
- Property Council of Australia
- Royal Australian Institute of Architects
- Master Builders Australia Inc
- Royal Australian Planning Institute

Consultants

- Australian Housing and Urban Research Institute
 - Professor Mike Berry
RMIT University Research Centre
 - Jon Hall
University of Sydney Research Centre
- The Allen Consulting Group
- Trudeau & Associates

Executive Summary

Despite mortgage interest rates averaging historically low levels, housing affordability for a significant group of working Australians is steadily deteriorating.

In this context, the opportunity exists to forge a better set of solutions, effectively building on existing Commonwealth housing policy through the involvement of the private sector.

The Problem of Declining Housing Affordability

The size and gravity of the affordability problem have emerged from new and extensive research commissioned by the Consortium. The research is unique in Australia, drawing upon the most up-to-date data and for the first time documenting affordability at sub-regional level, by major capital city. As well, the recommendations presented here have benefited from substantial discussion and debate by the Consortium, a coalition of national peak bodies charged with the task of developing lasting solutions.

Affordability is a complex issue, yet it can perhaps best be dealt with using a benchmark known as 'housing stress'. A conservative setting of the benchmark, specifically chosen in order not to overstate the problem shows that households in the lower forty percent income bracket who pay more than 30% of their gross income on housing costs, whether renting or buying, are said to be in 'housing stress'.

Even from that restrained perspective, the facts that emerge are disturbing. They show that since 1986 the number of low-income urban households in dwelling stress across Australia has grown from 90,000 to over one quarter of a million households. This covers only the major capital cities; the number is higher when regional figures are included.

The research suggests that on present trends, and in the absence of new policy measures to redress the situation, the number of stressed households will reach one million by the year 2020.

Towards a sustainable solution

In seeking viable policy answers, the Consortium took as its starting point the existing suite of Commonwealth housing assistance policies, which play an indispensable role in helping to address the problem. Equally, it is clear that rent assistance and public housing programs, by themselves, are not enough.

As outlined in this paper a new strand of national policy is needed, one that clearly targets the supply-side of the housing market, and emphasises a wholesale financing solution designed to close the 'investment gap' in low-cost housing.

After canvassing the requirements of the investment community, looking at overseas examples, and considering a host of possible avenues the Consortium has proposed a viable way forward. Outlined on page 30, the proposal would enable a new public-private partnership to be implemented, one that would meet the needs of the wider community, the Government and financial sector. The housing subsidy model developed for the Consortium indicates that every \$1 billion dollars raised would have a gross cost to the commonwealth of \$220m (the net cost is \$90m - after taking into account tax receipts) and would assist 7,450 tenant households.

This Report

The Affordable Housing National Research Consortium (AHNRC) is a national committee comprising representatives from the housing, building and development industries, trade unions and not-for-profit organisations. The diversity of their individual mandates notwithstanding, Consortium members are united in their desire to develop realistic means of generating private sector financing for affordable housing. Initially brought together by William Kirkby-Jones, members of the Consortium have, for more than fifteen months, focussed their attention on the issue of affordable housing in Australia. There are, of course, a number of Federal policies already in existence that target this situation (CSHA and Rent Assistance). The Consortium recognises the valuable and important contribution that those policies have made and continue to make to the alleviation of this situation. Yet it is doubtful that these mechanisms alone are sufficient to address mounting challenges and pressures. To assess the situation afresh, the Consortium commissioned extensive and significant research¹ into the issue. The results of that research are contained in three successive reports titled *Policy Options for Stimulating Private Sector Investment in Affordable Housing Across Australia*. The first, Stage 1 Report: *Outlining the Need For Action*, defined the nature and scope of the problem. The second, Stage 2 Report: *Identifying and Evaluating the Policy Options* and third, Stage 3 Report: *Options for Public/Private Partnership to Stimulate Private Investment in Affordable Housing*, examined a range of options designed to tackle and relieve it. A final report, *Affordable Housing: The Subsidy Cost of the Preferred Option* was prepared to cost the Consortium's preferred approach.

This document concerns itself with the outcomes of that research and of the Consortium's deliberations on the matter. The situation it paints is a grave, complex and pressing one. It bears the hallmarks of a looming crisis. Unchecked, the lack of affordable housing carries with it the risk of disruptive social, economic and political consequences.

Affordable Housing: A grave, complex and pressing matter with far-reaching consequences

¹ The research reports were jointly prepared by the Australian Housing and Urban Research Institute (AHURI) and The Allen Consulting Group. Professor Mike Berry and Jon Hall (AHURI) led the work on Stages 1 and 2. The Allen Consulting Group took lead responsibility for Stage 3. Jon Hall was responsible for the subsidy cost model report.

The picture that emerges from the Consortium's research moreover, is not confined to one or two Australian urban centres. The problems triggered by the dearth of affordable housing are evident in all of this country's major cities. While the research data does not address areas beyond the capital cities, it can be surmised that similar stresses also play in our regional centres with equally negative – albeit often unreported – impacts. In short, the Consortium is of the view that a crisis looms. Yet within that crisis also lies the opportunity to exercise leadership and to address a significant problem convincingly, to the lasting benefit and well-being of our broader community.

...of national importance

Reference Points

'Affordable housing' conveys the notion of *reasonable* housing costs in relation to income: that is, housing costs that leave households with sufficient income to meet other basic needs such as food, clothing, transport, medical care and education². Typically, the proportion of housing costs to gross income sits at 30%, a benchmark referenced in the 1991 National Housing Strategy and used in the present research. It also coincides with the maximum acceptable mortgage repayment limits set by institutional mortgage providers³.

Q: What does the term 'affordable housing' mean?

A: Housing the cost of which does not exceed 30% of a household's income

The issue of housing affordability is particularly acute where a person's income falls in the two lower quintiles, i.e. the lower 40% of income distribution. Where this is the case and that person spends more than 25% to 30% of his or her income on rent or mortgage payments, that individual is effectively deemed to be experiencing 'housing stress'⁴.

Exceeding the 30% mark places one under what is known as 'housing stress', particularly in the lower 40% of the income distribution scale

Within the group defined by these criteria, there can be different types of relationships between an individual or household and housing, i.e. ownership or tenancy; within the latter, one can also be a public or private tenant. 1999 data from the Australian Bureau of Statistics suggests that, of all categories surveyed, *private* tenants were the group most at risk of suffering housing stress. In fact, more than 54% of private tenants found themselves in that condition, a rate twice as high as for purchasing owners and some six times higher than public tenants⁵.

Private tenants experience far more 'housing stress' than owners purchasing and public tenants

² Stage 1 Report: Outlining the Need for Action, Australian Housing and Urban Research Institute, September 2001, p 56.

