

# Addressing Affordable Housing

## Overview

The provision of affordable housing is one of the biggest challenges facing many local areas across Australia. To respond to this challenge strategies are needed that can:

1. Stimulate the provision of forms of affordable housing in the housing market;
2. Better match the existing supply of affordable housing with the changes that are occurring in the profile of Australian households and their needs and preferences; and
3. Increase the overall supply of affordable housing, both lower cost market housing and a variety of forms of subsidised housing.

Agencies in all spheres of government from federal to local can contribute to these strategies in various ways. At the local level awareness of the housing needs of local households and of prevailing trends in local and regional housing markets are particularly important in making plans for new residential areas and the redevelopment of existing areas. To be most effective, contributions at the local level also need to be linked up to policies and strategies being pursued by other levels and agencies of government, by the housing industry, and by not-for-profit housing providers.

This part of the Housing Kit for Local Government in NSW has been designed to provide councils with the background information, tools and resources to assist them to analyse housing affordability issues in their area and to help them to develop appropriate responses to those issues. It will also assist councils to find out about the directions that other levels of government are pursuing on affordable housing.

## What is affordable housing?

In general terms affordable housing is housing that is appropriate to the needs of a household and within their means to pay.

The means (or capacity) of a household to pay for their housing depends on three primary factors:

- The income of the household;
- The cost of appropriate housing; and
- Other essential living costs to be met by the household, such as food and household goods, transport, education and healthcare.

Governments are particularly concerned to ensure that households with constrained incomes have appropriate housing within their financial means. In NSW it is recognised that households with incomes up to 120% of median household income may experience a housing affordability problem depending on their circumstances.

Whether housing is appropriate for a household will take in a range of design characteristics of the housing, alongside social, economic and cultural attributes of the household. Some central indicators of appropriateness are whether the housing is:

- Of a reasonable standard and quality;
- Matched to the size of the household — that is, not overcrowded or underutilised;
- Located close enough to the services, jobs and community facilities that the members of the household use;
- Cost efficient to maintain; and

- Energy and water efficient.

### **Why is affordable housing important in local areas?**

The Centre for Affordable Housing gives four reasons why local government should be concerned about affordable housing:

- Most councils plan for the functionality of the communities that they support – particularly in economic terms. Including affordable housing in the range of housing provided, results in a mix of people needed to make all aspects of the community work.
- Most communities have a concern, to which councils respond, about making their community vibrant and living. Particular concerns are around how their sons and daughters can remain in the area. Making provision for people at all stages of life and on different incomes contributes to vibrant living communities.
- Councils are uniquely placed to shape the built form in their community and to capture benefits from the development process. In certain circumstances, the Environmental Planning and Assessment Act can be used by councils to require provision of affordable housing in a residential development (see The Planning Framework for Housing in NSW).
- Local government has a track record in delivery. In NSW, North Sydney, the City of Sydney, Randwick, Willoughby and Waverley councils have been active players in affordable housing development and delivery.

There are compelling economic, social and environmental reasons to maintain and improve housing affordability across our cities, towns and regional centres.

In aggregate, widespread housing affordability problems can have macroeconomic impacts on inflation and the cost of labour and, thereby, put at risk economic growth and global competitiveness. Recognition of this risk is a key factor behind affordable housing strategies that have been adopted by many globally oriented cities and sub-regions around the world - for example London, Vancouver, California and the Netherlands.

Of particular importance to regional and local interests, trends in one regional housing market can have significant repercussions in other markets. For example, rampant house price inflation in Sydney in recent years increased the capacity of one group of consumers - existing home owners - to 'afford' second homes, for recreation and /or investment. Often such investment flowed to more affordable non metropolitan areas, which were undergoing 'sea change' or 'tree change' (Gurran et al. 2005). The result was an inflationary effect on house prices in those areas, as demand surged. Thus failure to curb housing affordability problems in one area can flow through to other areas with adverse effects on affordability.

At regional and local levels, improving the affordability of housing can help local labour markets to function more effectively – for example, by improving labour mobility and by helping to ensure that sufficient lower paid workers are available to support local industries and provide local services. Better and more stable employment prospects for local households in turn helps them to be more self sufficient and to achieve their longer term housing aspirations, such as home purchase. Reducing dislocation of workers will also assist in the task of containing commuting and congestion. Offering more housing choices can also contribute to local economic growth, for instance by attracting young entrepreneurial and skilled workers.

A shortage of affordable housing can have adverse impacts on both the individual household and the local area. For example, a lack of affordable housing puts more households at risk of homelessness, over-crowding or poor housing quality. This in turn can lead to increased demand for other government services. Alternatively, lower income households may be forced to relocate to a more affordable area and then face long commuting times, which are expensive and contribute to poor environmental outcomes.

Shortages of affordable housing increase the risk of discrimination against certain households, and reinforce patterns of exclusion and segregation for minority groups. Without a wider choice of housing such groups can become trapped in low cost, low amenity neighbourhoods, thereby further limiting their choices and perpetuating their disadvantage. If left unchecked, such social exclusion could also contribute to structural divisions in society and their consequences.

Among very low, low and some middle income households (up to 120% of median household income) there is a diverse and growing group who cannot access affordable and appropriate housing in their local/regional area because of factors including insufficient income (for the cost of housing), local housing shortages, discrimination or special needs. The group includes many young people entering training or the labour market for the first time; single parents and single people on low incomes; people with special needs arising from disability, ill health, injury or frailty; retired households who do not own their home; Indigenous families; and lower paid workers whose jobs are located in high cost cities or major resource areas. (See Gabriel and Yates (2006) for more data). For an outline of the benefits of affordable housing to the community and the housing industry see [“Who benefits from affordable housing?”](#) on the Centre for Affordable Housing website.

### **What are affordability problems?**

Affordability problems occur when households cannot obtain adequate housing they can afford within their local area because of insufficient income, high house prices or rents, or a combination of these factors. This situation may result in more households either leaving their community to find cheaper housing or living in housing that is too expensive, which can then have flow-on effects upon their living standards and well being.

