University of Western Sydney

URBAN RESEARCH CENTRE

# Housing Affordability Literature Review and Affordable Housing Program Audit

**Urban Research Centre**
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**July 2008**

## Acknowledgements

This report was prepared with the assistance of Elena Sliogeris, Louise Crabtree, Peter Phibbs and Kate Johnston.

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## List of Acronyms

| | |
|---|---|
| AMI | Area Median Income |
| BCLT | Burlington Community Land Trust |
| CERC | Common Equity Rental Cooperative |
| CEHL | Common Equity Housing Limited |
| CHT | Champlain Housing Trust |
| CLT | Community Land Trust |
| CSHA | Commonwealth-State Housing Agreement |
| HAF | Housing Affordability Fund |
| HDFC | Housing Development Funding Corporation |
| HFHA | Habitat for Humanity Australia |
| LEHC | Limited Equity Housing Cooperative |
| LIHTC | Low Income Housing Tax Credit |
| NRAS | National Rental Affordability Scheme |
| SHA | State Housing Authority |
| ULDA | Urban Land Development Authority |
| UDIA | Urban Development Institute of Australia |

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## Executive Summary

There is substantial evidence of a growing housing affordability problem in Sydney as well as across Australia.. The incidence of the problem has spread from very low-income through low-income into moderate-income households. There is now a consistent call for housing schemes to retain 'key workers' and 'the working poor' in established areas to ensure access to employment, education, public transport and other facilities and amenities. Landcom has a strategic position within this landscape and there exists a range of current and potential mechanisms Landcom might utilise to create and maintain a pool of affordable houses.

Yet, while it is widely accepted that there are affordability problems in Sydney, and across Australia, it is difficult to arrive at a universally accepted definition of affordability, or of a threshold beyond which housing is not affordable. The 30/40 rule is currently the most widely used criteria for affordability. This refers to the point at which 30 per cent of the gross income of a household in the lowest 40 per cent of the income distribution is allocated to housing costs; beyond this, housing is deemed unaffordable. Like all general measures, however, the 30/40 rule can be blind to variations across household forms and sizes regarding their capacity to meet other living costs after housing costs are met. Despite various attempts to incorporate variable household living costs into calculations of housing affordability, the 30/40 rule remains the most readily useable and comparable affordability benchmark. A case has been made, however, for combining this basic measure with complementary indicators that are more responsive to variations in household types, needs and capacities to pay mortgages or rents.

Using the 30/40 benchmark nationally, around two-thirds of households in the lowest 40 per cent of the income range are found to be in housing stress. This group is comprised overwhelmingly of low-income renters and found most commonly in inner city locations. Of the dwellings transacted for purchase nationally in 2006-07, only 33 per cent would have been affordable to the median income young family; historically, this figure has been closer to 45 per cent. The Sydney market is seeing both a loss of affordable rental houses and the occupation of low-rental homes by higher-income households, further displacing lower-income renters.

Numerous interrelated factors have driven the loss of affordability, including an increased willingness and capacity to pay for housing due to increased incomes and more accessible lines of credit. Concurrent increases in population, decreases in household size and increases in house size have further compounded the problem.

The role of supply-side impediments to housing development that contribute to a loss of affordability is strongly contested. Local and state planning processes may have a role to play in addressing affordability concerns. However, arguments that freer land release on the metropolitan fringe reduces house prices are largely countered by recent market conditions in Sydney where houses on the coast or in inner city areas have continued to increase in price while house prices in outer areas have stagnated or decreased in value. The landscape of affordability in Sydney, then, is influenced to a large extent by access to jobs, public transport and other social amenities. This highlights the need for future housing provision to address employment, transport and other infrastructure as well as the volume of housing supply. The recently announced federal Housing Affordability Fund recognises this need and offers incentives for affordable homeownership projects which aim both to streamline planning processes and support infrastructure provision.

That said, Sydney's affordability problem is primarily a problem for low-median income renters in the inner city. Low-median income inner-city workers spend a disproportionate amount of their income either renting in the inner city, or commuting from areas with cheaper housing. The result is that Sydney is increasingly polarising into inner areas, populated by the more mobile young, those who rent, the affluent and those without children; and outer areas populated by young working families. Questions are arising regarding the sustainability or social equity of this polarised form.

The report raises the issue of an emerging need for an intermediate housing market in Sydney. This involves housing that resembles homeownership and which is available to low-moderate income earners. Existing 'affordable housing' schemes in Australia primarily address the provision of rental housing; however, there is both a need and an opportunity to broaden these to target moderate income households with stable employment who previously would have been able to enter into home ownership but which now face major hurdles in achieving this goal.

A number of lessons can be drawn from the operation of affordable housing schemes, programs and policies in operation across Australia and overseas, although these need to be assessed in the light of substantial differences in the policy, governance and economic contexts in which they are enacted.

Overseas provision of affordable rental housing has focused on utilising planning mechanisms or requirements to leverage affordable housing units. In addition, there has been the generation and utilisation of tax credit schemes to support affordable rental housing development, particularly in the US, where such schemes have generated a tax credit market amongst developers. This type of scheme is analogous to the proposed federal National Rental Affordability Scheme (NRAS) discussed below. Overseas examples of most interest relate to the development of intermediate housing forms, which Australia has yet to embrace. These include deed-restricted mortgages, various forms of housing cooperatives and community land trusts, all of which have proven successful in delivering longer-term affordable homeownership. Deed-restricted mortgages carry conditions regarding resale value and income parameters for eligible future buyers. These are seen to be most effective when overseen by a dedicated body which, in the US, has also extended to preparing and maintaining a pool of eligible and trained potential buyers.

Housing cooperatives exist in various forms throughout North America, Southeast Asia and Europe; however, Australia's engagement with this tenure form has been limited. In the US, limited equity housing cooperatives have effectively produced tenant-managed affordable housing for ownership which delivers a limited equity return to the buyer. Similarly, community land trusts balance permanent affordability objectives with owner equity gain. In these instances, while the degree of equity gain is often less than that from the open market, these schemes target low-median income earners increasingly unable to access ownership in the open market without exposure to high-risk borrowing scenarios. These schemes therefore enable a degree of equity gain —as well as a stability and dignity of tenure—which would otherwise be unattainable to these households.

Existing mechanisms in Australia to address housing affordability problems have largely focused on using the planning system to offer incentives for developers to provide affordable housing, such as through the provision of density bonuses and regulation for inclusionary zoning. These measures have primarily targeted the provision of affordable housing in the rental sector. There have also been limited attempts to generate affordable homeownership through smart site design and, more recently, through the establishment of dual mortgage programs. These latter programs share borrowed debt between the resident and another party—usually a state housing department—but may need refinancing, and perhaps re-subsidisation, at the time of resale to retain the affordability of the housing stock itself.

There have also been recent federal initiatives to stimulate the development of affordable housing. The National Rental Affordability Scheme (NRAS) offers housing developers a 10-year tax concession of $6,000 per annum per affordable housing unit, to be partnered with $2,000 per annum per dwelling contributed by the state government. As low-income renters currently exhibit the highest levels of housing stress, NRAS represents an opportunity for Landcom to provide affordability of this type through a possible Part 3a development of public land.

Landcom's role in developing homes for owner-occupation positions it favourably to explore a variety of schemes promoting affordable homeownership proving successful overseas. Some of these involve variations in the way homeownership is formatted or conceived, representing intermediate tenure forms straddling the rent-ownership divide. Deed-restricted mortgages are perhaps the most easily transferable of these to an Australian context, as they represent a minor modification of an existing tenure form. Housing developed under these arrangements are sold with restrictions placed on the deed. These refer chiefly to the income levels of initial and future buyers and to the terms of any resale. In the United States, these have been most successful when overseen by a dedicated organisation; a role which could be played by existing NSW affordable housing organisations. Landcom might consider offering land by tender to affordable housing companies for the purposes of developing deed-restricted homes. In addition, the involvement of local councils in reducing developer costs through streamlining the development process might make such projects eligible for additional funding via the proposed federal $512 million Housing Affordability Fund.