³ Stage 1 Report, p 56.

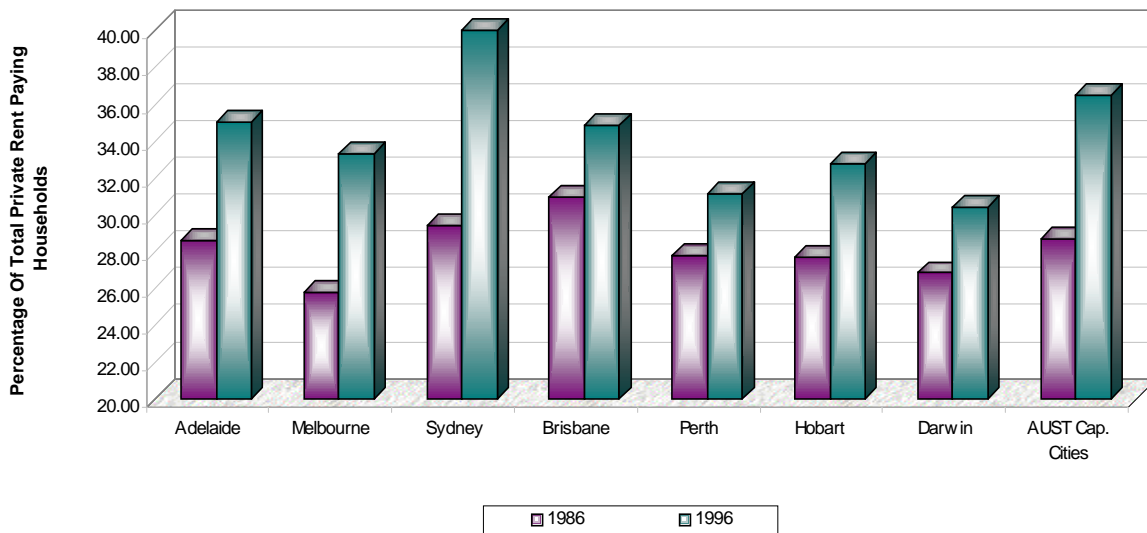
⁴ Stage 1 Report, p 61.

⁵ Stage 1 Report, p57.

Together, these parameters defined the focus of the Affordable Housing research: Australians in the lower 40% income bracket who, as private tenants, expended more than 30% of their income on meeting their housing needs alone.

Research focus: low-income private tenants in Adelaide, Melbourne and Sydney

Private rent paying households paying more than 30% of income in rent: 1986-1996⁶



⁶ Stage 1 Report, p 62.

Forces at Play

A number of forces at work in our day-to-day living environment have, over recent years, compounded and exacerbated the difficulties experienced by low-income households – and more particularly those experiencing housing stress, irrespective of their city of residence in this country.

People with diminished median household incomes...

In the first instance, median household incomes have fallen in real terms over the 1986–1996 period in Adelaide (-13%), Melbourne (-11%) and Sydney (-4%). That said, the fall was greater still for households in the lower 40% bracket of income distribution: down 16% in Adelaide, down 12% in Melbourne and down 5% in Sydney⁷. Real incomes in Adelaide fell more steeply than in Melbourne or Sydney. The data suggests that while households in all capital cities seem to be losing purchasing power, those in the smaller centres appear to be losing it the fastest.

Those in the lower 40% income distribution bracket experienced the most significant falls in median household incomes between 1986 and 1996

The trend is all the more striking if one considers that unemployment rates in South Australia (8.4%) and Victoria (6.2%) are at their lowest level in a decade, and at its lowest level in fourteen years in New South Wales (5.2%). However, while full-time employment is relatively high and average weekly earnings are rising faster than the Consumer Price Index ('CPI'), household incomes are not keeping pace. Numerous researchers have pointed to a broad shift from low-paid permanent employment to full-time and part-time casual employment. Moreover, there is growing evidence of an increasingly large group of households who, while in full-time employment, would not meet the lending criteria of major lending institutions and are now effectively precluded from home ownership⁸.

High employment levels and better average weekly earnings notwithstanding, household incomes are not keeping pace. The 'working poor': Employed people who increasingly do not meet the lending criteria of financial institutions and are effectively excluded from home ownership.

⁷ Stage 1 Report, p 39.

⁸ Stage 1 Report, p 40.

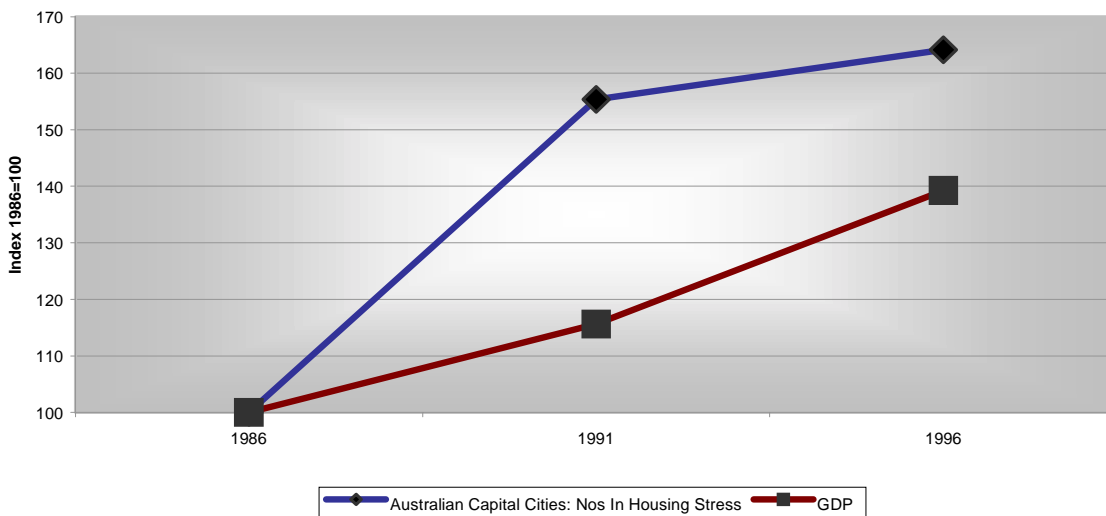
...struggle in the face of rising rents and prices.

This situation arises even though nominal mortgage interest rates have fallen progressively through the 1990s. Real rates have followed a similar pattern, falling to 5% in the current year. Other things being equal, housing affordability should be on the increase. Yet information set out in the following pages demonstrates other things have *not* been equal, by any measure⁹.

