

INFORMATION SHEET

WHAT IS AFFORDABLE HOUSING?

By Jim Anthony

Key terms: Affordable Housing, Social Housing, Public Housing and Community Service Obligation.

Introduction

The term **affordable housing** is being used more often in the media and amongst housing commentators. It has become a hot topic due to housing prices climbing to levels well beyond the financial reach of many low and moderate income households.

Housing commentators tend to provide only brief descriptions of the concept underpinning affordable housing. In the future affordable housing will play a key role in housing a growing number of Western Australian households. Shelter WA has and will continue to take a central role in developing affordable housing policy.

For these reasons it is important to explain the term affordable housing and to highlight the differences between affordable and **social housing**.

What is Affordable Housing?

In Australia there is no universally accepted

definition of what constitutes affordable housing. However there is widespread acceptance amongst policy makers that affordable housing is:

- ▶ Housing which is targeted at or reserved for people who are unable to compete effectively in the existing private housing market.

Generally speaking the term affordable housing has been used to describe a range of private housing options for low income households (i.e. shared equity homeownership schemes). **Social housing (public and community housing)** is publicly owned housing and represents another form of low cost housing. It is primarily funded through the *Commonwealth State Housing Agreement* (CSHA).¹

This implies that affordable housing constitutes *privately owned* housing and social housing constitutes *publicly owned* housing.

It is not quite as straightforward as that. Some government

agencies are now developing policies aimed at encouraging private investment in social and affordable housing. This will ultimately lead to private investors and not for profit housing associations entering into partnerships and jointly owning and managing affordable and social housing stock.

Thus the term affordable housing is an evolving concept and is hard to pin down

Affordable Housing Target Group

Although universal agreement of the affordable housing concept remains elusive, the target group is clearly recognised as households with:

- ▶ Incomes in the bottom 40% of the income distribution and;
- ▶ Those households should be provided with housing assistance schemes so that they pay no more than 30% of their income in mortgage payments or 30% of their income in rent. ²

Table 1 reveals housing data from Shelter's Affordable Housing, 2006 research paper. It shows the purchasing and renting capacity of households at the top of the second quintile. This represents the highest income level of households in the bottom 40% of the income distribution in WA.

Note that for those households at the top of second quintile there are no suburbs left in the metropolitan region were they

could afford to purchase a median priced house.³

The market is also failing to provide affordable private rental for many low income workers. There are currently 140,000 WA households' on incomes of less than \$40,000 renting in the private market.⁴ Many of these households experience *housing stress* (paying more than 30% of household income on housing costs), even after receiving *Commonwealth Rental Assistance* (CRA).⁵

Table 1

Housing Affordability Indicators (September 2006)	Metropolitan Region Housing
Low Income (top of 2nd Quintile)	\$51,716
Able to purchase house up to	\$179,501
Maximum affordable rental	\$230 p/w
Median Income	\$59,644
Able to purchase house up to	\$203,000
Maximum affordable rental	\$343 p/w

Source: Shelter WA, *The State of Affordable Housing in WA, 2006*
 The purchase price assumes a deposit of 10% and costs at 5% of the property value.
 Based on household paying 30% of weekly gross income on housing costs.

Affordable Housing Policy in Australia

Australian governments' are adopting a bi-lateral approach to affordable housing. The outcome of which will probably be the establishment of a new *National Affordable Housing Agreement*.⁶

What is happening in Western Australia? An affordable housing framework is still at the

embryonic stage. Policy ideas are being formulated by the *State Housing Authority (SHA)* and will be incorporated in to the soon to be released *Housing Strategy WA*. Various non-government organisations are also involved in affordable housing policy development.

What is Social Housing?

Social housing is publicly owned housing and comprises public housing, community housing, regional housing associations and Indigenous housing.

Key features:

- ▶ Social housing is not for profit housing (in the UK social housing organisations do make profits which are channelled back into new build projects) and;
- ▶ In Australia social housing is increasingly targeted at households in greatest need (unemployed, homeless, mental and physical impairment, escaping domestic violence);

Key funding difference with private rental:

- ▶ Private rental tenancies are entitled to CRA and;
- ▶ Community Housing (CH) tenants are also entitled to CRA. This is because CH agencies are established under a range of different legal structures, some of which include community or charitable associations.⁷

Many low income private renters do not apply for public rental

because of long waiting lists and excessive client targeting. This has resulted in a growing number of WA households entering public housing based on their higher level of need.

This in turn has led to increased tenancy management costs and a reduction in rental income. The SHA receive no funding assistance from the State government for housing high needs households. Only 15% of the tenancies pay full market rents. This is impacting on the capacity of the SHA to respond to the growing demand for public housing.

What can be done to Improve Public Housing Viability?

The SHA is required to provide housing for low income households at a subsidised rate. Thus there is a case to be made that government should provide the SHA with a housing subsidy or *Community Service Obligation (CSO)* for housing low income households.

What is a CSO? In other government services such as electricity and water utilities the difference between the commercial price and the amount paid by the recipient of a concession is recognised as a CSO. This is normally funded by Treasury.⁸

There appears to be no distinguishing reason why the principle applying to CSOs in other government organisations should not be applied to public housing authorities? Clearly the CSO is now an acceptable form of social assistance.

This brings us to the key housing question facing Australia to-day. Are Australian governments willing to adequately fund and allow the creation of a contemporary social housing system such as that shown in Figure 1 below?

Or do we continue with a system unable to deal with the growing housing problems of homelessness and affordability?

Figure 1: Edinburgh, Slateford Green mixed tenure housing



Source: Sustainable Development Commission, www.sd-commission.org.uk

Figure 1 shows the award winning Canmore Housing Association car free development of 120 mixed-tenure homes, comprising 69 flats for social rent, 39 for shared ownership and 12 for outright sale. The development incorporates multiple sustainability features.

Summary

This *Information Sheet* provided a brief explanation of affordable housing within an Australian context. It showed that the concept of affordable housing is difficult to tie down and highlighted the distinct differences between social and affordable housing. The way

housing policy is progressing in Australia indicates that we may be heading for a more complex and diverse housing system? Future Information Sheets will keep abreast of any new advancement in the social housing system and affordable housing policy.

Endnotes

¹ An agreement made between the Australian, State and Territory governments under the *Housing Assistance Act 1996* (Cwlth) to provide strategic direction and funding certainty for the provision of housing assistance. See Productivity Commission, 2006, *Report on Government Service; Housing 2006*, www.pc.gov.au

² Department of Housing, Queensland, 2007, *What is Affordable Housing*, www.housing.qld.gov.au.

³ Shelter WA, 2006, *The State of Affordable Housing in WA*, 2006. www.shelterwa.org.au

⁴ Australian Bureau of Statistics, 2005, *Housing Motivations and Intentions WA, October, 2005*, Cat.No, 8710.5, www.abs.gov.au

⁵ Commonwealth Rental Assistance is a non-taxable income support supplement paid by the Australian Government to income support recipients who rent in the private rental market.

⁶ National Affordable Housing Forum, 2006, Achieving a National Affordable Housing Agreement; A national approach to a national, problem, Background paper 1

⁷ Department of Housing and Works, 2003 *Housing Strategy WA Issues Paper: Community Housing*, www.dhw.gov.au

⁸ Hall, J & Berry, M, 2004, Operating Deficits and Public Housing: Policy Options for Reversing the Trend, www.ahuri.edu.au