Homelessness and the housing crisis

Inquiry into homelessness in Australia

Submission

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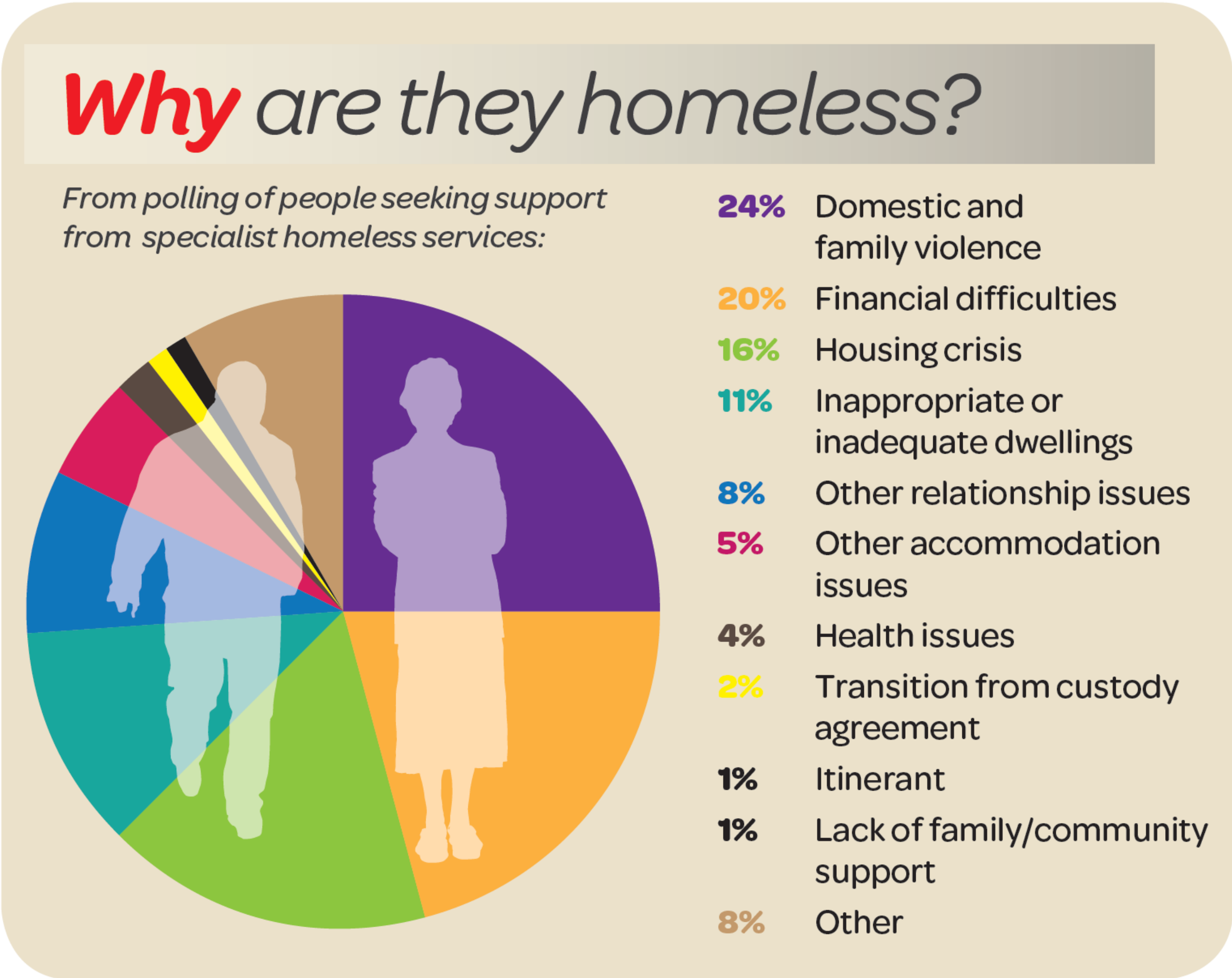

A key factor in homelessness is the housing crisis. Image source (Homelessness Australia 2016). In this report I address the term of reference: 2. factors affecting the incidence of homelessness, including housing-market factors. In particular, I address the impact of housing-market factors on homelessness.

Executive summary

The key housing market factor for increasing homelessness has been that rental prices have increased higher than increases in consumer price index over at least the last 20 years, for instance, for Greater Melbourne and major regional cities in Victoria. This is consistent with the increased numbers of households in household stress across Australia, since 1995, in particular for NSW, Victoria and Queensland. Across Australia, only 2 percent of private rentals are affordable for a person on the minimum wage.

This collapse in affordable rental has been particularly serious for people on welfare benefits, since their incomes have only increased based on increases in the consumer price index, or others on low incomes, in particular due to stagnation of salaries since the global financial crisis in 2007-08. Obviously, as rental prices have continued to substantially increase higher than increases in consumer price index since before 2000, people on low incomes have substantially increasingly suffered more housing stress.

As a result, for instance in Victoria, there has been a movement of the poorest people on welfare benefits and those with low incomes to outer Melbourne areas and beyond into nearby regional areas. This has left the city, particular in inner areas with mostly middle- and upper-class residents. These polarising changes in addition apply to regional cities, in particular Greater Geelong, and also Greater Bendigo and Greater Ballarat. In contrast, two regional cities, Horsham and Swan Hill, have been able to maintain more reasonable housing rental affordability and housing rental prices.

Key drivers for increasing rental prices have been the investor negative gearing and capital gains tax discount.

To substantially improve social inclusiveness, given the major failure of the capitalist housing market, it is, therefore, necessary for governments at all levels to take substantial action to mitigate this market failure.

Required building construction to meet the demand for public housing and affordable rental housing

By 2040, construction of an additional 291,900 public housing dwellings is required to meet the needs across Australia, with the largest requirement in NSW and Victoria, followed by Queensland.

Also, construction of an additional 1,442,700 affordable rental housing dwellings is required by 2040 to meet the needs across Australia, again with the largest requirement in NSW and Victoria, followed by Queensland.

Clearly, over the last 25 years, many state and federal governments have frittered away opportunities to address the developing housing crisis, with very limited responses. In is now time for all levels of government to work together to make major and effective responses to the crisis.

Return on Investment

For every $1.00 spent on construction of public housing and community housing, around $1.30 in total turnover (or an additional $0.30 in turnover) can be generated in the economy.

Public Housing

Issues in delivering and managing public housing

In the context to address the substantial demand for public housing, State governments in NSW, Victoria, and Queensland, in particular, have only provided very limited responses. For instance, in Victoria, the Government's Public Housing Renewal Program has been a failure. The current three redevelopment projects, at North Melbourne, Northcote and Preston, only provide, at most, an extra 139 public/community housing dwellings.

Additional current issues with public housing in Victoria include poor maintenance of public housing estates, inequality in operation of the Victorian Housing Register, and lack of a modern rent payment BPay facility.

Better delivering and managing public housing

Public Housing Authority

To improve management and construction rates, it is recommended that a separate public housing authority be set up in each state and territory. A major aim of the Authority will be to actively reduce the public housing waiting list, including to arrange construction of new public housing stock, built or bought, to meet the demand.

Government funding of public housing

It is more financially effective for a state or territory government to fully fund construction of new public housing. Also, it is important to set up a dedicated major fund, similar to the Social Housing Growth Fund in Victoria (DHHS 2018b), to support continual construction of new public housing, with annual targets, to meet current and future needs. This approach will also help avoid ideology and short-term politics, that have limited progress until now.

Use of existing surplus land

The state and territory governments should preferentially utilise existing available land to build additional public housing to meet housing demand, or for other community infrastructures and services. For instance, in Victoria, among sites currently available for sale it has been assessed that 90.9 hectares, across 24 individual sites, would be suitable for public housing. Otherwise, funds provided by land sales could be used to buy more appropriate land for building public housing, as per previous practice.

Affordable rental housing

Better delivering affordable rental housing Inclusionary zoning

Mandatory inclusionary zoning should a component of the strategy to help create more affordable rental housing, to be implemented by state and territory legislation. For council-owned land the level can be substantial, for example of at least 25 percent set-aside of affordable housing dwellings, as proposed by the City of Melbourne.

Use of existing surplus land

As well as inclusive zoning, a council should be able to utilise surplus government and agency lands, and potentially buy further land or properties or apartments, to reach the targets of affordable rental housing. The priority for use of surplus land should be for construction of new public housing. The Government may consider the use of further surplus land, or purchase additional land, for equity investment to support construction of affordable rental housing.

Affordable rental housing planning policy

Each local council should develop an affordable housing planning policy for inclusion in the associated local planning scheme.

Housing Trust

Each local council should preferentially set up a dedicated housing trust to manage/support of developing affordable rental housing.

Affordable rental prices

The contract for housing providers should include limits of rental prices. In general, a rental price of people in an affordable rental dwelling should only be up to 30% of income plus Commonwealth Rent Assistance.

Occupant selection

Preference to be given to people with low incomes who are already working in the local council area, and who have been unable to find affordable rental housing in that area or adjacent suburbs.

Building quality

The quality of new buildings shall meet the requirements for standards including: Apartment Design Guidelines; National Construction Code; environmentally sustainable design - Nationwide House Energy Rating Scheme and Green Star.

Financing affordable rental housing

With reduced income compared to market rents, providers of affordable renting housing, require financial or equivalent support by government. Three main options are effective: the government to retain equity, by maintaining ownership of its land as a component of the housing project; the government to provide loans to the housing provider, at below market rate, using a dedicated fund; for housing low-income tenants, the housing provider can arrange financial support from the federal government, by Commonwealth Rent Assistance.

Limits of State and Territory housing policies: example of Victoria

In 2017 The Government of Victoria announced its new housing policy, ‘Homes for Victorians’, as it’s response to the housing (buying and renting) affordability crisis in Victoria. This policy is a good start but has a number of serious limits, in particular very limited support for meeting the required demands for both public housing and affordable rental housing

Why the government is not trusted by the community to effectively addressing housing requirements

Given the low numbers of constructing new public housing dwellings in current plans, compared to the increasing high demand, and the well-known lack of maintenance of existing public housing estates for many years, it has been perceived by many in the community that the government is intending disinvestment of public housing properties to private housing associations, and therefore to transfer responsibility for housing highly disadvantaged people, without telling the community the truth of its intentions.

Where to from here for improved State or Territory Government policy for housing?

The government should first acknowledge previous problems, then to discuss background issues, followed by improved housing policy, and reasons for specific plans.

The government should also explain that it understands the importance of public housing. Then to explain that we need a diverse housing system to meet all needs, and that housing providers are a key part of the system, as providing a range of different affordable rental housing options. That is, the improved diverse housing system to give people on lower incomes the freedom to make a real choice among affordable rental housing options. Also, having a safe home supports disadvantaged people to better gain employment, and so contribute to the economy, no matter what level of income they gain.

Advocacy at Federal level

To reduce the impacts of negative gearing and capital gains tax discount on housing affordability by discouraging speculative tax-avoidance investments

It is recommended in particular that the Federal Government:

- Re-negotiate of the National Housing and Homelessness Agreement.
- Remove negative gearing, to be immediately limited to second-house investors, then gradually to be phased out (To reduce the impacts of negative gearing on housing affordability by discouraging speculative tax-avoidance investments).
- Removal of capital gains tax discount for housing investors (again to reduce the impacts of negative gearing on housing affordability by discouraging speculative tax-avoidance investments.

In this context It would be useful for the State and Territory Governments to advocate for these improvements in federal policy to better support public housing and affordable rental housing, as current policy on these sectors at federal level is weak.

Contents

Introduction

The causes of homelessness are many and varied. The domestic violence, a shortage of affordable housing, unemployment, mental illness, family breakdown and drug and alcohol abuse all contribute to the level of homelessness in Australia (DFHCSIA 2008). Homelessness is one of the most potent examples of disadvantage in the community, and one of the most important markers of social exclusion. For instance, those who sleep rough are among the most vulnerable and disadvantaged members of the community. They experience a range of harms, such as violence, extreme weather conditions and poor diet, with lasting impacts on their health and wellbeing that can worsen over time (DHHS 2018c).

According to the Australian Bureau of Statistics (2018) people are assessed as homeless when:

- Living in improvised dwellings, tents or sleeping out,
- In supported accommodation for the homeless,
- Staying temporarily with other households,
- Living in boarding houses,
- Staying in other temporary lodging,
- Living in 'severely' crowded dwellings.

Homelessness has been heavily increasing, from 2011-12 to 2017-18, in NSW, Victoria and the Northern Territory, while smaller changes have occurred in other States and the Australian Capital Territory, Table 1.

In terms of per capita needs, the Northern Territory has the highest number of homeless people, at 377.3 per 10,000 population. Indeed, in the Northern Territory nearly 45 percent of all Indigenous households are located below the poverty line. The greatest disparity between Indigenous and other households (nearly 35 percent) is also found in the Northern Territory. Also, what is especially worrying is that median personal income for Indigenous individuals in the Northern Territory declined from $296 to $281 per week (adjusted for inflation) between 2011 and 2016, while for other individuals that figure increased from $1,018 to $1,072 (Altman 2017).

Table 1 Numbers of homeless people in States and Territories, Australia, 2011-12 to 2017-18

State or Territory	Clients	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	Average annual change, 2011–12 to 2017–18, (per cent)
NSW	Number	52,105	51,953	51,786	48,262	69,715	74,216	71,628	5.4
	Per 10,000 ERP	72.2	71.1	69.9	64.2	91.4	95.9	91.1	4.0
Victoria	Number	86,150	92,462	99,892	102,793	105,287	109,901	116,872	5.2
	Per 10,000 ERP	155.6	163.6	172.9	174.2	174.5	177.9	184.8	2.9
Queensland	Number	42,487	43,001	43,751	44,213	42,543	41,438	41,118	-0.5
	Per 10,000 ERP	94.9	94.1	94.0	93.6	88.9	85.5	83.4	-2.1
Western Australia	Number	21,190	21,417	21,437	23,021	24,203	24,626	23,739	1.9
	Per 10,000 ERP	90.0	88.3	86.0	91.2	95.1	96.2	92.0	0.4
South Australia	Number	19,497	21,342	21,655	21,116	20,898	20,771	19,641	0.1
	Per 10,000 ERP	118.9	128.8	129.5	125.1	122.8	121.3	114.0	-0.7
Tasmania	Number	6,148	5,585	6,614	7,328	7,859	7,789	6,508	1.0
	Per 10,000 ERP	120.2	109.1	129.1	142.6	152.5	150.5	124.9	0.6
ACT	Number	5,602	5,367	5,338	4,987	4,652	4,585	4,026	-5.4
	Per 10,000 ERP	152.2	142.5	139.1	128.1	117.3	113.6	98.1	-7.1
Northern Territory	Number	6,584	6,959	7,123	7,649	8,132	9,187	9,285	5.9
	Per 10,000 ERP	284.6	294.9	293.4	314.0	331.9	373.8	377.3	4.8

ERP, the rate of homeless clients per the 10,000 estimated resident population. Source (Australian Institute of Health and Welfare 2018).

Household stress is a risk to becoming homeless. The numbers of households in household stress due to household costs greater than 30 percent of income, including homeless households, has substantially increased in NSW, Victoria and Queensland from 1995 to 2018, while smaller changes have occurred in other States and the Australian Capital Territory, Figure 1. These numbers are a measure of the need for additional public housing and affordable rental housing.