With few exceptions, rents and prices of fully detached houses have grown faster than the household incomes of the lower 40% income group throughout the three metropolitan regions. House prices and rents have risen strongly across these cities in the latter half of the 1990s¹⁰.

Rents and prices of fully-detached houses have gone up in Adelaide, Melbourne and Sydney alike

Gross domestic product versus housing stress: 1986 -1996¹¹



⁹ Stage 1 Report, p 9.

¹⁰ Stage 1 Report, p41.

¹¹ Stage 1 Report, p 65.

A similar trend is also evident for small, multi-dwelling units. In the period covered by the research, rents and prices have risen more than incomes in the inner areas of Adelaide and Melbourne. In Sydney there was no relief to be found anywhere: rents and prices across dwelling types everywhere (inner and outer areas) rose faster than incomes for this group.

Similar trends have affected small, multi-dwelling units in the three capital cities. Of the three, Sydney was the worst affected.

To add to the difficulty, more parties than ever are renting.

Figures for the three major cities studied show that the proportion of households renting privately is increasing fastest where the dwelling prices have increased most significantly. Over the five years to 1996, the proportion of Melbourne households privately renting increased by a little less than 11%, while in Sydney the figure was more significant at 20%¹².

The sharper the increase in dwelling prices, the greater the increase in the numbers of persons renting privately

The private rental market is playing an increasingly important role in the overall housing system. Renting is becoming a permanent housing tenure for a significant and growing proportion of the population. In 1998, Wulff and Maher highlighted the fact that 40% of private tenants had been renting for the previous ten years or longer¹³. There are indications, furthermore, that more people also 'fall out' of home ownership and will depend on rental housing of one type or another for their shelter¹⁴.

More parties rent privately than ever before. Many renters stay on for long periods, occupying premises for more than a decade in many instances.

¹² Stage 1 Report, p 55.

¹³ Stage 1 Report, p 21.

¹⁴ Stage 1 Report, p 21.

Low-income households compete for diminishing stock

Although the rental market has grown substantially in the 1986–1996 period – much faster than owner occupation and the number of households – the growth has been highly uneven across rental segments or sub-markets. The stock of defined low-rent dwellings actually fell over this period by 28%. This represents an absolute stock decline of almost 70,000 dwellings. Over the same period, the number of low and moderate income households grew strongly, at rates exceeding 70%¹⁵.

The stock of low-rent dwellings has dropped by 28% (70,000 dwellings), while the number of low to moderate income households increased at rates greater than 70%

In effect, the research points to an intensifying mismatch between the number of households requiring low-cost rental housing and the availability of a dwindling stock of low-cost rental dwellings. More specifically, it has been estimated that the shortfall of low-cost rental stock stood at almost 50,000 dwellings in 1996, Australia-wide¹⁶. To all intents and purposes, the rental market in Australia polarised on the basis of income over the 1986–1996 decade. Housing opportunities for low-income households have diminished, while the effective housing choices of higher-income groups have increased¹⁷.

In 1996, Australia was short 50,000 low-rental dwellings, according to Yates and Wulff

The situation is further exacerbated by other factors

...with higher income households.

It is argued moreover that the situation is even worse than these figures suggest. In 1996 low-income households occupied only 42% of low-cost rental dwellings. Higher-income households paying relatively low proportions of their income in rent occupied the remainder – in excess of 100,000 dwellings, effectively ‘crowding out’ the lower income households¹⁸. Taking that factor into account, researchers have re-estimated the national shortage of low-cost rental dwellings in the mid-1990s at 150,000¹⁹.

In 1996, low-income households occupied only 42% of low-rental dwellings. Higher-income households tenanted the remainder. On that basis the shortage of low-rental dwellings might well be closer to 150,000 than to 50,000...

¹⁵ Yates, J. and Wulff, M. cited in Stage 1 Report, p 22.

¹⁶ Yates, J. and Wulff, M. cited in Stage 1 Report, p 22.

¹⁷ Stage 1 Report, p 22.

¹⁸ Stage 1 Report, p 22.

¹⁹ Stage 1 Report, p.22.

Meanwhile, the number of low-income households grows

Between 1986 and 1996 the number of households in 'housing stress' has steadily increased in most Australian capital cities as a proportion of total households renting privately. In Adelaide, the proportion climbed from 63.4% to 76.1%. In Melbourne, it went from 60.5% to 74%. In Sydney, it rose from 67.3% to 80.7%. Smaller increases were recorded in Hobart and Brisbane, while Perth and Darwin experienced modest falls (3.8% and 7% respectively). Overall the capital city average climbed from 64.1% to 72.7%, which in turn translates into an increase of some 90,000 in the number of households suffering housing stress²⁰.

Three out of every four low-income households living in the capital cities of this country are in housing stress

In effect this means that, in the State capital cities in this country, three out of every four low-income households (numbering more than 227,000) renting on the private market are in housing stress situations²¹.

This equates to more than 227,000 households

...in a rental market characterised by significant failures.

The final twist in an already daunting situation lies in the low-cost rental market itself. Contrary to conventional economic theory, excess demand in this segment has not automatically brought forth a corrective supply response. Private investors have clearly not rushed to fill the gap, while governments have tended to favour income support (typically in the form of rent assistance) over supply-side housing subsidies, in an environment characterised by significant capital and revenue constraints. The result is that net additions to the public housing stock have effectively fallen in most, if not all, States, while rent assistance to private tenants now exceeds \$1.6 billion per annum²².

The play of market forces has not operated to balance the situation, contrary to accepted economic theory

²⁰ Stage 1 Report, p 12.

²¹ Stage 1 Report, p 12.

²² Stage 1 Report, p 15.

The lion's share of private sector investment in low-cost rental housing comes from individual owners, partnerships and small companies, who tend to own, in the main, a single property. The overall picture of the private rental sector is one of a disparate and fragmented 'cottage industry', with low barriers to entry and frequent movement of both investors and dwellings into and out of the sector, around a more stable core with longer-term views²³. In addition, the virtual absence of rent controls has encouraged small investors to lock their savings into these properties, secure in the knowledge that future contingencies and cost increases can be met by raising the rent to what the market will bear. In practice, this has meant that landlords have been able to regain possession of their dwellings at the end of short leases to sell, re-let, re-develop or use them for their own needs and purposes²⁴.

A disparate and fragmented cottage industry, with little overall stability...

This predominantly 'petty landlord' character of the Australian private rental housing sector is underscored by the virtual absence of large corporate investors, especially the major financial institutions²⁵. With the exception of a few one-off schemes large investors have continued to shun investment in low-cost housing²⁶.