## Introduction

Access to appropriate, affordable, housing is a fundamental human right, which "is essential for individual, family and community wellbeing" (ACOSS 2008 in Select Committee 2008, p29). While many Australians have done well out of the housing market there is a growing pool of people who cannot access affordable housing, appropriate or otherwise (Select Committee 2008, p29).

The housing affordability crisis has been developing for some years and has been increasingly documented in recent media reports. One of the biggest problems lower-income Australian households face today is finding affordable, secure and appropriate housing. While this has been an issue for some time, concerns that the problem has been worsening and affecting moderate as well as low-income, households have made this a priority issue (Yates and Gabriel 2006:49) at all levels of government.

Home ownership is a universal dream in Australia, regardless of economic circumstances1. Home ownership rates have long been higher in Australia than in other affluent countries and over two-thirds of Australian households either own their home (34 per cent) or are paying it off (35 per cent). Renters comprise around 29 per cent of Australian households, with 22 per cent renting privately, five per cent in public housing and the remainder in other rental accommodation, such as caravan parks or employer-owned housing (Select Committee 2008, p15). It is estimated that around 100,000 Australians are homeless2.

The 2008 release of the Select Committee on Housing Affordability report A good house is hard to find: housing affordability in Australia has recommended numerous measures to begin addressing the issue (Select Committee 2008).

## Structure of the literature review

This review addresses a number of research questions: a review of the literature on definitional issues on housing affordability; an assessment of the nature and extent of the housing affordability problem; a review of policies and programs to address the housing affordability problem; and possible options which could be investigated by Landcom.

This literature review comprises four parts. Part 1 provides background to the issues surrounding a common definition of affordable housing; part 2 looks into the nature and extent of the housing affordability problem, including the role of the land use planning system; part 3 provides a review of overseas policies, programs and tenure models encompassing rental and a variety of ownership forms and an overview of policy and programs addressing housing affordability in Australia; and part 4 builds on this to provide options for further investigation by Landcom.

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[1] Winter and Stone (1998), cited in Dockery and Milsom (2005, p5), referenced in Select Committee (2008, p15).

[2] Australian Institute of Health and Welfare (2008a, p5) in Select Committee (2008, p15); Chamberlain and MacKenzie (2003), cited in Australian Institute of Health and Welfare (2007a). The rate of homelessness ranges from 1 in 253 people in the Australian Capital Territory to 1 in 35 people in the Northern Territory.

# 1. Definitional Issues

## How has housing affordability been defined?

The idea of affordable housing recognises the needs of households whose incomes are not sufficient to allow them to access appropriate housing in the market without assistance (Milligan et al 2004, pi). Thus, the term 'affordable housing' describes housing that assists lower income households in obtaining and paying for appropriate housing without experiencing undue financial hardship (Milligan et al 2004, pi). A range of publicly or privately initiated forms of housing may meet this specification (Milligan et al 2007, p27). In fact, in recent years, the term 'affordable housing' has been used as an alternative to terms such as 'public', 'social' or 'low cost' housing (Gabriel et al 2005, p6). That said, in the Australian context, there is no single accepted definition of what constitutes affordable housing (Milligan et al 2004, pi).

This is because conceptualising and measuring affordability is as complex as understanding the causal factors of the housing affordability problem itself. Indeed, as the discussion of affordability debates illustrates, many of the conceptual and measurement problems stem from contested understandings of the problem. For example, housing affordability can be understood as the continuing costs of a mortgage or rents relative to income, problems of accessing affordable housing (e.g., first home ownership), not being able to afford housing costs after meeting other expenditures, or a problem of too low an income or too high housing prices. Even more problematically, affordability can be experienced by household types in different ways; that is, through the employment, transport, health, and other consumption trade-offs that have to be made by singles, sole parents and couples with children as they adapt their circumstances to high housing costs and/or low income (Gabriel et al 2005, p37).

However, work on a broad contemporary definition of what is meant by affordable housing in Australia has been advanced under the policy development process for the Framework for National Action on Affordable Housing[3]. Australian housing, planning and local government ministers have agreed upon the following definition to assist state and local government planning agencies in the task of promoting and monitoring the supply of affordable housing:

> Affordable housing is housing that is appropriate for the needs of a range of low to moderate income households and priced so that low and moderate incomes are able to meet their other essential basic living costs
>
> (PRWG 2006 in Milligan et al 2007, p26)

[3] Framework for National Action on Affordable Housing (the Framework) adopted by Australian Housing, Planning and Local Government Ministers in August 2005 (Housing, Local Government and Planning Ministers 2005). The Framework sets out a series of schedules for work under four major commitments to be completed over the next three years (2005/06 to 2007/08) and submitted sequentially to Ministers for further consideration (Milligan et al 2007:30)

Whitehead (1991, p875 in Gabriel et al 2005, p6) has pointed out that definitions usually focus on the relationship between housing expenditure and household income, typically to establish a standard in respect of which the amount of income spent on housing is deemed unaffordable. For example, traditionally, financial institutions have applied a rule of not allowing households to take out home loans requiring more than 30 per cent of gross income for their servicing (Select Committee 2008, p35).

Beyond such a rule, though, it is necessary to distinguish between the ways in which households experience affordability problems. Often, the term used to discuss this is 'housing stress' (National Housing Strategy 1991; Randolph and Holloway 2002 in Gabriel et al 2005, p7). This term encompasses a range of financial circumstances including: a short-term or one-off issue of paying a mortgage deposit or rental bond; an ongoing problem for households whose income is insufficient to meet housing costs (e.g. households who have over-extended themselves and pay too much in rental or mortgage costs); and an episodic problem due to unforeseen circumstances such as redundancy or a rent rise. It can also refer to factors such as over-crowding, insecurity of tenure, and inappropriate facilities within the home. As made clear by the NAHP (2004a, p2), "analyses of housing stress in Australia tend to emphasise affordability or cost stresses, and affordability is often taken as a proxy measure for all forms of housing stress" (Gabriel et al 2005, p7) .

Indeed, one definition of 'affordable housing' is that it is housing which would not put the buyer into mortgage stress (Select Committee 2008, p33). Yi Tong (2004 in Gabriel et al 2005, p8) introduces the concept of 'home ownership affordability' to differentiate the concerns of owner-occupiers from other groups. In the Australian debate, this has often been described as 'accessibility' (e.g., Yates 1987 in Gabriel et al 2005, p8). In the case of home buyers, concerns about affordability are typically about the *accessibility* of home ownership, or the ability of younger households to gain access to home ownership for the first time (Richards 2008).

In an attempt to focus the affordability issue on low income households, the Australian government's 1991/92 National Housing Strategy, recommended that 30 per cent of income be adopted as a measure for the maximum level of housing commitments for households in the bottom 40 per cent of the income distribution (Battellino 2008a, p4). Evidence still suggests the groups most affected by the increase in housing costs are low income households in the private rental market and moderate-income owner purchasers (Gabriel et al 2005, p1). This income based ratio ('the 30/40 rule') has become the widely adopted yardstick to define and measure housing affordability. Yet, as shown below, many measures of housing affordability remain in existence, with definitional problems still largely unresolved.

*What are the problems with these definitions?*

'Affordability' is an easy concept to grasp in general but can be hard to pin down in practice, especially in terms of the changing circumstances of individuals and households over time (Bramley 2006 in Paris 2007, p1). Analyses of affordability typically adopt a ratio approach by measuring the relationships between household incomes and housing costs. A ratio approach usually uses a benchmark average or percentile levels of incomes and costs to assess the extent of variability between places or household types and/or assessing changing circumstances over time (Hulchanski 1995 in Paris 2007, p2).