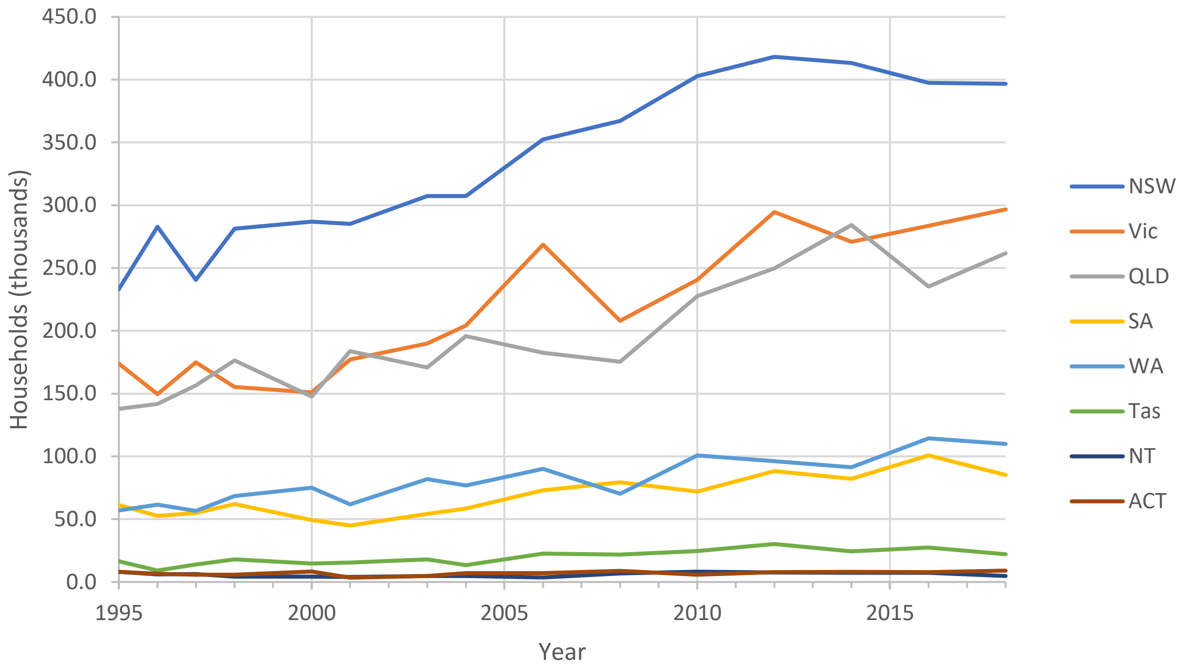

Figure 1. Numbers of households in household stress due to households costs greater than 30 percent of income, including homeless households, States and Territories, Australia, as a measure of the need for additional public housing and affordable rental housing. Source (Australian Bureau of Statistics 2019b).

Decreased rental affordability is clearly a major issue on increasing household stress, particularly in NSW, Victoria and Queensland.

Catastrophic collapse in affordable rental housing

Across Australia, only 2 percent of private rentals are affordable for a person on the minimum wage. Less than 1 percent are affordable for a single person on the pension. There are around 650,000 households which cannot afford housing at market rates in Australia now and this figure is projected to reach over a million by 2036 (Raynor et al 2019).

As Peter Mares has argued, the current housing crisis is resulting in cities becoming geographically polarised into locations of privilege in the centre, and in outer areas, clusters of the disadvantaged (Mares 2018).

If this trend continues to increase in future inner city areas, for instance in Melbourne, then (a) the city will not be able attract enough staff on low incomes to run food and other services, especially if they need to travel two hours or more to reach work and (b) the state will have further increases in public/community housing waiting lists and increased numbers of homeless people.

Next, I look at this issue for the State of Victoria, as a key example.

Decreased rental affordability in Victoria

Melbourne metropolitan areas

In Melbourne most increases in public housing waiting lists occurred in Melbourne Inner areas, in particular western Melbourne (Ascot Vale (City of Moonee Valley)/Carlton (City of Melbourne)/Footscray (City of Maribyrnong)/North Melbourne (City of Melbourne)) and north eastern Melbourne (Preston (City of Darebin)). Smaller increases were seen in Melbourne Outer. This difference may be due to decreasing affordability of housing including higher rents in Melbourne Inner compared to Melbourne Outer.

To assess housing rental affordability, data was taken from urban cities that each have a DHHS housing office (DHHS 2019a). This method allows a reasonable overlap of each DHHS selection area over the local urban city area, where the edge of a DHHS selection area may be roughly defined as midpoints between nearest other DHHS housing offices.

For selected Melbourne inner areas reasonable rental affordability occurred in the period 2000 to 2005, but then fell to around 5 percent in the period 2008 to 2016, and further to about just 2 percent by 2019, except for City of Melbourne, where rental affordability remained below percent for the entire period, Figure 1.

A similar pattern occurred for Greater Melbourne outer areas, though remained at higher affordability compared to Melbourne inner areas, and was about 10 percent by 2019, Figure 2.

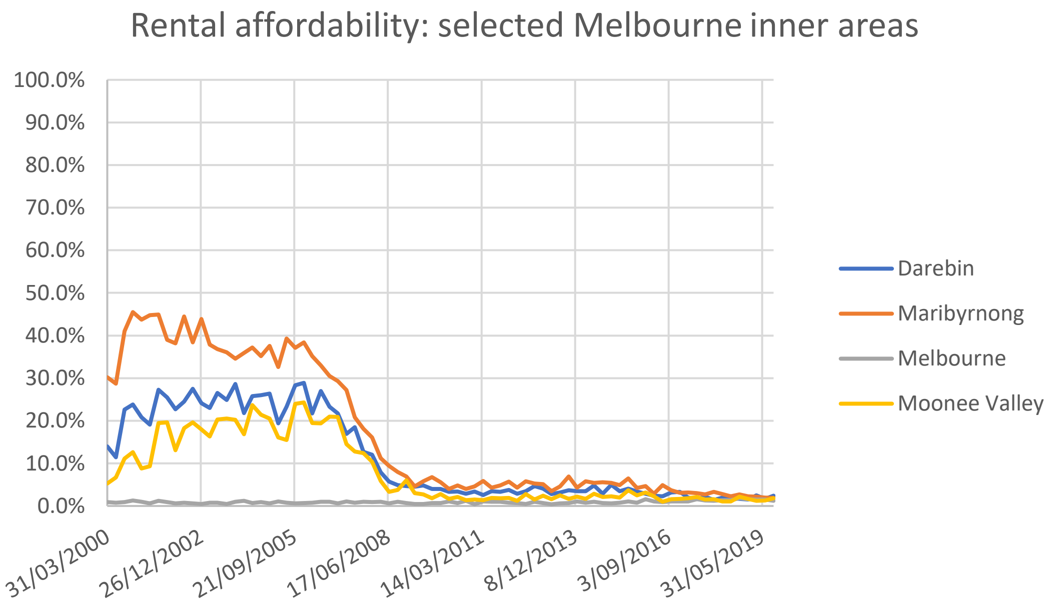

Figure 1. Long-term housing rental affordability in selected Melbourne inner areas, March 2000 to September 2019. Data source (DHHS 2019). This method is based on data of the urban cities that have a DHHS housing office. For the definition of rental affordability see Appendix A.

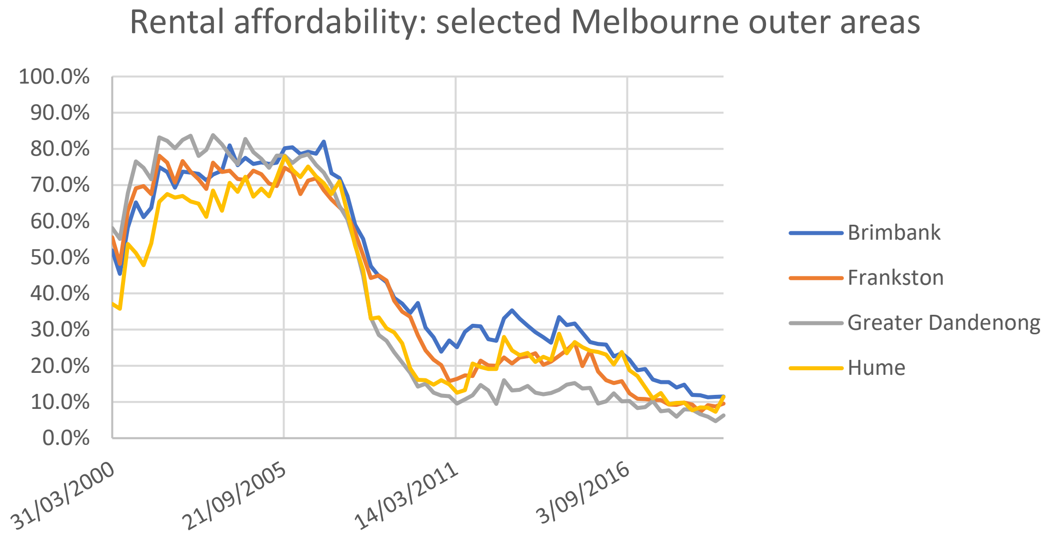

Figure 2. Long-term housing rental affordability in selected Melbourne outer areas, March 2000 to September 2019. Data source (DHHS 2019a).

A summary of current rental affordability across Greater Melbourne is shown in Figure 3. In general Melbourne inner areas currently have very low rental affordability, while Melbourne outer areas have little more rental affordability. The specific data discussed above is in line with this summary.

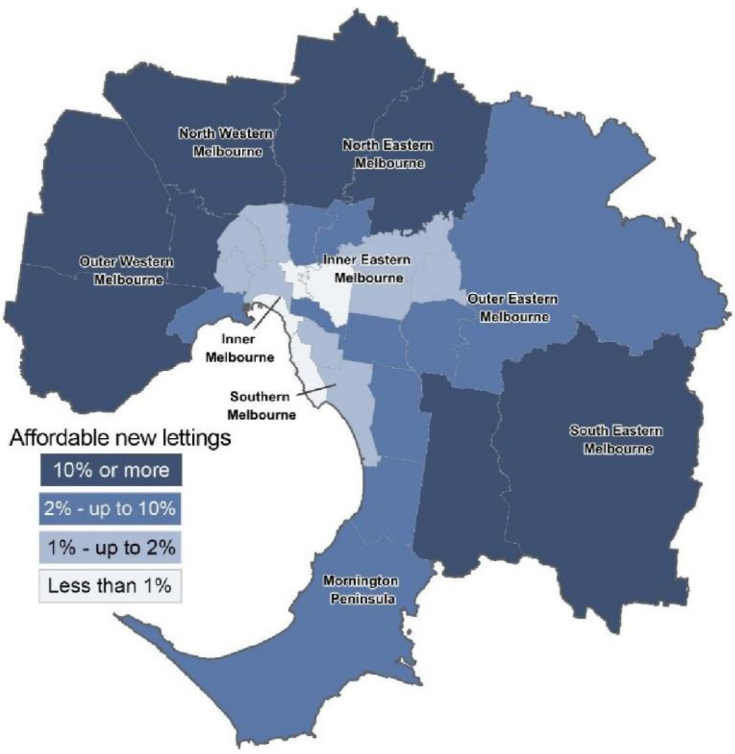

Figure 3. Proportion of affordable rental dwellings in Metropolitan Melbourne at September 2019. Source (DHHS 2019b).

Increasing housing rental prices

Decreasing housing rental affordability is generally associated with increasing rental prices. For the Melbourne Inner areas rental prices have tended to increase higher than the rate of inflation since 2000, especially for Footscray, Moonee Ponds/Ascot Vale and Preston, as indicated by median rental prices, Figure 4. This trend includes a peak around 2009, associated with the collapse in rental housing affordability (Figure 1), followed by a slight decrease to 2015, then an increasing trend to 2018.

That housing rental prices have substantially increased above inflation, over time, is problematic for people supported by welfare benefits, as these are generally only raised according to increases in the Consumer Price Index. In addition, given the substantial increases of rental prices above inflation, it is likely that working people on low incomes, which may have not increased incomes for a number of years following the Global Financial Crisis, 2007-09, also have decreasing rental options in Melbourne inner areas.

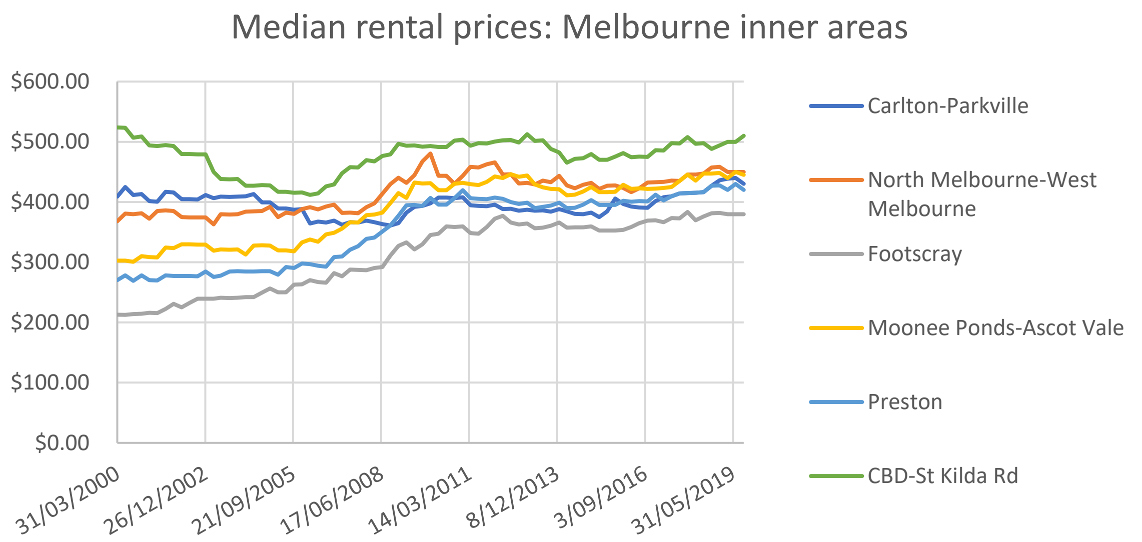

Figure 4. Median housing rental prices for Melbourne inner areas, March 2000 to September 2019. Rental data (DHHS 2019c), adjusted for inflation by Consumer Price Index (Reserve Bank 2020) to $2019.

A similar trend of housing rental prices increasing over the rate of inflation has occurred for Melbourne outer areas, though these still remain cheaper than for Melbourne inner areas, Figure 5.

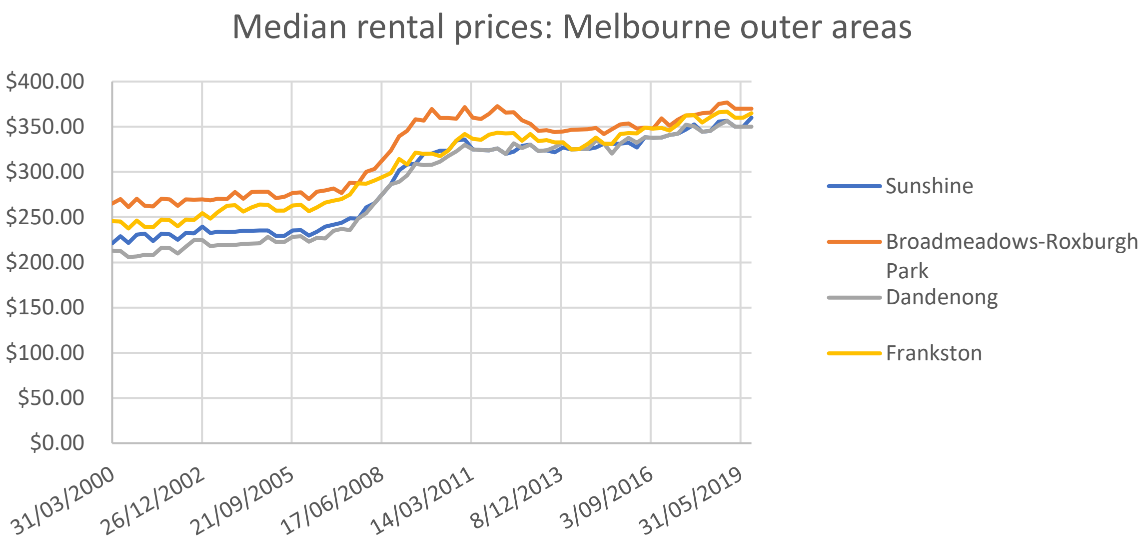

Figure 5. Median weekly housing rental prices for Melbourne outer areas, March 2000 to September 2019. Rental data (DHHS 2019c), adjusted for inflation by Consumer Price Index (Reserve Bank 2020) to $2019.