Examples of situations when local residents may face an affordability problem include:

- A resident retires and needs smaller and more affordable housing that is not available in their community;
- A resident loses their spouse or partner and can no longer afford the rent on the family home;
- Adult children in a local family require independent housing;
- Working households want to start a family but will lose some of their earning potential and, therefore, capacity to pay for their housing;
- The capacity of a family to pay for their existing housing is reduced through long term illness or disability; or
- A lower paid worker can obtain employment in the local area but cannot afford to live there.

These examples illustrate why a wide range of housing options are needed in all local housing markets to meet the need of different types of households and to respond to changes in housing needs that occur across the life course. By promoting more diverse housing forms, councils can help to ensure that the dynamic needs of the whole community for appropriate and affordable housing continue to be met.

## **Defining target groups for affordable housing**

In broad terms, households who are likely to require affordable housing can be grouped into three according to the kind and duration of housing response that may be required, as suggested by a stakeholder forum that looked at this issue (Milligan 2005).

### **1. Low-income households with multiple disadvantages.**

For these households the need for housing assistance is likely to be significant and ongoing. Whatever housing is offered has to be effectively linked to support services and community networks. In the past this group has had limited choice of housing and many of the most disadvantaged households have been trapped in institutionalised models of housing provision, or have relied on various transitional housing programs or the relatively inflexible public housing system. An expansion of long term community based housing (delivered by specialised community based housing providers often in partnership with support agencies) will add to the choices of this group.

### **2. Low-income households.**

These are households who face a housing affordability problem because they have low incomes. They may, or may not, be employed. Different forms of housing assistance can address their need, depending on their life stage and market conditions in their local area. For example, some households may need extra financial assistance to enable them to afford existing rental housing. However, because of the widespread decline in lower cost rental housing in many areas, incentives to increase local supply are required to meet the needs of low-income households in many areas. Some in this group, such as young people, may need only short-term assistance (2 to 5 years) to enable them to get a tenancy record or to save for market priced housing. Another group will be ageing private renters who may not be able to sustain market rents after retirement. This group is likely to need assistance for a longer period of time because their incomes are unlikely to improve. Others in this segment who are more likely to have the opportunity for growth in their incomes, particularly young families and single parents, may benefit from having an incentive to achieve home ownership, perhaps through new products such as shared equity schemes. If such incentives are successful their need for on-going housing assistance is likely to be minimal.

### **3. Moderate-income households.**

These are households with somewhat higher incomes (up to 120% of the median) but whose circumstances place them below the margin where they can afford market housing, especially in higher cost locations. Examples include single working people and working families on a modest wage. These households may require some level of housing assistance for a limited period to enable them to get established in the housing market. Forms of assistance could include assisted home ownership, shared home ownership or an offer of rental housing at a below-market rental.

## **A continuum of affordable housing options**

Another way of conveying the role of housing in meeting the needs of diverse target groups is using a schema that shows a continuum of housing options that can respond to varying needs for financial assistance and levels of support linked to housing. [Link diagram next page] The extent to which each of the options is developed in a local area will depend on the profile of local needs and the performance of the local housing market.

For example where access to affordable home ownership is constrained, more households will rely on the private rental market, which in turn may create more need for social housing from those who can compete least effectively.

Local housing responses should aim to achieve a balance in different forms of housing assistance. Of course, addressing special housing needs in the local community is primarily the responsibility of providers of government funded forms of housing assistance, such as the local office of the Department of Housing, community housing providers, providers of housing linked to support such as agencies which specialise in providing housing for the frail aged and people with disabilities, and service providers for homeless people. A local housing strategy can indicate how council will work collaboratively with these service providers, for example to ensure that development proposals are considered in a timely way. Creating pathways for households between forms of assistance – for example from crisis housing to longer term housing or from renting to buying – is also an important consideration in designing and operating housing models in a local community. Having a good range and mix of housing options helps households whose circumstances change to remain in their local area.

Because of the diversity of housing needs and the complexity of factors underpinning these, it is important that a policy or strategy for affordable housing is not defined too narrowly. In thinking about the groups who need affordable housing, councils are encouraged to begin by assessing the full range of housing needs in their local area, using the techniques described in this kit. That analysis will provide a sound basis for considering the local groups whose needs are not being met and for assessing local opportunities and strategies which might best address the needs that have been identified.

### **How do we measure housing affordability?**

In keeping with the concept of capacity to pay outlined in the previous discussion, housing affordability is usually measured in two main ways:

1. By determining the percentage of household income that households pay for their housing and comparing this with a benchmark figure. This measure is often described as the ratio measure of housing affordability. Generally, the benchmark used is that lower income households who are paying more than 30% of their income for their rent or their mortgage are considered to be in housing stress (NHS 1992). This is not a hard and fast rule but an indicator of where households, particularly those with constrained incomes, are at risk of having affordability-related problems.
2. By measuring the amount of income remaining after households pay for their housing (referred to as their 'residual income'), and comparing this to standard measures of the minimum income that is required to meet basic household costs other than housing. This measure is usually described as the residual income measure of housing affordability. The standards commonly used to make this assessment are known as the 'after housing poverty line' or the 'budget standards measure.' Using one of these standards may show that a household that does not have housing costs judged to be excessive (i.e., exceeding 30% of their income) still does not have enough to live on, because they have other high fixed costs, such as the cost of a disability or a chronic health problem. In such cases, more affordable housing may help to alleviate their budget stress. This measure tends to draw attention to the situation of very low income households for whom what is normally regarded as reasonable housing costs (below 30% of their household income) may not be affordable, taking into account the household's other basic living costs.

As discussed further in the section of the kit about Undertaking a Housing Market Analysis, it is suggested that councils should generally use the ratio measure, as it will be easier to calibrate from available data. This measure can be expected to give a conservative estimate of the numbers of households in housing stress. To read more about measuring housing affordability and the results that different measures show, see Gabriel et al. (2005) and Yates and Gabriel (2006).