There are many technical and conceptual problems associated with using a ratio approach. A core problem with the ratios approach is that incomes and costs change significantly over life cycles, generally with higher proportions of income being spent on house purchase during the early years of a mortgage or loan and lower proportions at a later date. During periods of rapid house price and income inflation, therefore, very high costs may be associated with the early years of a mortgage repayment, but this can soon followed by much lower real costs and rapid growth in equity (Paris 2007, p2).

Any comparisons based on averages or percentiles should adjust for a host of other changes: interest rates, lending practices, the size and quality of dwellings being purchased or rented, changing proportions of first and second (or more) buyers, growth of second and holiday homes, as well as actual trade-offs made by house purchasers or renters. However, in practice such adjustment may not be possible and so analysts have to simplify and average out such dimensions of variability. Comparisons are almost certainly more valid over short time periods than longer time periods (Paris 2007, p2).

Another concern with ratios and averages relates to income and wealth distribution. Typically 'affordable' housing is defined as not being above a specified proportion of household expenditure, often now 30 per cent. Even taking point-in-time comparisons at face value, critics of this approach argue that 30 per cent of a low income may be less 'affordable' than 40 per cent of a high income because 60 per cent out of a high income still leaves this household with an above-average disposable income (Paris 2007, p2). Battellino (2008a, p4) reinforces the concern with the application of a single 30 per cent ratio to all households, including those with very high levels of residual income and argues that the rise in real incomes since the early 1990s has substantially changed the basis on which the 30 per cent benchmark was originally proposed. Households with high incomes can spend over that proportion on housing and still have plenty of money to spend on other things. It is not surprising, therefore, that some commentators who use a fixed benchmark for housing stress—such as housing repayments exceeding 30 per cent of income—are finding that more and more households are exceeding the benchmark (Battellino 2008a, p6).

Hence Stone (2006, p459 in Paris 2007, p2) argues strongly in favour of a residual income approach to affordability because 'housing costs tend to be inflexible and make the first claim on after-tax income for most households'. However, the disadvantage of this approach is that it is dependent on subjective assumptions about household expenditure. Burke et al. (2004, p2 in Gabriel et al 2005, p27) have commented that, while a number of studies that review low-income housing issues recognise the utility of residual housing costs measures (e.g. HNZC 2004; Bramley 1990; NHS 1991, pix), the preference for most researchers has been to deploy a ratio measure because of the perceived difficulties of defining measurement criteria.

For this reason the 30/40 rule is still the preferred measure of housing stress; being households in the lowest 40 per cent of the income distribution paying over 30 per cent of income on housing. This benchmark—also sometimes called the 'Ontario measure'—is also used overseas as a guide to eligibility for government assistance (Select Committee 2008, p37).

*Can we come to an agreed definition for affordable housing?*

Practical definitions of what constitutes affordable housing are usually specific to the policy and program context in which they are used. Typically, however, they have common features, such as a notion of what comprises affordability and a reference to the target group(s) for whom they are intended (Milligan et al 2007, p26).

Gabriel (2005 et al, pv) provides a rationale for continued use of the 30/40 affordability rule because it provides continuity with traditionally used measures and because it is simple to apply and easy to understand. A case is also made for providing additional complementary indicators that are more responsive to household needs and capacity to pay.

The complexity surrounding affordability means that there is no one measure for assessing the nature and degree of housing affordability problems. The challenge is therefore to identify the policy needs around the issues and to devise measures relevant to the policy requirements of identifying the scale and form of the problem, evaluating housing market trends, informing policy design or providing guidelines for industry (Gabriel et al 2005, p37). Quantitative measures can reveal is that there is an affordability problem but not suggest solutions (Gabriel et al 2005, p37).

# 2. Nature and Extent of the Problem

## Where is the problem manifest?

Whatever measurement is used, it is clear that housing affordability in Australia has deteriorated substantially in the last twenty years. The Select Committee on Housing Affordability (*A good house is hard to find: Housing affordability in Australia*) found that:

- the average house price in the capital cities is now equivalent to more than seven years of average earnings; up from three years in the 1950s to the early 1980s;

- only a third of transacted dwellings would have been accessible to the median young household in 2006/07, compared with a longer-standing past average of around 45 per cent (Richards 2008) [4];

- around two-thirds of households in the lowest 40 per cent of the income distribution with a mortgage or renting were spending over 30 per cent of their income on housing, the established benchmark for 'housing stress' (Select Committee 2008, p1);

- despite Australia's increasing economic prosperity, 1 million households are in housing stress and around 100,000 people are homeless on any one night (Select Committee 2008, p37).

In the rental market, FaHCSIA's March 2008 report (*Making Housing Affordable Again*) shows that in all capital cities, there has been a pronounced fall in the available supply of rental housing since 2002. Yates et al's (2004, piii) research into the changes in the supply of and need for low rent dwellings found that there is a significant supply shortage of rental dwellings for low-income households alongside an increase in proportion of low rent dwellings occupied by other than low income households.

Compounding the problem, the Reserve Bank's May 2008 Statement on Monetary Policy noted that vacancy rates are at historical lows at just over one per cent: a rate of around three per cent "is generally considered to indicate a reasonable balanced rental market" (Select Committee 2008, p49). Shortages of rental properties are causing rents to rise and they are rising quickly. In the past year, newly negotiated rental prices rose by about 13 per cent, while all rents nationally outstanding (as measured in the CPI) rose by about seven per cent (Battellino 2008a, p10).

The problem of affordability in Australia has been a function of both strong demand and limited supply. In general, the supply of housing has not kept up with demand. Several factors have contributed to the strong demand for housing. They include:

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[4] The RBA measure represents an estimate of the proportion of all dwellings (both houses and apartments) transacted in any year that would have been accessible to a household headed by persons aged between 25–39 years, based on certain assumptions about bank lending behaviour.

- Higher average real incomes and an increase in the number of double income households;

- A decrease in the size of the average household due to later marriage, fewer children and increased incidence of separation and divorce;

- Relatively strong population growth underpinned by higher immigration rates;

- The decline in standard home loan interest rates from the mid 1990s to early 2002 reflecting a low inflation environment;

- Greater availability of credit, including from non-bank lenders;

- The taxation system's incentives which have encouraged investment in second and third properties (through negative gearing provisions and the 50 per cent capital gains tax discount) and have benefited owner-occupiers over renters (through the capital gains and land tax exemptions on owner-occupied housing) (Select Committee 2008, p2).

Major studies by both the Reserve Bank of Australia and the Productivity Commission concluded that the surge in home prices has been driven overwhelmingly by increased demand. In particular, the single biggest driver of increased housing demand was an estimated 60 percent jump in home buying power that flowed to every existing and potential homeowners via structurally lower inflation and interest rates in the wake of the early-1990s recession (Robertson 2006, p4). As well, easy access to housing finance, the halving of the Capital Gains Tax for investors in 1999 and already attractive "negative gearing" and depreciation arrangements (Robertson 2006, p9) have fuelled the demand for housing.

There is an argument too, that demand conditions have changed historically. Richards (2008) notes that housing will never be as 'affordable' as we might like. The outcomes that have been seen over recent decades appear to reflect the impact of a series of long-term factors which have boosted demand for housing. As the Productivity Commission (2004, p7) report noted: "the apparent decline in affordability over the long term may partly result from the collective decisions of households to spend a greater share of their incomes on housing".

In addition to the surge in buying power, a number of social trends have increased the demand for housing in the economy. Housing standards and expectations in Australia have changed significantly over the past 10–15 years. The size of houses has been growing while the size of households has been declining. From 1994–95 to 2005–06 the average household size declined from 2.69 to 2.51 persons, while the average dwelling size increased from 2.88 to 3.06 bedrooms. More than three-quarters of Australian households occupied dwellings that had more bedrooms than were needed to accommodate the occupants[5] (Select Committee 2008, p20). Many houses now have rumpus and family rooms, multiple bathrooms (the most expensive room in the house on a cost per area basis), elaborate kitchens, studies and numerous bedrooms. Many of these aspirations have filtered down into the more modest end of the market (Australian Institute of Urban Studies 2008, p1), creating demand considered by many to have contributed to the increasing price of 'starter homes' and affected the overall cost of housing (Select Committee 2008, p19).