Regional areas of the State of Victoria

To assess rental affordability in regional areas data was taken for the cities that each have a DHHS housing office, for each local government area (DHHS 2019a). This method focusses on the local city which is likely to have the majority of dwellings in the area, and so provide a reasonable average value.

Bendigo, Ballarat and especially Geelong have significantly lower affordability than Horsham and Swan Hill, Figure 6. In the case of Bendigo, it has been concluded that diminishing vacancy rates, rising rents and a limited supply of affordable rental properties are factors compounding the pressures on tenants, to the point where more families are facing homelessness (D'Agostino 2019).

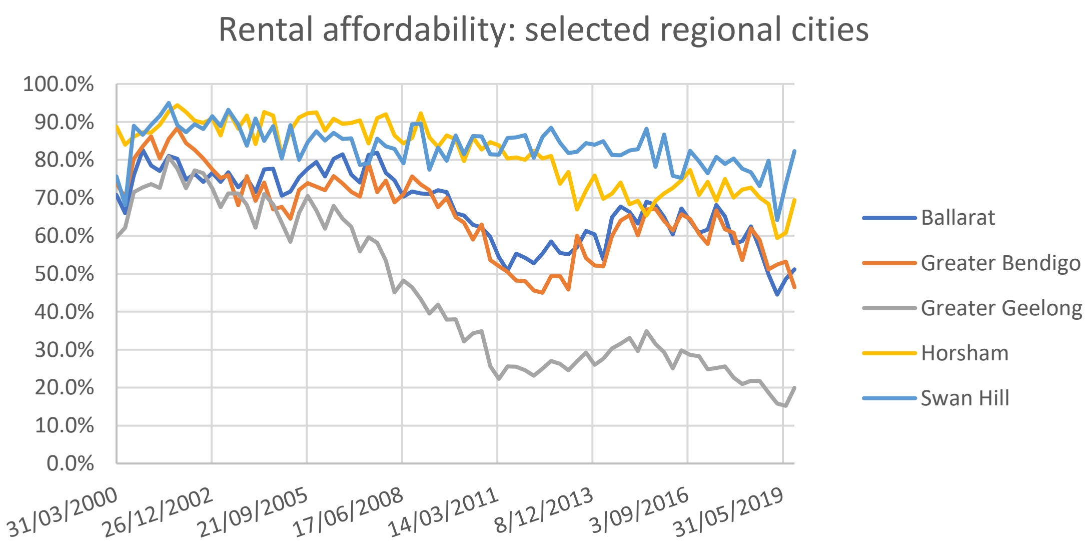

Figure 6. Long-term housing rental affordability in selected regional cities, March 2000 to September 2019. Data source (DHHS 2019a). For the definition of rental affordability see Appendix A.

A summary of current rental affordability across regional Victoria is shown in Figure 7. In general, areas closer to Melbourne tend to have lower rental affordability. In part this is due to disadvantaged people moving out from Melbourne to associated regional areas to find cheaper rental dwellings. As a result, rental prices have increased significantly in regional areas and locals have been finding it more difficult to find a home to rent, for instance in Gippsland (Chalkley-Rhoden 2017).

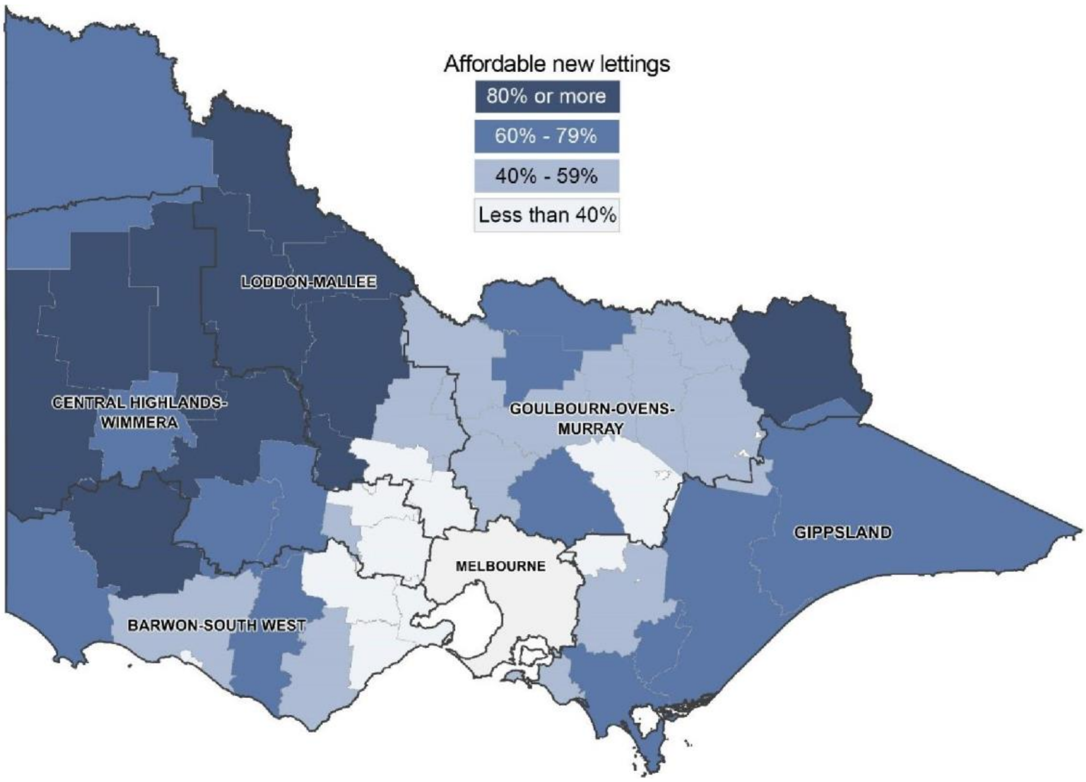

Figure 7. Proportion of affordable rental dwellings in Regional Victoria at September 2019. Source (DHHS 2019b).

Increasing housing rental prices

For the selected regional cities housing rental prices also increased above the inflation rate, though slightly less than for Melbourne outer areas, Figure 8. The highest increases were for Greater Geelong, which corresponds to the lowest rental affordability among these regional areas, Figure 8, followed by Greater Ballarat and Greater Bendigo. In contrast, while rental prices increased above inflation rate for Horsham and Swan Hill, these prices remained lower than for the other regional cities, which also corresponds to higher rental affordability for these two cites compared to the others, Figure 8.

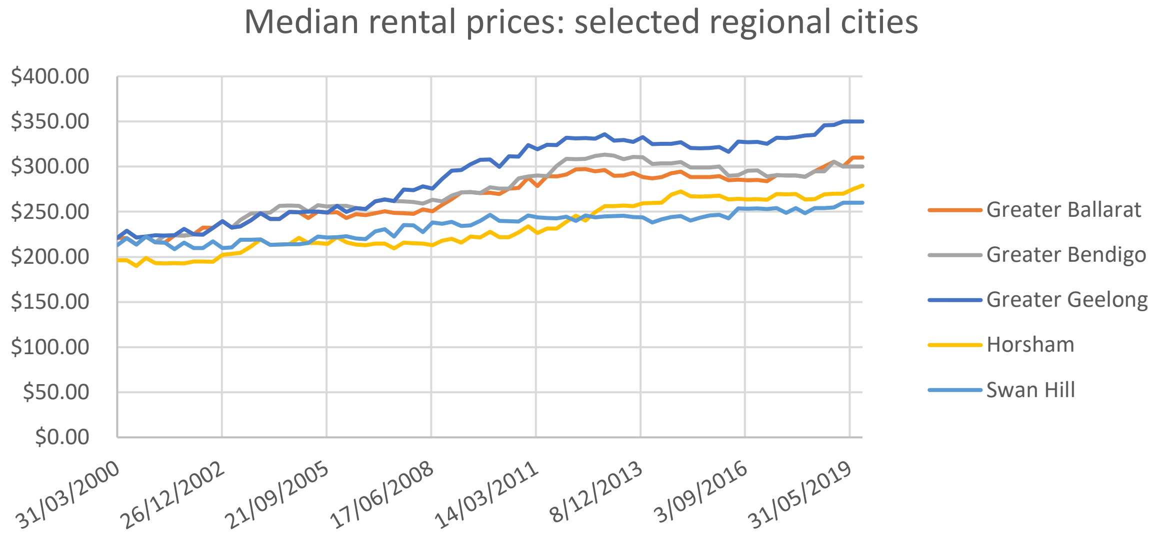

Figure 8. Median weekly housing rental prices for selected regional cities, March 2000 to September 2019. Rental data (DHHS 2019c), adjusted for inflation by Consumer Price Index (Reserve Bank 2020) to $2019.

Impact of negative gearing and capital gains tax discount on housing affordability

What are negative gearing and capital gains tax discount?

Tax concessions for investment in housing include a 50% discount off normal individual tax rates on capital gains together with so-called ‘negative gearing’ arrangements, which allow investors to deduct ‘losses’ made on rental property investments (including interest on loan re-payments) from other income (including wages).

Deductions can, of course, be claimed for losses on other kinds of investments and this would not normally be regarded as a ‘tax concession’. The unique feature of ‘negative gearing’ for investments in assets such as property, shares, and agricultural schemes is that income from these investments often comes mainly from capital gains, the increase in the value of the asset over time. Under the Capital Gains Tax rules these are only taxed when the asset is sold, and then at half the marginal tax rate. Yet expenses associated with the investment (especially interest payments on loans) can be deducted from tax annually and often exceed rental income. The tax system treats this as a ‘loss’. These ‘losses’ can be offset against other income that would otherwise be taxed at the full marginal rate (mainly wages). In reality, in most cases the investment is not making a ‘loss’ because it is accruing capital gains. Otherwise there would be no point investing in these assets. If the tax system properly matched income and deductions, then either capital gains would be taxed each year at normal marginal tax rates or deductions for ‘losses’ could not be offset against other income until the capital gains are taxed on sale of the asset.

Whenever deductions for investment expenses are not properly matched with income, there is always a risk that people will maximise ‘losses’ to avoid tax on their other income. This is achieved by structuring debt so that interest expenses on loans to purchase the asset exceed income from the investment such as rent, for instance by using more expensive ‘interest only’ loans (often with flexible interest re-payments so that investors can ensure their costs always exceed rental income), or by borrowing more to buy second and third properties as soon as the first one turns a ‘profit’.

In recent years, since superannuation legislation was amended to allow it, investors have been encouraged to borrow to invest in rental property through self-managed Super funds. A major advantage of this strategy is that capital gains on the sale of assets in Super funds are normally free of tax.

Negative gearing is mainly used for rental property investment because housing is perceived to be a safe investment to borrow against, but it is also used to invest in agriculture (for example pine plantations), and shares ('leveraged equity').

Adverse impact of negative gearing and capital gains tax discount on housing affordability

Given that most negatively geared investment is in rental property, these schemes impact especially on housing markets. They encourage borrowing to speculate on housing prices, rather than patient investment in housing to achieve the best long-term rental yield (ACOSS 2016).

The large-scale use of these tax schemes not only threatens public revenue and faith in the fairness of our tax system. It also reduces the efficiency of investment by encouraging people to invest with tax avoidance in mind rather than to achieve the best return at the least risk. It destabilises the economy by encouraging people to borrow more than they otherwise would and adding fuel to booms in asset prices, which are often followed by recessions (ACOSS 2016).

Contrary to claims that negative gearing encourages new investment in affordable housing, over 90 percent of investment in negatively geared housing stock is in existing properties (Eslake 2014). This means that, along with other housing subsidies that mainly support the purchase of existing properties, they are more likely to inflate prices than make housing more affordable. For this and the other reasons, including population growth, the boom in rental property investment from 1998 to 2004 did not increase rental vacancy rates, which, for instance, fell from 2001 to 2007. It has instead raised home prices, and also distorted the profile of investment properties and housing investors to the long-term disadvantage of low and middle income tenants (ACOSS 2016).

Negative gearing and the Capital Gains Tax discount are not the only drivers of inflation in house prices and rents, but they have become a much more important factor as investors have purchased a growing share of dwellings. It is sometimes argued that these tax arrangements cannot be a cause of the latest housing price boom because they have been in place for many years, across a number of housing cycles. This does not mean that they had no influence on house prices. In its analysis of the causes of the last housing boom in the early 2000s, the Reserve Bank concluded that it was the combination of these long-standing tax arrangements and easier access to credit that drove higher demand for properties among investors (ACOSS 2016).

There was a major change to the tax treatment of investment property in 2000. Tax rates on individual capital gains were halved, while retaining negative gearing arrangements. This made negative gearing much more attractive. The effect of this change was not limited to rental property investment but in practice most investors who use negative gearing invest in housing because it is perceived to be less risky to gear into an investment in bricks and mortar. The 50% Capital Gains Tax discount fuelled an old-fashioned Australian property boom. Overall, between 2000 and 2013 lending commitments for investment housing rose by 230 percent compared with a rise of 165 percent in lending for owner occupied housing (ACOSS 2016).

Long standing tax policies such as negative gearing may not be the trigger for housing price booms but they accentuate their impact by encouraging investors to borrow more to punt on a further rise in prices. The tax treatment of housing pours fuel on the fire. As in previous housing booms, the Reserve Bank has been concerned that speculative demand by investors may amplify the housing price cycle and increase the potential for prices to fall later on (Reserve Bank 2015).

Discussion

Catastrophic collapse in housing rental affordability across Victoria

The data assessed here are well in agreement with Mares' conclusion, that the current housing crisis is resulting in cities becoming geographically polarised into locations of privilege in the centre, and in outer areas, clusters of the disadvantaged (Mares 2018)

This has resulted in substantial collapses in rental affordability for key Melbourne inner areas (2000 to 2008), and the subsequent reduction of rental affordability for outer areas of Melbourne (by 2011). As a result, there has been a movement of the poorest people on welfare benefits and those with low incomes to Melbourne outer areas and beyond into nearby regional areas. This has left the city, particular in inner areas with mostly middle- and upper-class residents.

These polarising changes in addition apply to regional cities, in particular Greater Geelong, and also Greater Bendigo and Greater Ballarat. In contrast, Horsham and Swan Hill have been able to maintain reasonable housing rental affordability and housing rental prices.

The absence of affordable rental housing in the City of Melbourne since before 2000, and the collapse of rental affordability across Greater Melbourne, and regional cities, in the last ten years, especially with rental prices increasing at rates substantially above consumer price index increases is a particularly serious issue.

The long-term lack of rental affordability across Greater Melbourne and regional cities can be seen as a major failure of the capitalist housing market. That is, particularly serious for people on welfare benefits, since their incomes have only increased based on increases in consumer price index, or others on low incomes, in particular due to stagnation of salaries since the global financial crisis in 2007-08. So, these people have increasingly been unable to find affordable rental housing, as rental prices have increased at rates higher than CPI. Further, Commonwealth rental assistance is also increased only according to CPI values (Services Australia 2020), and therefore of increasingly limited value. It is, then, hard to overestimate the deleterious impact of the increasing lack of rental affordability on people supported by welfare benefits or otherwise low incomes. These disadvantaged people also tend to suffer a large range of major difficulties compared to others. For 10 out of 14 issues, in the 3 percent bottom disadvantaged areas in Victoria at least two-fold more people suffer these issues compared to people in other localities, Table 2.

Table 2 Comparing issues for people in the 3% most disadvantaged localities to those in the other localities in Victoria*

Issue	Bottom 3% areas (percentage of people)	The other 97% areas (percentage of people)	Ratio 3% to 97% areas
Overall low level of education	9.7	3.6	2.7
Absence of post school qualifications	54.6	41.0	1.3
Unskilled workers	24.0	15.6	1.5
Young adults not engaged	11.8	5.5	2.2
Disability support	13.0	5.5	2.4
Unemployed	8.0	3.2	2.5
Long term unemployed	5.5	1.9	2.9
Rent assistance	10.9	6.2	1.8
Child maltreatment	5.4	1.8	3.1
Criminal convictions	12.9	6.6	2.0
Juvenile convictions	1.2	0.4	3.4
Domestic violence	6.2	2.4	2.6
Prison admissions	1.4	0.5	2.8
Psychiatric admissions	1.5	0.9	1.8

*, Reference (Vinson et al 2015). Yellow highlight, ratio of 3% areas to 97% areas of at least 2.