### Relating affordability and appropriateness of housing

Assessments of housing affordability can be related to whether housing that is affordable is appropriate to the households needs.

The single table below provides a framework for considering whether a household has a need for affordable housing, by taking into account whether housing is appropriate. In the table, households whose situation is labelled 'B' are in need because they have unaffordable housing (as measured by the methods described), and affordable housing that is appropriate to their needs is not available in their locality. Households labelled 'D' are in need because, while they have affordable housing, it is not appropriate to their needs (e.g. a large family that is overcrowded or, housing that is too large for a retired family where the children have left home) and there is no appropriate housing available that is affordable to them.

		Current housing unaffordable?	
		Yes	No
<b>Affordable and appropriate housing is available:</b>	<b>Yes</b>	<b>A:</b> Not in need	<b>C:</b> Not in need
	<b>No</b>	<b>B:</b> In need	<b>D:</b> In need (if current housing is not appropriate)

Source: Adapted from Landt and Bray (1997, Table 6.1, p. 28).

### Relating a test of affordability to the supply of affordable housing

The measures of housing affordability can also be adapted to show how much housing in an area is affordable for households of a specific type or income level. So, for example, it is possible for local governments to assess how much housing in their area is affordable by households on different income levels. The Centre for Affordable Housing's website provides an assessment of affordability across LGAs in NSW. The Centre has mapped the percentage of rental housing and housing for purchase that is affordable by households with incomes in the lowest 40% of all households for all local government areas across NSW. The Maps are available on the page entitled "[Where do we need affordable housing](#)".

A general indicative guide to the rents and house prices that will be affordable for lower income households is provided in the two tables below. Data in these tables have been based on the test of: "at what amount housing costs (rent or mortgage) will exceed 30% of gross household income?"

## Indicative affordable rents and house prices for lower income households

**Table 1**

Gross annual household income	Affordable weekly rent	Affordable house price, assuming 5% deposit; 7% interest rate and 30 year loan term
\$20,000	\$115	\$79,000
\$30,000	\$173	\$119,000
\$40,000	\$231	\$158,000
\$50,000	\$288	\$198,000
\$60,000	\$346	\$237,000
\$70,000	\$404	\$277,000
\$80,000	\$462	\$316,000

**Table 2**

Target group	Definition of target group	Gross annual household income (2007 values)	Affordable weekly rent	Affordable house price assuming 5% deposit; 7% interest rate; 30 year loan term
<b>Sydney</b>				
Very low	<50% median household income (MHI)	<\$30,807	<\$178	<\$122,000
Low	50-80% MHI	\$30,807-\$49,291	\$178-284	\$122,000-195,000
Moderate	>80% and <120% MHI	\$49,291-\$73,937	\$284-427	\$195,000-293,000
<b>Rest of NSW</b>				
Very low	<50% MHI	<\$27,657	<\$160	<\$109,000
Low	50-80% MHI	\$27,657-\$44,251	\$160-255	\$109,000-175,000
Moderate	>80% and <120% MHI	\$44,251-\$66,377	\$255-383	\$175,000-263,000

(Note: the figures in these tables are updated to follow quarterly adjustments in household incomes and changes in mortgage interest rates. Last updated June 2007.)

The first table shows the cut off for the cost of renting or purchasing under this benchmark for different levels of income from \$20,000 to \$80,000. The second table shows the same information for the target groups, 'very low income', 'low income' and 'moderate income'. These categories are sometimes used to determine to whom affordable housing should be allocated. (See for example the definition in the NSW Environment and Assessment Act, 1979 as amended in 2000.) The income levels that are shown have been calculated using the 2007 median income figure for Sydney and for the remainder of NSW, respectively. The figures in these tables will be updated to follow quarterly adjustments in household

incomes, and following changes in mortgage interest rates.

The indicators shown are intended as a broad guide only. They give councils some idea the level that house prices or rents need to be to provide affordable housing for people on lower incomes. By comparing these indicative affordability levels with market rents and prices in the area, they can also show which local groups may need subsidised housing in order to access affordable housing. However, some flexibility in rents and house prices should be allowed for, as suggested by these examples.

- Example 1: A households may choose to pay a higher rent for better amenity or greater proximity to a town centre, thereby saving on transport costs.
- Example 2: Lower income households renting may be receiving a Rent Assistance payment from Centrelink that allows them to pay more for their housing. The level of rent assistance offered will depend on the level of rent being paid and the size and type of the household applying for assistance. Current maximum rates of payment for rent assistance for different household types can be found on the web site of the [Department of Families, Housing, Community Services and Indigenous Affairs](#).
- Example 3: Where a household wishes to purchase a home but does not have sufficient income to afford a mortgage, a shared equity finance package may be suitable. Shared equity products allow a household to buy a share in their dwelling, while another investor owns the remainder. Shared equity is one way for lower income households to enter the housing market. As their income increases, the resident household can buy a greater share – this is sometimes described as stair casing or stepped home ownership. Shared equity is relatively new in the Australian housing system at present but is expected to grow. Information on new developments in shared equity is placed on the website of the [Centre for Affordable Housing](#).