...and one essentially shunned, with few exceptions, by large institutional investors...

By and large, these investors have tended to shy away from this type of investment on account that it typically provides lower returns, higher property risks and low liquidity. Poor detailed market information and the dearth of examples of successful investments only add to the drawbacks and fuel further the lack of interest in the sector²⁷.

...who find the investment opportunity (far) less attractive than others available to them

²³ Stage 1 Report, p 93.

²⁴ Stage 1 Report, p 93.

²⁵ Stage 1 Report, p.94.

²⁶ Stage 1 Report, pp 94.

²⁷ Stage 1 Report, pp 124-125.

When all is said and done...

A declining first-home owners market, a slow-down in additions to the public housing stock, the continuing loss of low-cost rental dwellings, rising numbers of low-income households needing to pay more than 30% of their income in rental payments and falling median household incomes... In combination, these forces and trends have had a devastating impact on the situation of the lower 40% of income earners, in addition to placing them under various degrees of housing stress. The severity of that impact is perhaps best highlighted by the fact that, in June 2000, no low-income rental household could²⁸.

In 2000, no low-income household could afford to buy a 3-bedroom house in Adelaide, Melbourne or Sydney

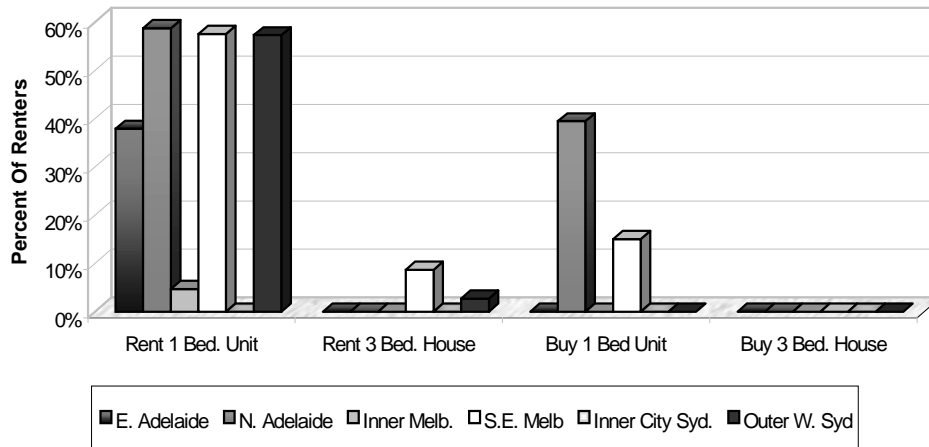
- Afford to buy a three-bedroom house anywhere in Adelaide, Melbourne or Sydney.
- Afford to buy a one-bedroom unit anywhere in Sydney, with only 15% of lower-income Melbourne households able to buy in the outer area of that city.
- Afford to rent a three-bedroom house anywhere in Adelaide. In Melbourne and Sydney only 9% and 3% of the same households could do so, but only in the outer areas.
- Less than 5% of low-income tenants could afford to rent a one-bedroom unit in inner Melbourne or Sydney. More than 50% could afford to rent a one-bedroom unit, but only in the outer areas of the three cities referred to²⁹.

...and only a small fraction could rent a 3-bedroom house

²⁸ Stage 1 Report, p 59.

²⁹ Stage 1 Report, p 59.

Adelaide, Melbourne and Sydney: Private renters: Percentage of lower two household income quintiles that can afford to buy or rent: June 2000³⁰



A looming crisis

With nearly three-quarters of low-income private tenants forced to spend more than 30% of their household income to secure a rented roof over their heads as at 1996; with the number of low-income households rising by 90,000 in the ten years to 1996 across the seven capital cities; and with more than 227,000 households in housing stress, the severity of the issue shows no sign of abating. In fact, it shows every sign of developing into a significant national problem that will affect us socially, economically and politically.

¾ of low-income tenants in housing stress, and more than 227,000 households under housing stress in 1996

³⁰ Stage 1 Report, p 60.

The research commissioned by the Consortium suggests that if the rate of growth in stressed households continues, then the number of households in that situation will double in the next fifteen years, and reach one million within twenty years³¹.

Unchecked, the number of these households will double in fifteen years, and reach one million in twenty years

To meet the needs of the 227,000 housing-stressed households in the lower income bracket through the direct construction of new affordable dwellings would require capital of some \$27 billion³². If we bear in mind that the number of those households has increased in the five years since 1996 and will, in all likelihood, continue to move upwards in the years ahead, then the dimensions of the issue begin to strike home.

The cost of addressing the 1996 low-cost housing problem for households under housing stress: \$27 billion

Yet, sobering as they are, these figures do not represent the full extent of the issue. To understand the full 'cost' of housing stress and the importance of addressing it, two more impacts must be considered: the first from a household perspective, and the second from a community one.

The broader consequences of housing stress:

The broader, everyday consequences of housing stress for household members

From the time of the Henderson Poverty Inquiry in Australia in the 1970s research has consistently found a positive relationship between poverty and housing costs, especially for households in the private rental sector³³. Where a household has insufficient resources to meet the barest of necessities, full participation in the normal life of the community is impossible and other problems multiply.

■ *Housing-driven financial hardship*

³¹ Stage 1 Report, p 13.

³² Stage 1 Report, p 12.

³³ Stage 1 Report, p 23.

Through housing-driven financial hardship some households are forced into situations of overcrowding. Overcrowding, in turn, gives rise to other consequences. It may also transform into outright homelessness, where housing costs become prohibitive. In that regard, and most ominously yet, homelessness has reappeared as a serious social problem and policy concern. The most authoritative estimate of incidence, based on a detailed analysis of the 1996 Census, found that on Census night 1996, more than 100,000 Australians were technically homeless, including more than 20,000 suffering 'primary homelessness', i.e. these people literally did not have a roof over their heads³⁴.

■ *Overcrowding and homelessness*

Inadequate housing and related financial stress can contribute to family breakdown, as well as result from it. Without secure tenure over housing of a reasonable standard, large enough to meet the minimum shelter requirements of a household for its size and composition, normal 'family life' is well nigh impossible to support³⁵. While other factors undoubtedly come into play, an increase in the supply, quality and targeting of affordable housing will be part of the answer to more stable family relationships and overall improvements in the quality of life experienced.

■ *Family instability and breakdown*

The geographic concentration of lower-cost housing in areas of low employment can markedly reduce the job prospects of households forced by lack of resources to live there. In turn, poor job prospects reduce lifetime earnings and the capacity to meet long-term housing costs. Social isolation and the stigma that attaches to such enclaves reinforce the disadvantages of unemployment, including discrimination, whether real or perceived, by employers³⁶.