[5] ABS study based on an internationally recognised measure of housing utilisation, the Canadian National Occupancy Standard. Australian Bureau of Statistics (2007a).

As well, the supply of housing has not kept up with demand. It is estimated that there is currently an annual shortfall in housing supply—relative to underlying (population-based) demand—of 30 000 dwellings (Select Committee 2008, p2). As Richards (2008) notes, developments on the supply side should have worked to dampen the impact of demand pressures somewhat. As the value of land rises there is an incentive to increase the intensity of its use, for example by building townhouses on land that was previously used for single family houses or building high-rise apartments on land previously used for small blocks of units (Richards 2008). Accordingly, the fact that higher prices for housing have not resulted in a more significant supply response could be a reflection of various supply-side restraints on bringing new housing to market (Richards 2008).

Several factors have been blamed for the shortfall in housing supply. Three are of particular concern, as noted by the Select Committee (2008, p2). The first concerns state and local governments' planning processes which are too complex with long delays and high costs. Impediments to releasing and rezoning land add to developers' costs, some of which are then passed on to the homebuyer. Second, developer infrastructure charges are considered excessive by the property industry, which argues that these have restricted supply. Third, there is a current nationwide shortage of skilled labour in the construction industry (Select Committee 2008, p2).

Yet supply-side issues are widely contested, especially in the context of current metropolitan planning directives within Australian cities, which focus on urban containment principles, urban consolidation policy and urban renewal. These imperatives may limit the capacity of the planning system to deliver low cost housing (Beer et al 2007, p17).

Demographia (2008 in Select Committee 2008, p47) make it clear they regard supply as the most important consideration. Writing in the introduction to their report, Don Brash says:

> Affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land. Demographia support this argument by pointing out that in the US houses are more affordable in cities such as Pittsburgh and Houston than in cities such as New York and Los Angeles. Demographia argues that the former cities do not place artificial restraints on the availability of land.
>
> (Select Committee 2008, p47).

This argument has not gone unchallenged. Macquarie Bank's Rory Robertson provides an alternative interpretation of Demographia's data: homes in coastal locations with good job opportunities and pleasant winters tend to be more expensive than homes in inland centres where job prospects are worse (Select Committee 2008, p47).

Robertson (2006, p5) adds that the importance of location means that, in most circumstances, an increase in supply in outer areas is likely to have only a relatively small effect on prices for houses in preferred locations, including those close to the city (Robertson 2006, p5). In fact, Australia's capital cities inner city house prices have risen faster than those on the periphery, suggesting demand factors have been more important than land supply policies; alongside limits to inner suburban re-development opportunities. Price increases seem to have rippled outwards from the city centres rather than inward from the urban fringes (Select Committee 2008, p48). This implies that measures to increase land supply on the urban fringe or reduce prices of such land by reducing state and local government charges will have only a small impact on measures of average affordability (Select Committee 2008, p48). Significantly, recent home price stagnation or decline on the urban fringe seems to have had little anti-inflationary impact on inner city or coastal dwelling prices.

Certainly, and responsibility for costs aside, new land releases need to be supported by adequate investment in infrastructure, services and employment opportunities (Select Committee 2008, p74). Most importantly improving transport infrastructure is key to effectively increasing housing supply without increasing commuting times (Robertson 2006, p7).

Another issue is government charges on new housing, especially developer levies or infrastructure charges. Concerns have also been expressed that zoning policies and building approval processes have hampered in-fill development closer to city centres (Richards 2008).

In past times, infrastructure was paid for by local and state governments out of rates and taxation revenue, and was often only installed after residents had moved in. Now, with a preference that infrastructure be installed as land is developed, the roll-out is increasingly funded by specific charges on developers. These charges are significantly higher in New South Wales (perhaps because of rate-pegging by the state government) and may be reducing the supply of land for housing in that state (Select Committee 2008, p2). Supporting this view, the Urban Development Institute of Australia (UDIA) argues that government levies, taxes and charges for infrastructure contributions and value capture per lot for new housing developments have increased by 466 per cent in Sydney in the last 10 years (UDIA 2007, p32) and have increased the cost of development and reduced housing affordability. In addition, property industry groups believe that decision making delays, through the development assessment system, have worsened housing affordability, as urban development viability is affected by, and sensitive to, holding costs. This is primarily due to the interest on finance raised to complete a project (UDIA 2007, p32).

Oxley (2004) examines planning practice from the perspective that planning systems are called upon to deliver what markets cannot. Planning is a reaction to market failures, particularly in relation to externalities (costs and benefits) (Beer et al 2007, p18). However, markets cannot guarantee efficiency nor can they be relied upon to make judgements about fairness and equity (ibid). Oxley (2004) and Gleeson et al (2003) conceptualise planning as an activity of governments that is broader than simple development control and one that is part of the wider regulation of political and economic structure. From their perspective a range of interventions in the development process is both justified and needed in order to achieve affordable housing. This might include: betterment taxes to capture the unearned increment arising out of the transfer of land from rural to urban purposes; inclusionary zoning that requires the private sector to provide a percentage of affordable housing as part of every new development; and, the use of 'planning bonuses' which provide development firms with the right to build at higher densities in return for the provision of affordable housing (Beer et al 2007, p19).

Australia's housing, planning and local government ministers have agreed on a Framework for National Action on Affordable Housing, which recognises an important role for the planning system in achieving affordable housing, within the broader goal of sustainable communities:

> The land use planning process can influence the supply and range of housing produced both in new development and redeveloping areas. Planning Ministers agree

> that planning and providing for affordable housing utilising planning mechanisms is a important contributor to sustainable communities based on the triple bottom line approach to sustainability, through providing economic, environmental and social improvements
>
> (HPLGM 2005, p5 in Gurran et al 2007, p1)

Equitable access to affordable housing has become a central urban planning policy goal with the urban planning process more geared to ensuring the necessary infrastructure and the climate of certainty needed to support investment in new housing supply (Gurran et al 2007, p1).

Accepting the need for the planning system and the important role it plays in contributing to social equity, economic vitality and environmental protection, it is nevertheless important to address any potentially negative impacts on housing affordability that may arise through the planning process (Gurran et al 2007, p23).

## What groups are affected?

NATSEM has done significant work plotting the distribution of housing stress by area and household type, and found that most housing stress in concentrated amongst renters in the private sector. This group accounts for around two thirds of all households who are struggling to make ends meet after paying for housing (SGS 2007, p11). This is supported by Yates et al's (2004a) research which found affordability problems are particularly concentrated on low-moderate income groups in the private rental market (Gabriel et al 2005, p14).

As Gabriel et al (2005, p18) note, affordability affects some tenures disproportionately, with private tenants bearing the brunt of declining housing affordability. Other groups most likely to experience housing stress include sole parents and families with young children on low incomes, low-income single people and households either renting in the private market or buying their first home. Yates' (2006b) research into housing affordability and financial stress also found that the correlation between housing and financial stress for lower income households can be attributed to their common risk factors. Low income, youth, having only a single adult in the household, and renting all contribute both to financial stress and to housing stress (Yates 2006, p2).

In terms of spatial distribution of housing stress, NATSEM research suggests that the growth corridors - the often reported favoured targets of first home buyers – are not the prime locus of households struggling with housing costs. The highest concentrations of stress are in the inner city areas (SGS 2007, p12). Given that housing stress is greatest amongst private renters, this spatial distribution reflects where the bulk of rental housing is located (SGS 2007, p13).

