Q Shelter

AFFORDABLE HOUSING
POSITION STATEMENT

SHELTER
because housing matters

A Guide to Affordable Housing

The Queensland Housing Strategy signaled a role for community housing providers (CHPs) to expand the range of affordable housing products, to address the gap between social housing and the private market.

The term ‘affordable housing’ is sometimes used interchangeably with the term ‘housing affordability’ but the two terms have different meanings. ‘Housing affordability’ is a general concept applied to the housing market, to measure the range of household incomes that can, and cannot, afford appropriate housing in different locations.

‘Affordable housing’ usually describes a range of subsidized housing products that are affordable to those on low to moderate incomes. The concept of ‘affordable housing’ emerged as a response to addressing ‘housing stress’ – a term used to describe the negative impacts for households with insufficient income to secure adequate housing[1].

This guide serves as Q Shelter’s position statement on affordable housing.

Social and Affordable Housing Definitions

AHURI define affordable housing as “*A dwelling available through a housing assistance program that provides for a specified level of below market rent price (e.g. public housing, community housing, National Rental Affordability Scheme, shared equity scheme for home ownership)*.”

In terms of rental housing, within this general definition there is a distinction between ‘social housing’ and ‘affordable housing’. Social housing operates in all States and territories to meet the needs of those on low incomes, under a prescribed policy framework including eligibility, allocations, rent setting and tenancy management.

In Queensland, in common with many other States, ***social housing*** comprises public housing – which is managed by the Department of Housing and Public Works (DHPW) – and community housing which is managed by Community Housing Providers (CHPs). It is managed under a common policy framework – the ‘One Social Housing System’, with rents usually set at 25% of income, common eligibility criteria, and allocations from the Housing Register. Public housing tends to be long term, whereas community housing is a mixture of crisis, transitional and long term housing.

Affordable housing is defined in the context of this paper as rental housing that is let at sub market rates (generally by not for profit housing providers), to meet the housing needs of households who cannot afford the private market. It is generally targeted at households with incomes in the range above the social housing income eligibility limits, such as those in low paid, part time or casual employment.

The largest affordable housing product is provided through the National Rental Affordability Scheme (NRAS), under a separate national framework for eligibility, allocations and rent setting.

[1] Housing affordability, housing stress and household wellbeing in Australia authored by Steven Rowley and Rachel Ong (AHURI) – 2012, p23

This is a 10 year subsidy and provides over 10,000 affordable housing units in Queensland. However the scheme was discontinued, and the number of units in the scheme will start to decrease from 2019 onwards.

In addition, there are a number of programs operating under a mix of social and affordable policy settings, for example combining the prescriptive social housing approach for eligibility and allocations with rents set at discount to market. Other social and affordable housing provision operates outside government funding arrangements including that provided by some indigenous housing providers, other charitable organisations and local governments, mainly in regional/rural areas or Indigenous communities.

Affordable Housing – Context

The term 'affordable housing' has gained prominence through the National Affordable Housing Agreement (NAHA) which is now the National Housing and Homelessness Agreement (NHHA); it is a concept pioneered by the Affordable Housing Summit Group (2004-2010).

The Affordable Housing Summit Group promoted a way of simplifying the range of terminology and subsets of affordable housing by considering them in bands:

- *Band A* includes social housing rented at a proportion of income and likely to be occupied for long periods (up to 25 years) targeted to low income households.
- *Band B* includes discounted market rents such as NRAS products. Another example is the medium-term reduced market-rent product offered by BHC that targets low and moderate-income households.
- *Band C* includes approved types of home purchase/shared equity programs for low-moderate income households.

Under the NAHA, Affordable Housing encompasses all 'sub-market' housing or housing which includes a component of government or other subsidy. This would include social housing and affordable housing.

Measuring housing affordability

The 30/40 Rule

While there is no standard measure of housing affordability, the '30/40 rule' forms the basis of most measures. The 30/40 rule provides that for the bottom 2 quintiles (40%) of incomes, a household should pay no more than 30% of their gross (before tax) income on housing. For these households, paying more than 30% is an indicator of housing stress, and paying more than 50% of their income is an indicator of severe housing stress.

The 30/40 rule is less relevant to higher incomes, since those households have higher disposable incomes and may choose to spend, and be able to afford, a higher proportion of their income on housing costs. It is also less effective at measuring housing affordability for those on very low incomes, who may not be able afford to pay 30%, or even 25%, of their income in housing costs.

Income after housing costs relative to the poverty line

In order to measure rental affordability across a wide range of incomes, from very low up to moderate, Q Shelter chose to measure income (after housing costs) relative to the poverty line in its recent review of the Community Housing Rent Policy[2]. This allowed a full range of incomes, including Centrelink incomes and a range of low to moderate income occupations, to be measured against a range of rent policies. It showed how much household income is left after paying housing costs, and the amount by which this leaves them above or below the poverty line. It proved effective in measuring housing affordability for those above the bottom two income quintiles, and it also showed that those on very low incomes were left below the poverty line even on 25% income based rents.

It is important to acknowledge that rent is not the only housing cost. Energy affordability is an increasing issue for low income households, in the face of rising electricity and gas prices. Transport costs also need to be considered, in particular where cheaper housing in outlying suburbs results in significantly higher transport costs.

