Affordable Housing Policy Enabler: Statement for Policy Definition and Guidance

WORKING PAPER PART NO. 1/18

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EXECUTIVE SUMMARY

Project Objective

Recent initiatives such as the National Housing Finance and Investment Corporation (NHFIC), Managed Investment Trust (MITs) and Growth Funds (GFs) have been established at the Commonwealth level and regrowth at various state/territory level to address housing affordability. These require a clear identification of drivers and policies for successful implementation, which include:

1. What are the appropriate measures of housing affordability that should be adopted? Specifically, what definition and policy guidance is issued for NIHFC and MIT.
2. What impact do various taxation instruments have on affordability and the attractiveness to non-government entities to enter the various government initiatives?
3. What safeguards do third parties require to enter the various government initiatives?
4. What policy initiatives are required — either existing to be modified or new to be developed?

This project builds on 2017 research conducted by NAHC/SLIC and Griffith University which undertook a review of International and Australian models measuring housing affordability, with a focus on "whole of life housing affordability" (WLHA) and the variations in the application of these WLHA methodologies when applied to inner city and suburban locations. This project focuses on items 1 and 2 above, with a high-level observation of existing and new policies, and what enablers may need further detailed granular work. Therefore, the main objectives of this affordable housing enabler project are:

- To establish an affordable housing policy definition and guidance to clarify problems, issues and to identify opportunities that would increase social and economic participation in delivering affordable housing projects
- To identify what are the appropriate WLHA measures to be adopted by Australian governments

- To identify some of the high-level indicative impacts of Land Tax on WLHA when applied to the BtR schemes (each state) using the selected measures such as demographic and economic data from the ABS 2016 Census.
- To identify existing and future policy requirements required to provide safeguards to third parties to enter specific BtR program.

The findings are intended to facilitate a quality awareness of affordability issues to large-scale private and institutional investors that are engaged or express interest in delivering a variety of affordable housing schemes to different household income categories, as defined by this project. In order to achieve the set objects, this project reviews recent published and unpublished data – particularly from Australian Bureau of Statistics 2015-16 – as well as industry and academic research including case studies highlighting affordable housing and housing affordability practice at the state and territory, nationally and international levels. The various insights into the affordable rental housing market gaps and identify innovative ways to sustain the much-needed housing affordability policy enabler in Australia are summarised as follows and the project planning is broken down into two phases.

Part 1 Statement for Policy Definition and Guidance (Working Paper No. 1/18)

Part 1 has provided a review of how affordable housing policies have expanded considerably since the 20th century through a re-evaluation of housing affordability initiatives, which involved deconstructing barriers to matching the affordable housing market supply and demand gap. The initiatives included in the affordable housing schemes considered on tax incentive needed to attract private and institutional investors on the supply side and the conceptualisation of targeted household income categories and household expenditure to determine the intensifying need for affordable housing on the demand side. However, affordable housing policies have been reviewed constantly to ensure accountability from the public and private sectors over the years as low- and moderate-income households have continued to face significant housing and financial stress. There has been a consensus in the affordable housing sector that policy guidance is needed to initiate a viable process that supports the delivery of high quality and sustainable affordable housing.

For the affordable housing market, decision makers have crafted affordability measures such as 30:40 stress rule and residual income to assess households' need for affordable housing, and the results are both bleaker and inconsistent with households' socio-economic factors, and the lack of balance between affordability policy measure and households' factors have resulted to increased homelessness, couch-surfing and group households. This is not so surprising, given that affordability measures are meant to remove other housing discretionary spending, which is significant to addressing the financial stress issues related to whole-of-life housing affordability for low- and moderate-income households. The main finding indicates that affordable housing policies needs to accord with not only housing costs but also discretionary spending. This would help to design and secure long-term investment streams to develop and deliver sustainable affordable rental housing to different household categories. In that housing cost shouldn't be a typical standard measure of affordability – households make trade-off between basic and discretionary costs – these trade-off decisions are relevant when considering households' wellbeing.

Part 2 Build to Rent (Working Paper No. 2/18)

This report aimed to provide a build to rent analysis on two NAHC affordable housing projects: 5-storey apartment block offering a total of 153 one- and two-bedroomed units including parking, located at 244 Stafford Road, Stafford, Brisbane; and a 19-storey development offering a total of 108 one- and two-bedroomed units located at 38–40 Claremont Street, South Yarra, Victoria. The two case study projects were intended to investigate implications of relevant census statistical information published between 2007 and 2018 by the Australian Bureau of Statistics (ABS) related to housing affordability levels for different household categories, as defined in Part 1. Categories of the census statistical information include: resident demographic within a 5km post-code radius of the two projects; household formation; household dwelling structures; household employment; and, most importantly, household consumption across 15 non-discretionary and discretionary expenditure categories. The report extends to a detailed evaluation of the effectiveness of housing affordability measures to provide new perspectives and further guidance concerning build to rent programs to the affordable housing sector.

As such, Part 2 developed a build to rent scenario analysis that linked weekly equivalised household income categories and discretionary spending with South Yarra and Stafford projects' affordable weekly rent. The major finding was that the average household equivalised income for the four household categories were significantly lower than the average household income limit for affordability schemes operating in the affordable housing market. Despite this challenge, it revealed that build to rent schemes have the potential of delivering the diverse and sustainable affordable housing required by different household categories. It should be noted that its policy implementation in the current affordable housing market will require consideration of tax incentives and a whole-of-government approach in order to support private and institutional investment in the sector. Combining the analysis of both the ABS Census data and the case study information, this research project supports the implementation of build to rent initiatives so as to bring changes at a whole-of-life housing affordability for households with extremely very low, very low, low and moderate disposable income levels.

Recommendations

Looking forward, extensive transformation and a clear policy guidance is needed to address a century of inherent and accumulated affordable housing problems then to close the gap between the supply side and the demand side of the affordable housing sector. This project proposes the following recommendations based on the knowledge provided in Part 1 Statement for Policy Definition and Guidance (Working Paper No. 1/18) and Part 2 Build to Rent (Working Paper No. 2/18).

1. To establish an affordable housing policy definition and guidance, in particular, to clarify problems, issues and identify opportunities that would increase social and economic participation in delivering affordable housing projects.
2. A more nuanced pilot project to investigate the demand-side by looking at different factors affecting household affordability at individual and market levels using equivalised income to identify factors that would encourage investment in the housing affordability initiatives.
3. Extends the analysis of the household income to include tax reform incentives (i) land rent but no stamp duty, (ii) stamp duty but no land rent, and (iii) no stamp

duty and no land rent – the purpose is to uncover what different forms of incentive will mean for the whole-of-life housing affordability.

4. Aligning the whole-of-life housing affordability approach to the current and ongoing government affordable housing initiatives at the local, state and territory and federal levels along with those of program partners, i.e. whole-of-life government housing affordability.
5. Identify key challenges and ways to maximise the benefits of housing affordability initiatives followed by the scoping scale of work related to housing diversity to help meet the overall supply needs.
6. Bring together whole-of-life government housing affordability and whole-of-life housing affordability for sustainable delivery of affordable housing.

Finally, this project should be recognised as the start of a long-term collaboration between government agencies and private and institutional investors to create policy mechanisms with default standard pathways which avoid the current inefficiencies to enable planning and implementation of affordable housing policies and housing affordability initiatives. Technically, developing a framework for proposed policy mechanisms would require hefty investment due to the scale of such as large multi-dimensional project engagement strategy. The research project team suggests that the sector should utilise affordable housing experts/practitioners to prepare a comparison position paper to identify alternative pathways of understanding housing affordability but with customised affordable housing requirements. This will enhance clarity and reduce the element of confusion that deters private and institutional investors from engaging in an affordable housing scheme when assessing eligibility criteria of households in different income category due to the asymmetry of market information. In addition, this decision-making process must be ongoing and be congruent with the Australian political framework, to promote a common understanding and meet the needs and objectives of the proposed policy mechanisms driving the affordable housing sector.

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1. INTRODUCTION

According the Australian Bureau of Statistics (ABS) (2017), in the 12 months to June 2016 the national household expenditure on goods and services was $1,425 on average, which is an increase of 15% (or $190) from 2009–10 and almost triple the average from 1984. The ABS Household Expenditure Survey (2017) further states that the proportion of household expenditure spent on rent or mortgage payments jumped from being the third-highest spending category at 13% in 1984 to being the highest spending category at 30% or more in 2016. While rises in household expenditure affect all Australians' housing costs, the weight is especially heavy for very low, low and moderate-income households along with other vulnerable community groups. More broadly, the income of these households may be insufficient to secure a dwelling with adequate living standards while also meeting other living costs such as utilities and food, leaving many people at risk of experiencing homelessness.

The ABS Census publication '*Housing Occupancy and Costs, 2015–2016*' estimated that around a third of Australian households (30.8%) rent their home as a private rental and just over half (51%) of these households were in housing stress. The Australian government along with the private and community sectors have launched several initiatives to address the historical crisis of housing affordability, to increase the supply of affordable housing and to deliver these residential units to very low, low and moderate-income households.

Considering the magnitude of designing a framework to enable the affordable housing industry to deliver residential units with a high amenity of living standards in Australia, the 2015 National Affordable Housing Consortium Annual Report states:

> *In recent times many people across government, industry and community sectors have shared an increasing sense of lack of direction and purpose in terms of national housing policy and this seemed to be coupled by inertia and uncertainty at a State level*. (NAHC 2015; cited in Earl *et al*., 2017:02).

In May 2018, the Australian Housing and Urban Research Institute (AHURI) proposed an equitable and effective framework for affordable housing programs, stating:

> *All levels of government can contribute within a national framework, common vision and purpose, with specific strategies developed and implemented by state/territorial*

and local governments to address their different housing pressures (Gurran *et al*., 2018).

The above assertions illustrate that without a clear planning framework, the affordable housing sector will continue to experience market failure in meeting the current and projected housing needs for very low, low and moderate-income households in the local property market.

The purpose of this document is to develop a policy statement defining *affordable housing* and *housing affordability*. It will contribute by drawing a comprehensive strategic policy – similar to that of New South Wales (NSW) and Victoria (VIC) – that is significant for enabling stakeholder efforts in implementing affordable housing programs and housing affordability initiatives when addressing households' housing needs and the local market conditions. This policy statement identifies the theoretical questions necessary to inform public policy in the context of the planning and development of affordable housing for different households.

This policy statement contains two components structured to answer the theoretical questions related to *affordability* and *housing*.

- Part A: What is the meaning of affordable and affordability in the housing sector?
- Part B: What constitute housing costs and their impacts on housing affordability?