Yates and Gabriel's(2006) research into affordability, occupation and location outcomes found evidence to support the claim that those who live and work in inner city areas experience significantly greater housing affordability problems compared to those who work in the inner city but live elsewhere. This suggests an inner city housing affordability problem which signifies a wider process of income and spatial polarization that is reducing housing options for lower income earners in general. A lack of appropriate affordable housing means many workers either pay a high proportion of their incomes in meeting their housing costs or travel longer distances in order to work in their chosen location. The consequence is that the inner, high-cost regions of the city will be populated by the young, those who rent, the affluent and those without children. This raises the issue of whether such spatially polarised cities are sustainable in the long run (Yates and Gabriel 2006, pxi).

The lower incidence of housing stress amongst home purchasers compared to renters is not surprising when one considers that only a small proportion of households in the bottom two quintiles of the income distribution could afford to enter the market in the first place (SGS 2007, p 12). This highlights an important development in Australian housing: the emergence of an 'intermediate housing market'. These are moderate income households, with secure employment who not so long ago would have seen a natural progression into home ownership but now face major hurdles in achieving this - at least in a suburb reasonably close to their preferred location. This is not a question of stress *per se*, but rather reduced access to a housing tenure form seen as fundamental to the Australian way of life (SGS 2007, p12).

Yates (2007b) stresses that the 'deposit gap' (the amount by which the average house price exceeds the amount which a household on the average income can borrow) is now at record highs, which means that many 'Generation X' households will only be able to buy a home if they are assisted by their parents. The longer this generation defers the purchase of a home, the fewer working years they have to repay a mortgage. There are pressures on those who do not buy and continue to rely on the private rental market (Select Committee 2008, p32).

Another key group affected is older Australians. Changes in the Australian housing system indicate that there may be very different housing profiles among future generations of older Australians, with larger proportions likely to enter retirement with a mortgage or be renting privately (Select Committee 2008, p23). In 2005–06, 85 per cent of older Australians living in private dwellings either owned (just over 79 per cent) or were purchasing (just over five per cent) the home. This pattern of home ownership is an important component of the Australian welfare system, as it allows many older Australians to live on relatively low incomes (Select Committee 2008, p22). As a corollary, private rental costs impact disproportionately on retirees who do not own their own home. Research by the Australian Housing and Urban Research Institute (AHURI) has projected that the number of people aged 65 years and over living in low-income rental households will more than double from 195,000 in 2001 to 419,000 in 2026 (Jones et al 2007 in Australian Institute of Health and Welfare 2007b). This has significant implications for both individuals and the broader community (Select Committee 2008, p24).

## How is the housing affordability problem influencing householders' housing choices and behaviours?

Yates (2006) notes non-housing outcomes can also be affected by housing affordability. Because housing absorbs a high proportion of household expenditure, the trade-offs households are required to make in order to meet their housing needs may mean they have inadequate resources to meet their non-housing needs (Yates 2006, p1). Specifically, the Select Committee notes that low income families devoting a large share of their income to housing often make sacrifices to meet their housing costs, such as going without food, or children missing out on school activities (Burke et al 2007). Around a third of low income renters and about six per cent of low income home owners also reported having to approach a welfare, community or counselling agency for assistance. Similar proportions reported having to sell or pawn personal possessions to meet household expenditures following rising housing costs (Select Committee 2008, p21).

The age of first home buyers is also increasing. Home ownership rates for those aged under 35, and to a lesser extent other cohorts, have dropped. This probably reflects a mix of changing preferences and affordability issues. There might be various social factors as to why that is happening: people are studying longer, they are getting married later and doing all sorts of life-cycle things later. These changes are partially non-economic social trends. But they may also be due to the difficulties of getting a deposit to enter the housing market (Battellino 2008b; Select Committee 2008, p42).

For many couples, household incomes are higher because both partners now work (as indicated by rising labour force participation rates). However, Professor Julian Disney notes that by fuelling competitive bidding-up of house prices, many couples have been forced into taking on excessive workloads to pay their mortgage (Disney 2008, p253 in Select Committee 2008, p51); so much so that Battellino (2008a) reports that arrears rates on housing loans remain low by historical standards. To some extent, this is a sign of the extraordinary commitment of Australian households to meeting their housing loan repayments, even in the face of financial pressure.

## What is the recent history of the issue?

Housing affordability problems are generating a complex set of policy challenges for Commonwealth, state and local governments. However, as Burke et al (2007) point out, despite the research and numerous reports around affordable housing, progress in addressing the issue has been limited. While there has been some Commonwealth response, largely focused on ownership through First Home Owner Grants and tax breaks and on the private rental market through Commonwealth rent assistance (CRA), there is increasing concern, particularly at the state level, that current policies are not sufficient to address the problems being experienced by many low income households. Though much has been written on housing affordability in the Australian context, it has proved difficult to secure agreement about the right mix of responsibilities for housing policy among the various tiers of government and how best to address housing affordability (Gabriel et al 2005, p5).

In recent years, there has been concern in many sections of the community about the cost of housing in Australia. This is not the first time that such concerns have surfaced: the 2003-04 Productivity Commission Inquiry on First Home Ownership was preceded by studies into housing issues in 1977–78 and 1990–92 (Richards 2008). But the current episode of high housing costs has been prolonged, and there are few indications that any amelioration is in prospect in the near term (Richards 2008).

The newly elected federal government has introduced a policy package to address housing affordability, which includes a first home owners savings account, a national rental affordability scheme, national housing affordability fund, and the establishment of a land supply council. For the first time a national housing minister has been appointed. Furthermore, on top of the Senate Select

Committee's report, there have been a raft of studies released by major banks into housing affordability, including the BankWest Key Worker Housing Study, AMP and NATSEM reports and Macquarie Bank report by Rory Robertson: *Thinking about the big drop in housing affordability*. These demonstrate the interest these organisations have to continue servicing home owners and maintaining an efficient housing market.

## What changes in housing affordability can be identified and what has been done elsewhere?

Housing policy in Australia over the last two decades has been profoundly influenced by market-based approaches with growing levels of privatisation, devolution and deregulation (Dixon and Dupuis 2003, p356). The rationale for this shift is premised on the assumption that market approaches secure greater resources efficiencies and are more responsive to shifts in demand and supply conditions (Gabriel and Jacobs 2006, p541). But it is important to recognize that these tendencies have been added to a housing system already dominated by the market (Beer et al 2007, p13). Unlike many European nations, Australia did not develop a substantial social housing sector after 1945, but has instead used a range of direct and indirect subsidies to support private investment in housing for both homeownership and private rental (Castles 1996; Flood and Yates 1986; Kemeny 1983; Paris 1993 in Beer et al 2007, p13).

Since the late 1970s, federal and state governments in Australia have been less engaged with providing housing for people encountering housing difficulties (Wilkinson 2005, p16). This is demonstrated by a substantial shift in government support away from the supply of affordable housing under the Commonwealth State Housing Agreement (CSHA)[6], towards the demand side rent assistance programs. Rather than providing homes, governments have turned to providing small amounts of rent assistance as a means of alleviating the accommodation difficulties of those on low incomes (Wilkinson 2005, p20).

Reduced funding from the Commonwealth government (and matching funds from state and territory governments) for the CSHA and State Housing Authorities (SHAs), has had a substantial impact on all SHAs in Australia, with the majority of public housing providers running operating deficits (Hall 2004, p15). As a result, the capacity for SHAs to expand or grow their housing stock has been eroded greatly (Wright-Howie 2004, p9). This means that a greater proportion of people rely on the private rental market to meet housing needs.

There is a clear need for effective policy interventions with a range of studies showing that the supply of affordable housing is low and falling (Chapman 2006; Wulff et al 2001; Yates and Wulff 2000 in Yates et al 2006; Beer et al 2007, p21).

