

The term 'affordable housing' has come to mean different things to different people. In its broadest sense, affordable housing refers to any housing that meets some form of affordability criterion. One version of this definition uses the concept of housing stress as its criterion for affordability. The 1992 National Housing Strategy defined housing stress as a household in the bottom two income quintiles paying in excess of 30% of net income. In this broad definition, affordable housing means any housing costing less than 30% of income for the bottom 40% of income earners.

A narrower definition that has gained popularity in recent times pitches affordable housing as the private sector alternative to public and community housing. In this sense, affordable housing is any housing supplied by the private sector that meets some affordability criterion. Again, the criterion used is usually 30% of income, although this narrow definition often includes middle income earners (ie. part or all of the third quintile) in its target group. This definition effectively recognises that Government funding for public and community housing is decreasing, placing an increased emphasis on the private sector to provide housing for people towards the bottom of the income scale.

Regardless of the definition used, all of the indications are that the amount of affordable housing in Western Australia is falling across all tenures. For home purchasers in regional and metropolitan WA, house prices have increased considerably in recent years. For instance, in December 1998 the median house price in Perth was \$142,500. By December 2002 this had increased to \$194,400 – an increase of 36.4%. As a result, the income required to affordably purchase a median priced home in Perth increased from \$52,168 to \$71,299 over the same period.

In the private rental sector, low cost stock fell by 19.8% in Perth and by 62.5% in non-metropolitan WA between 1986 and 1996. In the same period, the number of low income private renter households grew by 79.4% in Perth and by 88.8% in the rest of the state. By 1996, there was a theoretical shortage of just under 3,000 low cost properties in Perth.<sup>1</sup>

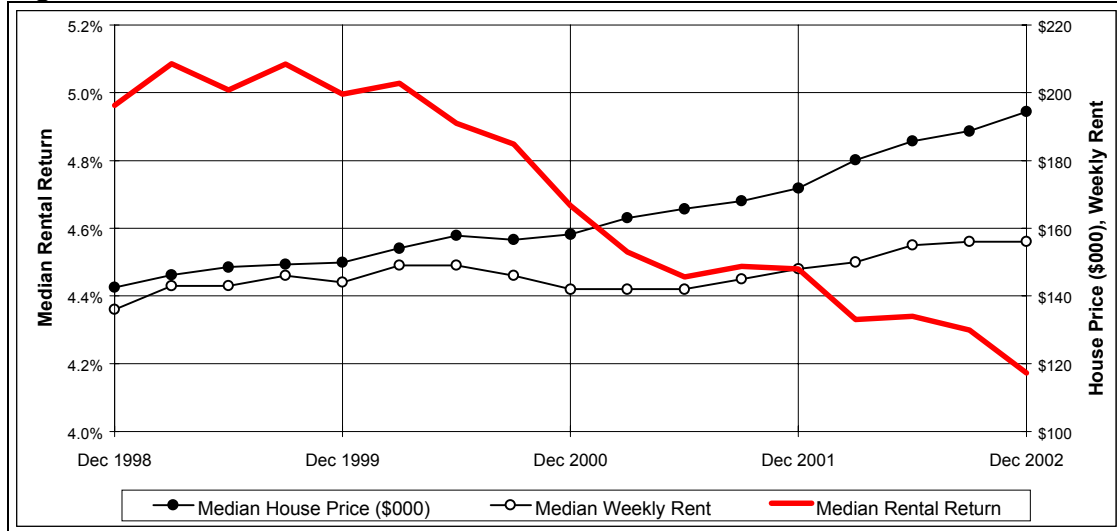
In recent times, rent rises in the private sector have not kept pace with house price increases due to high vacancy rates. Between December 1998 and December 2002 the median rent in Perth rose by 14.7% (from \$136 to \$156 per week), just exceeding the CPI increase of 14.4% for the period. As a result, the rental return on a median priced house in Perth has fallen from just over 5% in December 1998 to 4.2% in December 2002 (see Figure 1).

In order to cover tenancy management, asset management, maintenance and depreciation costs, rental returns on a typical property should be 6 to 7%. In the current market, this would equate to a rent on a median priced property of at least \$224 per week. In other words, Perth residential rents are currently undervalued by more than 40%. With vacancy rates now trending downward, rents in the private rental market are likely to increase significantly over the next 12 to 24 months.

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<sup>1</sup> M.Wulff, J.Yates & T.Burke, *Low Rent Housing in Australia 1986 to 1996*, 2001

**Figure 1: Median Rental Return: Perth 1998-2002**



Source: Shelter WA analysis of data published in REIWA, Market Update, 1998-2002

However, the median rent does not tell the full story. Recent REIWA data shows that vacancy rates are very low at the bottom (affordable) end of the market, but high at the top end.<sup>2</sup> This means that there is currently upward pressure on low rents, but downward pressure on high rents. Housing affordability is therefore likely to get worse for people on low incomes, whereas people on higher incomes may be paying less rent.

