

# Submission to Affordable Housing Working Group Issues Paper

by **SGS Economics & Planning Pty Ltd**

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Independent insight.



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# 1 UNDERSTANDING THE 'AFFORDABLE HOUSING SYSTEM'

## 1.1 Definitions and categories

Affordable housing in Australia forms part of the wider housing system. The term affordable housing is used “somewhat ambiguously in Australia” (Yates 2013: 113) and can overlap with concepts of social, community and public housing (NSW Government 2014). It is therefore important to outline what these concepts mean in the context of this submission.

The NSW Affordable Housing Guidelines adopt the following definition of **affordable housing**: “...housing that is appropriate for the needs of a range of very low, low and moderate- income households, priced to ensure households are able to meet other essential basic living costs.” In this regard, rents for affordable housing are “at rates below market levels” (Milligan et al. 2009: 2).

For the purposes of this submission, **social housing** is understood to be “rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private rental market” (Productivity Commission 2012). While social housing has traditionally been provided by the state and territory governments in Australia, community or not for profit housing organisations now play an important role in delivering housing for low to moderate-income or special needs households (Productivity Commission 2012; Yates 2013). Social housing makes up around 5 per cent of the housing system in Australia and at present is predominantly financed with public funds (Milligan et al. 2009).

**Public housing** (which is a subset of social housing) can be understood as “dwellings owned (or leased) and managed by State and Territory housing authorities to provide affordable rental accommodation” (Productivity Commission 2012).

**Community housing** (also a subset of social housing) is predominantly “rental housing provided for low to moderate income or special needs households, managed by community-based organisations that have received a capital or recurrent subsidy from government” (Productivity Commission 2012). Overall, community housing can be distinguished from ‘public’ housing on four grounds:

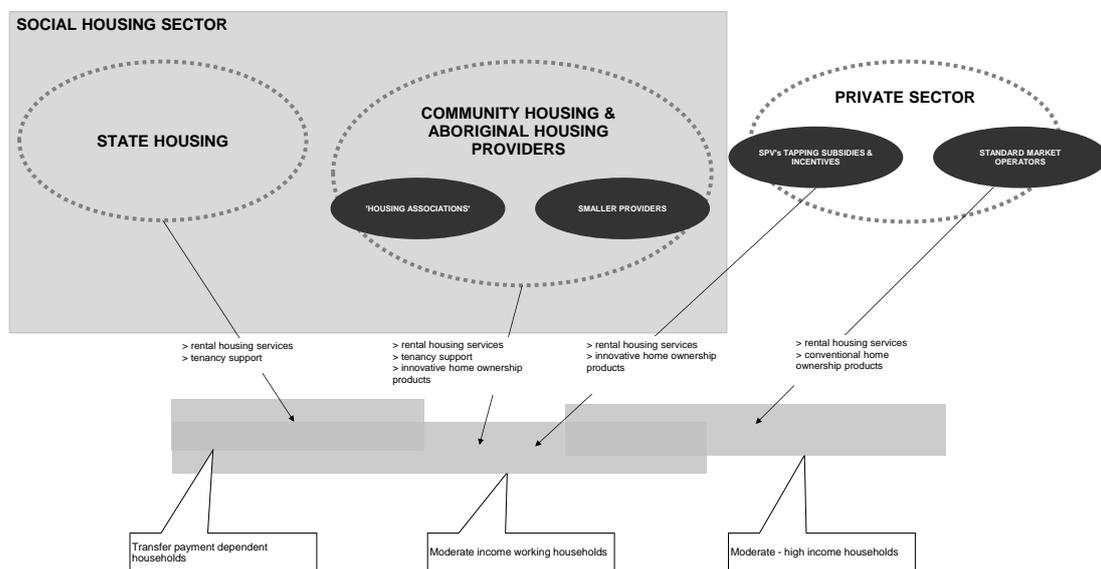
1. Firstly, community housing is independently managed from the State, even where the Government continues to hold title or control over the housing asset.
2. Secondly, while public housing primarily focuses on very low income and complex needs households, community housing can have broader reach to moderately higher incomes.
3. The funding arrangements are also different. On the one hand, community housing providers are more likely to offer alternative tenure forms, potentially including shared equity and rent to buy arrangements. Furthermore, CHPs can access funding from different sources, including concessions on taxes and levies, subsidies, grants, transfers, etc.
4. Lastly, community housing can be designed to respond to the needs and aspirations of specific population groups on low to moderate incomes, for example older persons, faith-based groups or people with a disability.

Currently, CHPs range in size from significant professional corporations managing some thousands of dwelling units and undertaking development projects, through to quite small organisations which rely on volunteers for day to day management.

The availability of various State and Commonwealth funding schemes (such as the now defunct NRAS) has encouraged the emergence of for-profit providers or facilitators of affordable housing. These organisations look to access available subsidies by leveraging their development and financial expertise. Such ‘special purpose vehicles’ might become investors in temporary or permanent affordable housing stock which is managed by others, including CHPs. Depending on the scale of the subsidies on offer, these private sector providers could theoretically deliver services along the full spectrum of middle and low income households.

The figure below depicts the current landscape of affordable housing providers and the different market sectors, including both social housing and the private sector.

FIGURE 1 PROVIDERS AND MARKET SEGMENTS



Source SGS Economics & Planning Pty Ltd

## Background to the affordable housing challenge in Australia

Australia faced a housing shortage in the period following the Second World War. In response, public housing emerged from the mid-1940s when Commonwealth Housing Commission was created. Commonwealth State Housing Agreements (CSHAs) were used to provide financial assistance to the States for building public rental housing. Public rental housing was targeted to working and returned servicemen families. Rents were set “to cover fixed costs associated with the capital cost of providing the dwelling and variable costs associated with its operation” (Yates 2013: 113). Rent rebates were provided in cases where rents exceeded 20% of income.