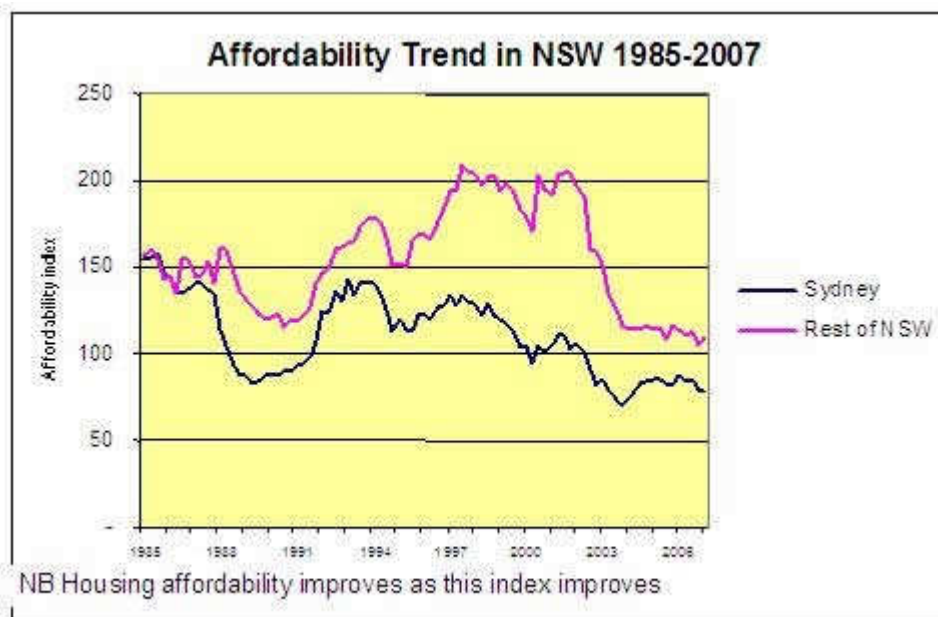
## **Understanding affordability trends and impacts in NSW**

### ***Affordability trends***

Because of the way housing markets have developed over the past few decades, housing affordability problems are growing across Australia. In both metropolitan and regional centres, there are more local communities than ever before where available housing options do not match the needs and capacity to pay of many local residents.

The following graph compares an index of average incomes to average house prices in Sydney and the rest of NSW from 1984 to 2005.





Source: HIA/Commonwealth Bank Affordability Index 1985-2007

The graph shows two kinds of trends:

- A long term decline in average affordability conditions; and
- A cyclical pattern of rising and falling affordability overlaid on this trend.

More detailed analysis on trends in incomes and house prices and patterns in the location of jobs and housing for Sydney in particular can be found in Randolph et al. (2004). This report looks broadly at the case for more affordable housing options for moderate-income working households in the metropolitan context.

The reasons for trends to declining and variable affordability are complex. One of the main factors underlying the long term trend has been the rate of increase in house prices compared to that rate of increase in household income, especially in the lower half of the income distribution. House price rises themselves are the result of many factors including normal inflation, the rate of household growth compared to the rate of new housing supplied and changes in the quality and size of housing. Another underlying factor has been demographic and social change, such as ageing and family breakdown, which have resulted in a greater share of smaller, lone person and single income households in the community. Household changes such as these become manifest as affordability problems when there is not enough smaller housing to match the changing profile of households.

In cyclical terms, the times of least affordability shown on the graph coincide with a period where interest rates were very high in Australia (1988 - 1991) and a period when house price inflation was severe (1998 - 2003). In their recent detailed study of first home ownership the Productivity Commission (PC 2004) identified both national and regional factors that were contributing to declining access for this group. National factors include strong demand from investors acting under tax conditions that favour investment in housing. Regional factors include lags in land and housing supply responses to surges in demand. The [Productivity Commission](#) considered that while some cyclical pressures in the housing market would be self-correcting, there was a role for governments to address longer term price and affordability pressures and to improve efficiencies in the housing market. A key policy action arising that is relevant to local government centres on improving land release and planning approval processes.

The private rental market is particularly important to lower income households, especially those in the age groups below 65 years. Nationally, 36% of all households renting had low to moderate incomes in 2001 (up to \$558 - 2001 values). However, it is this part of the housing market where affordable housing is undersupplied generally. The latest AHURI research on this sector shows that long term trends have been increasingly adverse to affordability (Yates et al. 2004). This study and a previous one (Wulff and Yates 2001) show that while there has been growth in the rental market overall over the last two decades, there has been a continuous and widespread decline in the supply and availability of rental housing that is affordable to lower income households. In other words, it is more affordable rental housing that is in short supply. In Sydney, there were 27,000 fewer dwellings available to rent at affordable levels than needed for the number of households renting with incomes up to \$558 per week (\$29,000 per annum). In non metropolitan NSW there was a shortfall of 3,000 dwellings for rent at affordable levels for those with incomes up to \$334 per week (\$17,400 per annum).

Note: that the availability of low rent housing by low income households is affected by the extent to which higher income households occupy the low rent stock.

Understanding the cause of affordability problems is important because different drivers cause different problems. For example, when house prices are high new households will find it harder to enter the housing market. This may then flow on to pressures in the rental market. When interest rates are high, existing households may experience mortgage affordability problems and mortgage defaults may increase. If these households are forced to sell they may also find that the value of their houses has declined and that they have less equity than they began with.

The cyclical pattern of affordability shows that macro-economic factors, such as interest rates and economic growth rates, play a significant part in contributing to the rise and fall in housing affordability problems. Thus, national and state economic policy settings are critical factors affecting the stability of housing markets.

While the impact of macro economic factors on affordability problems cannot be addressed locally, other drivers of declining affordability can. For example, a key issue for local government to assess in making their LEPs is whether the local housing market is producing the right size and quality of housing to match the projected needs of local households. Another local issue particularly in areas subject to growth pressures is whether land supply is sufficient and steady enough to mitigate inflationary spikes in house prices. Thirdly, in view of the long term decline in low cost rental housing (such as boarding houses, shop top housing, caravan parks or low cost flats), councils are well placed to assess the impact of a proposed new development on this vulnerable part of the market and, where appropriate, to then consider what actions may be possible to compensate for further loss.