The final tenure, social housing,<sup>3</sup> is declining in importance relative to home purchase and private rental. In June 1997, the State Housing Authority owned 39,001 dwellings, or roughly 6.5% of total housing stock in Western Australia. Since then, stock numbers have remained more or less stagnant, falling marginally to 38,872 dwellings by June 2002. However, with recent construction activity rapidly expanding housing in the private sector, social housing now represents only around 4.7% of total housing stock. In other words, social housing is now an option for a significantly smaller proportion of West Australian households than it was five years ago.

The failure to expand social housing stock is due in part to falling Government funding for social housing, and in part to the policy of 'targeting' people with high needs and low incomes. Because of the higher needs of this group, targeting has increased tenancy management costs and, because of their lower incomes, it has reduced rental revenue.<sup>4</sup> In other words, targeting has reduced the financial viability of social housing providers.

Overall, it is evident that there has been a severe decline in housing affordability in Western Australia in recent times. This decline is of concern not only as an issue in itself, but also because housing affordability is widely recognised as one of the key causal factors for a range of social, health and economic problems.<sup>5</sup> Shelter WA has identified three ways in which the decline in housing affordability can be reversed.

The first approach is to increase the amount of Government funded housing in the State. Shelter WA strongly believes that social housing plays an essential role in the

<sup>2</sup> Real Estate Institute of WA, *Market Update*, December 2002

<sup>3</sup> Social housing encompasses housing provided by Government (public housing) and community organisations (community housing).

<sup>4</sup> Rents in the social housing sector are set as a proportion of income.

<sup>5</sup> For an extensive discussion on the role of housing in employment and welfare, see National Shelter, *Creating the Links between Housing, Employment and Income Support*, 2001

Western Australian housing system, providing a safety net for people who have limited housing options in the private sector. An earlier paper in this series demonstrated that a Government funding increase of more than \$65 million plus land costs per year would be required to keep social housing at its current proportion of housing stock.<sup>6</sup> Further increases in Government funding and changes to the policy of targeting would be required to achieve substantial growth in the sector.

The second approach to expanding affordable housing is to encourage the private sector to increase the supply of affordable housing. This is consistent with the narrow definition of affordable housing, and can be achieved either by providing housing related income supplements to housing consumers or by subsidising housing providers. The drawbacks of both types of subsidy are that they are relatively expensive and provide one off relief, as opposed to the provision of housing stock, which can be used for a period of many years.

Private rental housing is less secure than social housing and most research indicates that social housing is by far the most cost effective way of increasing housing affordability. Nevertheless, Shelter WA believes that the private sector has a role to play in increasing affordable housing, if only because it is four times larger than the social housing sector. However, increasing affordability in the private rental sector would require major adjustments to housing policies, taxes and payments. In particular, a system of incentives for providers to increase the supply of affordable housing should be implemented as part of a National Housing Policy, and Commonwealth Rent Assistance (CRA) should be retargeted to improve its housing affordability outcomes.

While CRA goes some way toward improving affordability in the private sector, it is not sufficient. For instance, the 2002 Report on Government Services identified that even after receiving this payment, 28.5% of West Australians still experience housing stress. 6.7% of West Australian CRA recipients spend more than 50% of their income on rent.

The final approach of increasing housing affordability involves innovative partnerships between the private, community and Government sectors. Over the last decade, many such partnerships have been proposed, but few have made it beyond the design phase. One model that has received much publicity lately as a potential option for replication in WA is that of the Brisbane Housing Company, which is itself loosely based on the City West Housing model operating in Sydney.

The basic concept is that of a non-profit organisation providing affordable rental accommodation to a range of tenants on low incomes,<sup>7</sup> with rents set as a proportion (around 75%) of market rent.<sup>8</sup> However, those on the lowest incomes are unlikely to be able to afford to pay 75% of market rent. Combined with the pressure to be financially viable, this means that housing companies can only house a limited number of tenants with high needs and / or on the lowest incomes. While housing companies do have the potential to take some pressure off public housing waiting

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<sup>6</sup> Karel Eringa, *Increasing Affordable Rental Housing Stock in WA*, Shelter WA Occasional Paper 2001-2, November 2001

<sup>7</sup> The Brisbane Housing Company uses the 'Low Income B' cut off measure defined in the National Housing Data Agreement, which is the effective cut-off for receiving government income supports at the pensioner rate. In April 2003, the cut off income was \$32,012.50 for singles and \$53,456 for couples, plus an additional amount for each child (see Appendix).

<sup>8</sup> City West Housing has a two tiered rent setting system: those tenants who are eligible for public housing pay 25% of their income in rent, up to a maximum of 75% of market rent, while tenants with higher incomes pay 75% of market rent. In practice, however, the Company mostly houses tenants near the top end of public housing income eligibility. For these tenants, 25% of income will typically exceed 75% of market rent, and most tenants will therefore pay a rent that is unrelated to their income.

lists, there are a number of questions regarding the concept that need to be answered satisfactorily before it could be implemented successfully in WA.