Given improved economic conditions in the post-war period and increasing rates of home ownership, the Commonwealth withdrew its rent rebate from 1956 and the “States allocated dwellings to households who could afford non-rebated rents and sold rental dwellings to meet operating deficits” (Yates 2013: 114). From the 1970s, significant changes occurred in the public housing model in response to two main factors: “a belief that the housing shortage had been addressed and .... concerns that the poor were not being housed in social housing” (Yates 2013: 114). In 1973, income eligibility were introduced for public housing and later in 1978 rent ceilings were set by market-related rents rather than costs. This represented a shift away from subsidising the dwelling towards subsidising the individual (Yates 2013). There were associated cutbacks in Commonwealth funding based on a belief that “the States

would be able to generate more income by charging market rents for non-rebated tenants and by increasing rents for rebated tenants to 25%, rather than 20%, of income” (Yates 2013: 114).

However, the shift away from a rent ceiling model to relying on market rent “failed to generate the operating surpluses required to fund essential maintenance and stock replacement” (Yates 2013: 112). Subsequently, this led to reductions in the public housing stock in order to sell properties to cover operating and maintenance costs. Based on limited supply, policies were adapted to fit narrower applicant parameters and the profile of public housing tenants became more focused on people with high and complex needs. The policy shift in the 1980s “placed much greater reliance on the private market to address housing needs” (Milligan et al. 2009: 22). This period also saw the emergence of a community housing sector.

Specifically, community housing emerged in the 1980s in an attempt to address some of the shortcomings of the traditional public housing model, including growing demand, a lack of tenant involvement and poor responsiveness to tenants with special needs. At this time, a number of state housing authorities (SHAs) devolved responsibility for aspects of their housing services to non-government organisations (NGOs). In 1984, national support for community housing was reinforced with the Commonwealth Government’s introduction of the Local Government and Community Housing Program (LGCHP). The LGCHP funded local government, community organisations and housing cooperatives to provide affordable housing for eligible public housing tenants.

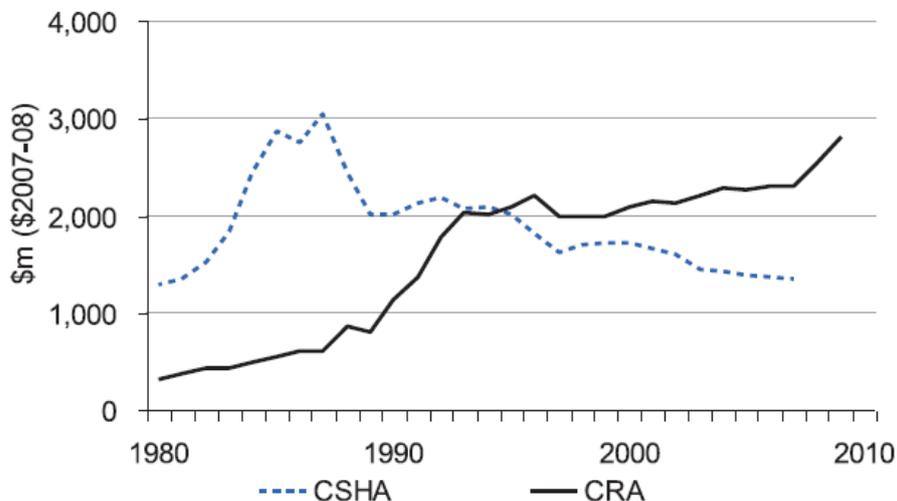
Building on incipient community housing efforts in the 1980s, the 1990 National Housing Strategy (NHS) called for greater housing choice for low income households and promoted community housing as one way of achieving this. From the 1990s, a program or performance requirement in favour of community housing featured in all CSHAs. Support for community housing was justified on an idea that an increased range of social housing options would benefit tenants, through improved choice, and the government, as the purchaser of competitive (and assumingly more efficient) social housing services. Other arguments in support of community housing included:

- the attraction of additional sources of investment;
- more flexible, locally based solutions to housing needs;
- an ability to respond in rural areas;
- a capacity to play a role in community building; and
- responsiveness in meeting the needs of specific tenant groups.

During this early period, the typical CHP was a small, local not for profit association run by an elected voluntary management committee, or a housing cooperative run by its members. These providers were contracted by government to provide housing services and generally relied heavily on annual funding grants to complement their rental revenue. Whether these community housing providers owned the assets they managed varied widely between jurisdictions and types of providers. They specialised in tenancy management and minor property upkeep. Only a few agencies undertook housing development or raised private finance.

By the end of the 1990s, faced with declining Commonwealth Government support for public housing and broader housing affordability issues in the private sector, state governments began to look to non-government agencies to develop larger scale and more diversified social housing portfolios. The 1990s also saw a marked shift away from CSHA supply-side subsidies to reliance on demand-side assistance through Commonwealth Rent Assistance (CRA), with CSHA funding ceasing entirely in 2008 (see Figure 2).

FIGURE 2 CSHA TO CRA EVOLUTION (YATES 2013)



Source: Yates, 2013

More recently, housing policies reflect “a desire for increased use of private finance to address perceived shortcomings of past policies” (Yates 2013: 111-112). This is particularly true since 2007 in Australia with policies that aim to “increase the supply of well-located affordable rental housing..., reduce social exclusion and ... increase the supply of well-located social housing, diversify its range of providers and create a tenure which has greater social mix” (Yates 2013: 112).