A key contributing factor to lack of rental affordability is the substantial total immigration rate for Australia, which is bringing in numbers of people equating to the population of Canberra City every two years (Abbott 2020).

To substantially improve social inclusiveness, it is, therefore, necessary for governments at all levels to take substantial action to address this market failure.

Not to take action will result in the substantial loss of staff on low incomes to support services in the City of Melbourne, and increased pressure on housing in regional cities and towns, due to people on

low incomes, including welfare, moving out of the city to find lower rental costs. Also, without substantial action, numbers of people waiting for public housing will continue to increase, as will numbers of homeless people.

Responding to market failure

Redefining housing sectors

Public housing should be entirely responsible for supporting people with very low socio-economic status, as first call for housing disadvantaged homeless people, according to the Housing First strategy (Waegemakers

Schiff and Rook 2012), and therefore be a key component of an integrated housing strategy. Given the rental market failure, there is also a substantial requirement for government to support private affordable rental housing. This sector, therefore, should also be recognised as a key component of an integrated housing strategy. In this context, Community Housing Associations along with private affordable housing providers, should be assigned to the affordable rental housing sector.

It should, therefore, be recognised that public housing and community housing are essentially different and so complimentary in aims and purposes Table 3.

Table 3 Different characteristics of public housing and affordable rental housing

Characteristic	Public housing	Affordable rental housing*
Rental costs	25% of income or assessed rental price, whichever is less	30% of income plus Commonwealth Rent Assistance
Client groups	Very low and Low income groups	Low and Moderate income groups
Tenure	Indeterminate (mutually agreed term)	Rental contracts, commonly by year
Value	Better suits Housing First support	A wider range of locations and types of housing

*, includes community housing. Income groups are defined in Appendix A.

Clearly, an integrated housing strategy is required to optimally meet current and future housing needs. A further value is that each sector can be specifically defined according to needs and required resources. Therefore, ambiguous terms, like social housing or affordable housing can be discarded from policy considerations, to improve transparency and reduce confusion.

So, under an integrated housing strategy, substantial further construction of both public housing and private affordable rental housing are optimally required to meet current and future needs.

Required building construction to meet the demand for public housing and affordable rental housing

To assess the requirements for both public housing and affordable rental housing I have developed an updated housing demand model (Appendix B), based on (Lawson et al 2018). The demand model created by Lawson and colleagues provides combined current and forecast needs, to support professional forward planning, and to avoid common limited crisis responses and limited ideological-bases responses. The updated demand model addresses both current needs and future needs forecast to 2040, for all States and Territories, and differentiation of needs for capital cities and regional areas.

By 2040, construction of an additional 291,900 public housing dwellings is required to meet the needs across Australia, with the largest requirement in NSW and Victoria, followed by Queensland, Table 4a.

Also, construction of an additional 1,442,700 affordable rental housing dwellings is required by 2040 to meet the needs across Australia, again with the largest requirement in NSW and Victoria, followed by Queensland, Table 4b.

These demand numbers are consistent with the general needs shown in Figure 1, with NSW, Victoria and Queensland featuring with substantially increasing needs since 1995. These three States also have the highest numbers of homeless people, 2017-18, Table 1.

Table 4a Current and forecast demand to 2040 for public housing dwellings

State or Territory	Public housing share: Current (met) ('000)	Public housing share: Projected to 2040 ('000)	Manifest need: Current ('000)	Manifest need: Projected to 2040 ('000)	Total public housing need 2018–2040 ('000)
Greater Sydney	74.1	23.5	19.5	6.2	49.2
Rest of NSW	41.9	13.3	13.5	4.3	31.0
Total	115.9	36.8	33.0	10.5	80.2
Greater Melbourne	44.2	18.7	40.3	17.0	76.1
Rest of Victoria	20.1	8.5	13.5	5.7	27.6
Total	64.3	27.2	53.8	22.7	103.7
Greater Brisbane	26.1	9.4	9.1	3.3	21.7
Rest of Qld	28.6	10.3	9.9	3.5	23.7
Total	54.7	19.6	18.9	6.8	45.4
Greater Perth	20.7	7.7	6.0	2.2	15.9
Rest of WA	12.6	4.7	4.9	1.8	11.4
Total	33.3	12.3	10.9	4.0	27.3
Greater Adelaide	26.5	4.0	6.7	1.0	11.7
Rest of SA	7.6	1.2	2.3	0.4	3.8
Total	34.1	5.2	9.0	1.4	15.6
Greater Hobart	3.4	0.32	0.1	0.01	0.4
Rest of Tasmania	3.8	0.36	2.9	0.28	3.6
Total	7.2	0.68	3.0	0.28	4.0
ACT	11.2	4.4	1.9	0.74	7.0
Greater Darwin	2.9	0.91	0.0	0.01	0.9
Rest of NT	7.2	2.3	4.3	1.3	7.8
Total	10.1	3.2	4.3	1.3	8.8
Australia	330.9	109.3	134.8	47.7	291.9

Source (this study), see Appendix B for method.

Table 4b **Current and forecast demand to 2040 for affordable rental housing dwellings**

State or Territory	Community housing share Current (met) ('000)	Community housing share Projected to 2040 ('000)	Evident need Current ('000)	Evident need Projected to 2040 ('000)	Total affordable rental housing need 2018–2040 ('000)
Greater Sydney	25.8	8.2	232.4	73.7	314.3
Rest of NSW	14.6	4.6	131.4	41.7	177.7
Total	40.3	12.8	363.8	115.4	492.0
Greater Melbourne	11.1	4.7	167.1	70.6	242.3
Rest of Victoria	5.1	2.1	75.8	32.0	110.0
Total	16.2	6.8	242.9	102.6	352.3
Greater Brisbane	7.8	2.8	116.1	41.7	160.5
Rest of Qld	8.5	3.1	126.8	45.5	175.4
Total	16.3	5.9	242.9	87.2	335.9
Greater Perth	6.7	2.5	61.6	22.8	86.9
Rest of WA	4.1	1.5	37.5	13.9	52.8
Total	10.8	4.0	99.1	36.6	139.7
Greater Adelaide	9.7	1.5	59.1	8.9	69.5
Rest of SA	2.8	0.4	17.0	2.6	20.0
Total	12.5	1.9	76.1	11.5	89.5
Greater Hobart	2.9	0.3	8.9	0.8	10.1
Rest of Tasmania	3.2	0.3	10.0	0.9	11.3
Total	6.1	0.57	19.0	1.8	21.3
ACT	0.90	0.36	7.2	2.9	10.4
Greater Darwin	0.64	0.20	0.16	0.05	0.42
Rest of NT	1.59	0.50	0.41	0.13	1.03
Total	2.24	0.70	0.57	0.18	1.45
Australia	105.3	33.0	1051.5	358.2	1,442.7

Source (this study), see Appendix B for method.

Example construction plan

To meet the housing needs, Table 4a and Table 4b, I present an example construction plan for Victoria, Table 5. Construction of more public housing should begin in the first year, starting at 6,000 dwellings per year (Lawson et al 2018), and ramping up to 8,000 dwellings per year.

The government to also promote building of affordable rental housing, starting at 14,000 dwellings, then ramping up to 25,000 dwellings per year by 2030. That is, to have a maximum collective construction rate of 30,000 dwellings per year, given the potential limit of construction activities by local building companies.

Housing needs should be regularly reviewed, for instance, every three years, to assess if any changes in the construction plans are required. The construction plan provides tapering of numbers of dwellings towards the end of the planned period, to allow a change to increased construction, or conversely, early completion, according to adjusted needs.

Table 5 Example annual construction plan for public housing and affordable rental housing dwellings for Victoria 2021 to 2040

Year	PH dwellings per year	Rolling total	ARH dwellings per year	Rolling total
2021	6,000	6,000	14,000	14,000
2022	7,000	13,000	16,000	30,000
2023	8,000	21,000	20,000	50,000
2024	8,000	29,000	22,000	72,000
2025	8,000	37,000	22,000	94,000
2026	7,000	44,000	23,000	117,000
2027	6,000	50,000	24,000	141,000
2028	6,000	56,000	24,000	165,000
2029	6,000	62,000	24,000	189,000
2030	5,000	67,000	25,000	214,000
2031	5,000	72,000	25,000	239,000
2032	5,000	77,000	25,000	264,000
2033	5,000	82,000	25,000	289,000
2034	4,000	86,000	25,000	314,000
2035	4,000	90,000	25,000	339,000
2036	4,000	94,000	25,000	364,000
2037	4,000	98,000	20,000	384,000
2038	3,000	101,000	15,000	399,000
2039	2,000	103,000	13,000	412,000
2040	700	103,700	1,900	413,900

PH, Public Housing; ARH, Affordable Rental Housing.

These numbers may look large, but it should be remembered that during post war reconstruction, between 1945 and 1949, 132,000 new houses and flats had been constructed to provide homes for an estimated 600,000 people (Powell and Macintyre 2020).

Addressing the demand for affordable rental housing is especially important as this sector tends to be ignored in development of housing policy by governments.

For example, to meet total projected demand for affordable rental housing in the City of Melbourne, between 13.3 percent and 21.5 percent of the City's total dwelling stock in 2036 would need to be affordable rental housing (SGS Economics and Planning 2019).

Councils would benefit from a multi-stranded strategy to reach the targets for affordable rental housing in their local area, as discussed in the 'Advocacy' section. In contrast, in cities in the USA, that have only used inclusionary zoning, the outcomes are rather low numbers of affordable rental housing (Appendix C).

Return on Investment

For every $1.00 spent on construction of public housing and community housing, around $1.30 in total turnover (or an additional $0.30 in turnover) was generated in the economy, by the Rudd Government's Social Housing Initiative implemented over the period 2009 to 2012 (KPMG 2012). The economic value of this approach is that it brings longer-term economic benefits, through improvements in workforce participation and productivity, as more people with below-average wages can live closer to suitable jobs, especially in cities (ACOSS 2019).

I present a model for housing homeless people with support to become capable of contributing to the community and economy through employment, Figure 9. The left-hand stream is designed for people with housing stress, at risk of homelessness. The middle stream, with people having a short crisis, is designed to help these people gain a home quickly, in short-term private rental housing, to reduce the risk of becoming chronically homeless, right-hand stream, which includes Housing First type services. Transitional Housing (for instance, short-term rental support for private rental housing) is quoted in the 'Homes for Victorians' strategy (Vic Gov 2017). Housing First type services are cited in the plan for the Victorian Housing Register (Sheriff 2016). People with long-term mental health issues may be periodically unable to work, and so on average have very low incomes, and so require public housing.

The option to transfer to public housing is currently effectively unavailable in the short-term, either from middle- or right-hand streams due to the substantial current waiting list for public housing dwellings. There is also a current waiting list for affordable rental housing.

Social values in further providing affordable rental housing, include reduction of homelessness, as the affordable rents, security of tenure, and other supports available to financially vulnerable people in public housing reduces their risk of homelessness by more than half (ACOSS 2019).

Secure, affordable housing also greatly improves people's capacity to find employment, recover from family and domestic violence, and improve their health in the face of chronic illness. This in turn reduces the cost of health and community services (ACOSS 2019).

In addition, families with low incomes who find affordable housing, helps them to gain financial stability that improves children's health and wellbeing and capacity to engage in education (ACOSS 2019).

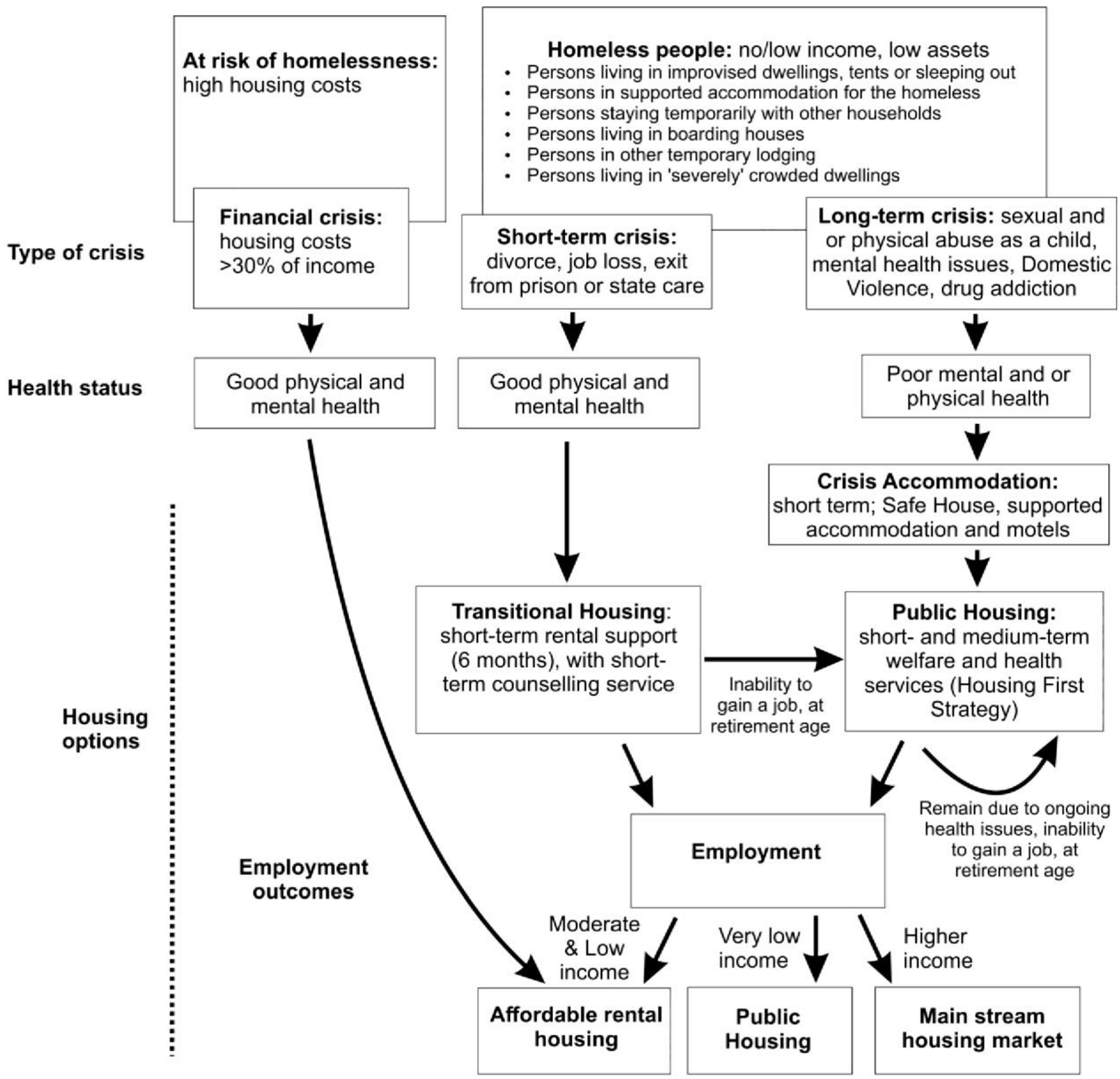

Figure 9. Model for housing homeless people with support to become capable of contributing to the community and economy through employment. Types of homeless people are according to Australian Bureau of Statistics (2018). The levels of very low income, low income and moderate income are shown in Tables A2 and A3, Appendix A.

In this context it is also important for policymakers to understand the economic value of housing renting, as they have seemed for many years to instead favour the leverage to create homeownership, often via "all-in" wealth and highly leveraged financing strategies. Nevertheless, households that follow such a homeownership strategy are likely to grow their wealth more slowly on both a raw and risk-adjusted basis, compared to renters. This difference occurs due to the high numbers of homeowners that place down payment and mortgage payments which together are overwhelmingly high portions of their overall wealth (Beracha et al. 2017).

By corollary, people with low incomes are likely to be more able to contribute to the economy, with affordable rental housing costs, compared to mainstream high market rental costs.

To assess issues in better delivering public housing and affordable rental housing I use the examples of such issues in the State of Victoria.