Drawing on the case studies detailed in Part 2 of this policy statement report, this policy statement indicates that there is a clear justification for Australian Commonwealth and state governments such as Queensland to actively seek to increase housing affordability schemes through planning frameworks and policies.

2 AN OVERVIEW OF HOUSING AFFORDABILITY

2.1 Affordable Housing and Housing Affordability

The current debates in the housing sector centre on the socioeconomic hardship faced by very low, low and moderate-income households. Broadly speaking, housing sector concerns are heightened by the increasing gap between expenditure-income ratios and long-term versus short-term affordability (Haffner and Heylen, 2011). As a result, the issue of the cost of living in relation to the housing sector relates to the concept of *affordability.* O'Neill *et al*. (2008) argue that the concept of affordability has been developed to allow very low, low and moderate-income households to access appropriate housing in the market and to exercise their fundamental human right to housing.

Affordability is a generic term defined by Axene (2003) as *a measure of someone or something's ability to purchase a good or a service*. The integration of affordability in the housing sector allows for a more efficient housing sector that is also responsive to housing expenditure so that it is not a substantial barrier to households' access to the housing market. Improving the housing sector means focusing on both the availability of affordable housing and housing affordability enablers. The definitions of the concepts are as follows:

- Affordable housing is housing, including social housing, that is appropriate for the housing needs of very low, low, and moderate-income households (The Planning and Environment Act 1987 (Vic); and
- Housing affordability is the relationship between housing costs and some ability-to-pay criterion (Ben-Shahar *et al.,* 2018).

Despite the importance of the concept of affordability in housing, the emergence of the notion *affordability* in the housing sector has remained fragmented due to disparity in its conceptualisation and the measurements of causal factors (Earl *et al*., 2017). With regards to conceptualisation, Gurran and Phibbs (2015) note that affordability is often framed around political and economic ideologies rather than addressing the socioeconomic strata; for example, inequality and its impacts on housing prices. O'Neill *et al*. (2008) find that causal factors create further complications when determining the level of affordability, as its measures (e.g., employment, transportation and other consumption trade-offs) differ from one household to another (e.g., singles, couples, groups and households with children).

As such, many developed countries, including Australia, experience a severe deficit in the affordable housing sector because of the lack of a clear policy statement defining affordable housing and housing affordability. The Commonwealth of Australia report (2015:12) '*Out of reach? The Australian housing affordability challenge*' lists the criteria to understanding affordability in the affordable housing sector, noting that:

> *It is problematic to talk about 'housing affordability' or 'affordable housing' in aggregate terms. Affordability instead should be examined on the basis of 'repayment', 'purchase' and 'rental' affordability*. (Department of Social Services cited by the Commonwealth of Australia, 2015:12)

Earl *et al.* (2017:03) notes that efforts directed towards understanding the meaning of affordability and its relationship with the housing sector have predominantly focused on the following areas:

- Repayment affordability: The burden imposed on a household repaying a mortgage;
- Purchase affordability: Households' ability to acquire funds to purchase a house; and
- Income affordability: The ratio of house prices to income.

To ensure access to affordable housing schemes, Australia governments at the local, state/territory and federal levels have explored the housing affordability enablers needed to guide the measures of the three criteria listed above. There is lack of consensus about the effectivity of these enablers as each affordability measure has its own strengths and weaknesses. This highlights a need to design a holistic paradigm that takes into account socioeconomic indicators, in particular the household expenditures affecting the whole-of-life approach to sustainable and affordable living choices, since different affordable housing programs are driven by and target different household income groups.

2.2 Household Income Definitions

Over the past five years, household incomes have increased at a substantially slower pace relative to the appreciation of housing prices and values; for instance, as of June 2018 the Brisbane median prices were 16.1% higher than in 2013 while household incomes have only increased 9.2% over the same period (CoreLogic, 2018). From a rental affordability perspective, CoreLogic (2018) highlights that price-based affordability metrics make regional Queensland the second least affordable state in the country due to relative high prices for rent and mortgage payments in its large housing markets such as the Gold Coast and the Sunshine Coast.

Since housing costs and household incomes vary throughout individual capital cities, the Australian governments assesses the eligibility for affordable housing schemes and housing affordability initiatives using household median income. The NSW Environmental Planning and Assessment Act 1979 defines households that are eligible for affordable housing depending on where they reside as being very low income (Q1) (earning less than 50% of median income of the area); low income (Q2) (earning more than 50% but less than 80% of the median income); and moderate income (Q3) (earning between 80% and 120% of the median income). Table 1 illustrates the benchmarks that are used in the established Australian affordable housing policy when referring to affordable housing, using ABS 2016 Census median household income for greater Brisbane (detailed in Part 2 Section 2).

Table 1 Affordable Housing Income and Cost Margin in Greater Brisbane (1)

Income bands	Household median income	Weekly household income range (2)	Affordable rental margin (3)	Affordable purchase margin (4a, b)
Very low-income household	<50% for Greater Brisbane	<$781	<$234	<$931
Low-income household	50%–80% for Greater Brisbane	$781–$1,250	$235–$375	$931–$1,489
Moderate-income household	80%–120% for Greater Brisbane	$1,250–1,874	$375–$562	$1,489–$2,233

Source: ABS Census of Population and Housing, 2015–16

1. Greater Brisbane is part of the two case study regions covered in Part 2 of this policy report
2. The median weekly household income for Greater Brisbane was $1,562
3. Calculated as 30% of total household income spent on rent or mortgage payment
4. (a) The median monthly mortgage repayment for Greater Brisbane was $1,861 (b) Calculated as 30% of total household income spent rent or mortgage payment

Affordable housing schemes and housing affordability initiatives use the above the income bands to determine which households qualify and what rent to charge. By way of example, 2015–16 National Rental Affordability Scheme (NRAS) initial income eligibility limit for a lone-person household was $47,904 per annum ($921 a week) and, for this household type, associated housing expenses of up to 30% (rent at $276 per week) is deemed affordable. However, this means the scheme program is not going to work for households falling under very low-income income as they earn less than $781 per week (Table 1), which is lower than the NRAS initial income eligibility.

In contrast, the affordable housing policy of the United States of America (USA) uses a five-point classification system based upon the percentage of area median income (AMI) rather than the system of income by quintiles used in Australia and the United Kingdom (UK). The USA's income classifications include the following qualifications: extremely low-income households earn less 30% of AMI; very low-income households earn 30% to 50% of AMI; low-income households earn 50% to 80% of AMI; moderate income households earn 80% to 120% of AMI; and middle and high-income households earn greater than 120% of AMI.

According to 2016 ABS Census (See Part 2), in conjunction with the USA category of extremely low-income households, there are 29,940 (24%) and 14,780 (20%) households living with a median weekly income of less than 30% of the median income in the Brisbane and Melbourne case study regions respectively. Table 2 illustrates that the household group with a weekly median income of $468 has an affordable rental margin of $141 lower than the 2015–16 NRAS initial income limit of 51% and affordable purchase margin of $558 higher than the weekly median income at 16%. Based on these numbers, extremely low-income households will most likely not benefit from affordable housing schemes as their affordability margin falls way below the eligibility criteria highlighted on Table 1.

Table 2 Affordable Housing Income and Cost Margin in Greater Brisbane (1)

Income bands	Household median income	Weekly household income range (2)	Affordable rental margin (3)	Affordable purchase margin (4a, b)
Extremely low-income household	<30% for Greater Brisbane	<$469	<$141	<$558
Very low-income household	30%–50% for Greater Brisbane	$469–$781	$141–$234	$558–$931
Low-income household	50%–80% for Greater Brisbane	$781–$1,250	$235–$375	$931–$1,489
Moderate-income household	80%–120% for Greater Brisbane	$1,250–$1,874	$375–$562	$1,489–$2,233

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These figures explain the increase in the number of group households, coach surfing and homelessness in Australia. To address this problem, Australian governments need to further develop the thresholds of household median income so that private and institutional investors can easily identify the continuum of housing needs of different households. The broad range of factors that have contributed to housing affordability being an ongoing prominent issue include the deregulation of financial markets, inflation rates, population growth and rises in construction costs as well as the high demand to reside close to major working centres with superior amenities (CoreLogic, 2018). The measures commonly adopted by government institutions to address the affordability gap are the provision of subsidies such as rent assistance to households so that they are able to afford housing costs as well as tax incentives for both developers and homeowners so that they can supply housing that meets the diverse needs of households in the market.

2.4 The Legacy of Affordable Housing Policies

On 7 January 2016, the Council of Australian Governments (COAG) on Federal Financial Relations formed an Affordable Housing Working Group. The group was tasked with identifying and implementing models that would increase the supply of affordable rental housing for households on very low, low and moderate incomes. Ever since then, the way affordable housing sector debates are presented (Adamson, 2016), particularly by the media and politicians, suggest that housing affordability is a new problem (Adamson, 2016) instead of an existing one. Affordable housing and housing affordability have been ongoing concerns for governments for over a century but, as Dufty-Jones (2018) observes, stakeholders in the housing sectors are '*blithely ignorant to Australia's past succession of housing crises* [from] *the early days of white settlement.*'

In order to understand the historical background of the affordable housing crisis in Australia, it is necessary to determine what legislation and policies were put in place to reduce the affordability gap. Within this frame of this policy definition, this section briefly describes Australia's past housing policies and legislation and, in particular, offers a general overview of their contribution to the evolution of affordable housing schemes and housing affordability enablers, which the COAG Affordable Housing Working Group seeks to improve and make available to the affordable housing sector.

2.3.1 Pre-1944 Housing Policy

Affordable housing was the subject of state initiatives to combat the shortage of housing that led to high rents and minimal tenants' rights after the Australian federation. The first housing scheme that attempted to house low-income households was Dacey Gardens estate, which was built by the NSW government in 1912 (Pugh, 1976). In the same year, the Western Australian (WA) government established the Workers Home Board to pursue housing affordability initiatives through which different households were able to acquire dwellings under rental/leasehold or freehold/purchase tenures.

Following the return of ex-defence personnel during and after World War I, the federal government used postwar reconstruction to address severe housing shortages in the private rental market as a principle approach to housing affordability (Adamson, 2016). The War Service Homes Commission was set up in 1919 under the War Service Homes Act 1918 to assist returned servicemen in securing loans with manageable repayment plans for the development and acquisition of homes. To spur the supply of affordable housing, the Commonwealth Bank of Australia in collaboration with state and territory banks administered the War Service Homes Scheme, which saw 41,000 houses built around Australia by 1930.