New policies include the National Affordable Housing Agreement (NAHA), which came into effect on January 1, 2009; and a 10-year National Rental Affordability Scheme (NRAS) introduced in mid-2008 (Yates 2013). Through a ‘whole-of-government’ approach, the objective of the National Affordable Housing Agreement (NAHA) is “that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation” (2009). Funding for social housing was also increased through the Social Housing Initiative component of a Nation Building – Economic Stimulus Plan introduced in early 2009.

The rationale for the post-2007 changes can be described as a desire: “(i) to increase the supply of social and affordable rental housing; and (ii) to restore the financial viability of social housing system” (Yates 2013: 119). A key focus has been to deliver affordable housing in accessible locations and to shift focus onto the role of the community housing sector in delivering affordable housing. The following statement reflects this shift, made by Housing Ministers at both state and federal levels in 2009:

*The reform agenda ... places significant emphasis on the community housing sector as a key component of an integrated social housing system. The outcome sought is a sector that is a significant provider of social and affordable housing within five to ten years: specifically one which owns and/or manages up to 35% of social housing stock by July 2014 (COAG 2009: 24).*

The COAG report suggested that creating the right conditions to grow the community housing sector requires institutional reform to increase operational capability (2009). Furthermore, it recommended regulatory and funding reform to support the expansion of the sector while protecting the interests of both tenants and governments. In particular, “reform to funding will need to address the financial and structural barriers in the medium to long term and provide a financial platform that would facilitate leveraging investment through community housing” (COAG 2009: 24). Capacity building through a staged approach was advised, looking at questions of governance and financial acumen.

## Policy building blocks

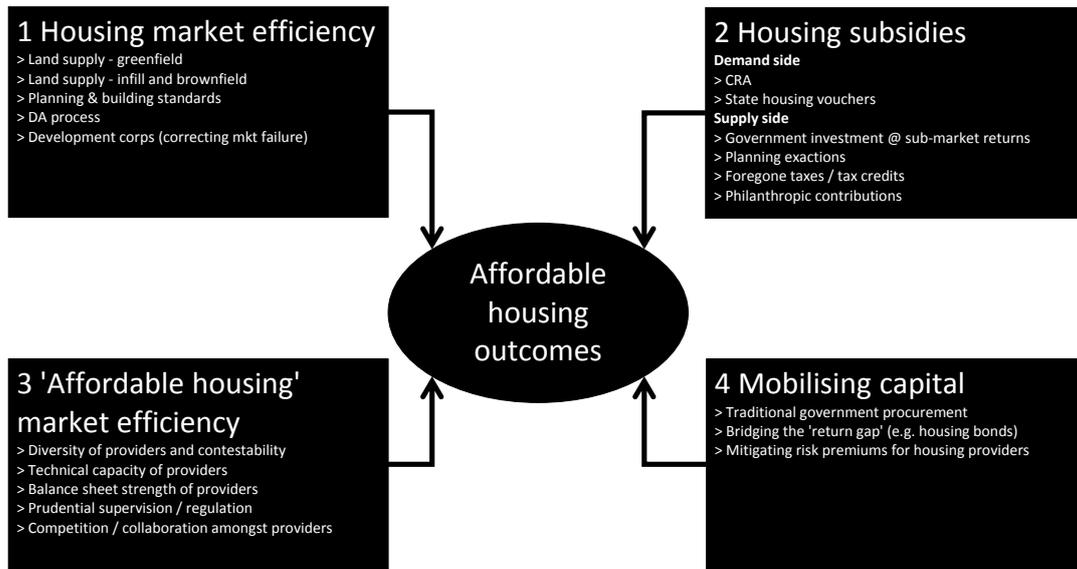
A comprehensive policy framework for affordable housing might comprise four major building blocks (see also Figure 3).

1. Firstly, the housing market generally must be operating efficiently in terms of land supply (greenfield and infill), development standards and development assessment processes and with market externalities appropriately managed.
2. The sub-grouping within the wider housing market which is concerned with the provision of housing that is subsidised in some way – including CHPs and the state housing authority (Figure 1) – must also be operating efficiently. This includes avoidance of unnecessary barriers to entry, promotion of contestability in deployment of housing subsidies, diversity and appropriate competitive tension amongst providers and the creation of providers with the governance and financial capacity to leverage their assets to optimal effect. Achievement of these efficient market conditions will require an appropriate regulatory framework and capacity building institutions.
3. Inescapably, provision of affordable housing in high value locations for lower income groups will require implicit or explicit subsidies. These can be funded directly by Governments (e.g. Commonwealth Rent Assistance), indirectly through tax breaks and credits (e.g. the now discontinued NRAS) or through foregone market rents (e.g. social housing rental rebates) or through a variety of allied mechanisms including planning exactions (inclusionary zoning, value capture, density bonuses etc). Good policy design should address the transparency, efficacy and compatibility of various subsidy sources and ensure that their use is not distortive or damaging to other aspects of housing market efficiency.
4. An important part of the value which the CHP sector and special purpose private sector providers can offer the affordable housing agenda is the ability to leverage their assets and cash flows. They can use available subsidy flows to augment capital servicing capacity, thereby allowing Governments to generate more dwellings for a given budget allocation compared to outright capital acquisition of social housing and assignment at rebated rents, at least in the short term. As evidenced in successful affordable housing programs internationally, this innate leveraging capacity can be strengthened by tapping economies of scale in capital markets.