Better delivering public housing

The key economic and social values of public housing are that (a) of a mutual long-term tenure, and (b) rental costs are at a maximum of 25% of income (DHHS 2019d). These factors are in line with the internationally supported Housing First strategy (Waegemakers Schiff and Rook 2012), which help homeless people, along with welfare and health support, to rebuild their lives, with the potential to enter or re-enter the workforce, or otherwise contribute to the community through voluntary activities, based on a safe home.

Here I discuss the issues in delivering and managing public housing, utilizing Victoria as an example. In Victoria the Department of Health and Human Services (DHHS) is responsible for delivering and managing public housing.

Issues in delivering and managing public housing

In the context to address the major demand for public housing, Table B1, the Victoria Government's Public Housing Renewal Program has been a significant failure. The current three redevelopment projects, at North Melbourne, Northcote and Preston, only provide, at most, an extra 139 public/community housing dwellings, just 0.25 percent of the current demand, for 53,800 dwellings (Table 4a). This program is discussed further below. In addition, Victoria has the highest demand for additional public housing compared to all other states and territories (Table 4a).

Additional current issues with public housing include poor maintenance of public housing estates, inequality in operation of the VHR, and lack of a modern rent payment BPay facility.

Poor maintenance of public housing estates

DHHS' public housing asset management framework, in its current state, remains disjointed, poorly communicated, and out of date in key areas. DHHS lacks a comprehensive understanding of its asset management performance, a result of dysfunctional governance arrangements, minimal performance measures and ineffective arrangements for collecting property condition data. These weaknesses impair DHHS' ability to make informed decisions about asset planning (Victorian Auditor-General 2017).

The effective management of public housing assets requires accurate property condition data to target funding appropriately. This data should capture both asset condition and maintenance costs to inform the asset management strategy and correctly prioritise works across the portfolio. Also, regional field officers should undertake property condition audits (PCAs) every three years to provide an estimate of property condition (Victorian Auditor-General 2012).

Eight years after the initial critical report, in May this year, the State Government announced $155 million, would go towards upgrading and repairing more than 15,000 public housing units, with a further $110 million set aside to build new kitchens and bathrooms for 2,100 units. At least 25 per cent of this funding will be earmarked for regional areas (Ilanbey 2020). Again, maintenance of public housing properties should be managed through a long-term plan, and not by once-off political announcements. A practical management framework solution is presented lower in this report.

Inequality in operation of the Victorian Housing Register

On average there are much longer waiting times for Victorian Housing Register (VHR) offers to senior-aged applicants for public/community housing than those offers which come directly from community housing associations (CHAs). The faster direct offers are mainly due to connections between the Housing for the Aged Action Group (HAAG) and CHAs, along with the desirability of the stereotypical elderly tenant who is expected to easily comply with rules and regularly pay rent on time. This raises questions about the fairness and equality of the VHR, when it was originally planned to deliver a more equitable and speedy allocation system for all applicants (Leeder 2018).

Long lag in improving rent payment options

While DHHS allows rent payment by direct payment or by a dedicated card at a Post Office, public tenants are still waiting for a modern BPay facility to pay rent, after a promise more than 5 years ago. When will DHHS fulfil its promise?

Better delivering and managing public housing

New Public Housing Authority

To address issues of poor management and construction rates, it is recommended that a separate public housing authority be set up. This new Public Housing Authority will be mandated to place people in public housing from the top of the priority access waiting list, not cherry pick from the middle, as has commonly occurred by housing associations. A major aim of the Authority will be to actively reduce the public housing waiting list, including to arrange construction of new public housing stock, built or bought, to meet the demand.

Importantly, it will have ability to employ professional real estate staff, including those that have effective experience in managing properties. This is important as the DHHS is a public service department, and therefore unable to employ such staff.

The Public Housing Authority will be associated with DHHS, within the State Government of Victoria and only with a mandate for public housing, including to end the decades of stigmatisation of public housing. After more than 20 years of neglect it is important to stay focused.

The Public Housing Authority will be sufficiently funded to support the right number of people and with the right skills to support key activities, such as:

- To begin building of public housing now on public lands, and not sell these off
- Build rate according to annual goals
- New housing to be built to high environmental standards
- Land assessment: to assess available public lands first for building public housing, (if not useful for that purpose then could be sold)
- Property management and acquisition, project management
- Rental management, including an ombudsman to handle complaints

- Asset and grounds management, including maintenance and upkeep according to annual plans
- Manage the refurbishment of neglected and abandoned public housing estates and other properties as a government project, and use subcontractors as needed.
- Refurbishment to improve energy efficiency
- Arrange social services, to provide an intense support envelope, to optimally focus on the needs of rehoused homeless people and to bring them back to self-sufficiency in long-term accommodation, as a Housing First strategy.

It is recommended that the government establish a legally-binding maximum waiting time on providing housing for homeless people, particularly for those listed on the Victorian Housing Register: this limit is 56 days in the UK (UK Parliament 2017).

The Public Housing Authority will be provided with flexible and sufficient funding to reduce current waiting list for public housing, through a combination of subsidised private rental, in the short to medium term, and an ongoing building program.

Funding public housing

Public-Private Partnerships

The Public House Renewal Program is an example of a public-private partnership (PPP). That is, a contract between government and a private company under which: A private company finances, builds, and operates some element of a public service; and the private company gets paid over a number of years, either through charges paid by users, or by payments from the public authority, or a combination of both (Hall 2015).

Serious criticism of Public-Private Partnerships

For many years PPPs have been promoted worldwide by global institutions and consultants. Development banks, national governments, the EU and donor agencies are providing subsidised public finance specifically for PPPs. Developing countries subject to IMF regimes, and other developing countries, are being subjected to political pressures and marketing campaigns. However, PPPs have been promoted without essential evidence of optimal efficiency or outcomes (Hall 2015).

Indeed, experience over the last 20 years has shown that PPPs are a relatively expensive and inefficient way of financing public infrastructure and also divert government spending away from other public services. They additionally reduce transparency, as they conceal public borrowing, while providing long-term state guarantees for profits to private companies (Hall 2015).

Many advocates of PPPs claim that they bring additional private resources into public services or infrastructure. They also imply that, somehow, the public, or the public authorities, do not have to pay for schools or hospitals developed by PPPs, and so the government or municipality will have more money left to spend on other services; therefore, PPPs apparently mean a reduction in borrowing (Hall 2015).

Yet, in PPPs for services like hospitals or schools, the government pays for the cost of the PPP from taxation, by paying for the cost of construction, and then the cost of running the service. So, PPPs are paid for by the public sector in just the same way as projects carried out directly by public authorities (Hall 2015).

Importantly, in reality, over the lifetime of a project, a PPP will invariably involve higher public spending than a conventional project, because of the higher costs of capital for the private partner, and because in practice in developed countries there are no significant efficiency gains. In particular, the private partner requires a profitable return on investment. Therefore, that additional cost has to be borne either by the customers or the government through subsidies, for example (World Bank Group 2016).

Marc Scribner has concluded while PPPs may be efficiently support construction and operation of public transport, when utilised in the real estate sector these offer very little in terms of social benefits. Therefore, these arrangements should be avoided (Scribner 2011).

The Productivity Commission has concluded that private sector involvement in infrastructure provision and/or financing delivers efficiency gains only if well designed and well implemented. Moreover, private financing is not a 'magic pudding', as ultimately users and/or taxpayers must foot the bill. Also, government guarantees and tax concessions are not costless and often involve poorly understood risks (Productivity Commission 2014).

The origin of this divisive approach for funding public housing and community housing in Victoria was its acceptance by the Kennett Liberal Government in the late 1990s, in the disastrous decade of the 1990s that resulted in the final destruction of the post war consensus on creating an inclusive society (Powell and Macintyre 2020). Other negative issues from this decade included the concept that financial efficiency in companies could be improved simply by swiftly sacking many staff, and that non-central services could be provided by external service companies with transferred staff having less rights that their original employer, such as being put on casual contracts.

The Liberal government had commissioned a report on options for the future of inner Melbourne public housing estates, including sale to private sector developers and identification of sites that would be most attractive for sale (Office of the Premier 2000, cited in Hulse et al 2004). The First public housing estate to include private dwellings, during redevelopment, was the Kensington Housing Estate (Public Accounts and Estimates Committee 1998), the redevelopment which seriously resulted in the net loss of 265 public housing dwellings from the estate (Hulse et al 2004).

Unfortunately, many current politicians who developed their notions about how to address community needs during the 1990s had their views affected by the then push to focus on the ideological concept that commercial opportunities, through PPPs, would be the common answer to respond to both social and economic requirements. Here we see the long life of a known poor way to address social issues. Let us now see the end of this ineffective ideology.

Government funding of public housing

In line with the above conclusion that PPPs should not be used for real estate projects, Dr Peter Raisbeck, University of Melbourne, has convincingly argued, that it is very reasonable for government to fully fund the renewal of public housing estates without selling land to private owners (Raisbeck 2017a; b).

Unfortunately, supporting community housing has become more widespread because it has, and continued to be, seen by government as a cheaper policy option, which has resulted in the ill-informed view 'we should work with whoever is willing to build low-income housing'. However, as Raisbeck has convincingly argued, it is cheaper for government to build public housing itself, than involve housing associations. There are two key reasons for this, that public housing can be built at scale, and therefore provide savings due to increased efficiency of construction, and that government can gain cheaper finance than commercial operators.

Also, importantly to take out ideology and short-term politics, that limit progress, a dedicated major fund should be set up to, similar to the Social Housing Growth Fund in Victoria (DHHS 2018b), to support continual construction of new public housing, with annual targets, to meet current and future needs.

Use of existing surplus land

The government should preferentially utilise existing available land to build additional public housing to meet housing demand, or for other community infrastructures and services. Currently the State Government has 126 properties available for sale around Victoria, for a total of 2,643 Ha (Department of Treasury and Finance 2020), which should be considered for constructing public housing.

In analysis of these sites for sale, Porter and Davies (2020) have assessed that 90.9 hectares, across 24 individual sites, would be suitable for public housing. Around 55 hectares are located in metropolitan Melbourne, and other key sites are located in regional centres such as Bendigo, Geelong, Mildura and Sale, Figure 10. Together, these sites could yield between 1,350 and 1,800 public housing dwellings, depending on the density. This available public land is located in areas with high priority housing needs, as assessed using data from the Victorian Housing Register, Figure 11. For instance, high numbers of people are applying for public housing and community housing in Melbourne's west, north and outer south-east, and the central belt of Victoria.

Also, funds provided by sales of other lands could be used to buy more appropriate land for building public housing, as per previous practice (Public Accounts and Estimates Committee 1998).

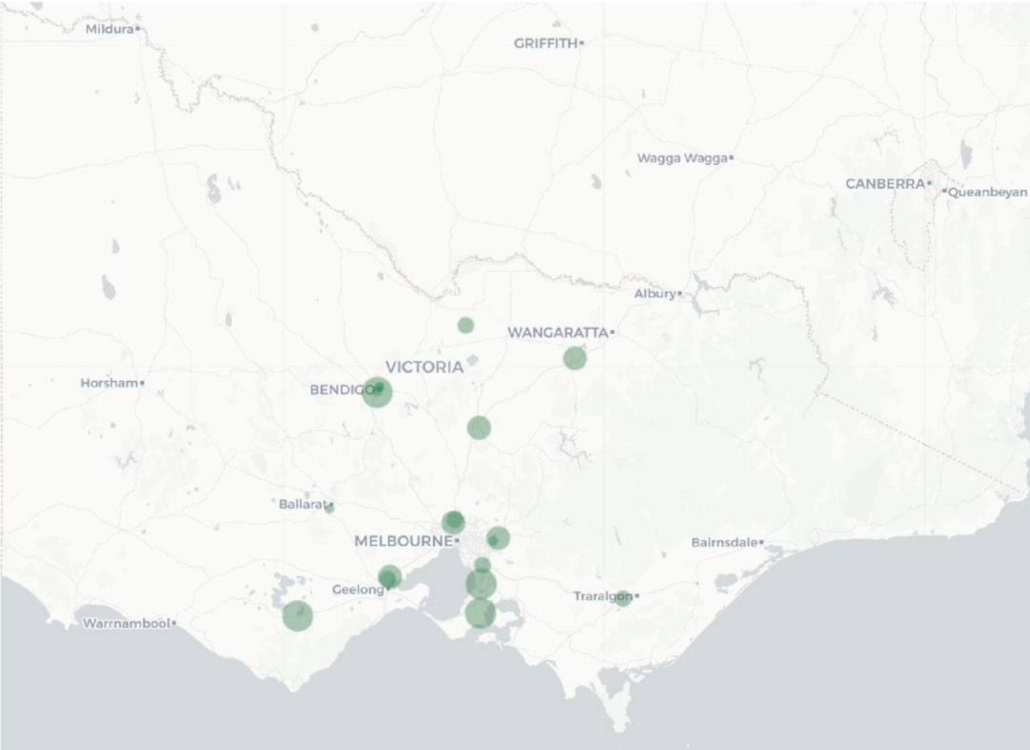

Figure 10. Existing surplus land in Victoria suitable for constructing public housing. Source (Postma 2020a).

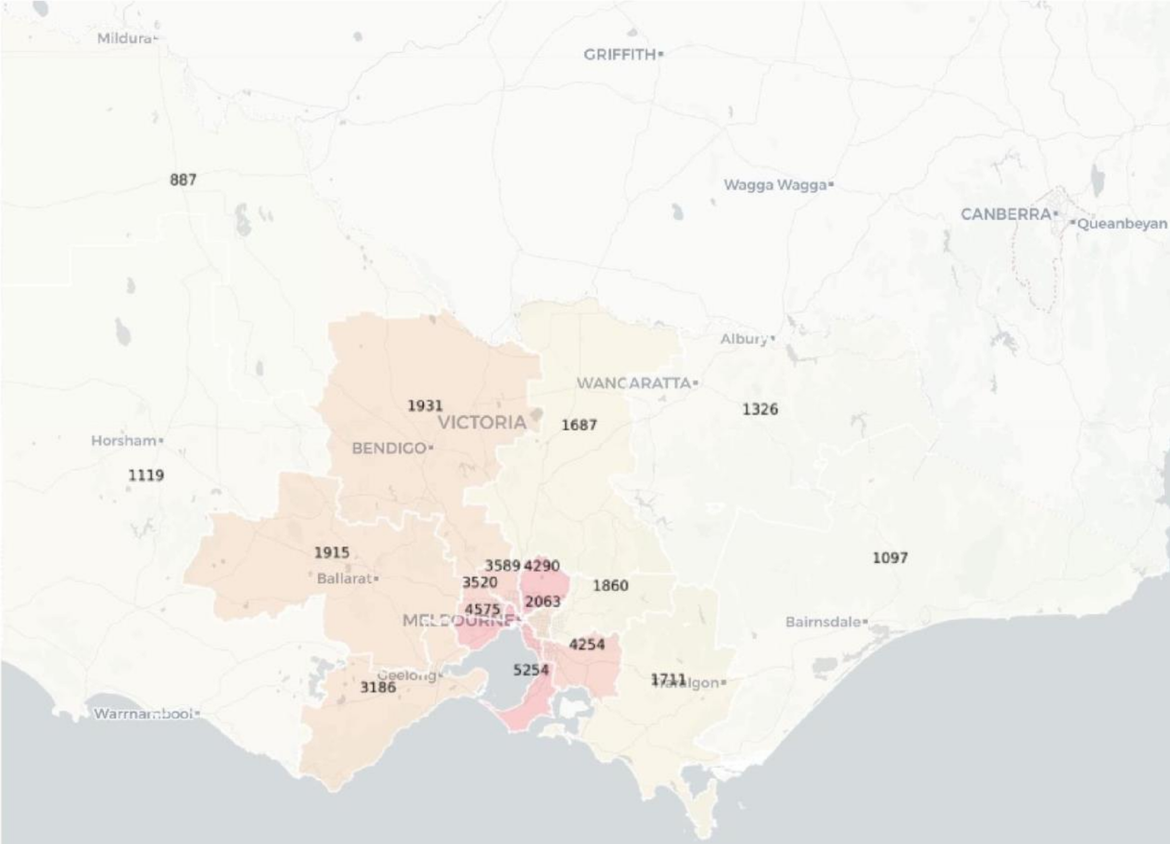

Figure 11. Waiting numbers of people for public housing and community housing by DHHS region, Victoria. Source (Postma 2020b).