■ *Lower effective access to the labour market*

³⁴ Stage 1 Report, p.23.

³⁵ Stage 1 Report, p.24.

³⁶ Stage 1 Report, p.24.

There is a large body of evidence that links poor housing situations with a range of serious health problems for household members. The 1992 National Health Strategy in particular established a strong correlation between low economic status and poor health³⁷. In the absence of adequate and affordable housing, overcrowding and homelessness can give rise to serious health situations. In general, where the lack of such housing options forces households into poor quality or overcrowded conditions – or pushes them out into marginal and isolated areas, health problems are likely to multiply.

■ *Health problems*

Children living in temporary, overcrowded or otherwise inadequate housing may suffer educational disadvantage. Poor housing leading to poor health can, in turn, adversely affect school attendance and performance. Insecurity of tenure and frequent forced moves will disrupt a child's schooling and may lead to truancy³⁸.

■ *Low levels of educational attainment*

The links between crime and inadequate housing are complex. A range of factors, including poor housing, affect crime levels and outcomes. Providing housing that is both appropriate and affordable is one of a number of strategies necessary for dealing with the problems criminal activity imposes on victims and the broader community³⁹.

■ *Crime*

...and for the wider community

This broad range of largely interdependent, housing-related social and financial 'costs' is significant by any measure for the households that experience them, and for the social network and governments that must deal with their consequences.

³⁷ Stage 1 Report, p.25.

³⁸ Stage 1 Report, p 26.

³⁹ Stage 1 Report, p 25.

There is evidence that permanent, secure housing provides the necessary base for 'social capital' (i.e. the mutual trust and social behaviours) that facilitates civic engagement⁴⁰. Neighbourhood stability, in the sense of low resident turnover, is associated with high levels of social capital and good, basic, housing standards. Conversely, where that social capital disintegrates, so does social cohesion. Where this occurs, segments of the community will experience social exclusion; in effect, they will be prevented from full participation in the life of the community. When social cohesion fades, then so does the attractiveness of an environment as a place in which to live and do business. Australia can afford neither. Adequate and affordable housing is a necessary ingredient in the achievement and maintenance of an inclusionary, innovative and productive society⁴¹.

■ *Impact on social capital and social cohesion*

The search for alternatives

The question, from the Consortium's perspective, is not whether something should be done to alleviate housing stress for low-income earners. The outcomes of the analysis speak eloquently enough on the matter, as do the longer-term consequences of a failure to address the issue. In that last regard in particular, inaction is unconscionable. Rather, the challenge consists in determining the most effective way in which to secure a sustainable solution, capable of delivering the necessary relief. In particular, the challenge is concerned with the stimulation of private sector investment in affordable housing across Australia.

In searching for that solution, the Consortium has taken account of:

- The contribution of well-established mechanisms, in the form of rental assistance, and public housing funded through the Commonwealth-State Housing Agreement

⁴⁰ Stage 1 Report, p 26.

⁴¹ Stage 1 Report, p 28.

- Initiatives such as the Government's First Home Owners Grant which allows for a one-off grant of \$7 000 to assist buyers purchase their first dwelling
- Overseas experiences, policies and practices, as part of a broader effort to examine and test a range of options.

Rent Assistance

Rent Assistance is defined as 'a non-taxable cash payment to Commonwealth clients who rent accommodation in the private rental market. The payment is available to all pensioners, allowees, beneficiaries and family payment recipients who pay rent above minimum threshold levels. Rental assistance is provided at the rate of 75c per dollar of rent paid above these thresholds up to specific maximum rates of assistance. Both the rent thresholds and the maximum rates of assistance are indexed twice yearly and vary with both family type and the presence and number of children⁴².

Typically, conventional economic models of housing markets and rent assistance programs assume that urban housing rental markets are competitive and that rent levels are determined solely by the supply and demand for housing. Yet the research and information contained in each of the three reports show clearly that such conventional economic models *cannot* be applied to the current situation. The allocative efficiency of the private rental market in Australia must be seriously questioned⁴³. This proposition is given additional weight if one considers that:

- For single people and couples without children eligible to receive rent assistance, there is almost no type of dwelling that is affordable in either Melbourne or Sydney⁴⁴.

⁴² Stage 1 Report, p -67.

⁴³ Stage 1 Report, pp 69-74.

⁴⁴ Stage 1 Report, pp 76-78.

- The effectiveness of rent assistance is diminishing. There is less location choice in a much smaller range of local government areas in 2000 than there was in 1994⁴⁵. And
- Comparisons of 1994 data to 2000 data reveal that of all the qualifying groups, only couples with 1 or 2 children eligible to receive rent assistance and looking to rent three-bedroom housing are provided with greater choices than in 1994⁴⁶.

Observations of this nature suggest that, valuable as it is, the current rent assistance program is struggling to provide either a wider range of dwelling or location choices for the majority of recipients in Melbourne or Sydney⁴⁷. Evidence also suggests that the programme is not particularly equitable, particularly where horizontal equity is concerned (i.e. the principle that people in equal positions should be treated equally – individuals with the same incomes should receive the same amount of cash support or housing benefit)⁴⁸. In that regard, rent assistance is deficient in two ways:

- Firstly, singles and couples without children, fully employed in a low wage context, renting in the private sector, and not receiving any benefit or pension, do not receive any rent assistance. By contrast, those pension and benefit recipients receiving identical incomes to this low wage group, but with some part of that income accruing from a benefit or pension, will receive full rent assistance entitlements⁴⁹.

⁴⁵ Stage 1 Report, pp 76-78.

⁴⁶ Stage 1 Report, pp 76-78.

⁴⁷ Stage 1 Report, pp 76-78.

⁴⁸ Stage 1 Report, p 79.

⁴⁹ Stage 1 Report, p 79.

- Secondly, on the same measure, the proportional value of the housing benefit granted varies widely across Australia. For a given type of recipient, the maximum amount of rent assistance paid and the cut-off level are the same in Sydney or Hobart. Yet the amount of housing service that can be purchased varies dramatically from one city to the other, because of the vastly different cost structures in these two locations⁵⁰.

In addition, one can observe a significant variation between the value of assistance provided to public housing tenants by State governments on the one hand, and rent assistance provided to low-income earners by the Commonwealth Government on the other. As a result, households with similar incomes receive significantly different levels of assistance depending on whether they rely on rent assistance or public housing to alleviate their housing stress⁵¹. Some research also suggests that the greater reliance on personal subsidies has resulted in a housing situation that is now more affected by market fluctuations and crises than was the case earlier⁵². This state of affairs creates a dual risk: for the recipient, who has no guarantee that housing will remain affordable; and for governments, faced with expanding housing allowance claims⁵³. The discussion is not an argument against rent assistance *per se*. Rather, it points to the fact that rent assistance alone will not offer a solution to the problem of affordable housing, in that it does not address convincingly the fundamental issue of housing supply.