There can be significant overlap between these building blocks. For example, subsidy flows can be bundled wholesale into returns offered to institutional investors to mobilise large amounts of capital which can be made available to CHPs and other providers at sub-market rates.

A **fifth building block** – in many ways a keystone – can be identified. It differs from the other 4 in that it relates to a policy determination of the government of the day, rather technical efficiency or program design per se. This fifth block concerns the **targeting** of affordable housing. Given that there is always likely to be a major gap between the Government's capacity to support affordable housing provision and the level of need, the question of prioritisation arises. Decisions on which income groups are to be housed will have far reaching implications for the financial viability of CHPs and the state housing authority.

FIGURE 3 ELEMENTS OF AFFORDABLE HOUSING POLICY



Source: SGS Economics & Planning Pty Ltd

# 2 MEASURING AFFORDABLE HOUSING NEED

## Introduction

Measuring affordable housing need is not an exact science. Methods for determining need, targets and prioritising delivery are predicated on a range of factors, values and assumptions.

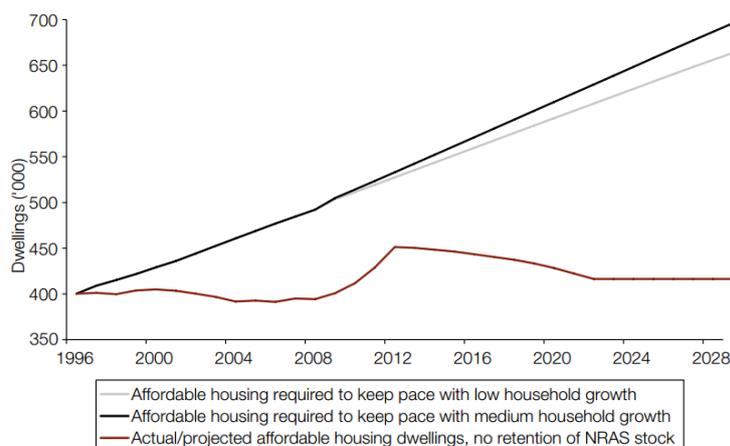
## Affordable housing need: existing measures

### Introduction

'Affordability' became an explicit part of policy discourse in Australia by the late 1970s. It was tied to a model of housing provision that was becoming increasingly reliant on "the private market and non-government organisations to provide and manage low cost housing, and less reliant on subsidy for public housing provision" (Gabriel et al. 2005: 12). By the 1980s, very high mortgage interest rates (around 17%) intensified concern about housing affordability, leading to a National Housing Policy Review and later a National Housing Strategy in 1992. Significant recent initiatives from both state and federal governments, such as the National Affordable Housing Agreement (2009), have served to boost efforts for tackling housing affordability problems.

Despite targeted funding and recent reforms to support increased delivery of affordable housing, demand continues to grow, greatly exceeding supply in NSW and Australia. The number of affordable dwellings required to keep pace with residential growth across Australia in the future is much higher than the forecast of projected affordable housing dwellings (see Figure 4).

FIGURE 4 AFFORDABLE HOUSING NEED PROJECTIONS, AUSTRALIA 2010



Source: National Housing Supply Council, 2010

## Ratio and residual measures of affordable housing need

A range of governments and non-government organisations have sought to quantify existing need for affordable housing in different ways, primarily using *ratio* and *residual* measures.

The ratio approach is the most common method for studying housing affordability in Australia and internationally. Ratio measures examine whether households spend an excessively large percentage of their income on housing related costs. The **simple housing cost to income ratio** involves “calculating a ratio between median house prices and median household incomes at different points of time, and then comparing them to determine whether affordability is improving or worsening” (Gabriel et al. 2005: 23). This approach is commonly used, for example in the Housing Industry Association Index. As this approach considers ownership only, it is not suitable for comprehensively examining affordable housing need. A focus on rental households is particularly relevant to this report given the objective to expand the role of the community housing sector in NSW and considering that the greatest need occurs amongst rental households.

The approach can be modified to a **fixed ratio approach**, whereby households are considered to be in unaffordable housing if housing related costs are higher than a certain proportion of their income (Gabriel et al. 2005). This approach is useful for considering affordable housing need as it focuses only on relatively low income households, usually the bottom 40<sup>th</sup> percentile of income distribution. However, some regions may have a higher proportion of total households on very low, low and moderate incomes (such as the outer area of Greater Sydney with 66 per cent of total households). Expenditure above 30 per cent of gross income at or below the 40<sup>th</sup> percentile is a general rule of thumb for measuring **housing stress**.

An alternative to the ratio measure of affordable housing is the **residual income measure** of housing affordability. This usually works by “assessing against a benchmark the amount of income a household has left after paying for housing costs” (Henman and Jones 2012: 1). An example of an equivalent measure is the after-housing poverty line. The residual income approach is more difficult to use compared to the ratio approach, but it produces a more nuanced understanding of need based on household composition, location and income levels.

## Affordable housing need: a recommended approach

### The number of households on very low, low and moderate incomes

There are some challenges with using the fixed ratio approach for determining the total number of households potentially experiencing affordability problems across the three income bands. In particular, clarifying the definition of income is a first step. The definition of income can either be based on gross household income (as it is at present) or disposable income. Additionally, a relevant consideration is whether the measurement of income should reflect household types and sizes. This is an important factor as research shows that methods that do not take account for household composition “tend to classify more single person households as being in housing stress than other measures, and to classify fewer couples with children as being in housing stress” (Gabriel et al. 2005: 22-23).