Lloyd and Rees (2017) note the scheme never matured to its full potential as there was not enough affordable housing stock to meet the needs of the 270,000 returned solders. To make matters worse, state affordable housing schemes for low-income households were buffeted by political and administrative problems; e.g., the NSW Dacey Garden estate was abolished in 1924 (Commonwealth of Australia, 2014). As a result, the Commonwealth Housing Act (CAT) was introduced in 1928 to fill the gap left by the housing credits and state home loans schemes of 1909–20. Prior to the CAT, the federal government only marginally participated in the affordable housing sector as its focus was on creating permanent occupations for returning solders rather than increasing affordable housing stock (Commonwealth of Australia, 2014).

The Great Depression and the beginning of World War II (the period of approximately 1929 to 1940) utterly redefined the affordable housing schemes. Urban poverty was accentuated to a much greater degree and a reduction in public spending dramatically slowed down rental and sales activities in the housing sector (Troy, 2012). As the Great Depression began to unfold, the CAT low-income housing schemes were faced with overwhelming and increasing economic challenges, leading to CAT's demise in 1941. The Commonwealth government used its federal powers to appoint the Joint Parliamentary Committee on Social Services in 1941 and the Department of Post-War Reconstruction in 1942 to bring stability to the housing affordability policies. The Commonwealth Housing Commission (CHC) was established in January 1943 after a reconstruction division referendum proposed a target of 63,000 affordable housing units per year to end the current housing crisis and avoid any future ones.

During the same period, given the severity of the housing shortage, pressures from tenant associations and political debates led to the emergence of a framework within which governments at the Commonwealth and state levels developed housing policy. South Australia, Victoria and NSW established state housing commissions in 1936, 1938 and 1942 respectively. Both the South Australian Housing Trust and the Victorian Housing Commission took the lead in providing cheap and decent rental housing as well as exerting strong influences on social housing reforms and slum clearance schemes. Ever since this time, state/territory policies have a historical legacy of providing affordable housing, which created both new opportunities and challenges in affordable housing sector (Powell and Macintyre, 2015).

2.3.2 The 1945–1972 Housing Policy

The Australian Commonwealth and state governments became officially involved in the transformation of national housing rental programs and home ownership systems under the Commonwealth State Housing Agreements (CSHAs) in 1945. This Commonwealth–state agreement came out of the CHC's 1944 report and, as noted in the previous section, the CHC was created in 1943 to assess the shortage of affordable housing and to create housing affordability initiatives that would provide dwellings for lease or purchase by economic tenants (McIntosh and Phillips, 2001), where *economic tenants* were defined as low-income household groups such as demobilised ex-defence personnel and working families as well as migrants whose historic cost of renting a dwelling exceeded 20% of their income (Industry Commission, 1993, cited in Yates, 2013).

The CHC 1944 report made 95 recommendations with a plethora of broad terms of reference. Significant to this policy statement were recommendations related to low-cost housing, housing subsidies and building research. In the 1944 report, the CHC estimated a housing shortage of around 300,000 units nationally by the end of 1945 (Troy, 2012) and set to producing 700,000 dwellings within a 10-year span to overcome the low-cost housing backlog (McIntosh and Phillips, 2001). At this time, the state housing authorities completed around 4,028 dwellings nationally and the low-cost housing stock grew to 56,987 in 1950. This was followed by a decline in the delivery of low-cost housing under the 1945 CSHA; as Troy (2012) notes, only 14.4% of total housing stock (96,138) was built as public housing and around 6,383 dwellings had been sold by the end of 1956.

Several state governments were reluctant to sign the 1945 CSHA, believing it was too onerous and instead fostered state levels regulations for ownership of housing (Daniell and Kay, 2017). For instance, initially Queensland and Tasmania did not sign the agreement, stating that those given access to housing had to be able to acquire it, while South Australia believed its housing program was superior to that proposed by the CHC and thus did not sign the CSHA. The three states signed the agreement when sale conditions were relaxed in 1956. At the same time, the implementation of the affordable housing program was hindered by home owners who sold their dwellings associated with rent controls and bought properties with higher returns or market capitalisation (Troy, 2012). In addition to this, although government policies provided subsidies and inexpensive loans to affordable housing projects, some private and institutional investors found repayments a challenge.

Despite these two major challenges, the 1945 CSHA was a huge turning point in the affordable housing sector when the Australian federal government introduced a supplementary allowance in 1958 – currently known as Commonwealth Rent Assistance (CRA) – to provide additional income to disadvantaged households (Hulse *et al.,* 2003). In 1968–69, in a symbolic move the Commonwealth government brought Indigenous housing requirements to the CSHA level and used a portion of its grant to fund Aboriginal Rental

Housing Programs (Commonwealth of Australia, 2014). The 1944 CHC also encouraged the establishment of state housing authorities such as the Queensland Housing Commission (1945–2004).

The 1945 CSHA established a public housing program in which the federal government provided loan funding to the state and territory housing institutions for the construction of public rental housing (Troy, 2012). It should be noted that, between 1956 and 1972, the CSHA was limited to encouraging home ownership through the provision of low-interest loans and concessions instead of focusing on the provision of low-cost housing. For example, the CSHA 1945 put in place a Home Builder's Account as a further incentive to finance the construction or sales of private residential dwelling, which led to 71.4% of homes in Australia having owner occupation, the largest increase in home ownership in Australia history (Eslake, 2013).

Troy (2012:03) found that the success of the CSHA 1944 created social classes and community fracturing, stating:

> *Homeowners were seen as 'men of substance', pillars of the community, while renters were seen as feckless transients with no connection with the community and no desire to be engaged.*

As such, the Commonwealth amended their housing affordability approach under the CSHA 1956 to ensure the private market pursued and delivered accommodation to diverse household groups in terms of equity and rights (Yates, 2013). With a commitment to the CSHA 1956 planning system, state and local authorities charged property developers levies for the provision of urban services provided to residential areas, immediately placing pressure on property prices. Affordable housing policies were mired in controversy, resulting in substantial differences in between jurisdictions. By 1972, affordability initiatives included a system of the provision of dwellings to special groups such as aged, disabled and homeless persons.

2.3.3 The 1973–2008 Housing Policy

In the midst of political resistance from state governments, ensuing from the rise in the costs and price of housing due to a substantial increase in the average earnings required to acquire sites, the federal government negotiated the 1973 CSHA, which reflected more nuanced housing affordability initiatives (Troy, 2012). The Whitlam government pursued a public housing policy, since out of all dwellings built in the period leading up to the 1973 CSHA, only 6.3% of affordable housing was used for public housing and the rest were sold off. The 1973 CSHA revolutionised affordability initiatives (Pugh, 1976) by introducing new eligibility criteria for low-income earners for both rental and home ownership assistance and allowing only 30% of new CSHA dwellings to be sold to people wanting home ownership.

In a bid to improve efficiency, the Whitlam government established the Department of Urban and Regional Development (DURD). The states were required by the conditions attached to the 1973 CSHA to establish corresponding Land Commissions. However, the Frasier government abolished DURP in 1976 and revised the limited eligibility for housing assistance under the 1978 CSHA to those in most in needs, i.e., elderly, disabled and Indigenous persons (McIntosh and Phillips, 2001). The 1978 CSHA replaced historic rents with a market rents employed with rental rebates for tenants in need. Yates (2013) notes that new definition of rent was largely ineffectual because the projected income for state and territory housing authorities did not eventuate. By 1990, 85% of tenants in the rental market were eligible for rental rebates, driving housing authorities to insolvency (Commonwealth of Australia, 2014).

Whilst the 1981 and 1984 CSHA housing eligibility requirements were similar to those in the 1978 CHSA, state and territory housing authorities were allowed to freely allocate income to rental and home purchases through social welfare programs as they saw fit. In light of this, rental supplements and tax rebates on mortgage interest were introduced for low-income households in private rentals by 1982 (McIntosh and Phillips, 2001). In 1984, under the Hawke government, affordability initiatives earmarked the delivery of welfare housing, residual housing and crisis accommodation for households disenfranchised from the housing market (Troy, 2012).

A key challenge was that several local governments and non-government organisations did not pursue the 1984 CSHA housing programs because of inadequate funds and a lack of necessary resources, thus resulting in a decline in the level of housing stock. This shortfall prompted the 1989 CSHA to place Commonwealth Rent Assistance (CRA) at the heart of Commonwealth and state plans for affordable housing programs. Despite these changes, only 5.1% of residential markets were low-cost dwellings by the end of 1989. Low-income housing stock continued to decline until the mid-1990s. According to Jones *et al*. (2007), the CSHA has been reducing its expenditure on social housing because state housing authorities were only meeting historic liabilities under the debt repayment plans.

In an attempt to address the past challenges faced by CSHAs, the 1996 CSHA focused on affordable housing for individuals as opposed to increasing housing stock, as the federal government became aware that not all low-income households reside in public housing (Troy, 2012). This led to COAG endorsing a proposal in 1996 that would see the Commonwealth along with the state and territory governments provide cash subsidies to private and public tenants (Commonwealth of Australia, 2014). The 1999 CSHA further strengthened housing assistance to be conceptualised in terms of the housing needs of the poor instead of providing security of tenure, as stipulated in previous CSHAs. The implementation of the 1999 CSHA coincided with a period of time in which Australia was experiencing a major decline in housing affordability in the private market (Jones *et al*., 2007).

To meet the housing needs of low and moderate-income households, the 2003 CSHA covering the period of July 2003 to June 2008 set to deliver affordable housing tailored to better support individuals' needs and local conditions and opportunities. Under the 2003 CSHA, different levels of Australian government had a responsibility to employ innovative approaches to leverage additional resources into social housing through attracting community, private and other partner investors. The Australian Institute of Health and Welfare (AIHW) (2010) found that the 2003 CSHA had been able to deliver over 400,000 dwellings for low and moderate-income households by 31 December 2008 under its $1.5 billion of funding to state and territory housing programs. In 2009, the ALP government replaced the expired CSHAs with the National Affordable Housing Agreement (NAHA) as transitions from a focus on dealing with the declining social housing to private rental or home ownership.

2.3.4 Housing Policy from 2009 to the Present

In the early 2000s, the CRA program resulted in public housing becoming inadequate as it was viewed as a stepping stone into the private rental market by tenants and also lacked tenants from a diverse socioeconomic background (Milligan and Pinnegar, 2010). The CSHA began to take up the idea of long-term affordability outside public housing and gave rebates to low and moderate-income households through the mechanism of offering financial incentives to private and community sectors who are involved in affordable housing schemes. In 2008, the National Rental Affordability Scheme (NRAS) was established to offer financial incentives to developers who will build housing and then charge rent at 20% of the market price (Commonwealth of Australia, 2014). In June 2014, there were 21,000 housing units in the rental market ready to be tenanted by low and moderate-income earners, with 16,000 under development. The scheme was abolished in 2014–15 due to its failure to achieve the national housing target.