⁵⁰ Stage 1 Report, p 79.

⁵¹ Stage 3 Report: Options for a Private-Public Partnership to Stimulate Private Investment in Affordable Housing, September 2001, p 27.

⁵² Stage 1 Report, pp 79-82.

⁵³ Stage 1 Report, pp 81.

The Commonwealth-State Housing Agreement

The Commonwealth-State Housing Agreement is the other key mechanism through which federal and state governments provide housing assistance through funding public housing. The provision of public housing by State Housing Authorities has been central to this agreement, which has evolved from one renewal and extension to the next.

Recent Commonwealth State Housing Agreements have supported a number of housing assistance activities including:

- Capital grants to State Housing Authorities to provide public housing and community housing organisations to provide social housing
- Funding for crisis accommodation
- Grants or loans to private renters to assist them defray initial set up costs, and
- Subsidised home lending products aimed at those with particular needs. In the past many States have also accessed private funds either directly or through their central borrowing authorities to debt finance their home ownership programs (with adverse consequences for some in the early 1990s, notably in New South Wales).

These measures, allied to the falling real value of annual capital grants and increasing maintenance and upgrade costs have caused annual additions to the public stock to fall to less than 5,000 in the last few years⁵⁴.

⁵⁴ Stage 1 Report, p 84.

Over the past few years, the State housing authorities have sought to rationalise and consolidate their activities in both public renting and support for home ownership. They have done so generally in the context of slowly declining activity levels, in line with the falling real value of Commonwealth and State resource commitments in this area, as well as some uncertainty as to the longer term future of the Commonwealth State Housing Agreement. Conversely, the Commonwealth's fiscal commitment to rent assistance has continued to grow in total dollar terms⁵⁵.

In the light of these trends, the Consortium believes it unlikely that the Commonwealth State Housing Agreement in its current configuration and funding base will in its own right bring about a resolution of the low-cost rental housing crisis. In a situation where the resolution of that crisis carries a price tag in the order of \$27 billion⁵⁶, far more creative, effective and sustainable solutions are required *in addition* to rent assistance and the current Commonwealth-State Housing Agreement.

First Home Owner Grant⁵⁷

Under the First Home Owner Grant scheme, Australian citizens or permanent residents who are buying or building their first home in Australia are entitled to a one-off \$7,000 payment. The first home must be intended as a principal place of residence and occupied within a reasonable period. Announced recently, the extended First Home Owner Grant provides for an additional \$7,000 grant, in addition to the existing \$7,000 grant, for the construction or purchase of eligible new homes where a contract is made (or in the case of owner-builders where construction starts) on or after 9 March and on or before 31 December 2001. This means that during the prescribed period, eligible first home buyers, buying or building new homes receive \$14,000 assistance, regardless of their income level, and regardless of the area in which they are planning to buy or the value of their first home⁵⁸.

⁵⁵ Stage 1 Report, p 84.

⁵⁶ Stage 1 Report, p 12.

⁵⁷ Applies from 1 July 2000. Each State and Territory Revenue Office is responsible for administering the grant in their respective jurisdictions.

⁵⁸ First Home Owner Grant Website- www.firsthome.gov.au.

From 1 January 2002 the First Home Owner Grant in respect of new homes will revert back to \$7 000⁵⁹.

Notwithstanding the attractiveness of the grant for many parties the benefits it provides are limited in the context of affordable housing, as it will not close the gap for the larger proportion of households in housing stress.

In that respect, and in the light of the extensiveness of the affordable housing problem, the grant cannot be seen as a solution to an issue that demands a supply-side contribution with investment leverage potential.

Elsewhere in the World

As part of its canvassing of options the Consortium has considered low-cost housing policies in a number of other countries, including the United States, the United Kingdom and the Netherlands. Of particular interest are those strategies that go beyond government-funded rent subsidies and public housing programs, and seek to leverage private sector financing.

In a context where conventional public housing represents only about 1% of the total housing stock the United States have a long tradition of government-supported financial assistance for affordable rental and home purchase utilising sophisticated market techniques⁶⁰. These policy approaches involve all levels of government and have included: taxation subsidies (negative gearing, high building allowances and income tax credits); housing bonds; land and housing trusts; community banks and development corporations; secondary mortgage markets; housing vouchers; subsidised loan interest rates; and shared equity or option-to-buy schemes⁶¹.

In the United States

⁵⁹ The First Home Owner Grant remains at \$7,000 for eligible first homebuyers who purchase existing homes.

⁶⁰ Stage 1 Report, p 103.

⁶¹ Stage 1 Report, pp 103-108.

Besides the well-established Federal National Mortgage Associated (Fannie Mae) and two other like organisations, there are also many community-based, non-profit organisations operating at the local and regional level committed to assisting people with low to moderate incomes into owner occupation⁶². In general, these organisations seek to bring together representatives from local or State government, the private sector and non-profit sector to leverage expertise, contacts and access to funding sources. The effectiveness of these activities is given underlying support by pieces of legislation such as the Community Reinvestment Act of 1977⁶³ and the Low-Income Housing Tax Credit (1986) programme⁶⁴. The latter, for instance, is designed to deliver tax credits to selected developers who must contract to maintain low to moderate income occupancy of dwellings built for a period of thirty years⁶⁵.

Historically, affordable housing in Britain has been directly provided by the State, financed by central government and managed by local councils. Over the last twenty years however, a major housing policy shift has wrought significant changes⁶⁶.

In the United Kingdom

In the main, the dual thrust of policy has been to move households who could afford it into home ownership, supported by continuing but declining tax subsidies and income protection mortgage insurance, while shifting more of the burden of social housing provision to a growing housing association sector⁶⁷. A survey carried out in 1999 to examine investor attitudes to investing in private rental housing suggests that institutional investors are still looking to the government to provide them with reasons for investing. The survey also identified that between 1994 and 1999 investor interest in residential property had risen significantly accompanied by greater market activity⁶⁸.

⁶² Stage 1 Report, pp 103-108.

⁶³ Stage 1 Report, pp 103-108.

⁶⁴ Stage 1 Report, pp 103-108.

⁶⁵ Stage 1 Report, p 107

⁶⁶ Stage 1 Report, pp 108-111.

⁶⁷ Stage 1 Report, pp 108-111.