[6] The CSHA is the primary funding arrangement for public, community and indigenous housing in Australia. Under the jointly funded program, the commonwealth provide the majority of the funds with the States and Territories providing matching funding at a lower rate.

# 3. Assessment of policy and programs

## International review

Debates and policies about housing affordability and the need to provide more affordable housing are widespread throughout the international housing literature. In recent years, too, governments in many countries have explored ways of using statutory land-use planning systems to influence the provision of additional affordable housing, especially in localities with relatively high house prices and rental costs (Paris 2007, p1).

Lawson and Milligan's (2008) paper 'International trends in housing and policy responses' notes that strategies to promote new investment in affordable housing supply feature increasingly among national and regional housing policies. Broadly, these strategies are concerned with obtaining more housing to rent or buy in parts of the market that are affordable to low to middle/moderate-income households, using a variety and mix of incentives and regulations. These include not only fiscal incentives and capital subsidies but also planning levers and developer incentives. Government-stimulated vehicles are well established in Austria, the Netherlands, the United Kingdom, Ireland, Denmark, Canada, the USA, France and, until 2003, Switzerland. Employing the land use planning system to steer housing output is used most in Ireland, the United Kingdom, the Netherlands, and parts of Canada and the USA (Lawson and Milligan 2008, p2), which will be discussed in more detail below.

Compared to the international practices reviewed in this report, the overall extent to which local and state governments in Australia have addressed affordable housing objectives through planning mechanisms has been extremely limited (Gurran et al 2007, p25). A brief review of international practices, mainly the UK, Ireland, US and Canada, and approaches to affordable housing development can provide some useful insight into mechanisms which could be adopted in the Australian context.

*England*

The main delivery mechanism of affordable rental housing in England is through Section 106 of the Town and Country Planning Act 1990. This act enables planning authorities to require a developer to contribute to affordable housing as a consideration and condition of planning approval, while the actual level of contribution is negotiated on a site by site basis. This negotiation occurs within a strong policy framework extending from national policy requirements for affordable housing in plan making and development assessment, the identification of regional housing and affordability targets, and local housing strategies with indicative site-based targets for affordable housing contributions.

Under the act, the planning authority must first demonstrate the need for affordable housing, specify targets to address this need, and identify specific sites on which contributions towards the affordable housing need will be sought. The provision is often described as a 'planning gains mechanism', because it provides a basis for recouping some of the profit to private developers arising from the value of planning approval and public infrastructure (Gurran et al 2007, p40).

The provision of affordable housing through the s106 process is dependent on the UK Social Housing Grant[7], which provides affordable housing through public subsidy. The availability of the social housing grant has a positive impact on the viability of a site for affordable housing inclusion by reducing the impact of a social housing target on residual land value (Gurran et al 2007, p66).

The use of the planning gains mechanism has made a significant contribution towards the integration of subsidised housing in new housing developments. This has largely been achieved by securing land for affordable housing in high value sites and by integrating provision of affordable units within the market development (Gurran et al 2007, p45). In 2004/05 more than 18 000 affordable units generated through s106 contributions were completed in the UK, representing around 12 per cent of total output (Monk et al 2006, p4). The highest completions have been in London, followed by the South East, and the smallest numbers of completions have been in the North East (Gurran et al 2007, p43). The evidence suggests that favourable economic conditions are critical for the effective use of the planning gain mechanism in England (Crook and Whitehead 2004, Crook et al 2002 in Gurran et al 2007, p67).

Historically, England has had much of its affordable housing developed, managed and maintained by large housing associations. Recently, though, authorities have encouraged and explored the establishment of community land trusts (discussed more fully below in the United States context). The establishment of community land trusts in England has emerged from the dual concerns of developing and preserving affordable homeownership and retaining peri-urban and non-urban agricultural lands.

*Ireland*

In recent years there has been a number of reforms to planning in Ireland intended to streamline the system, remove impediments to expediting housing output and also to strengthen development planning (Norris and Shiels 2007, p46). National legislation was introduced through the Planning and Development Act (2000) to enable local authorities to require developers to contribute to social and affordable housing (Brooke 2006, Norris 2006 in Gurran et al 2007, p45). The act uses planning gain mechanisms to deliver housing for rent and sale to low-income households (Norris and Shiels 2007, p46).

Under the legislation, local authorities must amend their development plans to include housing strategies that detail how future housing demand will be met, including the need for social housing to rent and affordable housing for sale to low and moderate income households at below market value. Local authorities must require 20 per cent of residential land be used for social and affordable housing and that this be provided by developers as a condition of planning approval. The

[7] The Housing Corporation administers the National Affordable Housing Programme 2006-2008, which receives funding from the Department for Communities and Local Government, known as the Social Housing Grant. The Housing Corporation funds new affordable housing and regulates housing associations in England. As part of the National Affordable Housing Programme the Housing Corporation will invest 3.9 billion pounds in affordable housing in 2006-2008 for large partnership developers and for non-partner housing associations (www.housingcorp.gov.uk).

contribution can either be made through cash compensation and/or dwellings, land or housing sites in alternative locations. A review completed in 2006 estimated that 962 affordable housing units were developed in 2005 under the mechanism—up from 374 in 2004—which suggests that use of the approach is gaining momentum as it has done in England over time (Brooke 2006 in Gurran et al 2007, p46).

*United States*

In the United States, mandatory developer contribution requirements, supported and offset by planning based incentives, have been the most effective approach to securing new affordable rental housing stock through the planning process. In the vast majority of schemes, incentives are available to offset the financial burden of the contribution. Most authorities offer a combination of incentives which may include density bonuses, variations on subdivision, building design, parking, or landscaping requirements, permit and service fee waivers, and expedited processing of applications (Anderson 2005 in Gurran et al 2007, p50). Certain planning incentives, such as density bonuses, can combine with inclusionary housing programs to address broader planning goals, such as the reduction of urban sprawl (Lerman 2006 in Gurran et al 2007, p50).

Other US mandatory inclusionary housing requirements that are not specifically tied to zoning requirements include compulsory contribution requirements, called "impact" or "linkage fees". A common approach is to link the need for affordable employee housing with the impact of a new employment generating development (Gurran et al 2007, p50).

In the US there are now 24 states with legislation authorising or mandating local governments to incorporate affordable housing into their land use plans, with California, Massachusetts, New York, New Jersey and Washington D.C. the most active with on inclusionary zoning (Salsich 2003 in Gurran et al 2007, p50). Montgomery County Ohio, with an estimated 400 new units per year, is regarded to be one of the most effective schemes (Koebel et al 2004 in Gurran et al 2007, p51). However, there are concerns that the units rarely remain in the affordable housing sector in perpetuity, nor do they necessarily target the lowest income households (Gurran et al 2007, p52).

Furthermore, the existence of strong not-for-profit (non-government and government affiliated) and commercial affordable rental housing developers, which are able to access government grants and federal tax incentives for affordable housing development, are important elements of the approach to affordable housing development (Gurran et al 2007, p54). The US tax incentive— the Low Income Housing Tax Credits (LIHTC)—was the template adopted for the Australian National Rental Affordability Scheme (NRAS). The LIHTC scheme has generated a large market whereby developers trade their tax credits and has underpinned the development of much affordable rental housing; however, there are concerns over the long-term security of this housing beyond the requirements of its initial funding, when not developed by dedicated affordable housing companies. Consequently, much affordable rental housing in the US now facing the expiry of its initial affordability term, is being transferred into entities more capable of managing affordability in perpetuity.