This was followed by the launch of the National Affordable Housing Agreement (NAHA) in 2009, which operated alongside the Social Housing Building Initiative and re-established the role of Minister for Housing (Thomas, 2017). In its first years, NAHA introduced a whole-of-housing system approach, which involved consolidating several affordable housing agreements (CSHA and SAAP) and putting affordable housing at the core of the national partnership agreement. However, when discussing its implementation, the COAG Reform Council 2013 and COAG Reports on Performance 2016 indicated that the NAHA failed to meet key benchmarking criteria, including a lack of improved sustainable housing measures for marginalised groups; housing stock at a relative lower rate to demand, i.e., there were 194,592 applicants on the waiting list by June 2016; and the framework lacked transparency and accountability. It should be noted state and territory governments are required to report their funding plans under the NAHA.

The 2017–18 Budget announced the creation of an *affordable housing bond aggregator* under the revised NAHA to help increase Australia's stock of affordable housing (Thomas, 2017). There are other several major enablers of housing affordability operating the NAHA such as managed investment trusts (MITs), the National Housing Finance and Investment Corporation (NHFIC) and build to rent (BtR).

2.4 Affordable Housing Enablers in Australia

Australian governments currently face a significant challenge to address the failure of the residential market to respond to declining housing affordability and meet households' needs for affordable housing (Ryan *et al*., 2012). One way in which local, state, territory and federal governments try to influence the supply of affordable housing is through the development and implementation of housing affordability initiatives. In these initiatives, the Australian Government Department of Treasury (2017) encourages private and institutional investment through a tax and incentive system, with the ultimate goal of optimising costs related to land acquisition, development approval, financial arrangements and the construction process itself, among others.

Based on the findings of research on the affordable housing sector, there are several government development initiatives, known as enablers, that may benefit and provide insight into ways of addressing Australian housing affordability issues. Enabler is a term used in the housing sector to describe a process of charting the household housing needs of a community and bringing forward initiatives to meet those diverse needs (UK Milton Keynes Council, 2018). Typically, *affordable housing enablers* are tools to incentivise capital market participation in the affordable housing sector and to subsidise the economic costs of housing for potential housing providers. Table 3 summarises the affordable housing enablers identified in this policy statement.

Table 3 Affordable Housing Enablers

Affordability enabler	Definition	Legislation	Benefits	Administering entity
Affordable housing bond aggregator (AHBA)	AHBAs are a feasible policy option set up to provide finance for community housing providers by aggregating their borrowing requirements and issuing bonds to the whole market at a lower costs and longer tenure than bank finance	The National Housing Finance and Investment Corporation Act 2018 (the Act)	Longer tenure finance at a lower cost. We estimate the savings to be indicative and in the order of 1.4% p.a. for 10-year debt, depending on the final structure and provision of a government guarantee. Our analysis shows that there is sufficient sector debt (~$1bn) to supply market demand and that the higher tier CHPs in Australia exhibit strong but debt-constrained financial metrics	Registered community housing providers (CHPs) funded by National Housing Finance and Investment Corporation (NHFIC) through the issuance of bonds in commercial markets

Affordability Enabler	Definition	Legislation	Benefits	Administering Entity
Managed investment trust (MITs)	An MIT is an arrangement which allows locals and foreign companies or individuals to invest in Australia through 'passive' investments, e.g. land holdings for deriving rent, investing or trading in certain securities, e.g. shares, bonds or derivatives	The Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016	Investors in qualifying affordable housing are entitled to a 50–60% discount on capital gains tax (CGT) for a period of at least three years	Australian citizens and permanent resident investors, superannuation registered under MITs or CHPs. Non-residents and foreign investors are ineligible for the CGT discount
Shared equity arrangements	The home buyer shares the capital cost of purchasing a home with an equity partner under a number of schemes: individual equity model, community equity model and community land trust (CLT)	Vary in different jurisdictions	Relieves the strain on assisted housing programs, reduces reliance on welfare (e.g. CRA) and, where a mortgage is tied with a government lender, can return modest profits from interest repayments	Australian state and territory government to Australian citizens or permanent residents of Australia
Build to rent (BtR)	BtR is an alternative model of development, where developers design and build residential property specifically for long-term renting with institutional investment	N/A - The current tax regime is punitive on BtRs as land tax, GST and withholding tax affect internal rate of return	Provides low risk and stable cash flows; it sidesteps the challenges of finance markets by attracting global capital with high return on investment (ROI) stream	Public, private and other institutional investors in the residential market
Social housing renewal projects (SHRPs)	SHRPs, also known as public housing renewal projects (PHRPs), are primarily about upgrading existing public housing stock rather than addressing the growing waiting list of affordable housing	Intergovernmental Agreement on Federal Financial Relations (IGA FFR) 2009	Enables lower income households to actively participate in the job market, i.e. dwellings are in metropolitan and regional sites	Australian State and territory, with largest and most recent projects being the NSW Communities Plus and Victoria's Public Housing Renewal Program
City deals	A new approach to developing outcome-driven policy and investment for individual cities across all tiers of government, the private sector and community	Commonwealth Government's Smart Cities Plan 2016	Supports economic growth, jobs creation, housing affordability and environmental outcomes	State and territory governments, industry and local communities to develop collective plans for growth

Source: Jayawardena and Kraatz (2018), AHURI (2016), Commonwealth of Australia (2016)

The Australian government has a responsibility to control housing affordability enablers to ensure that public funds are used only to fund the most effective and cost-effective affordable housing schemes. Currently, as indicated in Table 3, the assessment process for the eligibility of the Australian state or territory and local government housing authorities including private and intuitional investors and are conducted at the discretion of corporations or, as with CHPs and NHFIC, are set by appropriate legislation. The legislation varies across jurisdictions and household income thresholds that would generate low-risk rental income and capital growth on the assets for providers of affordable housing schemes.

For example, both NSW and Victoria's housing policies use the 30:40 rule to determine the level for housing stress for different household income brackets. The NSW Affordable Ministerial Guidelines 2017–18 uses very low (<50%), low (50–80%) and moderate (80–120%) income below or above the median household income to define eligibility for affordable housing. In the Victoria Planning and Environment Act 1987, very low and low-income households earn between 50–80% of the median household income while a moderate-income household earns between 80–120% of the median household income of the statistical area. This can be viewed as a key risk to the implementation of housing affordability initiatives, as investors operate their affordable housing schemes in the private market, which is beyond the direct control of governments.

As detailed in Section 2.4, the lack of accessibility of affordable housing has been a major problem for very low and low-income people as Commonwealth and state/territory housing policies are directed towards increasing or maintaining home ownership rates instead of creating dwellings that meet the needs of these households in terms of the whole of life approach to sustainable and affordable living choices as presented by Eslake (2013). Given increasing average housing costs on rent and mortgages in Australia – e.g., the national price-to-income ratio increased from 4.2 in 2001 to 6.8 in 2016 (CoreLogic, 2016) – very low and low-income households lack the ability to access dwellings under the so-called affordable housing scheme.

In reference to Table 2, this affordability gap represents a real barrier to Australian housing policies at different government levels and has an inevitable knock-on effect in attracting private and institutional investors in affordable housing schemes, as the overall ability of a household to rent or buy a dwelling has a powerful influence on the funding process of affordable housing schemes in the private market. For example, although waiting lists for social housing continue to grow, the NRAS program was abolished in 2014–15.

Australian governments should look for ways to bend the cost curve, particularly slowing the growth of household expenditure for households with very low, low and moderate incomes. Higher housing costs have a disproportionate potential to reduce the affordable standard of living as such families are compelled to use the budget set to fund other goods and services for housing costs. Even more concerning, some households may be forced to forego other basic needs and or seek public housing subsidies such as the CRA, beginning a cycle of poverty. In other words, to design and implement effective affordable housing policies, Australian governments must first acknowledge the arbitrariness in housing cost measures by affecting change on the ground of household discretionary and non-discretionary expenditures rather than just rent or mortgage payments (Part 2).

3 CONCEPTUALISATION OF HOUSING AFFORDABILITY

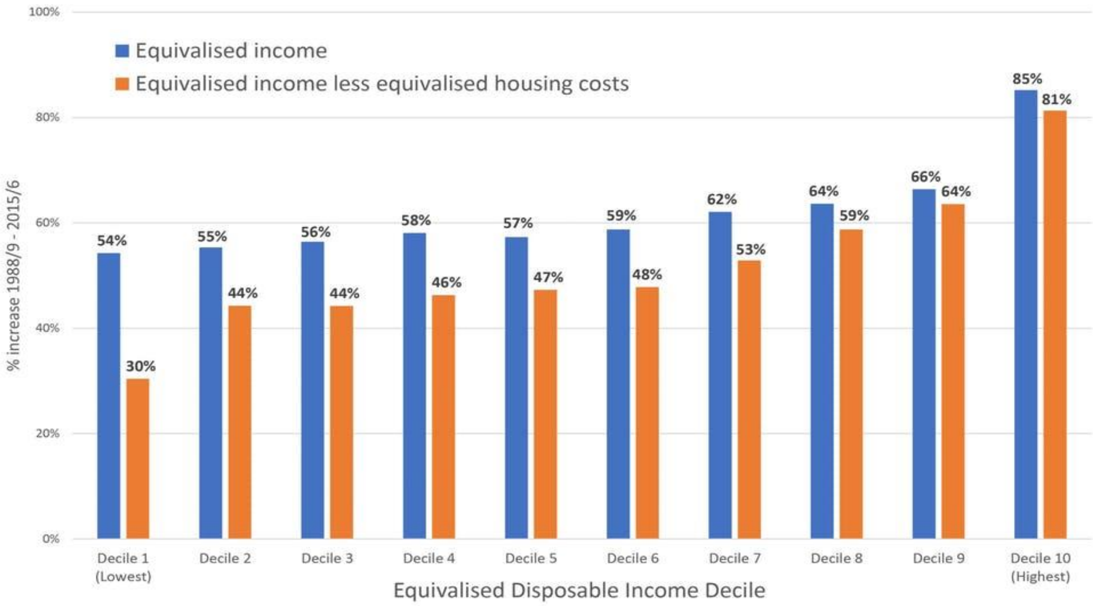
The Australian affordable housing sector is dealing with a serious supply-demand crisis. The demand for affordable housing is increasing exponentially due to growing migration, changing demographics and rises in household expenditures. Meanwhile, the supply of adequate affordable housing is insufficient due to financial circumstances in the private market. For starters, as reported by Pawson *et al*. (2018), the costs of housing increased by 80% while median household income grew by 40% in the past decade, leading to spiking homelessness, overcrowding and rough sleeping affecting Australian capital cities (the ABS census 2016). Until recently, Australian governments have identified and implemented a number of affordability initiatives to narrow the gap between supply and demand. Geck and Mackay (2018), therefore, call for a greater review to be undertaken to identify the root causes and recommend a few possible solutions to correct the current market failure.