Based on these challenges, the gross income measure could be refined to consider residual or ‘equivalent income’. The ABS has devised an equivalence scale based on a modified OECD model that adjusts gross household income to an equivalised income based on the different resource needs of household members. For example, this takes into consideration that children generally have fewer needs than adults. Equivalised income is derived by calculating an equivalence factor according to an equivalence scale and then dividing income by the factor.

*The equivalence factor derived using the 'modified OECD' equivalence scale is built up by allocating points to each person in a household. Taking the first adult in the household as having a weight of 1 point, each additional person who is 15 years or older is allocated 0.5 points, and*

*each child under the age of 15 is allocated 0.3 points.... The tax and Medicare estimates are subtracted from gross income to give disposable income, and the equivalence factors are applied to the estimates of disposable income. Person weighted measures of income distribution are then derived from the estimates of equivalised disposable household income (ABS 2011).*

The following figure contains the ABS calculation of gross income to equivalised income based on person weightings for different household types for the 2011-2012 period.

TABLE 1 GROSS INCOME TO PERSON WEIGHTED EQUIVALISED DISPOSABLE INCOME, 2011-2012

	Gross household income per week	Income tax per week	Disposable household income per week	Equivalised disposable household income per week Person weighted
<b>Income percentile boundaries and percentile ratios</b>				
P10	\$ 282	na	279	274
P20	\$ 450	na	443	340
P50	\$ 1 040	na	894	563
P80	\$ 1 938	na	1 551	867
P90	\$ 2 535	na	1 977	1 073
P90/P10	ratio 8.99	na	7.08	3.92
P80/P20	ratio 4.3	na	3.5	2.55
<b>Means</b>				
All households	\$ 1305	238	1066	644
One family households				
Couple family with dependent children	\$ 1902	398	1504	659
One parent family with dependent children	\$ 898	112	786	446
Couple only	\$ 1275	219	1056	704
Other one family households	\$ 1616	267	1349	693
Multiple family households	\$ 2018	289	1729	591
Non-family households				
Lone person	\$ 642	110	532	535
Group households	\$ 1489	268	1221	747

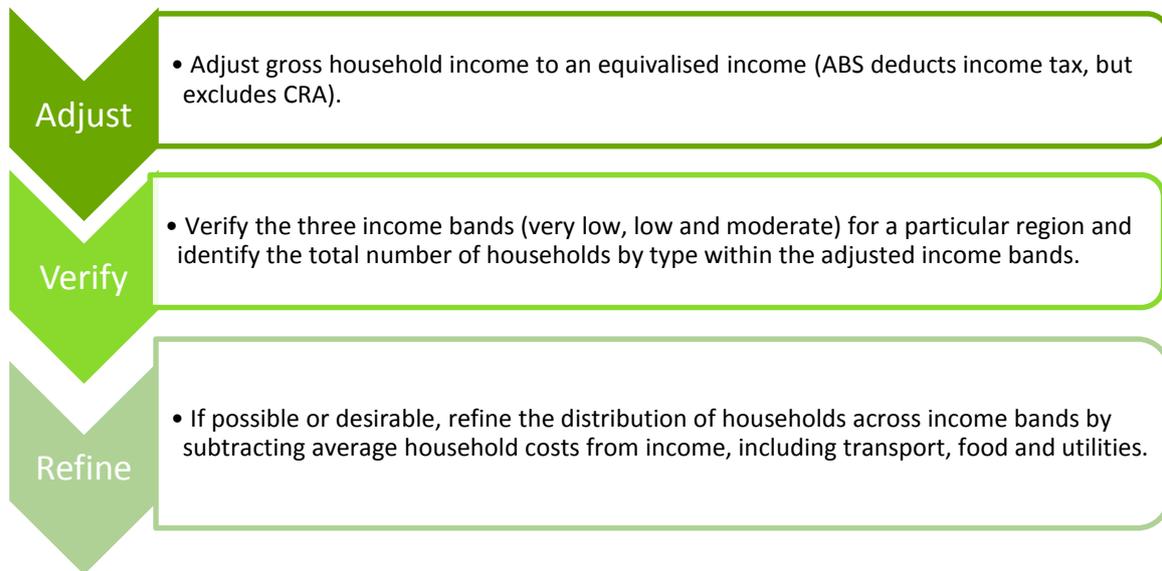
Source: ABS

In addition to subtracting income tax, considering different housing costs can also assist to provide a more accurate measurement of households potentially experiencing affordability problems. It is generally accepted that **housing costs** include “rent, mortgage interest payments, rates and taxes, house insurance, repairs and maintenance, interest payments on loans for alterations and additions, and levies on strata-titled dwellings” (Milligan 2003: 251). In addition to these costs, others may be considered where practicable, such as utility costs, food or transport costs. Transport costs, for example, reach over \$800 per month for many households across Sydney (Market Analytics). It may not always be desirable to consider these costs; it is more relevant to factor them in when considering differences between specific locations (for example between outer and inner metropolitan areas). In order to use a method that takes into account household types and expenditure, further variations can be made to the equivalent income ratio measure where desirable.

The following flowchart summarises the recommended approach (Figure 5) to establishing the number of households that may realistically fall within the three (equivalent) income bands of very low, low and

moderate income households. Overall, this would provide an estimation of the quantum of households with very low to moderate disposable incomes after income tax and housing costs by household type.