⁶⁸ Stage 1 Report, p 110.

The picture is different again in the Netherlands. By the early 1990s, 42% of the Dutch housing stock was located in the social housing sector, with $\frac{3}{4}$ of that stock managed by some 1100 housing associations⁶⁹. A further 13% of the stock is privately rented⁷⁰. Housing associations are non-profit organisations that are expected to play a leading role in the construction and management of affordable housing. Insurance companies and pension funds have long lent to the sector. Under new arrangements promulgated in the 1990s, banks are now keen lenders, drawn by the strong and diverse equity base and a complex, tripartite system of insurance and government guarantees⁷¹.

In the Netherlands

Innovation, creativity and method: Searching for options
designed to stimulate investment in affordable housing

If nothing else, the examination of overseas policies illustrate the range and diversity of approaches to the resolution of a complex, but by no means unique, problem. Innovation and creativity, along with multi-party approaches – supported where necessary or appropriate by legislation – have produced beneficial and long-lasting results. That appreciation drove the Consortium to the identification and methodical assessment of a range of options.

⁶⁹ Stage 1 Report, pp 111-112.

⁷⁰ Stage 1 Report, pp 111-112.

⁷¹ Stage 1 Report, pp 111-112.

Towards a sustainable and effective solution

As indicated earlier, the research commissioned by the Consortium identified a number of significant barriers that currently impede expanding investment in affordable housing, particularly with regards to institutional investors: high risk, high management costs, low liquidity, absence of a reassuring track record, to name only the more significant of them.

Overcoming the barriers to investment...

Given this situation and, more importantly, a funding requirement measured in billions over time, the Consortium began to focus particular attention on those avenues that enabled a partnership between the private and public sectors. Ideally, such an arrangement should enable governments to access the large amount of investment dollars available in superannuation funds and other institutions. In so doing, they would acquire the means to address the matter of affordable housing at a much lower overall cost than would otherwise be the case, were they acting without private sector involvement.

...calls for a joint private and public sector approach.

For residential rental investment to be attractive to private sector investors any proposition would need to deliver returns commensurate with those that can be earned from alternative investments, adjusted of course for the appropriate risk profile. In that respect a risk-neutral investor such as an institution would expect a real rate of return of about one to two percent above the 'risk-free' rate to justify investment in residential real estate. This type of scenario makes government participation particularly important to bridge the gap between actual and required rates of return to private investors. Bearing that in mind, the Consortium examined the different ways in which government support could be combined with alternative forms of private financing, with a clear focus on expanding the *supply* of affordable housing.

In that regard, a good deal of attention was directed to the provision of new housing in particular, as subsidising investment in existing dwellings would fail to address the shortage of affordable housing. ABS data shows that 82% of first homebuyers purchase established properties, therefore, home loan assistance would do little to increase the supply of affordable housing and have negligible impact on the looming crisis situation⁷². Given also that the availability of new, low-cost rental housing would not, in and of itself, lead to occupancy of the premises by low-income households under housing stress, the selected options also featured management of the new stock by housing authorities or other providers in the non-profit and community sector.

Bearing those matters in mind, the Consortium, with the assistance of finance and taxation specialists⁷³, undertook a comprehensive assessment of a wide set of delivery mechanisms, support options and private financing options, assembled in various permutations. These were then assessed by The Allen Consulting Group using a scorecard reflecting a balanced mix of financial and non-financial criteria⁷⁴ to test and rank the options, in an effort to ensure as transparent, objective and comprehensive an assessment as possible.

*Options assessed by The
Allen Consulting Group*

In the final analysis, particular regard was had for those options that:

- Had the capacity to generate a large volume of private investment for affordable housing, coupled with the capacity to make a significant and timely contribution towards a material reduction in the scale of the identified affordable housing issues
- Were accessible to housing providers and their target households

⁷² Stage 3 Report, p 60.

⁷³ Stage 2 Report:

Identifying and Evaluating the Policy Options, September 2001, p 16.

⁷⁴ Stage 3 Report, p 21. The criteria used in the assessment are: efficiency, equity and fairness, risk, effectiveness, budgetary impact and political feasibility.

- Minimised subsidy costs through efficient targeting and risk management, and;
- Were simple and flexible to implement, as well as capable of contributing to desired housing outcomes in a range of economic and institutional circumstances⁷⁵.

Through that process some 120 options were whittled down to three supply-driven propositions for further consideration⁷⁶.

The preferred options are as follows:

- **Option 1. A direct government subsidy for private (debt) investment in affordable housing.** Governments would raise finance for affordable housing through the issue of a bond with a guaranteed minimum after-tax return. The funds would then be distributed to State housing authorities or other eligible housing providers (e.g. community housing providers) on the condition that they are used to construct affordable rental dwellings. The dwellings would then be owned and managed by State housing authorities or other approved providers. The subsidy could be provided in two ways: via a tax concession, or through a Budget outlay.

On the measures of efficiency and equity and effectiveness, Option 1 rates very highly. This option removes most of the risks perceived by institutional investors by transferring them to the government. Based on the Commonwealth's preference for outlays rather than tax expenditures when providing assistance, a Budget outlay, which can be capped, is the proposed delivery method. Option 1 achieves a high score as it ranks favourably against the majority of assessment criteria⁷⁷.

⁷⁵ Stage 2 Report, p 16.

⁷⁶ Supply-side assistance aims to increase the stock of dwellings available for either assisted purchase or rental, as distinct from demand-side measures which typically subsidise the person(s) in need of affordable housing.

⁷⁷ Stage 3 Report, p 48.

■ **Option 2. The establishment of a stock exchange listed company as a vehicle for private sector investment in affordable housing.**

The company would invest in affordable housing with its funds drawn from three sources: 20% Commonwealth Government equity, 30% private sector (debt and equity) investment and 50% borrowed funds. The Commonwealth Government's investment in the company would be in the form of subordinated equity that would be available to meet investors' returns, up to a predetermined level designed to encourage private investment.

Option 2 scores well on efficiency and equity grounds. It addresses the identified shortage of affordable rental housing through the provision of funds for the construction of new dwellings. However, on the matter of risk, the possibility that the Commonwealth could lose its equity and the parallel risk to institutions from exposure to the property market, results in a poor risk rating. The principle of a Government investing in a stock exchange company is also considered to be inconsistent with the broad thrust of Commonwealth economic policy⁷⁸.

■ **Option 3. A prescribed ratio for affordable investment assets.**

The Commonwealth would mandate through legislation that a minimum proportion of the assets of designated financial institutions, notably superannuation funds, be held in ownership of rental dwellings managed by State and Territory Housing Authorities (or agents in the community sector).