3.1 The Affordable Housing Market

Australia is growing at a positive rate of 1.6% year, with the latest demographics released by the ABS showing an increase from 24,127,200 on 30 June 2016 to 25 million people (ABS, 2018). All levels of government are witnessing a clash between the shrinking supply of affordable housing and a fast-growing waiting list of households demanding these dwellings. As a consequence of this growth, housing costs are creating inequality in the social fabric as low and moderate-income households are restricted from access to adequate standards of living.

In their 1988–2015 analysis of the impacts of deducting housing costs from income inequality, Wiesel *et al* (2018) found that there was only a 30% increase of disposable incomes in the lowest decile compared with 81% in the highest decile (Figure 1).

Figure 1 Disposable Income Gap Before and After Housing Costs, 1988–2015



ABS Microdata: Household Expenditure, Income and Housing, 2015-16 (Cat. no. 6540.0, as at 3/08/18) and ABS HES Basic confidentialised unit record file for 1988-89 (as at 3/08/18) by Wiesel et al. (2018)

In terms of tackling this type of affordable housing inequality, on 10 April 2017 the then Treasurer Scott Morrison stated:

> *Our response must first strive to remove obstacles that restrict supply responding to genuine demand. These impediments are well known, planning delays and regulations, supporting infrastructure and services, the cost of new development, taxes and charges and access to sites, including Government land, just to name a few* (Australian Government Department of Treasury, 2017).

A considerable debate arose from Morrison's speech concerning whether increased supply would deliver more affordable housing for households unable to meet housing costs or if new investment would cause the housing prices of an already overheated housing market to skyrocket. Ensuring that government policies are allocated efficiently and equitably, therefore, requires understanding of the market forces at work in the affordable housing market, the standard model of which reflects supply and demand.

3.1.1 The Supply Side of Affordable Housing

In response to the Commonwealth government's *Social Impact Investment Discussion Paper*, Earl (2017) argues that more than $7 billion is required to deliver record investment annually in social/community rentals, affordable private rentals and home ownership as well as boost the supply of affordable housing in the long run. To address such issues and under the Affordable Housing Working Group's (AHWG) recommendation, Australian governments created several corporations to oversee the management of the newly established enablers (Table 3). The AHWG was established in 2016 by the Australian governments to investigate ways to boost the supply of affordable housing through innovative financing models (Randolph *et al*. 2018).

The presence of affordability housing schemes, whether provided by the government or private sector groups such as institutional investors, means that the market for affordable dwelling works differently than other markets in the property industry. Barriers to housing affordability do not rise from a web of housing policy at the three levels of government nor the intractable failure of market failure. Instead, they occur because the affordable housing sectors are mistaking, in simple economic terms, 'costs' for 'price' and affordability enablers. These factors result in the overshooting of demand for affordable housing illustrated in the following two categories: risk-return factors and developers charges.

Firstly, every organisational decision starts with preparation of a comprehensive costs analysis of the risk and return relationship of a project from planning to implementation, as many private and institutional investors want to invest in affordable housing schemes which align with market conditions, both social and environmental, while also yielding a high rate of return and portfolio diversification (Jayawardena and Kraatz, 2018; Milligan *et al*., 2013).

This is a stage which affordable housing schemes and housing affordable enablers have attempted to reach; however, no durable outcomes have yet been achieved (Randolph *et al*. 2018). As described earlier, the NRAS, which was designed to attract private financing, was cancelled in 2014, leaving the program with an under supply of 12,000 affordable dwellings.

Although the housing affordability initiatives have enabled access to large-scale loans with lowered repayments, private and institutional investors require higher returns due to the risks associated with movements in the financial market. The chief economist of Industry Super Australia, Stephen Anthony (2018), explains that government policies are failing to address investors' risks, which he argues are at the heart of the affordable housing crisis. He (2018) notes:

> *The affordable-housing sector is being denied access to the scale of equity capital needed to address housing shortages. Sure, banks will lend them debt finance for a price, however that must be repaid on commercial terms. Sustainable projects employ 70 per cent or more equity finance.*

Earl (2017) suggests the implementation of a risk reduction strategy in the form of a government guarantee to remove investment hurdles under the right conditions – imputed costs/rate – reducing the required investment rate which will substantially reduce housing costs and other externalities. Another option is offering affordable housing tax credits trading at face value to eliminate fraud, thus attracting equity capital from the private sector. As described by Scally *et al.* (2018), the USA's Low-Income Housing Tax Credit (LIHTC) program generated 45,905 projects and developed over two million units from 1987 to 2015 and now creates 110,000 units a year at a cost of US $8 billion a year.

Taking Earl's (2017) estimation of an AU$ 7 billion investment fund, and based on Anthony's (2018) LIHTC program calculations, the following is the total in affordable housing that could be delivered by the affordable housing sector:

> *If an Australian scheme generated $1 billion in tax credits and those credits were invested at 90 per cent efficiency at $400,000 per two-bedroom unit or townhouse (to target 40 to 60 per cent of area median income households), it would produce 2,300 units a year; nearly 23,00 units in a decade* (Anthony, 2018).

Secondly, government charges related to infrastructure charges and operational costs associated with a new housing development impede the effectiveness of affordable housing. Earl (2017) presents that infrastructure charges account for a 20% of housing delivery costs, an amount which is sometimes equal to the sum required for a purchase deposit. While the collection of infrastructure charges contributes to the provision of a sustainable built environment, several organisations such as the Housing Industry Association and the Property Council of Australia have expressed concern these charges have proved to be too high for affordable housing developers (Bryant, 2015) as these charges are being levied in three different ways – user-pays charges, impact mitigation levies and betterment levies – thus increasing the gap between costs and the return of an affordable housing scheme.

Without a larger capital subsidy, long-term operational costs such as body corporate charges, smart utility metering and other management costs pose investment constraints in the competitive private market. For example, Earl (2017) discusses how rental investors' corporations' charges sometimes exceed $100 and cannot be claimed on tax. In time, this together with other rental management costs translate into a steadily decline of both the supply of and deterioration of affordable dwellings due to higher costs and a lower rate of return. Operational costs are further fueled by land release programs, which focus on the outskirts of Australian major cities, thus increasing access and development costs for affordable rental developers. As a result, Randolph *et al*. (2018) find between 1996 and 2016 the supply of housing increased by 4% while the household growth rate increased by 30%.

In view of the above discussion, Anthony (2018) states that private and institutional investors have little interest in affordable residential properties due to a current ROI of 3% and falling prices. By reducing upfront costs, there is a high potential that the housing sector will be able to deliver and significantly expand affordable housing rentals. Australian governments rely on housing policy that often focuses on offering lucrative incentives to the private rental market so that it can develop and supply more affordable housing to low and moderate-income households. Once again, this type of housing policy represents an investment function within the private market but does not reflect the broader relationship between supply and the demand, which is a determinant of quantity and forecasts of affordable housing stock. To address this, the discussion must explore the demand side of affordable housing equitation.

3.1.2 The Demand for Affordable Housing

In the affordable housing sector, 'demand' is a market-driven concept which typically '*relates to the type and number of houses that households will choose to occupy based on preference and ability to pay*' (Heath, 2014) where household preferences are influenced by the affordable and sustainable housing provided by the social rental, affordable private rental and home ownership markets. Ability to pay simply refers to the household's capacity to pay rent or service a mortgage payment and meet other housing expenditures, which is also sometimes referred to as household affordability. Ability to pay and housing affordability are often used interchangeably in the affordable housing literature.

Demand is widely discussed in the affordable housing and affordability literature. Most references are related to

- Resident demographics,
- Household formation,
- Household dwelling structures,
- Household employment, and
- Household income and wealth distribution.

These factors are significant to the identification of broad and individual household housing requirements at a specific spatial scale over a defined period (Rowley *et al*., 2017). This is further detailed in Part 2 based on two case studies conducted in Brisbane and Melbourne.

For example, the 2011 ABS Census presents that 76% of total dwellings approved for construction were detached houses, with apartments and semi-detached houses accounting for 16% and 10% of total dwellings respectively. The 2016 ABS Census reported that the number of occupied apartments including flats and units has increased by 78% to 1,214,372 dwellings and 90% of construction approvals were for high-density structures, of which most were located in Sydney, Melbourne and Brisbane (ABS, 2017c). Geck and Mackay (2018) argues that such changes are due to the falling of the average household size from

3.1 in 2011 to 2.6 in 2016 because of changes in demographics (e.g. ageing population) and household formation (lone-person, couple or single parent household).

More recently, based on an estimated demand of over nine million dwellings as of June 2016, the Housing Industry Association (HIA) (2018) identifies that Australia would need to build an average of 184,807 new dwellings annually until 2050 in order to successfully meet the needs of the country's growing population. Table 4 shows the Australian demand gap for housing from 2017 to 2050 based on different population growth scenarios. However, Kohler and van der Merwe (2015) state that the underlying demand brought about by the decline in the average household size may be due to changes in housing prices, given the supply lag of housing in response to changes in demand. Geck and Mackay (2018) present that house prices including rent and mortgage have increase by 262% in real terms since 1986 in all Australia capital cities, fueling concerns about declining housing affordability.

Table 4 Australia's Future Demand for Housing

	Population Growth Scenario		
POPULATION PROJECTIONS	Low	Medium	High
Population in 2017	24,598,933	24,598,933	24,598,933
Population in 2050	34,286,275	37,317,252	41,402,943
Implied annual population	1.0%	1.3%	1.6%
Additional dwellings required	114,005	149,675	197,757
REQUIRED ANNUAL BUILD RATE			
Low real income growth	131,371	167,041	215,123
Medium real income growth	148,737	184,407	232,489
High real income growth	166,103	201,773	249,855

Source: HIA Economic (2018:13)

As housing costs continue to rise, the ABS Survey of Income and Housing 2015–16 shows that homeownership rates are decreasing for Australia as a whole and in most states and territories. Increasingly, households are not able to afford the homes they are in due to the percentage of income that mortgage payments take have rising from 28% in 1995–6 to 37% in 2015–16. Renters also are facing increasing challenges in meeting their monthly housing costs. Utilities, real estate taxes and insurance rates are increasing – costs that are passed on to renters in increased rents.