Rent setting in Affordable Housing

Income-based affordable housing

Rent setting in affordable housing can be income based or market/amenity based. If it is income based, it is generally set at 30% of income (as distinct from 25% of income for social housing). At present, this is the most common rent policy applied to the Affordable Housing Program in Queensland.

Market based affordable housing

A large proportion of affordable housing, however, is rented at a discounted market rent, rather than as a percentage of income. This approach is designed to reflect the amenity of the property (size, quality, location etc) in the rent levels. An example of this is Brisbane Housing Company's rent policy, which applies a discount to market rent policy for its own affordable housing product. Rents are set at up to 74.9% of market rent, although in high rent areas the discount may be larger. A threshold of 30% of income (plus CRA) is also applied to individual applicants, to ensure affordability.

Affordable housing – a spectrum

A common form of market based affordable housing is provided through the National Rental Affordability Scheme (NRAS), (subsidised by contributions from both the Commonwealth and states). This has seen the development of privately owned affordable housing.

While some CHPs have designed their portfolios to own a proportion of properties, most have on-sold property to private investors, who receive a subsidy and tax credit in exchange for renting properties at no more than 80% of market rents.

An emerging form of affordable housing is coming from CHPs establishing not for profit real estate businesses to attract private rental property which can be rented at market or sub-market rents. Some CHPs are now receiving tax office rulings that allow owners to claim the difference between the sub-market rent and market rent as a tax deduction. This is attracting new properties to the not for profit sector to rent to low and moderate-income households.

[2] Review of the Community Housing Rent Policy: A review of Rent Setting Options, Q Shelter, December 2017

Managed Investment Trusts (MITs)

In May 2017 a tax measure was introduced aimed to stimulate the supply of affordable rental housing through the vehicle of Managed Investment Trusts (MITs).

"The stick is that MITs will now be explicitly precluded from investing in residential real estate unless it is affordable housing. There are two carrots: an increase to the Capital Gains Tax (CGT) discount for resident individuals from 50 per cent to 60 per cent where the trust has used residential real estate to provide affordable housing for at least 3 years prior to sale and for non-resident investors, a 15 per cent withholding tax rate if the MIT has used the residential real estate to provide affordable housing for at least 10 years."[3]

Capital Gains Tax (CGT) discount

As of January 2018, an additional 10 per cent CGT discount is available to resident individuals investing in qualifying affordable housing, totalling 60 per cent discount on CGT. Qualifying criteria include: eligible tenants (with a criteria) on low to moderate incomes, management through a registered CHP and the investment held as affordable housing for a minimum period of three years.

Affordable housing for purchase

Another form of affordable housing is housing for purchase rather for rent. This can take the form of 'shared equity' or 'shared ownership', where a household contributes part of the finance, and a government, CHP or other body, contributes the balance.

Various governments offer a shared equity product with the *Pathways Shared Equity Loan* available for tenants in Queensland Government-owned housing. Loan repayments are no more than 35% of income and rent is not payable on the department's share of the home. The Keystart/Bendigo Bank *Shared Ownership Home Loan Scheme* in WA is designed to help low to moderate income earners for first and subsequent homebuyers. Depending on income and household size, the Housing Authority will co-own up to 40% of a property, although some conditions apply. Depending on financial capacity, participants may be able to purchase all or part of the Housing Authority's share.

Market Gaps and shortage of social and affordable housing

Despite the spectrum of available affordable housing products, as well as assistance with bond and rental subsidies for households entering the private rental market, there are still significant gaps in the housing continuum, such that a significant number of Queensland households are currently unable to achieve secure, appropriate and affordable housing that meets their needs.

In some high rent housing markets, particularly in south east Queensland at present, there is a large gap between social housing and the private market, and even with the supply of NRAS and other affordable housing properties, there is an insufficient supply of affordable rental properties to meet the needs of those above the social housing income eligibility threshold. This shortage will become more acute once the supply of NRAS properties starts to tail off, unless other forms of affordable rental supply can take its place.

In addition, there is a shortage of social housing, with only those households in the highest needs categories likely to obtain social housing.

[3] https://www.ahuri.edu.au/policy/ahuri-briefs/what-are-managed-investment-trusts-and-how-can-they-finance-affordable-housing

The imbalance between social housing supply and demand has created long wait lists. In an attempt to manage this, most state authorities have introduced segmented waiting lists. Consequently, social housing priorities are now concentrated on servicing tenants who present with high or very high needs and low incomes. In Queensland 96% - 98.5% of all social housing is allocated to those in highest need.[4]

Because of this, many eligible households who are not in the highest need categories are not offered social housing, but at the same time will struggle to afford rents in the private market. Even where NRAS properties are available, households may not be able to afford to pay up to 80% of market rents. These households in particular face a lack of affordable housing options.

More generally, many households on low to moderate incomes – often those in insecure employment - are struggling to obtain suitable housing in the stronger housing markets across Queensland. There is both a lack of rental options, and low cost home purchase options available.

[4] Report on Government Services Chapter 18 part G, fig 18.2

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