FIGURE 5 TOTAL HOUSEHOLDS WITH VERY LOW, LOW AND MODERATE DISPOSABLE INCOMES

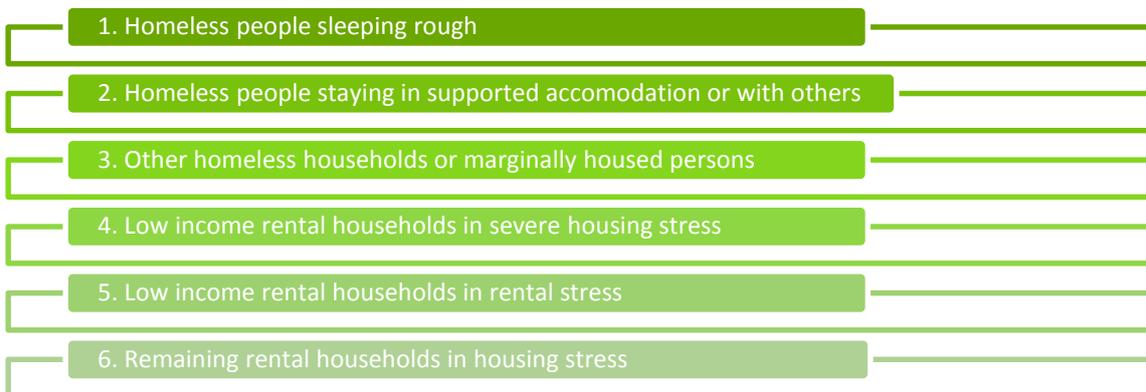


Source: SGS Economics & Planning Pty Ltd

### A method for measuring differentiated affordable housing need

Once the total number of households that fall within the adjusted income bands of very low, low and moderate income has been established, it is then possible to determine a categorised measure of affordable housing need. To establish a baseline estimate, vulnerability parameters can be used to grade highest to lowest relative housing need. Determining affordable housing need among very low, low and moderate income households could be approached through the following ranked list (Figure 67) from highest to lowest relative need.

FIGURE 6 HOUSING NEED RANKING BASED ON VULNERABILITY PARAMETERS



Source: SGS Economics & Planning Pty Ltd

### **1. Homeless households sleeping rough**

The Census of Population and Housing (2011)<sup>1</sup> reports that as of 2011, there were 6,813 homeless persons Australia-wide living in improvised dwellings, tents or sleeping outside. It is almost certain this figure is an under-estimate due to a usual address being reported by some homeless persons or those filling out the census on their behalf and the likely high non-response rate for homeless people. This is true particularly for homeless youth, those displaced due to domestic violence and homeless indigenous Australians. Furthermore, given the nature of the issues affecting people who sleep rough, a number will invariably remain homeless from time to time even if shelter is provided. However, given the very high need and likely underestimation of the population group, all people within this group should be considered as lone person households with very high need for social housing.

### **2. Homeless households staying in supported accommodation or with others**

The ABS defines this group as those in supported homeless accommodation, in temporary accommodation with other households, in boarding houses, temporary lodging or living in severely crowded dwellings.

### **3. Other homeless households or marginally housed persons**

In Australia in 2011, there were also 12,963 persons marginally housed in caravan parks and another 60,875 in crowded dwellings. To establish a number of households for measurement, the total was divided by the average household size in Australia (2.60). However, it should be noted that a lower household size average may be more fitting for the population group, for example reflecting the size of households currently in social housing (approximately 1.8 in NSW). A proportion of these households may be adequately housed in this situation, particularly in well located facilities with reasonable amenity. An initial working target of 85% per cent may be adopted on the basis that some of these households live relatively independently (see Table 3. below).

### **4. Households in severe housing stress**

More than 170,000 households on CRA were experiencing severe housing stress in Australia in 2015 according to the latest Report on Government Services. They were paying more than 50% of their income in rent after getting CRA (Steering Committee for the Review of Government Service Provision Volume G Table GA.34). Some households within the category may be only temporarily experiencing severe housing stress, for example based on short-term unemployment. Therefore, an estimate of need could be at 85% of this population (see Table 3. below).

### **5. Low income rental households in rental stress**

According to the National Affordable Housing Agreement Performance Indicators there were 501,630 low income rental households in rental stress in 2012-13 (See Table 2 below). This analysis is based on an equivalent income measure, which is helpful for analysing **rental stress** when looking at households at or below the 40<sup>th</sup> percentile. Presently, the ABS uses the following definition of rental stress: “a renter household is in rental stress when its housing costs (excluding CRA) are more than 30% of the gross household income (excluding CRA).” The Productivity Commission uses an equivalent income measure to track the total number and proportion of low income rental households in rental stress across Australia within the bottom 40<sup>th</sup> percentile

Data are also available on the number and proportion of low income rental households in rental stress by dwelling type. In Australia, the highest number of low income rental households in rental stress are in Separate houses (270,655) and Flat, unit or apartments (128,356). Analysis of household type data shows that the largest number of low income rental households in rental stress are Lone person households (197,045), followed by Couples with children (84,188) and single parent families with children (77,167). One and two people household sizes register the highest number of low income rental households in rental stress in Australia. The main income source for the majority of low income rental households is government pensions and allowances. However, the main income source for more than

<sup>1</sup> It should be noted that the Census figures are likely to be an underestimate of the true number of homeless or marginally housed, due to compounding factors of lower education and literacy levels amongst marginalised and homeless groups making accurate data collection difficult.

130,000 households is from wages and salaries. Some households within this category may be only temporarily experiencing rental stress based on short-term unemployment or household type change. Therefore, an estimate of need could be at 85% of this population (see Table 3. below).