Nepal *et al*. (2008) identify the 30:40 stress rule as core factor (apart from those listed on Page 20) that drives the demand side of the affordable housing market. The 30:40 rule is a conventional measure of housing affordability in Australia that measures any changes in the relationship between household incomes spent and housing costs (Earl *et al*., 2017). This ratio-based approach that includes both house price-to-income and rent-to-income evolved from the 1991–92 National Housing Strategy as a way to estimate income units in housing stress. As explained by AHURI (2016):

- The '30' percentage indicator refers to the maximum percentage of housing costs a household can have before they are considered to be in housing stress; and
- The '40' percentage indicator means the indicator only considers households with an income in the bottom 40% of the Australian household income distribution for lower income households.

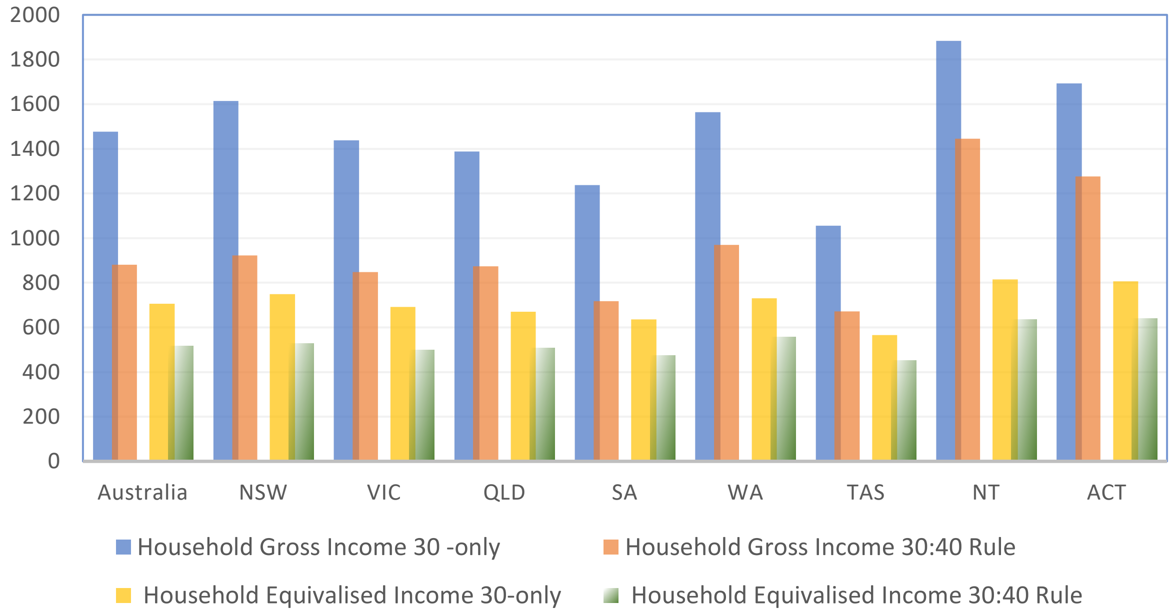
This seems like a reasonable benchmark as with the current employment climate along increased costs of good and services, no household cannot afford to spend a high proportion of their income on housing costs. The problem is, many stakeholders in the affordable housing sector are not abiding by proclaimed affordability rule of thumb (Earl *et al*., 2017).

Nepal *et al*. (2008) notes that the indicator is flawed in two ways. Firstly, gross household income or equivalised house income are considered as the base for calculating the housing cost to income ratio, which can significantly increase or decrease demand for households. Let us consider two average household income bases at the national level taken from the 2015–16 ABS Survey of Income and Housing (SIH): gross income at $2,109 per week and equivalised disposable income at $1,009. The housing stress rate stands at about 51% if the analysis uses an equivalised disposable income as the base and the figure drops to about 42% if it is based on gross income. In addition to this, in major cities like Sydney, Melbourne and Brisbane, households spent a further 2% percent on housing costs, raising the costs of both renters and households refinancing a mortgage.

Secondly, this ratio excludes households whose gross or disposable incomes place them above the 40% cut-off. The assumption is that such households have the ability to rent or service mortgages at the full market rates if these housing costs are within the limits of 30% rule of thumb. Again, using the 2015–16 SIH, the 40% cut off of the national equivalised disposable household income level was $737 weekly ($39,798 annually) and that of gross household income level cut off was $1,258 per week ($67,932 per annum). If the NRAS 2015–16 initial income eligibility is considered ($887 per week or $47,904 annually), the prevalence of housing stress drops for gross income but not for equivalised disposable income.

To summarise this drawback, Figure 1 shows that the estimated proportion of households in housing stress drops substantially when the 30:40 rule is applied to the two income bases. From the above discussion, the choice of the income used as the base has a great impact on the estimates of demand for affordable housing demand. Overall, the 30:40 stress rule has been criticised for lacking a clear rationale underpinning its benchmark and for its inability to state a price point which government policy and private and institutional investors can use as a base when determining the demand for affordable housing policy (Burke *et al.*, 2011).

Figure 2 Housing Stress Based on Household Weekly Gross Income and Household Weekly Equivalised Disposal Income



Source Data: ABS Census Household Income and Wealth (Cat. 6523.0), Australia, 2015-16

While substantial attention has been given to household income and housing costs (rent and mortgage repayments), other housing costs that determine the standard of living may have distortionary effects on the demand side of affordable housing. Some of these distortions may include both discretionary costs such as food and non-alcoholic beverages and non-discretionary costs like health insurances and personal care. As Niëns *et al.* (2012) state, '*spending even a share small share of the budget* [on these basic necessities like food, education and transportation] *can have catastrophic consequences for very poor individuals*.' So, becomes apparent that any measure for housing affordability extends far past the percentage of income a household spend on weekly on rent and mortgage, as argued by Hancock (1993) over two decades ago. Frugality and a cost-efficiency approach become ever more crucial to management of household expenditures.

3.2 Household Expenditures

Aware of the problems inherent in measuring affordability, researchers in the housing sector have come up with alternative measures for housing affordability for households in the low and moderate-income groups (Earl *et al.*, 2017). These approaches focus on the income available before household spending on non-discretionary expenditures – referred to as basic costs by the Australian Bureau of Statistics – and the share of budget left after household spending on discretionary expenditures. A summary of housing affordability measures is as follows:

- Budget standard method: Establishes the amount needed by different household formations to meet basic housing and non-housing costs or achieve a specific standard of living in a particular place at a particular point in time (Earl *et al*., 2017);
- Composite approach: Considers income and market factors to determine affordability thresholds (up to 60th income percentile) which responds to the household needs including dwelling types (Toronto City Planning Division, 2015)
- Housing index approach: Assesses affordability for various household groups by taking into consideration factors such as house prices, income levels, mortgage rates and other lending standards by banks including the coverage ratio and down-payment requirement (Darmanin, 2008)

- Residual income method: Calculates for different households how much is left over for housing after relevant expenditure as measured by some budget standard is taken into account (Burke *et al.*, 2011);
- Shelter poverty method: Measures the household 'impoverishment' – likelihood of falling below the poverty line – by deducting the minimum costs spent on a standard basket of goods and services from household disposable income (Stone, 1993)
- Quality adjusted approach: Uses hedonic market prices to estimate the amount it would cost to obtain a housing with decent, safe and sanitary amenities available in a residential market rather than actual housing costs (Lerman and Reeder, 1987).

However, these affordability methods are quite intuitive, complex and dynamic in their operationalisation because household expenditures are viewed as a fixed bundle and are not adjusted with changes in consumption (Burke *et al.*, 2011). In other words, the housing affordability approaches rely on budget standards after housing that are created based on subjective assumption that each household (which varies in terms size, type and age) has different non-housing expenditures (Darmanin, 2008).

For example, Burke *et al*. (2011) illustrated that 42% of lone-person households below the 40% quintile have a low-cost budget standard (LCBS) affordability problem and this figure rises to 62% for those under 65. In such cases, it is difficult to group households affected by housing affordability problems as the methods cannot tell which households purposely under-consume housing expenditures and those which are forced to under-consume due to budgetary constraints. Thus, understanding the nature of non-discretionary and discretionary household expenditures is effective in enhancing the accuracy of housing affordability measures as well as determining how well the housing supply meets demand for affordable housing.

3.2.1 Basic or Non-Discretionary Expenditure

The ABS (2017a) defines non-discretionary expenditure as household spending on goods and services that are essential to living. These expenses are views as 'needs' rather than 'wants' and include housing, food, utilities (fuel and energy) and transport as well as medical and health care. Within this category, and as discussed in previous sections, there have been particularly large increases in household spending due to rising housing prices (rent and mortgages) affecting the share of household income allocated to other basic goods and services. For example, the ABS (2017b) reports average weekly household expenditure increased from $201 in 1984 to $645 in 2015–16 (not adjusted for inflation). In 1984, food was the largest contributor at 20% while in 2015–16 housing became a largest contributor at more than 20% of the total spending.

In some low and moderate-income households, once spending allocations have been made towards housing costs (fixed recurring expenses), there is very little left to fund food, utilities, transportation and health (variable recurring expenses). It is from this displacement of non-discretionary expenditure between fixed expenses and variable expenses that the 30:40 stress rule is conceptualised for the purpose of computing the household income eligibility for affordable housing schemes. While cutting down on non-discretionary variable expenses may be viewed as a tolerable strategy to cope with rising living costs, for most households this is an opportunity cost of access to the labour market, health care systems and sustainable living environment.

In the latest *Poverty in Australia* report, the Australian Council of Social Service (ACCOS) (2016) finds that spending a higher percentage of one's income on housing costs instead of another expense such as food may lead to poverty as such an arrangement constrains and deprives households' progress. One of the many definitions of affordable housing is related to low and moderate-income households being able to obtain and pay housing costs without experiencing undue financial hardship (Milligan *et al*. 2004). It is common for Australian governments to use housing costs when formulating affordable housing policy as a means of justifying the tax incentives of affordability initiatives. However, the approach should also consider the opportunity cost of displaced non-discretionary variable expenditures such as transportation, which influences many of the households' decisions including where to live and work and also their access to essential services such as schools, sports and shops.