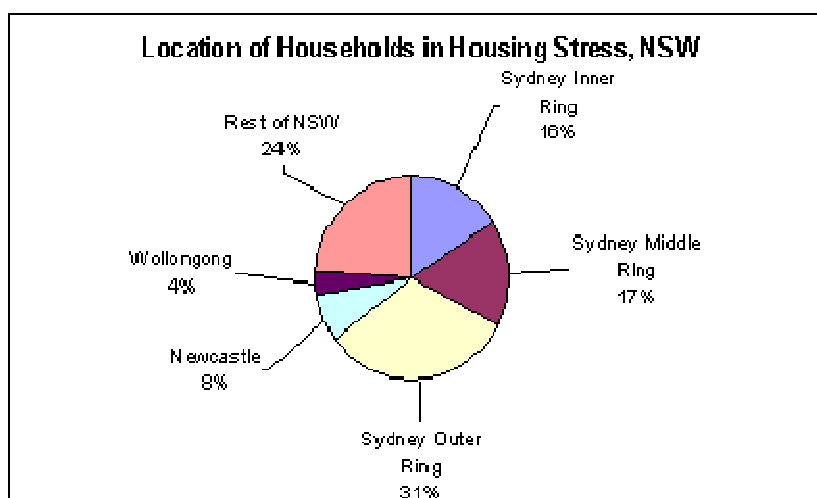
Understanding housing affordability in their local/regional area and identifying possible causes of affordability problems will assist councils to determine what actions may be appropriate for them to take locally to help address those problems. Considering the causes of poor housing affordability underlines the importance of councils not only assessing the housing needs of their residents and potential residents but also understanding how their local housing market functions in the long run and across market cycles.

Local housing strategies that can then be used to address housing affordability problems are outlined in more detail in the section of this kit on [Preparing a Local Housing Strategy](#).

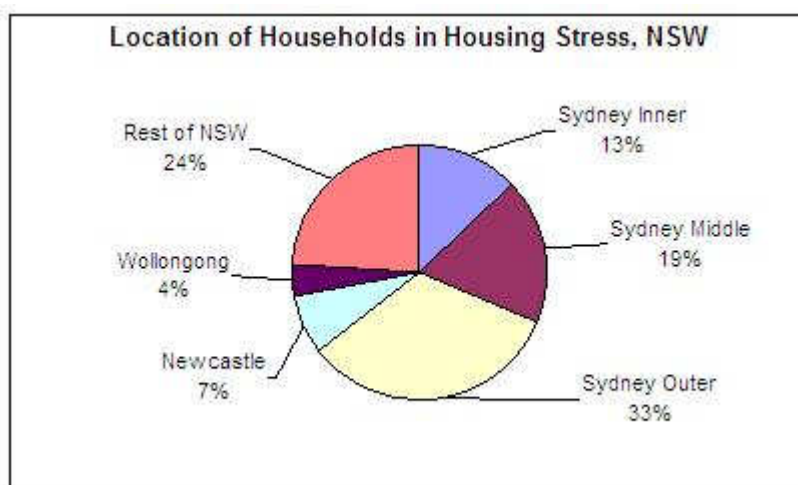
## Indicators of affordability in NSW

There were 367,000 lower income households across NSW in housing stress in 2006 (considering households with income up to 120% of the median household income, and using the ratio measure of housing affordability). This represents 16% of all NSW households and 28% of low and moderate income households — defined as households on incomes up to about \$72,000 in Sydney and \$65,000 in non-metropolitan areas (2006 values; analysis of ABS data undertaken by NSW Department of Housing).

So the problem is large. Households in housing stress are distributed across all areas of NSW, as the next figure shows. In Sydney the largest numbers of those in housing stress are found in the outer ring. The following two graphs show the data for 2005 and 2007, showing an increase in this trend:



Source: Based on Census of Population and Housing (2001) data on household numbers by location and AWE adjusted household income for 2005. Analysis by Department of Housing NSW.



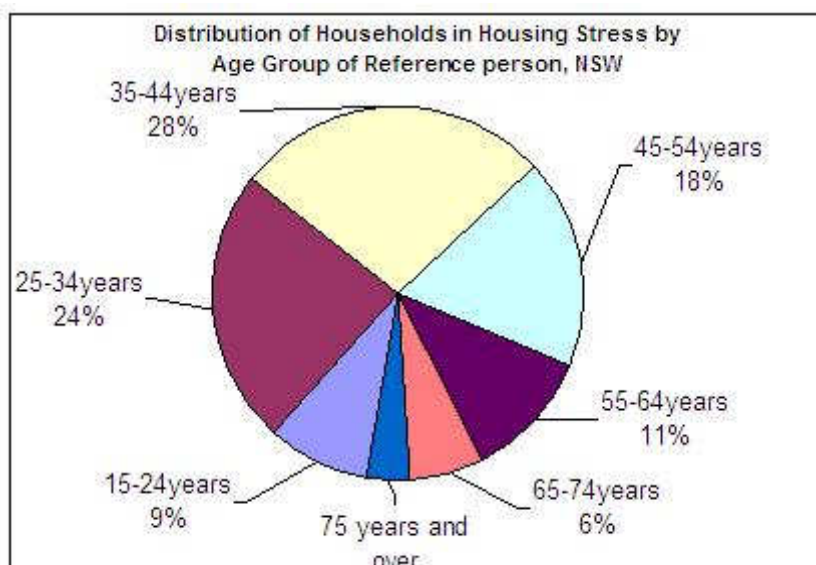
Source: Based on Census of Population and Housing (2006) data on household numbers by location and AWE adjusted household income for 2007. Analysis by Department of Housing NSW.

Housing stress is confined to private renters and home purchasers. Sixty two per cent of lower income households in stress are private tenants and 38% are home buyers. Those who have paid off their mortgage and tenants in public housing have much lower housing costs and therefore do not show up in any significant numbers in the data, even though many in these tenures are on very low incomes. This helps to highlight the market-based