TABLE 2 LOW INCOME RENTAL HOUSEHOLDS IN HOUSING STRESS, 2011

Proportion of low income rental households in rental stress, by State and Territory, by location, 2011-12										
	Unit	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Numerator - number of low income rental households in rental stress										
Location										
Capital city	no.	121 388	96 357	56 144	34 473	26 788	6 649	6 876	3 275	351 901
Balance of state	no.	49 701	22 709	58 789	8 624	4 855	4 425	..	np	149 726
<b>Total</b>	<b>no.</b>	<b>171 039</b>	<b>119 066</b>	<b>114 933</b>	<b>43 096</b>	<b>31 644</b>	<b>11 074</b>	<b>6 876</b>	<b>3 901</b>	<b>501 630</b>
Denominator - total number of low income rental households										
Location										
Capital city	no.	279 373	185 651	126 327	101 779	73 167	15 945	22 050	11 637	815 928
Balance of state	no.	141 837	81 648	126 545	27 297	21 009	16 855	..	np	417 018
<b>Total</b>	<b>no.</b>	<b>421 210</b>	<b>267 298</b>	<b>252 872</b>	<b>129 076</b>	<b>94 176</b>	<b>32 800</b>	<b>22 050</b>	<b>13 465</b>	<b>1 232 947</b>
Proportion of low income rental households in rental stress										
Location										
Capital city	%	43.4	51.9	44.4	33.9	36.6	41.7	31.2	28.1	43.1
Balance of state	%	35	27.8	46.5	31.6	23.1	26.3	..	np	35.9
<b>Total</b>	<b>%</b>	<b>40.6</b>	<b>44.5</b>	<b>45.5</b>	<b>33.4</b>	<b>33.6</b>	<b>33.8</b>	<b>31.2</b>	<b>29</b>	<b>40.7</b>

Source: ABS

## 6. Remaining households in housing (rental) stress

The last group of households that can be considered in need of affordable housing are those renters spending more than 30% of household income. Given that most of these households have an income source outside of government allowances, they are not experiencing the highest levels of housing stress. Nevertheless, they spend a disproportionately high amount of their income on housing. Not all households within this group, however, experience prolonged housing stress. For this reason, it may be appropriate to adopt 85% of this cohort for affordable housing.

By analysing total household incomes (excluding nil or negative income households) and rental values using the 30% rule of thumb for very low, low and moderate income households, it is estimated that a total of around 694,040 households in Australia experienced rental stress in 2011. This is over 30% of all rental households on very low to moderate incomes. Previously mentioned categories of low-income households in housing stress would be captured in this figure, although they have higher relative need for affordable housing solutions. Subtracting these categories (both in severe rental stress and rental stress), leaves a total of around 192,410 households experiencing housing stress in Australia. Most of these are likely to be low to moderate income households. By applying a conservative target of 85%, there are 163,549 households remaining on very low to moderate incomes that experience rental stress. (See Table 3 below).

## Affordable and social housing need in Australia

Adopting the assumptions outlined above, **it could be argued that around 656,429 households needed affordable housing solutions in 2011.** This represents 7.9 per cent of all households in Australia (Table 3). This is in addition to the number of existing households already accommodated in the 389,383 social housing dwellings (mostly public housing). Assuming a near total occupancy of existing social housing with one household per dwelling, the combined percentage of households that currently live in social housing or require an affordable housing response in Australia is 12.5 per cent of all households (Table 3).

Those very-low and low income households experiencing the highest level of housing stress or homeless households experience higher levels of need compared to the remainder of low to moderate income households. Based on these assumptions, the existing social housing sector would need to increase current supply by 127 per cent to accommodate the additional 492,880 households (in 2011) in highest relative need, and by around 169 per cent to address total affordable housing demand.

The below table includes data sources from the 2011 Census, 2015 Report on Government Services as well as the 2012-2013 National Affordable Housing Agreement Performance Indicators. Percentages were adopted for targets based on an assumption that not all households experience long-term need. These vary from the highest need households (100%) to the lowest relative need households (85%). Further research would be required to determine an accurate percentage for target setting. This is an indicative estimate only.

**TABLE 3 INDICATIVE RENTAL STRESS AND AFFORDABLE HOUSING NEED IN NSW (2011)**

Household Type - Priority for Assistance	Current households (2011)	Percent of all Households (8,339,035)	Adopt for minimum targets	Minimum target	Percent of all households
<b>Homeless households</b> - Improvised dwellings, tents or sleeping out (2011)	6,813	0.1	100%	6,813	0.1
<b>Homeless households</b> - Supported homeless accommodation, staying with other households, boarding houses, temporary lodging, severely crowded dwellings (2011)	37,855	0.5	90%	34,070	0.4
<b>Marginal households</b> - other crowded dwellings, improvised dwellings, caravan parks (2011)	30,132	0.4	85%	25,612	0.3
<b>Low income rental households in severe housing stress (2015)</b>	171,797	2.1	85%	146,027	1.8
<b>Low income rental households in rental stress (2013)</b>	329,833	4.0	85%	280,358	3.4
<b>Remaining very low-moderate income rental households in housing stress (2011)</b>	192,410	2.3	85%	163,549	2.0
<b>TOTAL AFFORDABLE HOUSING NEED</b>	<b>768,840</b>	<b>9.2</b>	<b>n/a</b>	<b>656,429</b>	<b>7.9</b>
<b>TOTAL HIGHEST NEED</b>	<b>576,430</b>	<b>6.9</b>	<b>n/a</b>	<b>492,880</b>	<b>5.9</b>
<i>Total plus accommodated household in social housing (389,383)</i>	<i>1,158,223</i>	<i>13.9</i>	<i>n/a</i>	<i>1,045,812</i>	<i>12.5</i>