Better delivering affordable rental housing

Affordable rental provides different types of house depending on the needs and preferences of the family or individual, Table 6. In Victoria, Registered housing providers range in size and primarily manage rental housing portfolios for other parties, such as the Director of Housing. Some housing providers specialise in particular client groups which may include disability housing, aged tenants and youth housing.

Table 6 Characteristics of the different types of affordable rental housing providers*

Type of housing provider	Characteristics
Housing associations	• Housing associations own properties or manage some of our properties. Like public housing, these organisations manage and maintain the property using their own staff. • These are eligible to receive government funding to build or acquire new properties.
Housing providers	• Housing providers range in size and primarily manage rental housing portfolios for other parties, such as the Director of Housing. • Some specialise in particular client groups which may include disability housing, aged tenants and youth housing.
Rooming houses	• Rooming houses are mainly accommodation for single people. Residents rent a room in the house and share common facilities such as kitchens, bathrooms and laundries. • Most are being renovated so that the rooms are self-contained with their own kitchenette and bathroom.
Cooperatives	• Rental housing co-operatives are governed by voluntary tenant members with support from professional staff. • These support their members' further education to help them meet their responsibilities and commitment to the cooperative.
Specialist housing providers	• Specialist providers focus on particular groups, like the aged, homeless youth or people with disabilities. • These may have particular programs or specific equipment available for their tenants.

*, Affordable rental housing providers include community housing associations. Reference (DHHS 2018a).

Affordable rental providers tend to provide a range of properties across different suburban areas compared to public housing, which tends to built at large scale in selected locations (for efficiency of construction and maintenance). The larger location options are especially important for people on lower incomes who need to be near public transport (unable to afford a car or not able to drive), facilities such as hospitals, or their family.

Inclusionary zoning

Currently in Victoria affordable rental housing is only supported by a planning mechanism to support voluntary agreements by councils with developers, since 2018 (Victorian Government 2020). In the case of the City of Melbourne, this has not provided any affordable housing at all.

Mandatory inclusionary zoning, therefore, should a component of the strategy to create more affordable rental housing. Overseas experience of mandatory inclusionary zoning indicates the set-aside proportion of affordable rental housing in a housing development project tend to be in the range 10 to 20 percent, potentially on a sliding scale. In the case of London, 50 percent set-aside has been utilised (Appendix C). For council-owned land the range can be increased, for example of at least 25 percent set-aside of affordable housing dwellings, as proposed by the City of Melbourne.

Use of existing surplus land

As well as inclusive zoning, a council should be able to utilise surplus government and agency lands, and potentially buy further land or properties or apartments, to reach the targets of affordable rental housing, Table 4b. Currently the State Government has 126 properties available for sale around Victoria, for a total of 2,643 Ha (Department of Treasury and Finance 2020). The priority for use of surplus land should be for construction of new public housing. The Government may consider the use of further surplus land, or purchase additional land, for equity investment to support construction of affordable rental housing.

Affordable rental housing planning policy

Each local council should develop an affordable housing planning policy for inclusion in the associated local planning scheme. This planning tool should clearly outline when an affordable housing contribution should be made, how the rate of affordable housing should be calculated and what should be included in an affordable housing agreement.

Housing Trust

Each local council should preferentially set up a dedicated housing trust to manage/support of developing affordable rental housing, Appendix D. The creation of the proposed housing trust should include a business plan, with the requirements stated above.

Affordable rental prices

The contract for housing providers should include limits of rental prices. In general, a rental price of people in an affordable rental dwelling should only be up to 30% of income plus Commonwealth Rent Assistance (CRA), as for contracts by DHHS (in the Public Housing Renewal Program). In general, rental costs for private affordable housing are higher than for public housing, and, therefore, suit tenants with moderate incomes.

Occupant selection

Preference to be given to people with low incomes who are already working in the local council area, and who have been unable to find affordable rental housing in that area or adjacent suburbs. A secondary priority may be for homeless people, or those escaping family violence, in the city, via the 'Housing first' strategy (Waegemakers Schiff and Rook 2012), in conjunction with voluntary social services.

Building quality

The quality of new buildings shall meet the requirements for standards including: Apartment Design Guidelines (DELWP 2017); National Construction Code (Australian Building Codes Board 2020); environmentally sustainable design - NatHERS (Nationwide House Energy Rating Scheme) (NatHERS 2019) and Green Star (GBCA 2020).

Modern designs for affordable buying housing have been implemented in a number of housing projects by the Nightingale Housing team. They provide multi-residential housing in cities that is environmentally sustainable, financially affordable and socially inclusive. The outcomes of this approach positively impact the urban environment, and promote better health and well-being (Nightingale Housing LTD 2018). The Nightingale model could be easily adapted for developing affordable rental housing.

Financing affordable rental housing

With reduced income compared to market rents, providers of affordable renting housing, require financial or equivalent support by government. Three main options are effective.

Firstly, the government to retain equity, by maintaining ownership of its land as a component of the housing project, to effectively lease the land to the developer at a very low rate. The housing provider then has reduced project costs, while the government gains an enhanced value of its investment through the improved land value that the development creates (Randolph et al 2018).

Secondly, the government to provide loans to the housing provider, at below market rate. The Social Housing Growth Fund provided by the State Government of Victoria can be used for this purpose (DHHS 2018b). The fund should support continual construction of new affordable rental housing, with annual targets, to meet current and future needs, Table B2.

Thirdly, if focusing on low-income tenants, the housing provider can arrange financial support from the federal government, by Commonwealth Rent Assistance (CRA), for each tenant.

Of these three options only the third requires continuing annual expenditure by government, with continuing benefit to the housing association. The alternative is to provide subsidies to the private sector to produce affordable housing that is predicated on sale and realisation of future capital appreciation, which is less efficient over the longer term than directing such subsidies to housing providers during the land lease period (Randolph et al 2018).

Limits of the Victorian Government's 'Homes for Victorians' policy

In 2016 it was reported that disadvantaged and vulnerable households faced significant challenges in accessing affordable rental and appropriate housing. The private market was increasingly unaffordable and the existing supply of affordable rental housing does not meet demand. It was estimated unmet requirement (unmet affordable housing need) was between 75,000 and 100,000 vulnerable lower income households, which required better access to affordable rental housing (Affordable Development Outcomes 2016).

It was recommended that better access be provided through improvements in the quality and suitability of the existing affordable rental housing supply; provision of housing related advocacy and financial support for households; and supply of new affordable rental housing supply including crisis accommodation, transitional accommodation, public housing and community housing and dedicated affordable private rental housing supply, Table 5.

Table 7 Summary of need assessment

Response	Type of response
Improve the quality of existing public housing and community housing by: • Replacing obsolete stock • Addressing overcrowding and improving the matching of household need to housing stock	• Increase public housing and community housing supply • Increase affordable private rental assistance and supply
Increase early intervention supports that reduce a household's risk of becoming homeless or requiring higher subsidised housing	• Provide financial support • Increase public housing and community housing supply • Increase affordable private rental assistance and supply
Increase affordable housing supply, specifically: • Crisis, transitional, short term and specifically targeted supported accommodation for highly vulnerable and homeless or at-risk households. • Affordable rental housing supply (public and private) for low income households to access	• More crisis accommodation • More specialised housing • Increased affordable private rental assistance and supply • Increased public housing and community housing supply

Source (Affordable Development Outcomes 2016).

In 2017 The Government of Victoria announced its new housing policy, 'Homes for Victorians', as it's response to the housing (buying and renting) affordability crisis in Victoria (Vic Gov 2017; Housing Vic 2018). This policy is a good start but has a number of serious limits, in particular very limited support for meeting the required demands for both public housing and affordable rental housing, as previously recommended (Affordable Development Outcomes 2016), and discussed in this report.

Delivering more public housing?

As part of the 'Homes for Victorians' plan $185 million was provided for the Public Housing Renewal Program. Currently there are three public housing states being redeveloped, Table 8. While this provides 777 private dwellings, there will only be an additional 139 (community) housing dwellings compared to previous numbers of public housing dwellings on the three estates. Nevertheless, this number is still substantially less than the number of public housing dwellings removed previously in redevelopment of the Kensington public housing estate, 265 (Hulse et al 2004).

Table 8 Existing numbers of dwellings and redevelopment outcomes for the three estates

	Northcote		North Melbourne		Preston		Total
Type of dwelling	2018	2019	2018	2019	2018	2019	2019
Existing public housing dwellings	87	87	112	112	26^	26	225
Redevelopment outcomes:							
Community housing dwellings (a)	96	106	123	133	>30	35	274
Community housing dwellings (b)	-	-	-	-	-	Up to 64	64
Private dwellings	126	143	207	173	-	461	777
First home buyers prioritised	-	-29		-35	-	-92	-156
Total dwellings	222	249	330	306	-	560	1115
Additional community housing dwellings	9	19	11	21		99	139

^, Preston Stage 2: one site already demolished. In stage 1 62 public housing dwellings were replaced with 68 community housing dwellings. For community housing: (a) land owned by government; (b) land owned by housing provider.

However, a significant value of the Public Housing Renewal Program was the development of a highly improved management approach to renewal projects, by DHHS staff. It is clear that the department has responded to the serious management issues that occurred in the two previous renal projects for the Kensington and Carlton housing estates.

In a further program, an existing $120 million ‘social housing pipeline’ was planned, in major part, to deliver an additional 913 public housing dwellings through $60 million to increase the number of public housing dwellings available for use on under-used or vacant properties owned by the Director of Housing (Vic Gov 2017). Two years later this was adjusted to a $209 million investment to include 800 one and two-bedroom properties and 200 three-bedroom dwellings providing homes for about 1,800 Victorians across the state (DHHS (2019e). These effectively count as refurbished or redeveloped properties, and therefore do not significantly add extra numbers of dwellings to the total number of public housing dwellings.

Delivering more affordable rental housing?

For delivering more private affordable rental housing the Government of Victoria set up a $1 billion Social Housing fund, with investment returns to be used to underpin funding agreements for projects. Over the first five years, the Fund was planned to support up to just 2,200 new private affordable rental places, comprising: the construction of new private affordable rental housing dwellings; and the provision of short-term rental support, for those people in crisis who need short term assistance (Vic Gov 2017).

To support construction of new private affordable rental housing dwellings the Social Housing Fund provides a $100 million revolving loan facility providing low-cost, long-term subordinate loans to Housing Associations and up to $1 billion available as a loan guarantee program, to help housing associations access finance at below market interest rates. These guarantees are to be issued over six years as economic projects and partnerships are developed (Vic Gov 2017).

The plan to support construction of a maximum of 2,200 new private affordable rental housing dwellings in 5 years, amounts to just 8,800 over 20 years, just 2 percent of the requirement for 413,900 additional private affordable rental dwellings over 20 years, Table 4a.

Why the Government of Victoria is not trusted by the community to effectively addressing housing requirements

Given the low numbers of constructing new public housing dwellings in current plans, compared to the increasing high demand, and the well-known lack of maintenance of existing public housing estates for many years, it has been perceived by many in the community that the government is intending disinvestment of public housing properties to private housing associations, and therefore to transfer responsibility for housing highly disadvantaged people, without telling the community the truth of its intentions.

In this context, the sales of major parts of existing public housing properties to private owners, including in previous redevelopments of the Kensington and Carlton estates, has again indicated to the community that the government is not really interested in housing highly disadvantaged people.

Further, the term social housing used by the government, which includes both public housing and private community housing, has again been perceived by the community to hide the government's intent to transfer responsibility for housing highly disadvantaged people to private community housing associations.

Also, Peter Hartcher, a national journalist and media commentator stated recently on the ABC Drum program, that the Victorian State Government was only providing funds for maintenance of public housing to support economic activity in the Covid-19 epidemic period, and was not really interested in addressing the demand for public housing or lack of maintenance of public housing.

So, it is commonly thought in the community that the government cannot be trusted to care for housing highly disadvantaged people, and would rather give public money to private developers and private housing associations. The government, therefore, has a lot of work to do regain trust in the community about effectively addressing housing requirements.

Further, as a result, the government has tended to not give reasons or background issue in announcements of new housing plans, as a small target for criticism. That in turn, has resulted in the community perception that the government is not transparent in its intention, and so further not to be trusted on addressing housing issues.

Where to from here for improved State Government policy for housing?

The government should first acknowledge previous problems, then to discuss background issues, followed by improved housing policy, and reasons for specific plans.

The government should also explain that it understands the importance of public housing. Then to explain that we need a diverse housing system to meet all needs, and that housing providers are a key part of the system, as providing a range of different affordable rental housing options. That is, the improved diverse housing system to give people on lower incomes the freedom to make a real choice among affordable rental housing options. Also, having a safe home supports disadvantaged people to better gain employment, and so contribute to the economy, no matter what level of income they gain.

Advocacy at Federal level

It would be useful for the State of Victoria to advocate for improvements in federal policy to better support public housing and affordable rental housing as current policy on these sectors at federal level is weak (Raynor et al 2019). For instance, to improve outcomes, the federal Affordable Housing Working Group has argued that, beyond efficient financing, affordable rental housing requires other key conditions for growth (Affordable Housing Working Group 2017). The working group has recommended:

"... the Commonwealth and State and Territory governments progress initiatives aimed at closing the funding gap, including through examining the levels of direct subsidy needed for affordable low-income rental housing, along with the use of affordable housing targets, planning mechanisms, tax settings, value-adding contributions from affordable housing providers and innovative developments to create and retain stock."

Research by AHURI has found the most effective policy levers are pro-social land policy (involving purposeful land banking and regulatory planning), needs-based direct equity investment (nuanced to match needs, land and construction costs), efficient revolving loans and not-for-profit management (Randolph et al 2018), as discussed above.

Without these collective features, the government will continue to miss its own targets and underinvest in this much-needed social infrastructure. Both the precariously housed people and productivity growth in the wider economy will, then, suffer (Lawson and Berry 2019). Moreover, simply providing large funding for Commonwealth Rent Assistance, $4,439.4 million in 2018-19 (Productivity Commission 2020), clearly alone has not effectively addressed the collapse in affordable renting in Victoria, and elsewhere around Australia. Nevertheless, Commonwealth Rent Assistance can be a key part in effective development and operation of private affordable rental housing, as discussed above, as part of an integrated housing strategy.

It is, then, recommended in particular that the States and Territories advocate:

- Re-negotiation of the National Housing and Homelessness Agreement.
- Removal of negative gearing, to be immediately limited to second-house investors, then gradually to be phased out (To reduce the impacts of negative gearing on housing affordability by discouraging speculative tax-avoidance investments)
- Removal of capital gains tax for housing investors.

Conclusion

The key housing market factor for increasing homelessness has been that rental prices have increased higher than increases in consumer price index over at least the last 20 years, for instance, for Greater Melbourne and major regional cities in Victoria. This is consistent with the increased numbers of households in household stress across Australia, since 1995, in particular for NSW, Victoria and Queensland. Across Australia, only 2 percent of private rentals are affordable for a person on the minimum wage.

This collapse in affordable rental has been particularly serious for people on welfare benefits, since their incomes have only increased based on increases in the consumer price index, or others on low incomes, in particular due to stagnation of salaries since the global financial crisis in 2007-08. Obviously, as rental prices have continued to substantially increase higher than increases in consumer price index since before 2000, people on low incomes have substantially increasingly suffered more housing stress.

As a result, for instance in Victoria, there has been a movement of the poorest people on welfare benefits and those with low incomes to outer Melbourne areas and beyond into nearby regional areas. This has left the city, particular in inner areas with mostly middle- and upper-class residents. These polarising changes in addition apply to regional cities, in particular Greater Geelong, and also Greater Bendigo and Greater Ballarat. In contrast, two regional cities, Horsham and Swan Hill, have been able to maintain more reasonable housing rental affordability and housing rental prices.