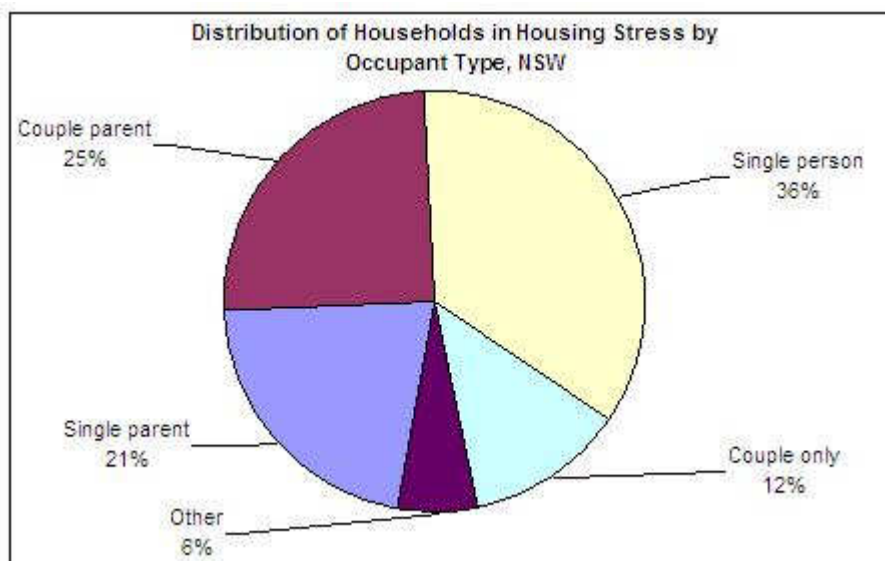
nature of the problem: there are too few affordable housing choices in housing markets across the state.

Importantly, the problem is not confined to those on very low incomes but is spread across the low and moderate-income group. Of those in housing stress, about two thirds are in the workforce or looking for work. These data help to bring out the significance of housing affordability problems in the labour market as illustrated by the examples of local affordability problems cited above.

All age groups and household types in NSW experience housing stress as illustrated in the following two charts. Among private renters the problem is concentrated among young single people, single parents and older people. Purchasers experiencing high housing costs relative to their income are mostly families with children.



Source: Census of Population and Housing (2006) data on household numbers by age group and AWE adjusted household income for 2007. Analysis by Department of Housing NSW.



Source: Census of Population and Housing (2006) data on household numbers by occupant type and AWE adjusted household income for 2007. Analysis by Department of Housing NSW.

## How are governments addressing the need for affordable housing?

There are many existing programs to assist households to achieve more affordable housing. Public and community housing is available to eligible low income households and those with special needs throughout NSW. Vacated housing and new dwellings are allocated to those with the greatest need. A range of crisis, short and long term housing with or without support services is provided. The main large-scale programs in NSW are described below.

**Table: NSW Housing Programs**

Program	Details	More information
<b>Public and community housing</b>	Public and community housing is available to eligible low income households and those with special needs throughout NSW. In 2006/07 there were around 142,000 public and community housing dwellings in NSW. Vacated housing and new dwellings are allocated to those with the greatest need. A range of crisis, short and long term housing with or without support services is provided.	Local <a href="#">DOH office</a> or the <a href="#">Office of Community Housing</a> administers community housing programs. The office is also responsible for regulating community housing providers.
<b>Housing for Indigenous people</b>	In addition to mainstream programs outlined above, there are special housing programs for Aboriginal and Torres Strait Islander households. About 4,000 dwellings for Indigenous households are owned by the Aboriginal Housing Office and managed by the Department of Housing. About another 5000 dwellings are owned and managed by local Aboriginal organisations.	The <a href="#">Aboriginal Housing Office</a> administers the special purpose Indigenous housing programs.
<b>Commonwealth Rent Assistance (CRA)</b>	CRA is an income supplement paid to eligible private renters who are Centrelink clients. In June 2006, there were 324,411 private rental households in NSW receiving this payment.	Centrelink administers rent assistance. Go to <a href="#">Rentassist</a> for more information.
<b>State assistance for private renters</b>	The Department of Housing provides a range of measures for assisting tenants in the private rental market. These include assistance with paying bonds and rent subsidies for some high need groups.	<a href="#">Department of Housing</a>
<b>Assistance for home-buyers</b>	<b>First Home Plus Scheme:</b> For first time buyers, the NSW government provides full transfer duty and mortgage duty exemptions for dwellings valued up to \$500,000 and partial exemptions	The First Home Plus Scheme and the First Home Owners Grant are administered by the <a href="#">Office of Sate Revenue</a> .



	<p>for dwellings valued up to \$600,000. Purchasers of land receive a full stamp duty exemption for land valued up to \$300,000 and a partial exemption for land valued up to \$450,000.</p> <p>The Department of Housing offers advice on home purchase and administers a program that offers mortgage relief for eligible mortgagors experiencing temporary financial hardship.</p> <p>The Office of State Revenue also administers the <b>First Home Owners Grant</b> provided by the Australian government.</p>	<p>For information and assistance with home purchase that is available check with the <a href="#">Department of Housing</a></p> <p>Examples of affordable home purchase projects are given on the <a href="#">Centre for Affordable Housing's</a> website</p>
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Local government also makes diverse contributions to the provision of affordable housing. Many local governments promote affordable housing through instrument such as their social plans, LEPs or by having specific housing strategies (Examples and more information are provided at internal link). Several councils, particularly in non-metropolitan areas, directly provide forms of affordable housing, such as homes for the aged or rental housing for their employees.

In recent years, there have been some important housing initiatives that showcase new ways of providing affordable housing for low and moderate-income households in different markets, often with local government playing a key role. Pictures and descriptions of a range of leading examples can be found on the [Centre for Affordable Housing](#) website (see below).

The projects illustrated on that site and other diverse initiatives across NSW and interstate demonstrate new ways of addressing the growing housing affordability challenge, which could be taken up on a larger scale across more areas. Local government can play a strong part in promoting and guiding such initiatives, as discussed further in [Developing Your Own Housing Strategy](#).

### **What strategic policy directions are state and national governments pursuing?**

While local governments are already well placed to help improve the affordability of housing, under a national agreement (or similar) more specific responsibilities, opportunities and priorities for local governments could be expected to emerge. Therefore it will be important for local government to continue to monitor developments in state and national policy. This can be done through the [Centre for Affordable Housing](#).

The [Council of Australian Governments](#) (COAG) is the peak intergovernmental forum in Australia, comprising the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association (ALGA). At its meeting on 20 December 2007 COAG agreed to a new model of cooperation underpinned by more effective working arrangements. COAG has placed housing among its seven work areas on its 2008 agenda. The objectives of its Housing Working Group are:

- for low to moderate income households.
- To halve the number of homeless people turned away from shelters within five years.
- To ensure all levels of government work together to improve housing affordability and negotiate a new National Housing Affordability Agreement, which builds on previous agreements and includes housing for Indigenous people.
- To improve housing supply, including through release of surplus Commonwealth, State and Territory land for housing development.
- To improve social and community housing.