Firstly, who would a prospective WA Housing Company house? In order to take pressure off social housing waiting lists, the Company should draw at least some of its tenants from the existing public and community housing waiting lists. The problem is that in order to be financially viable, a WA Housing Company would house only those applicants with relatively high incomes and low management requirements. Public and community housing would be left with those on lower incomes and presenting higher needs, thus further exacerbating the negative effects of targeting on the financial viability of social housing providers discussed above.

Secondly, how would a WA Housing Company relate to the community housing sector? At present, there are eight Regional Housing Associations and hundreds of other community housing providers competing for the same limited growth funds in WA. In this sense, a WA Housing Company would compete for the same funds, adding nothing to growth but reducing the growth potential of community housing providers.

Thirdly, what happens if and when market rents increase? As argued above, the indications are that significant rent rises will occur in the near future. Since most tenants of a WA Housing Company would pay a market related rent, their rents would increase in line with the private sector. In this scenario, housing provided by the Company could become unaffordable for a large part of its target group.<sup>9</sup> The concept could therefore entail allocating significant Government resources with very uncertain outcomes regarding long term affordability.

Finally, where would a WA Housing Company operate? Financial imperatives would require the Company to operate stock in a very compact geographical area, making it unlikely that the concept could be implemented in regional or remote areas. A WA Housing Company would therefore effectively shift housing funding away from regional areas and towards Perth. Yet at the same time some of the worst housing problems occur in regional and remote areas of WA.

Overall, Shelter WA supports the development of innovative measures to increasing housing affordability, provided that these initiatives are additional to, rather than instead of, social housing and supply and demand subsidies. While innovative approaches may be a good way of making some progress on affordable housing, the extent of the problem is such that significantly more funding is required even if these innovative measures can be implemented successfully.

The recent National Shelter Policy Platform argues that large improvements in housing affordability can be achieved by redesigning housing assistance.<sup>10</sup> Currently, the First Home Owners Scheme, the Commonwealth State Housing Agreement, Commonwealth Rent Assistance, negative gearing provisions, capital gains tax exemptions and other tax provisions are uncoordinated and deliver inconsistent and sometimes contradictory affordability outcomes. Removing these inconsistencies and contradictions could improve housing affordability outcomes dramatically at little or no additional cost to the taxpayer.

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<sup>9</sup> Alternatively, if a two tiered rent structure is implemented similar to that of the City West Housing, rising market rents would result in more lower income tenants paying income related rents. However, a higher proportion of tenants paying income related rents would reduce the viability of the Company.

<sup>10</sup> National Shelter, *Rebuilding the Australian Dream: National Shelter Policy Platform 2003*, April 2003

### Appendix: Low Income B Cut-off Incomes

The Brisbane Housing Company uses the 'Low Income B' cut off measure defined in the National Housing Data Agreement, which is the effective cut-off for receiving government income supports at the pensioner rate. In April 2003, the cut off income was \$32,012.50 for singles and \$53,456 for couples, plus an additional amount for each child. In June 2002, the cut off incomes were as follows:

#### Singles:

		<i>Number of Children 13-15 years of age</i>				
		<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<i>Number of children under 13 years of age</i>	<b>0</b>	\$30,706	\$39,858	\$49,941	\$60,024	\$70,106
	<b>1</b>	\$37,007	\$47,090	\$57,172	\$67,255	\$77,338
	<b>2</b>	\$44,238	\$54,321	\$64,404	\$74,486	\$84,569
	<b>3</b>	\$51,470	\$61,552	\$71,635	\$81,718	\$91,801
	<b>4</b>	\$58,701	\$68,784	\$78,867	\$88,950	\$99,032

Source: Australian Institute of Health and Welfare, National Housing Data Agreement – CSHA 1999-2003: Public Rental Housing Data Manual 2001-02, Canberra, May 2002

#### Couples:

		<i>Number of Children 13-15 years of age</i>				
		<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<i>Number of children under 13 years of age</i>	<b>0</b>	\$51,350	\$51,990	\$52,629	\$60,024	\$70,106
	<b>1</b>	\$51,990	\$52,629	\$57,172	\$67,255	\$77,338
	<b>2</b>	\$52,629	\$54,321	\$64,404	\$74,486	\$84,569
	<b>3</b>	\$53,269	\$61,552	\$71,635	\$81,718	\$91,801
	<b>4</b>	\$58,701	\$68,784	\$78,867	\$88,950	\$99,032

Source: Australian Institute of Health and Welfare, National Housing Data Agreement – CSHA 1999-2003: Public Rental Housing Data Manual 2001-02, Canberra, May 2002