A number of mechanisms have been developed in the United States to address these issues, focusing on creating and retaining affordable homeownership in perpetuity. The three primary mechanisms are deed-restricted mortgages, limited-equity housing cooperatives and community land trusts (Davis 2006). All require a degree of at least initial financial and/or staffing resources and the presence of a body to monitor and enforce retention of the affordability mechanism and criteria. Table 1 outlines the differences between subsidy recapture and subsidy retention models drawing on US data.

| | Mortgage* | Deed Covenant | Ground Lease |
|---|---|---|---|
| **What is the contractual means by which restrictions are imposed?** | A provision to recapture the original subsidy is secured by a lien on the property in the amount of the subsidy. These "soft" mortgages are subordinated to the conventional first mortgage. | A restrictive covenant is appended to the deed for land and house. (In condos, it is attached to the unit deed.) | Provisions are contained in the ground lease, regulating the resale and use of structures located on the land. |
| **What kinds of restrictions are imposed?** | The only restrictions that can be placed in a mortgage lien are ***subsidy recapture*** provisions, designed to reclaim the value of subsidies so these subsidies can be recycled for future uses. Restrictions on ***use, occupancy*** or ***resale*** cannot effectively be stipulated in a mortgage instrument. | Most deed restrictions control the ***price*** at which a unit may be resold, define the ***eligibility*** of the next buyer, and require continued ***occupancy*** of the unit by the current owner. A few delve into various "use" restrictions as well, but this is less common. | The ground lease contains the same kinds of restrictions on resale price, eligibility, and occupancy found in restrictive covenants. In addition, there are lease provisions regulating maintenance, insurance, mortgaging, subletting, and improvements (among other things). |
| **How long are restrictions designed to last?** | Typically, "soft" mortgages are limited to a maximum of 30 years – the typical term for a conventional first mortgage. | Mortgages can have terms of varying lengths. Most deed restrictions are designed to lapse after a relatively short period (e.g., 10 years), although some are intended to be permanent, i.e., "running with the land." In almost every state, "perpetual" deed restrictions are considered invalid as a "restraint on alienation" or violation of the "rule against perpetuities." Some states limit these restrictions to 30 years (sometimes less). | The lease typically lasts for a very long period of time (e.g., 99 years) and may be renewed at the option of the lessee. |
| **How legally enforceable are the restrictions?** | A recorded mortgage is a familiar and acceptable legal mechanism – and is commonly enforceable. As mortgages typically are limited to a maximum of 30 years, they are typically not subject to challenges as "restraints on alienation" nor are they subject to the "rule against perpetuities". | Generally, the longer the duration of the restriction and the farther the party imposing the restriction is removed from the property, the less defensible is the restriction. (Enforceability rests on meeting legal tests of "privity," "touch and concern," and benefit to a nearby parcel owned by the same party who is imposing the restriction.) Some states have enacted laws explicitly sanctioning "perpetual" deed restrictions; others have not. | Because the lease term is finite (even if the lease is renewable) and because the lessor has a close and continuing connection to the restricted property, affordability restrictions in a lease are generally more enforceable for a longer period of time than those attached to a deed. |
| **What happens to affordability once the term of the restriction comes to an end?** | In appreciating markets, the affordability disappears at the time of resale and repayment of the mortgage. | Upon expiration of the covenant, all restrictions on affordability are removed. The property may then be sold for the highest price that the market will bear. | Upon expiration of the lease, either the lease is renewed (along with affordability controls) or the lessor takes possession of any structures located on the land. |

**Table 1. Comparison between affordable homeownership mechanisms.**
***This corresponds to current Australian models of "shared equity" such as Western Australia's KeyStart. Source: Burlington Associates (2008a).**

Deed restrictions

Deed restrictions represent the fastest-growing and perhaps simplest mechanism for providing affordable homeownership in the US, with affordability conditions attached to the ownership deed restricting the use, occupancy and resale of affordable housing units. Such programs require that prospective buyers pass an eligibility assessment, which can include attending and passing an educational program on the characteristics and responsibilities of homeownership. A key weakness faced by this model has been the loss of affordability conditions through activities such as banks offering financing to mortgagees on the basis of a market—rather than a restricted—valuation of the property. A secondary weakness has been the response time of government. As the government has first right of purchase when a restricted property is being sold, if there is no government response within a certain time (usually 30-60 days), the resident is free to sell on the open market. Because of such instances, providers are looking to dedicated institutions to manage affordability over time. These can be community land trusts, discussed below, or specially structured entities such as HomeBricks in California.

BRIDGE Housing in San Francisco, California is expanding from affordable rental into this model and affordable homeownership schemes usually target households on 80-120 per cent of Area Median Income (AMI), but this can extend downwards to 65 per cent of AMI according to location. The higher income levels have been determined as necessary for the projects to be financially viable and these projects are very much seen as workforce accommodation, similar to the key worker argument in Australia. Prices are structured so that housing cost is limited to 30-35 per cent of income and are usually set at 10 per cent below the stated AMI restriction. For example, a home restricted at 100 per cent of AMI may be costed at 35 per cent of 90 per cent to create a window where a household can fit. This is combined with other considerations to ensure that total household debt does not exceed 50 per cent of income. BRIDGE Housing established HomeBricks—an independent subsidiary—to develop and maintain a database of ownership-ready prospective tenants and to oversee future sales. HomeBricks is funded entirely by the fees it charges to affordable housing companies for this service.

Limited-equity housing cooperatives

While deed restrictions represent the most rapidly growing mechanism for affordable homeownership in the US, limited equity housing cooperatives (LEHCs) are the most numerous. There are three main types of owned housing cooperative: market-rate, limited-equity and zero-equity, with limited-equity representing a compromise point between total return of profit to the resident (market-rate) and no return of profit to the resident (zero-equity). There are over 1.2 million households currently living in properties owned and operated by cooperatives in the US; in 2004, over 400,000 of these households were in limited-equity or zero-equity cooperatives (Saegert and Benitez 2005; Davis 2006). Residents do not own their individual housing unit; rather, they own a share in the cooperative housing corporation that owns one or more multi-unit buildings. That share provides the shareholder with the right to reside in a cooperative property unit. Residents purchase an initial share and are then responsible for monthly carrying charges, which cover the cooperative's responsibilities to land taxes, insurance and a percentage of the principle and interest of the blanket loan the co-operative took to cover construction, purchase or refurbishment.

Shares can be sold or bequeathed, with each LEHC linking the rate of appreciation in the transfer value of its shares to the Consumer Price Index, the change in Area Median Income, or changes in some other agreed-upon index. Share values are not protected against downturns in housing markets. If the maximum price that a new co-op member will pay for the share of a departing member is below the indexed value, the share will be transferred at the lower value. Individual LEHCs also establish a policy for determining how much a resident may recoup from major improvements they pay for themselves. Many co-ops allow residents to recoup most or all of this investment if the LEHC has given prior approval to the improvements.

Community land trusts

Community land trusts (CLTs) are a small but rapidly growing sector within affordable housing in the United States, with close to 12,000 units of housing on CLT lands in over 220 communities and close to 20 new CLTs forming every year (Davis and Jacobus 2008). CLTs are also being researched, promoted, supported and adopted in the United Kingdom (Community Finance Solutions 2005). CLTs are non-profit organisations holding title to land in perpetuity, conveying the land to a resident body via a ground lease. The property holder (lessee) can be an individual renter or homeowner, a business, a charity or a cooperative (usually LEHCs).

The ground lease between the CLT and the property holder sets out the affordability criteria and the permissible uses of the properties, and carries a nominal monthly fee charged to the resident. Most ground leases have a 99-year term and carry provisions for the land to be conveyed to a public authority or to another non-profit organization, should the CLT fold. Similar to LEHCs, CLTs utilise a number of resale formulae, with the defining objective of balancing a degree of homeowner equity gain with the ongoing affordability of the housing stock. This is upheld by CLTs as a fundamental tool for retaining any public subsidies and the public component of land appreciation in community hands and preserving affordability tied to a physical housing stock, while generating a degree of equity gain to the property holder in the event of resale or bequeathment. Similar to LEHCs, CLTs also determine formulae for enabling resident access to the value of approved improvements or additions to property. While difficult to maintain at a small scale, CLTs are able to cover the costs of their ongoing land stewardship roles once they underlie more than 200 properties. Funds for ongoing expansion and development however, need to be sourced either through operating at a greater scale than 200 properties or accessing public and philanthropic grants.