In the 2016 ABS Census report, the average number of motor vehicles per household in Australia was approximately 1.8, with an average spend of around 16% of households' weekly gross income, varying from $97 for a lone-person household to $423 for couples with children (refer Part 2 for several costs associated with transportation expenditure). Not only does this expense displace non-discretionary budgets, it acts as barrier for low and middle quintile households' access to the labour market, which is flexible and casual in nature. The Victorian Inquiry into the Labour Hire Industry and Insecure Work final report by the Victorian Department of Economic Development, Jobs, Transport and Resources (DEDJTR) (2016) states:

> *The requirement for on-hired workers to be available at short notice to travel to different locations can be particularly difficult for people who (due to limited income) may not have access to a reliable car, or may be sharing one vehicle amongst many family members* (DEDJTR, 2016:153-4)

Not arriving on time at their workplace for members of households who are employed may reduce the likelihood of securing meaningful employment (the ABS Census shows that only 58% of the workforce are engaged in full-time employment). In turn, prolonged unsecured employment and lack of access to the job market extends to household distress, social dislocation and mental health problems. The experience further extends to education retention rates, since households attempt to respond to the study schedules of members who undertake any form of learning/study. The ABS Census (2016) found that 30% of the Australian population attended education institutions, with 26.7% of these in primary school and 20.1% in secondary school.

Unlike housing costs or transportation expenses, food and non-alcoholic beverages are resilient to income elasticity because food is perceived as necessary rather than a luxury. The 2016 ABS Household Expenditure Survey presents that households spent on average $237 per week on food and non-alcoholic beverages – accounting for 19% and 18% of low and moderate-income households' weekly expenses compared to 14% for high-income households. The 2016 ABS Census found that much of the cost for high-income households is due to weekly food expenses being directed towards fast food and meals out (discretionary food consumption), while for the 3.5 million Australians in low and moderate-income households, 38% traded food for housing costs and 41% did not pay bills in order to buy food (Foodbank Australia, 2017).

There is a perception that domestic fuel and power (energy) bills are increasing at a slower rate due to more efficient household appliances, fixtures and fittings; however, the Australia CPI 2017 indicates that energy costs have increased by 26% since 2010 and account for an average of 5–12% of low and moderate-income household's expenditure depending on household type and dwelling size. Like spending on food and non-alcoholic beverages, energy is considered as a fixed non-discretionary cost as opposed to a discretionary cost by many Australian households. For example, the study 'Rising Household Energy and Water Bills' by Nicholls and Strengers (2017) found that Australian households with diminished energy consumption '*were frustrated that fixed supply charges prevented them from reducing their bills sufficiently to fit their one limited income.*'

The above non-discretionary expenditures are essential for sustainable households and not having adequate income to meet all these expenses has a profound impact on households' social cohesion and wellbeing, both physical and mental. Thus, only high quintile households are immune from such stress as their spending on basic expenditure is more discretionary, i.e., depending on the quality of life they desire they can choose to live in the inner suburbs or urban fringe. Households with a limited financial buffer are constantly subjected to budget trade-offs to keep a roof on their heads, access the job market, pay energy bills and spend money on food consumption. The use of the 30:40 stress rule as a proxy for household expenditure is no longer useful in assessing trends in the affordable housing sector. This implies government measures aimed to address housing affordability should be interpreted beyond 30% of weekly household gross or equivalised disposable income on housing costs.

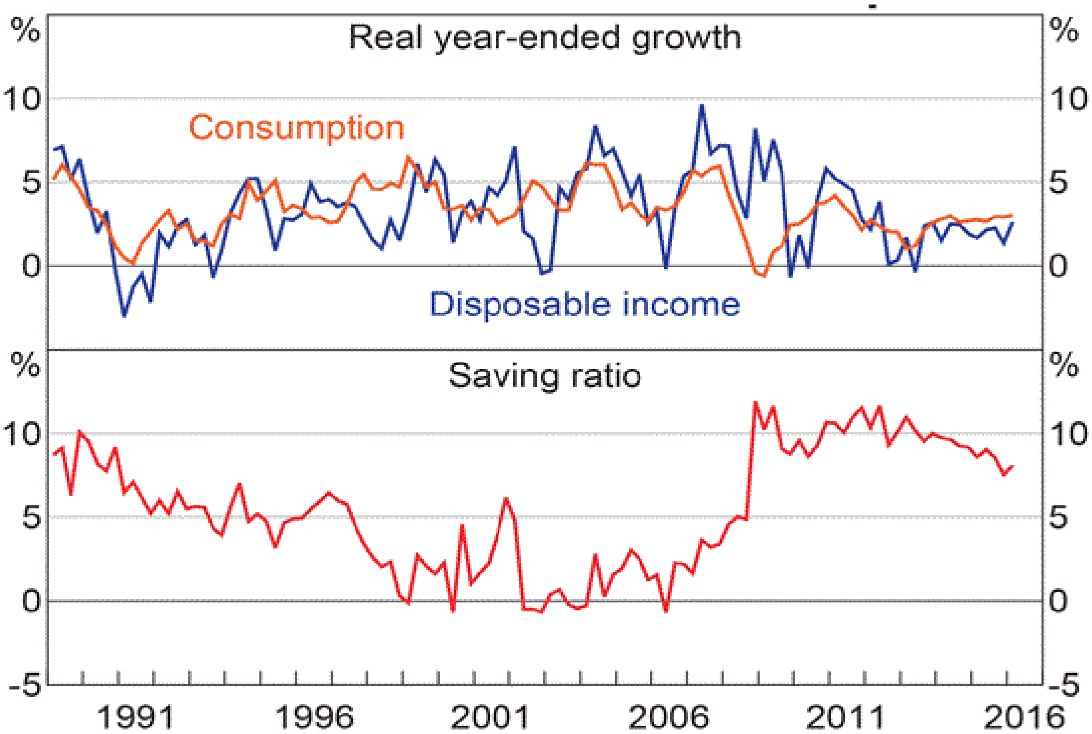
3.2.2 Discretionary Expenditure

Households' allocation of their budget is based the law of demand or, in other words, households spend a lot less on goods and services with any increases in financial stress (Bullock, 2018). Discretionary spending tends to follow a particular pattern. The 2016 ABS Household Expenditure Survey (HES) defines discretionary spending as '*all other items, which may still contribute to the household's standard of living*.' For low and middle quintile households, income is a scare resource and any spending decision concerning the consumption of household goods and services tend to consider costs and financial stress.

This raises the question of what are the other types of discretionary spending that have the potential of creating financial stress in addition to the non-discretionary spending?

The HES and SIH published a distribution of household income and the consumption of goods and services. These 2016 ABS reports shows that households with low and medium incomes have been able to level their consumption relative to income by offsetting spending, seeking financial services or saving from temporary fluctuations on some categories of discretionary weekly spending. However, even though saving rates have decreased due to credits card debts and increases in housing costs and unemployment, households are still saving up to 8% of their income, as depicted on Figure 3. This is where discretionary costs come in to relieve financial stress.

Figure 3 Household Disposable Income, Consumption and Saving Ratio



Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; income level smoothed with a two-quarter moving average between March quarter 2000 and March quarter 2002; saving ratio is net of depreciation (Sources: Reserve Bank of Australia (RBA), 2018)

Bullocks (2018) notes that there is no single measure for capturing household financial stress for different household types and sizes. There is, however, a possible way for the affordable housing sector to examine different ways that households can offset expenditure shocks to their incomes by using discretionary spending across income quintiles since discretionary spending can be disaggregated into fixed/recurring and variable costs, at least partially.

Telecommunications is an essential discretional spending as it enables communication not only among social groups but also with employers, education and emergency services as well as allowing people to deal with economic and commercial activities. The 2016 ABS Census data reported that 99% of Australian households were subscribed to mobile phones and/or had landline phones and the proportion of households with Internet services reached 86% accessed through TV, mobile phones and computers. The majority of Australian households are incurring a fixed average weekly expenditure on telecommunications of between $30 and $68. Consequently, this significantly displaces a share of gross income that would be directed to basic spending, particularly for low quintiles as it accounts for nearly three times their income (Ogle, 2017). This means that this category must be considered along with water and energy in the non-discretionary expenditure as utilities, food and housing costs.

Rather than exploring the remaining discretionary expenditures in isolation, the information is presented under one theme of variable costs, since some households have little or no expenditure at all in any category. For example, discretionary expenditure is reduced greatly by those with no children because these households are not spending an average of $144 on child care or $152 on school fees per week as of June 2016 as well as for those not undertaking non-school fees education, which takes a share of 3.1% of household income. The 2016 ABS Census data also highlight how Australian households have shifted their discretionary spending from cigarettes, tobacco and alcoholic beverages (a weekly budget of 3.4% in 1980s to 2.2% in 2016) towards essentials such as housing costs, food, energy, communication and health care expenditure (a weekly budget of 3.9% in 1980s to 5.8% in 2016).

Not surprisingly, the proportion of income spent on all the above discretionary spending in addition to household improvements, recreation and culture and miscellaneous services (Refer to Part 2) tends to increase with increases in household income quintiles. In many cases, discretionary expenditure is primary driven by what households can afford constrained by tenure and location as well as socioeconomic and demographic characteristics. Those households that are considered to have less discretion in spending on goods and services to meet a desirable standard of living are in fact experiencing financial stress (KPMG Economics, 2017). Accordingly, households are somehow benefiting from a variety of government supplements and other initiatives aimed at lowered the costs burden and relieve financial stress for different types of households.

3.3 Government Interventions

Both non-discretionary and discretionary household expenditures are essential for households' sustainable living, but none of these goods and services is available for free in a market economy. In Australia and in many developed countries, different levels of governments have implemented different social legislation and policies to lift the financial stress for different household living in economic hardship. These include but are not limited to:

- Rent assistances at a rate of 75 cents for every dollar of rent payable above the rent thresholds;
- Family tax benefits and parenting payment to help with the costs of raising children as well as youth allowances and pensioner education supplements to help with education in addition to students' fee help;
- Medicare, which gives access to medical services and pays part of the cost of prescription medicines;
- Home energy supplements of up to $720 once every two years; and
- No Interest Loans Scheme and Utility Relief Grant from community organisations.

While these government schemes seem reasonable, AHURI notes based on the 2016 ABS Census, 41.2% of all household receiving rent assistance were still under housing stress and the number could have increased to 68.2% if those eligible households had not received government affordability benefits.