On the measures of efficiency, equity and overall effectiveness. Option 3 scores poorly. As there is no direct budget cost to government, it scores highly against the budgetary impact criterion. It is, however, out of alignment with existing Commonwealth policy on superannuation and on economic regulation generally⁷⁹.

⁷⁸ Stage 3 Report, p 53.

⁷⁹ Stage 3 Report, p 55.

In short option 3 scores poorly against the majority of criteria. Unless investment in new dwellings is made mandatory it may have little impact on the shortage of affordable housing and hence on relieving housing stress - one of the main objectives of the Consortium's approach.

The Preferred Option

Of these three options, Option 1, which provides for a direct government subsidy for private investment in affordable housing, is the Consortium's preferred option. The housing subsidy model⁸⁰ developed for the Consortium indicates that every \$1 billion dollars raised would have a gross cost to the commonwealth of \$220m (the net cost is \$90m -after taking into account tax receipts) and would assist 7,450 tenant households.

- It rates highly against the efficiency, equity and effectiveness criteria applied by the Consortium.
- Implementation of this option would enable the development of a new public-private partnership – a partnership that enables government to access a large amount of institutional investment dollars to make a significant contribution to addressing housing stress. For every dollar of government subsidy provided in this way, three or four private sector dollars would flow into expanding the stock of affordable housing. This level of 'leverage' is necessary to mount a convincing attack on the looming crisis outlined earlier.
- Funds would be directed to the construction of new affordable dwellings, thus significantly increasing the number of affordable dwellings available for rent and directly responding to the shortage of affordable rental housing stock.

⁸⁰ Stage 4 Report: The Subsidy Costs of the Preferred Option, September 2001

- Through the debt instrument, institutions are at arm's length from the property market and not subject to the risks involved in direct equity investments.
- Because it reduces key risks, it also overcomes some of the barriers to investment identified earlier, and consequently there is potential to attract significant levels of investment funds. And
- Management of the stock by State housing authorities ensures that the assistance would be provided to those in need. In doing so, it would go part of the way in redressing current inequities in levels of assistance provided.

In Closing...

More than a year ago, the Consortium was embarking on its examination of what was then, even to its members, a somewhat unstructured yet concerning issue. After fifteen months of research and deliberation, the question of affordable housing has lost any vagueness that it might have held in the earlier days. Its scope and its evolution, its consequences and the threat it poses to the social, economic and political fabric of this country is now clear, as is the amount of distress, dislocation and suffering that it causes to those who are increasingly unable to combat its effects with any degree of success.

The Consortium has, however, done more than describe and analyse the problem. Drawing on the range of perspectives represented among its members, and with the assistance of experts, it has assembled and tested an extensive set of options in its search for combining private sector investment with government funding. From the range of possibilities it has narrowed down more than one hundred options to a set of three, and out of those three, selected a preferred mechanism.

By addressing the supply side of the affordable housing equation, that mechanism targets the heart of the problem. When combined with existing demand side mechanisms such as those provided by rent assistance and the CSHA in particular, it offers a compelling opportunity to make inroads into a growing problem that contains the seeds of a social crisis, should it continue unchecked.

As a direct government subsidy for private sector investment in affordable housing, the proposed mechanism stands out as the one avenue that leads to the optimal balance of financial and non-financial criteria when compared to other options assessed by the Consortium. More to the point still, it holds the promise of substantial leverage: for every one dollar of government funding, it can attract a multiple of private sector dollars. That is precisely, we would argue, the sort of power required to begin arresting and rolling back the destructive effects of the situation.

In contemplating the social and economic forces that sometimes seem to impose their effects upon the shape of our environment, the Canadian sociologist Robert Theobald argues that, contrary to appearances, we do have future choices as to the sort of world we choose to create and inhabit.

As a body of concerned parties representing a broad spectrum of the Australian community who focussed on one aspect of that community's future, the Consortium shares Theobald's view, as it does the belief that the solution it now advances can make a material difference to the resolution of this crippling social and economic issue.

The Affordable Housing National Research Consortium

The membership of the Affordable Housing National Research Consortium is diverse and broad-ranging. Its breadth speaks to the importance and complexity of the affordable housing issue, and to the equally comprehensive answer that it calls for.

Membership of the Affordable Housing National Research Consortium

Organisation	Name	Position
Affordable Housing National Research Consortium	Dr Kim Hawtrey	Chairman
National Community Housing Forum	Mr Adam Farrar	Executive Director
Housing Industry Association	Mr Warwick Temby	Chief Executive Services
Master Builders Australia Inc	Mr John Murray	National Executive Director
Property Council of Australia	Mr Peter Verwer	Chief Executive Director
Real Estate Institute of Australia	Mr Daryl Smeaton	Chief Executive Officer

Membership of the Affordable Housing National Research Consortium (continued)

Organisation	Name	Position
Urban Development Institute of Australia	Ms Pat Gilchrist	Executive Director
Royal Australian Institute of Architects	Mr Robert Peck	Chair RAIA Housing Policy Subcommittee
Royal Australian Planning Institute	Mr Charles Hill	National Vice President
Australian Council of Trade Unions	John Sutton	National Secretary Construction Forestry Mining Energy Union
Australian Council of Social Service	Ms Eleri Morgan Thomas	Deputy President

Glossary of Key Terms and Acronyms

A number of terms and acronyms appear frequently in the research documents and in this document. The following definitions and explanations will place them in the proper context and facilitate a consistent understanding of their use.

Key Terms

Affordable housing	A situation that conveys the notion of reasonable housing costs in relation to income: that is, housing costs that leave households with sufficient income to meet other basic needs such as food, clothing, transport, medical care and education. Hence <i>affordability</i> (see below).
Affordability	The on-going cost of housing in relation to income.
Housing Stress	Income units [sic] are said to be in financial housing stress if they pay more than 30% of income on housing and are in the lowest (40%) of the income distribution range.
Social Capital	The norms and networks of civil society that lubricate cooperative action among both citizens and their institutions. Without adequate supplies of social capital – that is without civic engagement, healthy community organisation, norms of mutual reciprocity and trust – social institutions falter (Puttnam, 1998).
Working Poor	Employed people who increasingly do not meet the lending criteria of financial institutions and are effectively excluded from home ownership.

Key Acronyms

AHNRC	Affordable Housing National Research Consortium
AHURI	Australian Housing and Urban Research Institute
CSHA	The Commonwealth State Housing Agreement (drawn up in 1996, and now extended to 2003)
NHS	The National Housing Strategy
RA	The Rent Assistance programme
SHA	State housing authorities