Source: SGS Economics & Planning (2015), based on Census of Population and Housing 2011; National Housing Supply Council 2009

# 3 A REVITALISED AFFORDABLE HOUSING SYSTEM

## 3.1 Introduction

It is evident from the discussion in the foregoing chapter of this submission that:

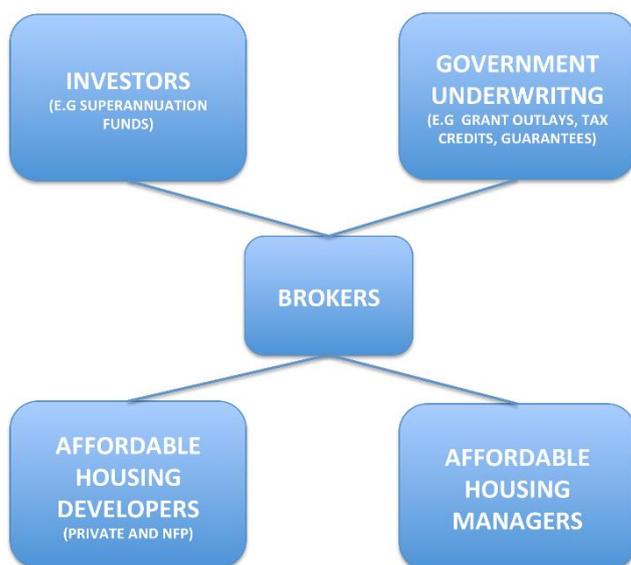
- The unmet need for affordable housing is now of prodigious proportions,
- The traditional social housing system has no hope of meeting this demand if it continues to be managed and funded as it has been to date

The social housing system needs to be re-imagined and revitalised.

## 3.2 Operative elements in a revitalised system

A revitalised and innovative affordable housing system in Australia, as envisaged in the Commonwealth’s discussion paper, can be conceptualised as comprising 5 operative parts. These include; the providers of investment capital to actually build the stock; the provision of some form of Government underwriting or support to bridge the gap between market returns and the yield on affordable housing investments; agents to procure and develop affordable housing; appropriately skilled managers of that housing once delivered; and finally a brokerage function which, through competitive tension, finds innovative ways of combining investors, developers, managers and available government support into cost effective affordable housing supply (see Figure 7).

FIGURE 7. ELEMENTS OF A REVITALISED AFFORDABLE HOUSING SYSTEM



Source: SGS Economics & Planning Pty Ltd

In our view, this reframed social housing system can and must be energised through 6 key strategies led by the Commonwealth and delivered through the appropriate COAG forums. These key moves are:

1. Deliver a **contestable multi-provider system** for social and affordable housing to promote innovation and customer choice, both of which are essential to efficient use of the capital made available by governments;
2. Gradually lift combined Commonwealth and State Government **capital investment in social housing** to achieve a social to total housing ratio of 10% by 2030
3. Provide a **tax credit and/or a government underwritten (subsidised) housing bond** to support providers of affordable housing providers, including from the private sector;
4. Entrench a **strong prudential supervision arrangements** for the social and affordable housing provider sector, recognising, firstly, that substantial amounts of Government capital will be entrusted to non-government providers and, secondly, that institutional investors will only contemplate large scale involvement in the sector if they are convinced of the financial robustness and management capabilities of not for profit providers;
5. Provide **appropriate capacity building programs** to support the not for profit sector, as well as private sector providers contemplating involvement in the social housing 'industry';
6. Introduce efficient, transparent and modest reforms in State and Territory planning systems to support social and affordable housing provision through **Inclusionary Zoning and value capture**.

The four models proposed in the discussion paper especially target the Investors, Government underwriting and Brokers elements required for a revitalised affordable housing system.

Irrespective of which model is considered, when targeting those in need for affordable housing, there should always be an expectation of some level of Government underwriting. While there is evidence that ethical investors are willing to invest at sub-market returns, the remainder of the gap would need to be covered by Government.

Some key questions for Government to answer are:

- What is the extent of the gap? This partially depends on the target households. NRAS targeted those households in need of some assistance which would not be characterised as those being in greatest need. If the aim is to deliver solutions to those in greatest need, there should be a realistic expectation for Government to contribute towards the gap. At the time, NRAS did not succeed in attracting largely scale institutional investors, under the then prevalent market conditions and during the limited time during which the measure was in place and investors developed an understanding of the risk profile and likely returns of the measure. It is timely in the current post NRAS environment to investigate and recheck with institutional investors their return on investment and risk considerations as well as any issues they see in regards to affordable housing.
- A second, more all-encompassing question is in regards to the optimal scale of Government underwriting: How much should Government be willing to underwrite, i.e. what are the returns to Government? There is a need to evaluate the costs and benefits of Government outlays to leverage private investment into the affordable housing sector in cost-benefit analysis terms. The benefits, enhanced social, health and employment outcomes largely accrue to the public. However, strong benefits would also accrue to Government compared to the costs in case no

underwriting was to eventuate. The benefits in terms of lower Government expenditure on human services and health, and improved tax revenues would enable the Government underwriting to occur under budget-neutral or positive conditions.

In order to address the issues in affordable housing and to revitalise the market, there is a need to take an integrated approach that addresses the Investors, Government Underwriting, Brokers, Developers and Managers to drive contestable and structural solutions.

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