

The Costs and Benefits of Affordable Housing

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Affordable Housing Definition

From the Social Housing Task Force final report:

Affordable housing includes “...housing that is affordable for households in lower or middle parts of the income scale. It includes owner occupied housing as well as rental housing that is owned by governments, non profit organisations, corporations or individuals.

A reasonable basic definition of affordable housing which relates to both public usage and appropriate policy goals is housing which:

- Is reasonably adequate in standard and location for a lower or middle income household and*
- does not cost so much that such a household is unlikely to be able to meet other basic living costs on a sustainable basis.”*

Housing Affordability

“does not cost so much that such a household is unlikely to be able to meet other basic living costs on a sustainable basis.”

- Housing Stress – Housing Costs 30%+ of income for lowest 40% of households
 - Ignores those in HOUSING NEED (not captured)
 - Ignores those on higher incomes (40-60%) forced to spend 45%+ to secure housing appropriate for need (size and location)
 - High housing cost burdens – implications for economic and social participation – limits other activities and spending

Housing Cost Burdens: median incomes purchasing median priced property

Sub-Regional Market	Existing Owners. HCB 2006	First Home Buyer HCB	Income Required for FHB 2010
Armadale Serpentine	24%	31%	\$64,114
Bassendean/Bayswater	29%	46%	\$86,057
Belmont	32%	48%	\$81,600
Canning	25%	39%	\$86,400
Cockburn	26%	33%	\$83,657
Fremantle	34%	64%	\$125,829
Gosnells	25%	34%	\$63,771
Hills	24%	37%	\$81,943
Joondalup South	22%	36%	\$95,657
Joondalup North	25%	35%	\$92,914
Melville	27%	52%	\$124,114
Perth City	36%	62%	\$149,143
Rockingham Kwinana	26%	39%	\$66,514
South Perth/ Vic Park	31%	52%	\$119,657
Stirling East	31%	49%	\$80,229
Stirling West	28%	55%	\$129,600
Swan	25%	34%	\$71,657
Vincent Stirling SE	31%	61%	\$144,000
Wanneroo NE	26%	36%	\$82,286
Wanneroo NW	28%	39%	\$76,114
Wanneroo South	25%	36%	\$78,857
Western Suburbs	30%	82%	\$237,257
Average for Perth Metro	28%	46%	\$100,971

No affordable housing!

- Will vary depending on housing market profile of suburb
- \$350,000 = Perth median income earners with 30% HCB. Rent around \$430 per week
- \$500,000 = 45% HCB
- Assuming deposit can be raised
- Many areas – No chance of achieving AH without subsidy
- No middle income earners can afford to buy available houses in high employment regions
- Includes many essential workers, not just those on low incomes
- New household formation – forced to move outside community
- New households financially overstretched – risks of default
- Overcrowding - unsuitable accommodation
- Big role for Community Housing Organisations
- Social housing – only for those with very low incomes *and* specific needs

Securing Affordable Housing

- Australian successes – where public owns land – provide subsidy
- UK Experience – 25%-40% of all new market developments are affordable (various tenures)
- Achieved through
 - Clear policy embedded in planning policy (National and Local).
 - Clear policy providing certainty for developers
 - Negotiations between parties based on feasibility
 - Contribution from Landowner
 - Market structure (house and land) – rare a contribution can be passed to consumer

Who should pay?

- Developer takes on risk
- Landowner benefits from windfall gain through
 - Rezoning
 - Permission to subdivide
- Run down Single house in good location
 - No permission to subdivide
 - Demolished and new dwelling constructed..
 - Revenue say \$600,000. Total Cost of development say \$250,000, Developer's Profit requirement say \$50,000, **Land Value = \$300,000**
- Permission to subdivide
 - Revenue say \$1m
 - Cost of subdivision and construction say \$500,000
 - Developer's Profit requirement say \$100,000, **Land Value = \$400,000**
- That permission to subdivide has increased land value by \$100,000. A gain to the landowner from the right to develop

Large scale subdivision

- 10ha rural land
- Current value = \$2m (element of hope value)
- Landowner successfully achieves rezoning
- Land Value
 - Say 300 lots@ \$200,000 per lot = \$60m
 - Development costs say \$120k per lot = \$36m
 - Other costs = \$6m
 - Developer's profit requirement = \$10m
 - Land Value = \$8m
 - Increase in value = \$6m
- Is there room for AH and infrastructure contributions from that \$6m?

Affordable Housing Contribution

- Land Value
 - Say 250 lots@ \$200,000 per lot = \$50m
 - Development costs say \$120k per lot = \$30m
 - 60 affordable lots say \$130,000 per lot = \$7.8m
 - Development costs for affordable lots = \$7.2m
 - Other costs \$6m
 - Developer's profit requirement = \$10m
 - Land Value = \$4.6m
 - \$3.4m contribution/subsidy
 - Great in theory!

Ownership

- Problem – Where developer is the landowner
- In previous example
 - Developer already paid say \$6m for land
 - Contribution requirement then imposed
 - This contribution comes directly off the developer's profit and profit reduced by \$1.4m
 - Developers will resist anything that reduces their profit
 - Risk of no development.
 - If contribution known in advance this can be factored into land price e.g. as an extra cost.

Certainty

- Developers crave certainty
- If contribution known in advance they can pass it on
- Developers favour density bonuses as compensation for providing AH
- Why?
 - In WA most large scale development sites already owned by developers
 - Increased density = Greater revenue = Replace lost profit
 - Generally strong opposition to inclusionary zoning due to ownership issues and stigma attached to AH – reduce values?

High Density Development

- Difficult to secure Affordable Housing
- Why?
 - Construction costs very high (at least 30% higher than East coast)
 - Revenue must be high to compensate
 - Any AH will decrease revenue and impact on profit
 - Resistance to AH
 - Need a firm, clear policy in place so developers can plan for contributions
 - Highlight successes to show it can work

Summary

- Affordable Housing – now necessary for those on median incomes. Remove stigma
- Without it – fragmented communities, separated families, lack of essential (key) workers etc
- Development – developers have a right to secure a profit
- Landowners – receive windfall benefits from planning approvals
- Secure, strong, clear, evidenced based policy – developers can factor contributions into land price
- Problem where developers are also landowners – very common in WA for large scale development
- Subsidies – necessary from landowner or State/Local Gov.