Key drivers for increasing rental prices have been the investor negative gearing and capital gains tax discount.

To substantially improve social inclusiveness, given the major failure of the capitalist housing market, it is, therefore, necessary for governments at all levels to take substantial action to mitigate this market failure.

Required building construction to meet the demand for public housing and affordable rental housing

By 2040, construction of an additional 291,900 public housing dwellings is required to meet the needs across Australia, with the largest requirement in NSW and Victoria, followed by Queensland.

Also, construction of an additional 1,442,700 affordable rental housing dwellings is required by 2040 to meet the needs across Australia, again with the largest requirement in NSW and Victoria, followed by Queensland.

Clearly, over the last 25 years, many state and federal governments have frittered away opportunities to address the developing housing crisis, with very limited responses. In is now time for all levels of government to work together to make major and effective responses to the crisis.

Return on Investment

For every $1.00 spent on construction of public housing and community housing, around $1.30 in total turnover (or an additional $0.30 in turnover) can be generated in the economy.

Public Housing

Issues in delivering and managing public housing

In the context to address the substantial demand for public housing, State governments in NSW, Victoria, and Queensland, in particular, have only provided very limited responses. For instance, in Victoria, the Government's Public Housing Renewal Program has been a failure. The current three redevelopment projects, at North Melbourne, Northcote and Preston, only provide, at most, an extra 139 public/community housing dwellings.

Additional current issues with public housing in Victoria include poor maintenance of public housing estates, inequality in operation of the Victorian Housing Register, and lack of a modern rent payment BPay facility.

Better delivering and managing public housing

Public Housing Authority

To improve management and construction rates, it is recommended that a separate public housing authority be set up in each state and territory. A major aim of the Authority will be to actively reduce the public housing waiting list, including to arrange construction of new public housing stock, built or bought, to meet the demand.

Government funding of public housing

It is more financially effective for a state or territory government to fully fund construction of new public housing. Also, it is important to set up a dedicated major fund, similar to the Social Housing Growth Fund in Victoria (DHHS 2018b), to support continual construction of new public housing, with annual targets, to meet current and future needs. This approach will also help avoid ideology and short-term politics, that have limited progress until now.

Use of existing surplus land

The state and territory governments should preferentially utilise existing available land to build additional public housing to meet housing demand, or for other community infrastructures and services. For instance, in Victoria, among sites currently available for sale it has been assessed that 90.9 hectares, across 24 individual sites, would be suitable for public housing. Otherwise, funds provided by land sales could be used to buy more appropriate land for building public housing, as per previous practice.

Affordable rental housing

Better delivering affordable rental housing Inclusionary zoning

Mandatory inclusionary zoning should a component of the strategy to help create more affordable rental housing, to be implemented by state and territory legislation. For council-owned land the level can be substantial, for example of at least 25 percent set-aside of affordable housing dwellings, as proposed by the City of Melbourne.

Use of existing surplus land

As well as inclusive zoning, a council should be able to utilise surplus government and agency lands, and potentially buy further land or properties or apartments, to reach the targets of affordable rental housing. The priority for use of surplus land should be for construction of new public housing. The Government may consider the use of further surplus land, or purchase additional land, for equity investment to support construction of affordable rental housing.

Affordable rental housing planning policy

Each local council should develop an affordable housing planning policy for inclusion in the associated local planning scheme.

Housing Trust

Each local council should preferentially set up a dedicated housing trust to manage/support of developing affordable rental housing.

Affordable rental prices

The contract for housing providers should include limits of rental prices. In general, a rental price of people in an affordable rental dwelling should only be up to 30% of income plus Commonwealth Rent Assistance.

Occupant selection

Preference to be given to people with low incomes who are already working in the local council area, and who have been unable to find affordable rental housing in that area or adjacent suburbs.

Building quality

The quality of new buildings shall meet the requirements for standards including: Apartment Design Guidelines; National Construction Code; environmentally sustainable design - Nationwide House Energy Rating Scheme and Green Star.

Financing affordable rental housing

With reduced income compared to market rents, providers of affordable renting housing, require financial or equivalent support by government. Three main options are effective: the government to retain equity, by maintaining ownership of its land as a component of the housing project; the government to provide loans to the housing provider, at below market rate, using a dedicated fund; for housing low-income tenants, the housing provider can arrange financial support from the federal government, by Commonwealth Rent Assistance.

Limits of State and Territory housing policies: example of Victoria

In 2017 The Government of Victoria announced its new housing policy, ‘Homes for Victorians’, as it’s response to the housing (buying and renting) affordability crisis in Victoria. This policy is a good start but has a number of serious limits, in particular very limited support for meeting the required demands for both public housing and affordable rental housing

Why the government is not trusted by the community to effectively addressing housing requirements

Given the low numbers of constructing new public housing dwellings in current plans, compared to the increasing high demand, and the well-known lack of maintenance of existing public housing estates for many years, it has been perceived by many in the community that the government is intending disinvestment of public housing properties to private housing associations, and therefore to transfer responsibility for housing highly disadvantaged people, without telling the community the truth of its intentions.

Where to from here for improved State or Territory Government policy for housing?

The government should first acknowledge previous problems, then to discuss background issues, followed by improved housing policy, and reasons for specific plans.

The government should also explain that it understands the importance of public housing. Then to explain that we need a diverse housing system to meet all needs, and that housing providers are a key part of the system, as providing a range of different affordable rental housing options. That is, the improved diverse housing system to give people on lower incomes the freedom to make a real choice among affordable rental housing options. Also, having a safe home supports disadvantaged people to better gain employment, and so contribute to the economy, no matter what level of income they gain.

Advocacy at Federal level

To reduce the impacts of negative gearing and capital gains tax discount on housing affordability by discouraging speculative tax-avoidance investments

It is recommended in particular that the Federal Government:

- Re-negotiate of the National Housing and Homelessness Agreement.
- Remove negative gearing, to be immediately limited to second-house investors, then gradually to be phased out (To reduce the impacts of negative gearing on housing affordability by discouraging speculative tax-avoidance investments).
- Removal of capital gains tax discount for housing investors (again to reduce the impacts of negative gearing on housing affordability by discouraging speculative tax-avoidance investments.

In this context It would be useful for the State and Territory Governments to advocate for these improvements in federal policy to better support public housing and affordable rental housing, as current policy on these sectors at federal level is weak.

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Appendix A. Calculating rental affordability

DHHS' method for Calculating affordability – net rent method

The assessment of affordable supply is based on the number of suitably-sized properties that are within 30 percent of gross income for low-income households. The rental thresholds are taken from the household incomes for whom that number of bedrooms is a minimum and may have been rounded up to the nearest $5 increment. For one-bedroom properties, is the income of singles on Newstart allowance; for two-bedroom properties, is a single parent pensioner with one child aged under 5; for three-bedroom properties is a couple on Newstart with two children; and for four-bedroom properties, is a couple on Newstart with four children.

The method used in these calculations assumes rent assistance is fully offset against the weekly rent by subtracting rent assistance from the rent and then calculating the resulting rent as a proportion of the Centrelink income. This is the net-rent method which treats rent assistance as a housing payment, not an income supplement (DHHS 2019b).

Annual income limits for tenants for public housing and affordable rental in community housing in Victoria

Annual income limits for tenants for priority access and register of interest in applying for public housing are shown in Table A1, and annual income limits for tenants for affordable rental in community housing are shown for Greater Melbourne, Table A2, and regional Victoria, Table A3.

Income limits for priority access to public housing correspond to the low income range (bottom 20% to 40%), and register of interest corresponds to the moderate income range (middle 40% to 60%).

Table A1 Annual income limits for tenants for priority access and register of interest in applying for public housing

Household type	Annual income	
	Priority Access†	Register of Interest ‡
Single person	$29,930	$53,446
Couple, no dependent	$51,674	$81,812
Family (one or two parents) with 1 dependent child	$53,551	$110,282
Each additional dependent	$1,877	$17,885

†, The Priority Access housing asset limit is $13,064; ‡, The asset limit for Register of Interest is $33,051. Data as at 1 October 2019. Source (DHHS 2019a).

Table A2 Annual income limits for tenants for affordable rental in community housing, Greater Melbourne

Household type	Very low income range (bottom 20%)	Low income range (bottom 20% to 40%)	Moderate income range (middle 40% to 60%)
Single adult	Up to $25,970	$25,971 to $41,550	$41,551 to $62,310
Couple, no dependent	Up to $38,950	$38,951 to $62,320	$62,321 to $93,470
Family (with one or two parents) and dependent	Up to $54,520	$54,521 to $87,250	$87,251 to $130,870

As at 1 July 2019. Source (Minister for Planning 2019).

Table A3 Annual income limits for tenants for affordable rental in community housing, regional Victoria

Household type	Very low income range (bottom 20%)	Low income range (bottom 20% to 40%)	Moderate income range (middle 40% to 60%)
Single adult	Up to $18,920	$18,921 to $30,280	$30,281 to $45,420
Couple, no dependent	Up to $28,390	$28,391 to $45,420	$45,421 to $68,130
Family (with one or two parents) and dependent	Up to $39,740	$39,741 to $63,590	$63,591 to $95,380

As at 1 July 2019. Source (Minister for Planning 2019).

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Appendix B. Estimating current demand for public housing and affordable rental housing and forecasting future demand, 2018 to 2040

Dr Duncan Rouch 11-6-20

Here I present the demand model for estimating the current demand for both public housing and private affordable rental housing and forecasted demand for these from 2018 to 2040. This demand model is designed to support an integrated housing policy, and accommodates a 22-year forecast period (2018-2040) to allow planning, investment and construction across the period.

The demand model is conservative in assuming that both homelessness and housing stress rates will be maintained at current levels, given that both these needs have been increasing over time until now. Nevertheless, it indicates the magnitude of demand, and provides a useful starting point to plan the required construction of more public housing and private affordable rental housing.

Demand model

The method utilised here to assess current housing needs and forecasted needs is an updated version of the demand model created by Lawson and colleagues (2018). First, it accommodates a 22-year forecast period, (2018-2040) to allow professional planning, investment and construction across the period. It also incorporates both current met and current needs (as of 2018) as a base to forecast needs arising over the period. Second, it generates housing need estimates for both capital cities and regional areas. This is important for costing housing programs because the unit cost can be different in different areas. Third, it combines the need generated from different segments of the population, and which comprises three main sources:

- **Currently met need**: that is of existing public housing dwellings and community housing dwellings, with future needs forecasted to 2040 as a share of households;
- **Manifest need**: the homeless populations, both current and future need forecasted to 2040; and
- **Evident need**: those identified as both on a lower income (the lowest and second quintiles for household income) and in housing stress (in private rental and paying more than 30 percent of income on rent or mortgage), followed by subtraction of numbers of homeless households(manifest need).

This approach extends housing need beyond explicitly expressed need, that is, public housing waiting lists. This is because it is known that many people do not apply for public housing for a number of reasons, including it is perceived with stigma as having poor quality and poorly maintained dwellings, the very long years to wait for a place, and to maintain personal independence, particularly from government management. Indeed, for Victoria, the number of homeless households is significantly greater than listed on the Victorian Housing Register.

This model is also an improvement on the previous AHURI model, in particular (a) separating needs for public housing and community housing and (b) fully separating manifest and evident needs. This is important as public housing is critical to help homeless people (manifest need) through the Housing First model (Waegemakers Schiff and Rook 2012), while community housing is useful to support affordable rental housing (evident need).

Data sources

Data at June 2018 was used to assess all needs, as the most recent year to have a full set of data.

Met need

Public Housing: Numbers of existing public housing dwellings (Australian Institute of Health and Welfare 2019)

Community Housing: Numbers of existing community housing dwellings (Australian Institute of Health and Welfare 2019)

Forecasts for future housing shares of public housing and community housing, from 2018 to 2040 were calculated using forecast data on the population of States and Territories, Series B (Australian Bureau of Statistics 2017).

Manifest need

Numbers of homeless clients in capital cities and regional areas (Australian Institute of Health and Welfare 2018), were converted to numbers of household by dividing by the conversion factor 2.17 (Rouch 2020). Future manifest need was forecasted from 2018 to 2040 using forecast data on the population of each State and Territory, Series B (Australian Bureau of Statistics 2017).

Evident need

It can be expected that those households with lower incomes suffer more housing stress than others, Table B1. To allow for this in assessing evident need, numbers of households in housing stress for the lowest income quintile and second income quintile were calculated separately, utilizing the ratio of each quintile to the average, Table B1.

Table B1 Proportions of households in housing stress by income group

Income group	Housing stress† (%)	Ratio to average
Lowest quintile	35.8	2.10
Second quintile	22.4	1.32
Third quintile	13.3	
Fourth quintile	6.8	
Highest quintile	2.8	
Average	17.0	

†, More than 30 percent of income paid for household costs. Source (Australian Bureau of Statistics 2019a).

The percentages of people in the range of income quintiles were first adjusted to give a total of100.0. The ratio values, Table B1, were then multiplied separately by the average percentage of housing stress for each State and Territory (Australian Bureau of Statistics 2019b). The adjusted percentage of housing stress was then multiplied by the numbers of households for each of the lowest income quintile and second income quintile. Then the two resulting values were added together to estimate the total number of households in housing stress.

The Australian Bureau of Statistics (2019b) indicated that data on about 22 percent of households was missing in the data for National Territory, that corresponded to very remote households. Given the substantial poverty in regional areas of National Territory, it was assessed that the missing households mainly had incomes in the lowest income and second income quintiles. So, 11 percent of households was added to the proportions of households in both the lowest income and second income quintiles. This addition proved necessary to avoid a negative value in final calculations.

After estimating the total number of lower income households in household stress, the number of homeless households (manifest need), was subtracted to result in the current need. This was performed as about 93 percent of homeless people are living in some type of (inadequate) housing. The evident need was then used to forecast the future need to 2040. Future evident need was forecasted from 2018 to 2040 using forecast data on the population of each State and Territory, Series B (Australian Bureau of Statistics 2017).

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Appendix C. Inclusionary zoning

Dr Duncan Rouch

Introduction

Inclusionary zoning is a land use planning intervention by government that either mandates or creates incentives so that a proportion of a residential development includes a number of affordable housing dwellings. The purpose of this is to ensure that people with low to moderate incomes aren't excluded from the home property market.

When any property is rezoned to residential there would be a requirement through the planning process for, say, 15 percent for affordable rental. Because this requirement is known before rezoning, the land value is depressed to about 85 percent of the full open market land value for housing. Since the new residential value is greater than any other land use, this is not a major impost.

In one option the proposed homes are transferred to a registered housing association for rent. These are non-profit organisations that will allocate houses to people on a low income register who rent at an agreed rate below open market rent.

The value of the land transferred to the housing association will be at close to zero: experience in the UK shows that affordable rents can cover the financing of construction over a period of about 25 years, though they can't cover land cost as well (Lane 2015).

The Property Council of Australia has claimed that inclusionary zoning is subsidised by the remaining 85 per cent properties that aren't allocated to affordable housing, but this has not been the case anywhere (Lane 2015).

Types of Inclusionary zoning

There are two main approaches to building affordable housing through the planning process (Davison et al 2012).

The first is the mandatory model which requires that a number of affordable homes are included in developments as a condition of planning approval. The number of potential affordable homes developers are obliged to build is determined by either negotiated agreements made between a developer and planning authority during the planning assessment process, or fixed requirements specified as a proportion of housing or development value.

The second approach is the voluntary incentive model, where new affordable housing is encouraged by reducing costs for developers.

In both cases, incentives are used to help the developer break through the bottom financial limit for agreeing to the housing project. Types of incentives include:

- Modifying planning standards based on performance criteria—for example, increasing site yield to encourage low cost housing like boarding houses, student accommodation, and retirement villages in designated areas,
- Bonus systems which relax specified development controls, typically height, density, setback or parking controls, in exchange for constructing dedicated affordable housing,

- Planning process incentives where projects that include affordable housing attract special treatment in the planning process such as fast track approvals, reduction, exemption, or refund of application fees, infrastructure charges or rates.

Use in Australia

Inclusionary zoning has been implemented, in varying capacities, in South Australia, New South Wales and the Australian Capital Territory, Table C1.