In other words, the demand-side affordability schemes do not address the fact declining household income amplified with unexpected expenses such as out-of-pocket medical expenses, housing maintenance, fines and other fees impact more acutely on very low, low and moderate-income households. Additionally, non-discretionary and discretionary spending has significantly risen in real terms, hindering the ability of households to maintain the costs of living; as noted by the 2016 ABS Census, the CPI for household goods and services rose by 14% between 2009–10 and 2015–16, going from $1,236 to $1,425 on average per week. This distorts the demand rate for affordable housing because households become vulnerable due to the inadequate estimation of household expenditure shocks, including increases in rent and mortgage interest.

This implies these demand-side affordability schemes alone cannot cope with the unpredictability of the affordable housing sector. Earl *et al* (2017) stresses that the Australian government must create social investment strategies and work together with private institutional investors to address the epidemic lack of affordable housing supply. It should be noted that the private rental market does not promote investment with societal benefits and it is the government's responsibility to create affordability enablers to attract such institutional investors into the affordable housing sector. A considerable body of knowledge has analysed how various government tax incentive schemes can enable delivery of affordable housing to different household, as summarised below:

- Goods and services tax (GST) exemptions
- Stamp duty confessions
- Land tax concessions of 15% to 30%
- Capital gains tax (CGT) discounts of 50%-60%
- Preferential income support payment (ISP) asset tests

The missing link between the supply and demand of affordable housing is the provision of an efficient and effective policy mechanism to enable the delivery of equity capital to affordable-housing providers. In the final analysis, for instance, the Government of West Australia Housing Authority (GWAHA) (2016) states that during the 2015–16 financial year, for every 100 out of 18,820 affordable housing units in the private rental market, only 19 units of were affordable to very low and low-income households. The extent to which affordability problems persist is due to the lack of a consistent whole-of-government approach, which limits the ability of housing agencies to find effective enablers that provide clear and rational policy for the development of affordable housing. Without a national policy framework requiring transparency and accountability to allow easer tracking of areas of improvement, the new government initiatives will worsen the affordable housing crisis, especially for the very low and low-income households.

4 CONCLUDING REMARKS

Australian households are spending more of their gross income on housing expenditure as the average prices (rent and mortgage) have increased from around three times the average disposal income in 1980s to five times more recently; e.g., households spent up to 32% of their gross income on rent in 2016 compared to 27% in early 1990s, decreasing the level of discretionary income that a household can use to spend on other basic goods and services. This creates housing and financial stress, especially for the majority of very low, low and moderate-income households who are either renting or own residential dwellings outright.

Currently, there is not only a national affordable housing shortage but also increases in homelessness, sleeping rough and group households. Different socioeconomic strategies and plans to support those households and implement affordable housing policies to reduce the gap between supply and demand dates have been used in Australia since 1900s. However, they have often been amended and later abolished due to ineffective approaches, as discussed above. Now, uncertainty regarding the future of households are heightened by the increasing gap between expenditure–income ratios and long-term versus short-term affordability. Considering that as of October 2018, the Australian population reached 25,099,628 and is expected to increase at an average rate of 1.6% per annum, requiring an additional 197,757 dwellings each year until 2050, it is now high time for the government in collaboration with private and institutional investors to take a step back and create a whole-of-life housing affordability policy.

4.1 Recommendations for Affordable Housing Policy Frameworks

Clearly, existing provisions are not accomplishing affordable housing policy objectives. As the Grattan Institute CEO John Daley stated, defining housing affordability based on '*what percentage of your income is being spent on housing is perhaps the worst way of thinking* *about it*,' simply because the scale for each household keeps moving. To bridge the gap between the demand and supply of affordable housing, Economist Dr David Rosen suggests using the prominent USA housing affordability figure: '*The place to start is a standard definition of affordable housing*.' Thus, the following recommendations are based on the discussion presented in this policy statement and the 2016 ABS Census data presented in Part 2.

4.2.1 Household Income Target Groups

In this report, household income target groups are defined using the current eligibility criteria for affordable housing including social housing of very low (<50%), low (50–80%) and moderate income (80–120%)' as per local, state or territory and federal legislation and policies (refer to Section 2.1). However, this statement is proposing a further breakdown of very low-income categories (Table 5), since a significant problem facing the current system is that most private and institutional investors (e.g. NRAS) set their initial eligibility income based on 50% of the median income of a statistical area. This approach restricts many households earning less 50% of the median income from the private rental market (as discussed in Section 3.3, out of 18,820 affordable housing units, only 19 of every 100 units of these were affordable for very low and low-income households).

Table 5 Revised Eligibility Criteria for Household Income Target Group

Household type	Median income – yearly (AUD)	Median income – weekly (AUD)
Current Household Income Target Group		
National income	$74,776	$1,438
Very low income (<50%)	< $37,388	< $719
Low income (50%–80%)	$37,388 – $59,821	$719 – $1,150
Moderate income (80%–120%)	$59,821 – $89,731	$1,150 – $1,726
High income (Over 120%)	>$89,731	>$1,726
Further Categories of Very Low-Income Household		
Very low income (30%–50%)	$22,433 – $37,388	$431 – $719
Extremely very low income (under 30%)	<$22,433	<$431

4.2.2 Defining Affordability

To ensure households are not experiencing housing stress caused by affordable housing schemes, the minimum eligibility income limit should first be based on equivalised income and not gross income because income taxation can severely reduce household's financial viability in meeting the desired standard of living. Secondly, there must be a policy review in relation to the 30:40 rule dictating household spending allocation, as this measure only serves to exclude many vulnerable households from accessing affordable housing. Table 5 provides an indicative rental affordability problem (not adjusted with household composition or dwelling sizes). These figures tend to sway private investors to focus on gross household income as it offers higher rental returns than equivalised income as presented below.

Table 5 Affordable Weekly Rental (30:40 Rule) Based on Two Types of Household Income

Household income category	National average weekly gross income			National average weekly equivalised income		
	Before 30:40 ($2,109)	40th (P40) ($1,258)	Rental (30:40)	Before 30:40 ($1,009)	40th (P40) ($737)	Rental (30:40)
Extremely very low	$633	$377	$113	$303	$221	$66
Very low	$1,055	$629	$189	$505	$369	$111
Low	$1,687	$1,006	$302	$807	$590	$177
Moderate	$2,531	$1,510	$453	$1,211	$884	$265
High	>$2,531	$1,510	>$453	$1,211	$884	>$265

Source: Estimations are based 6523.0 - Household Income and Wealth, Australia, 2015–16

4.2.3 Supply Side: Whole-of-Government Housing Affordability Approach

There is a history of a lack of efficiency and effectiveness in the implementation of affordable housing policy in Australia. This is mainly due to different levels of government facilitating housing affordability instruments and delivery programs independently instead of jointly. This statement recommends a whole-of-government approach, as this will allow for transparency and easy communication between different Australian governments as well as with the private sector. This is an important step towards ensuring sustainability in the delivery of affordable housing, but one thing is also clear (Figure 4): to progress affordability opportunities the whole-of-government approach needs to support the equitable distribution of resources, since the current problem, as reported by Rowley *et al.* (2017a) is:

> *Most of the growth in housing supply has been taking place in mid-to-high price segments, rather than low price segments. There seems to be structural impediments to the trickle-down of new housing supply. . . Targeted government intervention might be needed in order to ensure an adequate supply of affordable housing.*

Thus, addressing the affordable housing supply crisis is less about which government is doing better than the others (refer Section 2.4) but about maximising all available resources in a collaborative effort and using the best practices in the development of a national affordable housing and housing affordability policy.

Figure 4 Examples of State and Territory Government Affordable Housing

	ACT	NSW	NT	QLD	SA	Tas	VIC	WA
National rental affordability scheme (NRAS)	✓	✓	✓	✓	✓	✓	✓	✓
Transfer programs	✓	✓	✓	✓	✓	✓	✓	✓
Land Rent	✓							
Partnerships and joint ventures with private sector	✓	✓	✓					✓
Subsidised rental housing for key workers			✓	✓				✓
Low deposit home loans					✓	✓		✓
Shared ownership/equity schemes	✓				✓	✓		✓
Transitional housing								✓
Affordable land	✓							✓

Sources: Rowley and Phibbs (2017)

4.2.4 Demand Side: The Whole-Life-Housing Affordability Approach

The purpose of establishing affordable housing and housing affordability policies is to enable Australians to have a desirable standard of living, to develop strong and diverse communities and to contribute meaningfully to a society. Without affordability schemes, low and moderate-income households would be excluded from the private rental market, leaving them in housing and financial stress. It is widely recognised that the issue of housing demand and affordability is not straightforward because of the contestation of affordability measures, such as 30:40 rule and residual incomes (Section 3). The major criticism is these measures underestimate the budget trade-offs endured by low to middle-income quintiles households when determining their non-discretionary and discretionary spending.

As discussed in previous sections, in addition to the criticism of affordability measures, some forms of discretionary spending, especially telecommunications, is being overlooked in government interventions aimed to relieve household financial stress. Even though telecommunications take a share of just over 3% of total household income, its costs are higher than domestic fuel and power – ironically, the two household services that are categorised as basic expenditure and for which the government offer energy supplements. It should be noted that households spend an average of $47 per week on telecommunications while the average energy bill was $41 as of June 2016.

Nonetheless, both non-discretionary and discretionary costs vary with household composition, budget shocks and financial services as well as government and social institutions affordability benefits/supplements. Due to challenges, the measures for assessment affordability should be reviewed to determine whether the current categories of non-discretionary and discretionary expenditure accurately portray individual household affordability and market affordability issues, as any new development on household cost of living strategies (expenditure budget allocation) could lead to a better understanding of how to determine households' capacity to pay for a dwelling under a given affordable housing scheme.

4.2.5 Implementation of Housing Affordability Action Plan

- To establish affordable housing policy definition and guidance, in particular, to clarify problems, issues and identify opportunities that would increase social and economic participation in delivering affordable housing projects.
- A more nuanced pilot project to investigate the demand-side by looking at different factors affecting household affordability at individual and market levels using equivalised income to identify factors that would encourage investment in the housing affordability initiatives.
- Extend the analysis of household income to include the following incentives: (i) land rent but no stamp duty, (ii) stamp duty but no land rent, and (iii) no stamp

duty and no land. The purpose of this is to uncover what different forms of incentive will mean for the whole-of-life housing affordability.

- Aligning the whole-of-life housing affordability approach to the current and ongoing government affordable housing initiatives at the local, state and territory and federal levels along with those of program partners, i.e. whole-of-life government housing affordability.
- Identify key challenges and ways to maximise the benefits of housing affordability initiatives followed by the scoping scale of work related to housing diversity to help meet the overall supply needs.
- Bring together whole-of-life government housing affordability and whole-of-life housing affordability for the sustainable delivery of affordable housing.

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