COAG has agreed to implement five key housing initiatives:

1. A \$500 million Housing Affordability Fund with the goal of streamlining development approval processes and reducing infrastructure charges and developer costs;
2. A National Rental Affordability Scheme to address rental affordability by providing incentives to construct affordable rental housing;
3. Building 600 new houses and units for homeless people;
4. A plan for an audit of Commonwealth, State and Territory land for possible release for housing development (excluding operating Defence bases) to facilitate improved housing supply; and
5. The development of a new National Housing Supply Research Council, which will coordinate housing research and report on the adequacy of construction and land supply for the next 20 years, to improve the evidence base for housing policy and program development.

Further information and progress reports may be found on the [Council of Australian Governments'](#) web site.

All spheres of government in Australia acknowledge the need to work together to bring about a significant up-scaling in the provision of housing for households unable to access appropriate housing in their local area that is affordable to them. The specific roles and responsibilities of different spheres and agencies of government will be subject to ongoing negotiation.

The following table sets out in broad terms a possible allocation of responsibilities for the funding, planning and delivery of affordable housing that would be consistent with intergovernmental roles in the Australian governance system. The table helps illustrate how an integrated policy framework could assist in achieving a strategic response to the challenge of providing more affordable housing (see also Milligan 2005).

#### **Range of responsibilities for affordable housing across spheres of government**

<b>Commonwealth</b>	<b>State</b>	<b>Local</b>
Commonwealth objectives for affordable housing and links to broader Commonwealth objectives	State objectives for affordable housing and links to broader State objectives  State based affordable housing strategies	Local objectives for affordable housing and links to broader local objectives  Local affordable housing strategies

Lead development of national policy guidelines and standards for affordable housing	Contribute to development of policy guidelines and standards for affordable housing	Contribute to development of policy guidelines and standards for affordable housing
Identify subsidies and tax incentives for affordable housing	Identify subsidies and tax incentives for affordable housing	Consider fee and rate concessions for affordable housing  Consider partnering with non government organisations to provide affordable housing
	Provide for the use of a range of planning mechanisms to obtain affordable housing  Regulation of affordable housing providers	Incorporate appropriate planning mechanisms in LEPs  Streamline approval processes for affordable housing projects
Provide a framework for the development of capacity to provide affordable housing	Guide and support potential partners in affordable housing projects  Provide advisory and brokerage services for affordable housing initiatives	Support local affordable housing providers  Option to collaborate with neighbouring Councils to broker affordable housing projects
	Develop plans for renewal of public housing estates in consultation with local government	Consider local objectives for renewal of public housing estates
Provide for a component of affordable housing in Australian Government owned sites on disposal/redevelopment	Provide for a component of affordable housing in State owned sites on disposal/redevelopment	Provide for a component of affordable housing in Council sites on disposal/redevelopment

### **How can local government contribute to the provision of affordable housing?**

As discussed throughout this kit, local governments have a significant impact on the supply, mix and cost of housing in their local housing market especially through their planning policies, development control processes and building regulations. Having a sound understanding of the impact of these functions on the local housing market and how that in turn affects affordability is the first step in deciding what to do about affordability problems in the local area. A guide to how councils can use the planning system to support affordable housing is given in [Planning Mechanisms For Affordable Housing](#). The potential for local governments to join with private and community partners to contribute to



the provision of affordable housing is discussed under Preparing Local Housing Strategies. A useful resource document on partnering is "[Putting it Together: A Partnership Kit for Community Housing Providers and Potential Partners to Develop Affordable Housing](#)" by the Community Housing Federation of Australia.

Because of the diversity of housing needs and the complexity of factors underpinning these, it is important that a policy or strategy for affordable housing is not defined too narrowly. In thinking about the groups who need affordable housing, councils are encouraged to begin by assessing the full range of housing needs in their local area, using the techniques described in this kit. That analysis will provide a sound basis for considering the local groups whose needs are not being met and for assessing local opportunities and strategies which might best address the needs that have been identified.

### **Checklist for designing and delivering affordable housing projects**

If council is considering initiating or partnering in an affordable housing project, the following checklist of issues will help to determine the feasibility of the project. The Centre for Affordable Housing can provide more advice on these aspects of designing and delivering an affordable housing project. A more detailed account of factors and risks involved in delivering affordable housing can be found in Bisset and Milligan (2004).

#### *1. Who are the target groups for whom the housing is intended?*

Depending on the needs in the local area an affordable housing project could be planned for a designated special needs group, for low income households such as those eligible for social housing or Commonwealth rent assistance, for local residents, for workers important to the local economy, or for a mix of income groups.

#### *2. Who are the partners who could be engaged?*

Depending on their design and target group, affordable housing projects can attract a range of partners who can contribute to the project and its impacts. It is desirable to identify and consult with possible participants in a project at the outset. Potential interest groups include local employers and businesses, housing industry groups, not for profit organisations that are providing housing and/or related services (e.g. aged care, disability services), training organisations (e.g. building apprentice schemes), financial organisations, churches and charities and other government agencies, such as land development agencies. A full list of not-for-profit housing providers that operate in your area can be obtained from the [Office of Community Housing](#).

#### *3. Which affordable housing product will be offered?*

Typical affordable housing projects provide rental housing (either with support services associated with them or without support services), shared equity or home purchase at a discount. Affordable housing should be indistinguishable in its physical appearance from other housing and should be dispersed throughout the local community. It should aim to be of good quality and incorporate sustainable design features.

#### *4. a) How will rents be set for rental housing?*

There are several options for determining affordable rents. Rents can be related to the income of the tenant, based on the costs of services provided, or set at a discount to local market rents. If a not for profit housing provider is involved in developing/managing the housing, rents cannot be more than 74.9% of market rent to take advantage of certain tax

concessions that may be available to such providers. Structuring rents to ensure that any rent assistance that would be payable to tenants who are clients of Centrelink will improve the recurrent viability of the project.