Table C1 Existing inclusionary zoning systems in Australia*

Government	Proportion of inclusionary zoning	Comment
South Australia	15%	• Within a designated affordable housing zone in a council development plan or the Planning and Design Code. • Can be affordable home purchase and or affordable rental
ACT	15%	• Land Release Program, to include 15% public, community and affordable home purchase homes.
City of Sydney	3%	• Specified zones such as Ultimo/Pyrmont • Includes Community housing provider

*, References (SA Gov 2020; ACT Government 2018; City of Sydney 2012).

London

In 2004, the City of London introduced a target for 50 percent of new housing across the region to be affordable. Of this, 70 percent should be public housing and community housing and 30 percent 'intermediate' housing, where a Housing Association maintains an equity share of housing purchased by households on moderate incomes. Prior to the introduction of the 2004 London Plan, most boroughs sought around 25 percent affordable housing through planning mechanisms (Gurran et al 2008).

The London plan stipulates that affordable housing requirements be applied to sites with 15 or more residential units, although there are proposals to reduce the threshold in London to 10 units, reflecting the limited availability of larger sites.

Specific targets for each individual Borough are contained in the London Plan and derived from a regional housing needs and capacity study. In 2008 the target was for 30,500 new homes to be provided each year through to 2016 including 100,000 homes to be provided in Thames Gateway and 9,000 homes in Lower Lea Valley, associated with the 2012 Olympic and Paralympic Games.

The plan includes several specific provisions designed to protect existing forms of low cost housing, promote housing variety and choice, and secure affordable housing contributions. The Guidance requires that if affordable housing is lost, it should be replaced at existing or higher densities Gurran et al 2008).

USA

In the USA More than 500 cities and counties in 27 states and the District of Columbia have adopted an inclusionary zoning policy. Although all share the common approach of using zoning authority to encourage or require development of below-market workforce housing units in connection with approval of a proposed market-rate project, they reflect considerable diversity in design and implementation. Major aspects about which inclusionary zoning policies differ from place to place are summarized in Table C2 (Urban Land Institute 2016).

Table C2 Variable factors in inclusionary zoning policies, USA*

Factor	Strong	Weak	Comment
Mandatory vs. voluntary status	Mandatory	Voluntary	Most programs are mandatory, with wide variety in where and when the requirements apply. For example, some mandatory programs apply only in the context of a zoning change.
Set-aside amount	Higher set-aside	Lower set-aside	Most set-asides are between 10 and 20 percent, but some places have much higher requirements or sliding requirements.
Eligibility and term	**Longer rent period restriction, lower income target**	**Shorter rent period restriction, higher income target**	Most policies set income eligibility requirements aimed at households that earn between 60 and 120 percent of the area median income. Many policies also define the length of time for which affordability must be maintained and include compliance and monitoring requirements.
Types and locations of development	Jurisdiction-wide, all housing types	Specific housing types, specific locations	Some policies exempt projects based on project size (number of units) or type (condominium, redevelopment, or adaptive use). Some policies have specific requirements by neighbourhood.
Opt-outs	No opt-outs	Opt-outs: in lieu/off site	Some policies allow developers to make use of in lieu payments into a local housing fund or provide the below-market units off site
Incentives	Market-responsive incentives	No or ineffective incentives	Most policies provide incentives to encourage developer participation or to offset the impacts of mandatory policies. Common incentives include some combination of direct subsidies, tax abatements, density bonuses, and reduced parking requirements

*, Reference (Urban Land Institute 2016).

The inclusionary zoning approaches have achieved significant new below-market-rate production in some markets, such as Fairfax County, Virginia; Montgomery County, Maryland; Palm Beach County, Florida; and throughout southern California. In contrast, in large cities such as Boston, Chicago, and San Francisco, inclusionary zoning polices have had relatively small impacts compared with overall development. Nevertheless, these cities have gained some benefits in creating workforce housing in high-cost environments that otherwise would not have occurred (Urban Land Institute 2016).

For instance, in San Francisco an 'Inclusionary Affordable Housing Policy' was adopted in 1992. At that time it required housing projects of 10 or more units that sought a conditional use permit or planned unit development to dedicate 10 percent of units as affordable. In 2002 the requirements were increased to 12 per cent, which further increased in 2006 to 15 percent if constructed on-site, and 20 percent if constructed off-site. The increased requirement for off site contributions seeks to integrate affordable and market housing in the same locations. Any off-site affordable housing must be built within one mile of the market-rate housing, so that neighbourhoods are income-integrated. Between 2001-2005, 625 affordable units were built using this inclusionary housing policy Gurran et al 2008).

Despite successes, however, inclusionary zoning polices have fallen short of their promise in many places, probably for one or more of the following reasons (Urban Land Institute 2016):

- **Insufficient levels of new market-rate development**: A number of cities and counties with inclusionary zoning policies on the books are relatively small or weaker development markets. Moreover, policies in many cities were likely thwarted by the Great Recession.
- **Shortcomings in program design and administration**: Even though research suggests that more than 80 percent of policies are mandatory, anecdotal evidences suggests that many have been crafted loosely, administered inconsistently, or enforced weakly.
- **Lack of adequate development incentives**: In many communities, the costs (in reduced land value or economic return) of developing in accordance with the inclusionary zoning policy outweigh the benefits, so developers do not participate.

Conclusion

Inclusionary zoning policies can be an effective tool for harnessing local real estate market dynamics to generate development of new workforce housing units under certain conditions. Most importantly, inclusionary zoning policies depend on market development to be successful; areas not experiencing any or much market development will likely not generate significant results from an inclusionary zoning policy.

In very strong development environments (substantial amounts of new construction and rehabilitation, steady rent and price growth, low vacancy rates), inclusionary zoning policies can yield development of new workforce housing units without subsidy or other development incentive from the local jurisdiction. In some moderately strong development environments, inclusionary zoning policies can achieve their goals as well, provided the city or county contributes the optimal levels and combinations of development incentives.

For a site to be developable, landowners must be willing to part with their land and any occupied or operating asset on the site for a price that developers can afford. The price that developers are willing to pay is determined by the financial viability of a proposed development project on that site. Because inclusionary zoning policies may reduce what a developer can pay for land, the best-case scenario is that the reduced land value is still the highest and best use for that site at that moment in the market cycle, and with absent of any price adjustment for the landowner, the development outcome will still be the same. However, that is not always the case. In many instances, incentives are required for development to be feasible.

To the extent that inclusionary zoning policies remain in place over a sustained period of time, land prices may adjust and the inclusionary zoning requirements may be absorbed as a “cost of doing business” in the jurisdiction. The challenge is that the most effective inclusionary zoning policies need to have the ability to adapt in response to changing market conditions. Both these somewhat opposing values—policy consistency and policy flexibility—have value to developers and contribute to the success of an inclusionary zoning policy. Balancing them appropriately in design and administration of inclusionary zoning is perhaps the central challenge for cities seeking to make best use of this particular policy tool.

In the right market conditions and with the optimal availability of development incentives, inclusionary zoning policies can generate development of new workforce housing units that would

not otherwise be built. However, inclusionary zoning at its most effective remains only one tool in what must be a broad-based toolbox available to local governments to meet their workforce housing needs (Urban Land Institute 2016).

City of Melbourne needs

As an example, the City of Melbourne has recognised that there is a current shortfall of 5,500 affordable homes in the City of Melbourne. Furthermore, by 2036 the city will need around 23,200 (16,900 to 29,700) additional affordable homes to meet its future need (SGS Economics and Planning 2019).

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Appendix D. Proposal for a Council Housing Trust

The council housing trust proposed here, may potentially include a number of local councils, which share common interests, and so share costs. This proposal is based on the National Housing Trust, USA, which has over 30 years' experience in providing affordable rental housing.

Strategy and activities

The Housing Trust will first identify current council land/properties that could be utilised to make affordable rental housing (Randolph et al 2018). In this case the council will maintain ownership of the property, and lease at a low rate to support renovation/redevelopment (build to rent) in combination with a property redeveloper, to provide affordable rental housing.

The Housing Trust will work to improve availability of affordable rental housing through a three-part approach: advocacy, financing, and work with partners for real estate renovation/development. It is often substantially cheaper to renovate an existing property than completely redevelop it, so renovation of an existing property can be an effective option. The Housing Trust will also work with voluntary social agencies to ensure disadvantaged residents of the properties are well supported.

Financing

The federal government provides loans and tax deductions to support development of affordable rental housing.

National Housing Finance and Investment Corporation

In 2018 the Federal government created the National Housing Finance and Investment Corporation (NHFIC). This includes the Affordable Housing Bond Aggregator (AHBA), which has raised funds for affordable housing providers, allowing them to refinance loans under better conditions. Its first, A$315 million bond issue was in March. The second A$315 million bond issued in November 2019, offered providers 2.07 percent interest for ten-year interest-only loans (Lawson and Berry 2019).

Community housing providers have gained finance through the NHFIC on much better terms than their previous short-term bank loans. An example is BlueCHP's $A70 million ten-year loan. Borrowers' terms should improve further as the market for the government-guaranteed housing bonds expands (Lawson and Berry 2019).

Loans can be used for:

- Acquiring new housing stock
- Constructing new housing stock
- Maintaining existing housing stock
- Assisting with working capital requirements and/or general corporate requirements
- Refinancing existing debts

Mixed tenure developments may also be considered subject to lending criteria (National Housing Finance and Investment Corporation 2019).

The NHFIC is an innovative and promising initiative. It is one bright light in an otherwise bleak policy landscape. It could shine even more brightly when combined with complementary funding and land

policies to end homelessness and ensure access to affordable housing for all (Lawson and Berry 2019).

Federal tax incentives for investments in affordable housing

On 9 May 2017 the Government announced that from 1 January 2018, it will provide an additional ten percentage point capital gains tax (CGT) discount for Australian residents who invest in qualified affordable housing. This will increase the CGT discount to 60 percent.

To qualify for the 60 percent discount, housing must be provided to low to moderate income tenants, and rent charged at a discount below the private market rental rate. The qualified affordable housing must be managed through a registered community housing provider (CHP) and the investment held for a minimum of three years in aggregate. The CHPs will determine the tenant eligibility criteria, including the rent charged, consistent with state and territory affordable housing policies.

Community Housing Association loans, Victoria

The Victorian government provides a revolving loan facility and loan guarantee program to provide low-rate loans to registered Community Housing Associations (DHHS 2019).

Housing trust Loans

If more detailed research indicates gaps in funding affordable housing, the housing trust may work with lending partners, to provide specific types of loans to developers and syndicates interested in providing affordable rental housing. Based on the National Housing Trust, USA, these may include Pre-development, Acquisition, Bridge and interim development, and Green Retrofit Preservation loans.

Pre-development loans are offered to assist affordable housing developers to cover predevelopment costs such as, but not limited to, feasibility analyses and preparation of loan applications, and to cover costs of preparing projects for syndication.

Acquisition loans are offered to affordable housing developers looking to complete an acquisition for an asset but do not have enough liquid capital to do so. The loan may also cover renovation of the property.

Bridge and interim development loans are offered to affordable housing developers as a short-term loan that “bridges the gap” or gets a developer from point ‘A’ to point ‘B’ by leveraging the equity in a property that they own.

The Green Retrofit Preservation Loan is offered to improve operations through property improvements that reduce energy and water consumption. This loan source may be supported by gaining funding from utility companies.

Properties of these types of loans are summarized in Table D1.

Table D1 Types of loans to be potentially provided by the housing trust

	Type of Loan			
Properties of loan	**Pre-Development**	**Acquisition**	**Bridge and interim development**	**Green Retrofit Preservation**
Size of Loan	Up to $1,500,000	Up to $2,500,000 (up to $5 million in consortia with lending partners)	Up to $2,000,000	$1,000,000
Term of Loan	Up to 5 years	Up to 5 years (additional construction period may be added to term). Loans may be interest only or partially amortizing	Up to 5 years	Up to 15 years with full or partial amortization
Rate	5.75%-7%, with Quarterly Interest Only Payments)	5.5%-7%	5.5%-7%	4.5%-5.5%
Fees	1.5% origination fee	1%-1.5% origination fee	1%-1.5% origination fee	1%-1.5% origination fee
Security	Loans can be made unsecured with full recourse to developer's balance sheet. Senior or subordinate liens are preferred and may be required	1st lien position in real estate. Subordinate acquisition financing or unsecured financing (for equity positions) may be considered with full recourse to sponsor	Real estate or guarantee with committed take out sources	Determined on case by case basis. For energy retrofits, cash flow from savings must be available for debt service.

Buying properties

As well as supporting the council's affordable rental housing, the Housing Trust could also buy new properties or apartments for affordable rental housing, especially when property prices are low, that is when the market is falling or depressed.

Working with partners

The Housing trust will work with builders, property developers and community housing associations (CHAs) (discussed below) to ensure effective practical outcomes for providing affordable rental housing.

The housing trust will work with local Council and or State Government to gain additional subsidies for housing projects, when required, to allow developers to make reasonable profits. In general, subsides may include equity/partnerships, cash/land inputs, planning concessions, financing support, rent assistance (Commonwealth Rent Assistance) and or tax exemptions (Randolph et al 2018).

If the land to be used for housing has not been built over or the building is to be replaced, a developer is to be appointed. Otherwise, If the building is to be renovated then a builder may be used. The housing will be a combination of affordable rental housing and private dwellings. In general, affordable rental housing is managed by (CHAs or similar organisations, in Australia and the UK.

In the city most housing buildings are high rise and so will have strata titles. That is, where the value of land and apartments are rolled together.

Regulations and contracts should have controls/penalties that ensure that developments produce the agreed numbers of affordable rental housing dwellings, similar to DHHS contracts (in the Public Housing Renewal Program).

Maintenance and residential services

Affordable rental housing will require maintenance. The contract may require a Community Housing Association to maintain the property, to be part of the contract, to manage maintenance of the property and optionally support social services to disadvantaged residents. Actual requirements should be determined on a case by case basis.

Financial/operational options

Outcomes will depend on council's equity, in particular if the council owns the land, and or is able to inject funds, or if the affordable rental housing is only directed by the inclusionary zoning policy.

Affordable housing with Council land

If the council owns the land, then that is all or part of its equity in the development. The council will obtain the affordable housing at a discount, that is at development cost, and no loss to the developer. The council may put in funds to buy more apartments at development cost, above that provided by the land value. Though, this will be limited by need of the developer to make a profit.

The developer will gain its profit from selling the private dwellings that are part of the project.

The council should maintain ownership of the affordable property, to maintain control of the use of these, to ensure the apartments are correctly managed, and allow any future change in policy, for example, conversion to crisis or public housing.

The council will then lease the affordable rental housing to a community housing association, at a rate that allows some profit for the CHA. The CHA will obtain income from the rent, as 30% of renter's income, plus the CRA. Lease payments made over a number of years can potentially repay the original Council equity. The advantage to the CHA of this approach is that it doesn't need to take out a loan to pay for the affordable rental housing itself.

Inclusionary zoning

The developer will arrange a CHA to manage the affordable rental housing, that is part of the housing development. The CHA will need to take out a loan to buy the affordable rental housing from the developer, at development cost. The CHA will repay its loan from rental 30% income plus CRA, over a number of years, say 25 years. The housing management by the CHA should be checked by council. As before, the developer will gain its profit from selling the private dwellings that are part of the project.

It is suggested that at the end of the loan period, the council has first right to buy the apartments at construction cost plus CPI since construction, to ensure the apartments continue to be used for affordable rental housing.

Given previous difficulties in substantially improving rental housing affordability in cities in the USA, San Francisco and Boston (Appendix B), it is recommended that the capital cities provide significant resources to support actions to pro-actively provide significant affordable rental housing in the city and in regional areas of the state or territory, to meet the proposed published targets. So, when ready, please put your skates on!

Developer contract/Inclusionary Zoning regulations

Controls to be added to developer contracts, to ensure affordable housing units are built in the property development to acceptable quality, similar to developer contracts by DHHS (in the Public Housing Renewal Program). For instance, major penalties may be included if affordable rental units have not been completed in a development project according to contract/regulation.

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