#### *4. b) How will prices be set for home buyers?*

Setting the price for housing that is to be sold is a complex area where specialist advice may be required. Again, there are several options. One method is to price the housing at the cost of production plus a reasonable return rather than what the market will pay. This approach will improve affordability in areas where market prices are overheated. Another option is a sweat equity model where the price is reduced by the value of labour or other in kind resources that are contributed by the resident. A third option is for a sponsor to sell an affordable share in the dwelling to the resident (say 50% or 75%). In this option, a policy on whether any rent is also to be charged and who pays for outgoings such as insurance, rates and maintenance will also need to be determined. An important consideration in selling housing at a discounted price is to ensure that this does not result in windfall gains when the initial buyer resells the property (see issue 9 below).

#### *5. What housing will be appropriate?*

The design brief for the housing will need to consider a range of factors that will affect both the affordability and suitability of the housing for the target group, and the financial viability of the project. Factors to consider include: the sustainability of the dwelling; what construction efficiencies can be obtained; what facilities should be provided; is a component of adaptable or accessible housing appropriate; and, for rental housing, how can the long term cost of maintenance be controlled?

#### *6. What levers are available to reduce project costs?*

Affordability will be improved if a range of levers can be packaged together to reduce the costs of providing housing. Levers to consider include planning concessions and bonuses, other concessions (e.g. taxes and charges), savings in design and fixtures and fittings, and price discounts that may be available from developers for pre-purchase or volume purchases.

#### *7. How will the project be financed?*

Affordable housing projects typically involve a mix of debt and equity finance obtained from private and public sources. Any resources that council can provide (such as land or a capital contribution) can be used to leverage other funding. Possible sources of funds include the programs of other spheres of government, surplus government sites, developer charges, debt finance from a private lender, in kind resources (such as sweat equity) and investment by social and ethical investors. Sometimes profits from successful market priced developments can also be used to finance a share of affordable housing in a development.

#### *8. What recurrent costs will have to be considered?*

If the dwelling is to be kept as rental housing, the costs of managing and maintaining the dwelling must be considered up front. The principle that should apply is that rent revenue is sufficient to cover the costs of maintenance, insurance and tenancy and property management over the intended life cycle of the property. If borrowings have been included in the financing package, allowance for debt-servicing costs will also have to be made. In buildings with a mix of private and affordable housing, the impact of strata fees on operating costs will be an important consideration – for example, these fees may be too

high where they include provision for the maintenance of lifts and luxury facilities, such as swimming pools.

*9. How will affordability be secured in longer term?*

It is important to consider upfront practical ways of ensuring that any affordable housing that is produced will continue to be used for its intended purpose. Options for securing rental housing include retention of ownership by Council; transfer of title to, or a long term lease with, a regulated not for profit housing provider; or by establishing a dedicated property trust. Council could also retain the right (via a management agreement or similar) to nominate households from certain target groups to future vacancies in the project. For housing that is sold, placing a covenant on the title (such as a second mortgage) may be appropriate to protect any indirect or direct subsidy that has been given.

**The role of the Centre for Affordable Housing**

The [Centre for Affordable Housing](#) (CAH) is a business unit of the NSW Department of Housing that works with state and local government agencies, not-for-profit organisations and private companies to generate creative responses to declining housing affordability.

The Centre can bring together parties that are interested in promoting, developing and managing affordable housing predominantly aimed at low-to-moderate income earners, provide expert advice on potential projects and make the process of planning and developing affordable housing easier.

The Centre works with partners such as local councils to find practical, market-oriented options, as well as resources to deliver affordable housing as part of financially viable projects. Services that the Centre for Affordable Housing can advise on may include brokering, project assessments, technical advice, some degree of investment and feasibility analysis, advice on good practice and some forms of material support. Check the CAH website for the latest information on funding and resources that may be available.

**Contact details**

**Centre for Affordable Housing**

**Ph: (02) 8753-8181 Fax: (02) 8753-8188**

**Address: 223-239 Liverpool Road, Ashfield, NSW 2131 Australia**

**Email: [cah@housing.nsw.gov.au](mailto:cah@housing.nsw.gov.au)**

**To learn more about the role of the [Centre for Affordable Housing](#) visit their website.**

## **Boarding and Lodging Houses**

Boarding houses continue to play a key role in providing affordable accommodation for many people on lower incomes.

The NSW Government has various mechanisms in place to encourage the retention of boarding house accommodation:

Under State Environmental Planning Policy No. 10 – Retention of Low Cost Rental Accommodation, the NSW Government encourages the retention of viable affordable housing such as boarding house stock. More information on SEPP 10 can be found on the Planning NSW web site on housing policies.

The Government also encourages retention of boarding house accommodation through the Office of State Revenue's land tax exemption for boarding houses. Application forms for exemption can be downloaded from the Office of State Revenue web site.

The Department of Housing manages a Boarding House Financial Assistance Program, which offers grants to boarding house owners for fire safety upgrading.

Some Local Councils also make specific provision for boarding houses in their Development Control Plans, such as City of Sydney, Burwood and Waverley.

### *The Boarding Accommodation Calculator*

The Department of Housing commissioned the development of a calculator to assist local government and private boarding house owners and operators to assess the financial feasibility of boarding house developments (new and existing).

Please note that this calculator is a simple tool for users such as boarding or lodging house investors and operators and local government planning officials to develop preliminary assessments of the financial feasibility of a boarding house project. It does not replace the financial feasibility assessment requirements that need to be undertaken in relation to SEPP 10 applications.

- Boarding accommodation calculator
- Boarding accommodation calculator user guidelines

Disclaimer: Links to this calculator and its user guidelines are provided for the convenience of users and does not constitute in any way financial advice or endorsement of its outcomes by the NSW Land and Housing Corporation. Users must rely on their own, independent financial advice before making any decisions based upon any outcomes derived from this calculator.

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