Each CLT board is comprised of one-third resident members, one-third non-resident members and one-third drawing on public officials, businesses, planners, funding bodies, architects etc, and elected by the other two-thirds (Davis 2006). This tripartite board structure aims to balance the concerns of residents, the local community and other stakeholders in the ongoing governance of the CLT and appears an appropriate structure for addressing issues such as potential NIMBYism and developer resistance, as well as incorporating ongoing social and environmental concerns. CLTs have developed over the past three decades and longitudinal analysis has shown they are highly effective at: preserving and enhancing affordability over time; expanding homeownership into lower income brackets; and, establishing a mechanism for community input into and control over, ongoing community and housing development.

One such longitudinal study focused on the Burlington Community Land Trust (BCLT). Prior to merging with Lake Champlain Housing Development Corporation in 2006 to become the Champlain Housing Trust, the Burlington Community Land Trust in Vermont was the subject of a review of the maintenance of affordability over resale (Davis and Demetrowitz 2003). Over 1984-

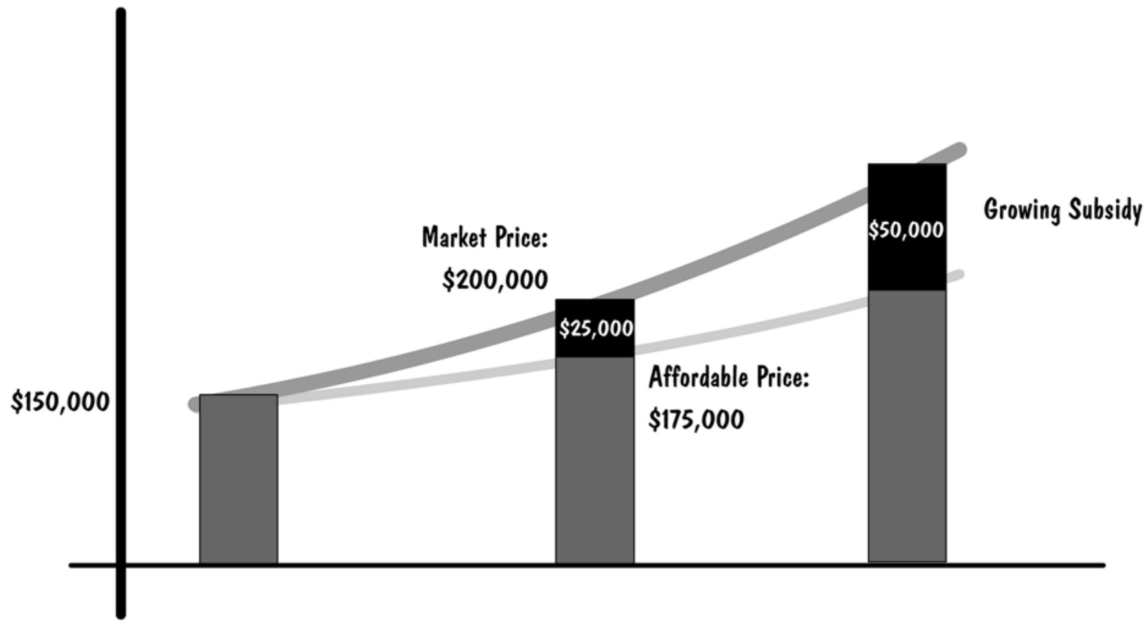
2002, BCLT developed 259 moderately-priced single family houses and condominiums with 97 of these resold between 1988 and 2002 (Davis and Demetrowitz 2003). That study contains several key findings. First, the affordability of the units actually increased over the study period. At the time of initial sale, the average BCLT home was affordable to households on 62 per cent of AMI; at resale, it was affordable to those on 57 per cent of AMI. Second, the value of the retained subsidy increased over time. At the initial sale, public subsidies put into the homes were US $1,525,148; at resale, these were valued at US $2,099,590. Third, neighbourhood stability was enhanced, with 95 per cent of BCLT properties retaining their affordability and occupancy protections. Two properties went to foreclosure but remained under BCLT's care. Fourth, homeownership was expanded, with all BCLT residents earning less than AMI, with many on substantially less than 80 per cent AMI. Fifth, individual wealth was created, with BCLT homeowners experiencing an annual rate of return of 17 per cent. When selling after five years, the average BCLT homeowner received their initial deposit plus US $6,184. Lastly, BCLT homeownership fostered homeowner mobility, "with households who left the BCLT doing so for similar reasons, with similar destinations, and with similar success as homeowners buying and selling on the open market" (Davis and Demetrowitz 2003, Executive Summary).

Due to the success of CLTs in preserving affordability and preventing subsidy leakage (see Box 1), the cities of Chicago (Illinois) and Irvine (California) have both recently established CLTs as their primary mechanism for delivering affordable housing into the future. Chicago CLT will be staffed by the City of Chicago Housing Department, while the Irvine CLT will be funded with US$ 250 million to create 10,000 units of perpetually affordable housing over the next 10 years, with a Board elected by the City. While many local jurisdictions have provided initial and/or ongoing financial support for CLTs in the past, these are the first instances of CLTs being set up as substantial programs resourced within or under governmental departments in the country. This prominence may resolve the issues of resourcing and skills acquisition that have historically plagued CLTs when operating at smaller scales.

*Canada*

Specific planning policies for affordable housing are predominantly found in two Canadian provinces - British Columbia and Ontario. Mechanisms used to increase the production of affordable housing in Canada include levies and reserve funds (e.g., in Colwood, British Columbia, where each new single and semi-detached dwelling unit must make a $500 contribution to a fund for new affordable housing); and linkage fees (as in Richmond and Whistler in BC and Banff in Alberta, where since 1990 as a condition for planning approval all new commercial development has to provide housing that reflects their average employee need creation). In addition, various Canadian provinces have experimented with innovative zoning practices (including Quebec, Alberta, which amended bylaws to allow secondary suites and garden suites, and Ontario, where in some cases smaller setback and lot size requirements have been allowed) (Tomalty 2004 in Gurran et al 2007, p55).

The mandatory affordable housing contribution requirements in Vancouver, British Columbia, have been applied to over 30 sites since the late 1980s and created 2,670 affordable housing units, more than a third of which have been built. In Toronto, Ontario, the density bonus scheme in place since the early 1980s has resulted in the creation of 6,000 non profit units and $19 million for an affordable housing fund, raised through cash-in lieu contributions. The "grow home" mechanism in Montreal has resulted in the development of over 6,000 "grow homes" in that city, contributing both to affordable housing and urban containment objectives (Gurran et al 2007, p56).




Imagine a family of two key workers earning a combined income of $45,000. Each month they would be grossing $3,750 before taxes. They could spend up to $1,250 per month (one third of their income) on housing costs and it would be considered affordable. With $1,250 per month, they could afford to pay around $150,000 for a house, depending on interest rates, down payment and many other factors.

Five years later, however, if housing prices have risen faster than key worker salaries, another family with two key workers would not be able to afford the same house. Maybe the house sells for $200,000, but now a family of two key workers can only afford $175,000. A $25,000 subsidy will make that house affordable to a new family. With the next sale, the house might be worth $250,000 and key worker salaries would only support $200,000. Now the subsidy needed is $50,000. Over time the gap keeps growing and the need for subsidy grows with it.

**Box 1. Subsidy leakage in dual mortgages.**
**The growing affordability gap requires growing level of subsidy.**
**After Jacobus and Cohen (in press, p3).**

## Australian Review

As mentioned previously, programs and policies for addressing affordable housing issues in Australia are not generally as well advanced as those mentioned in the international context. However, the exceptions are South Australia and the ACT where active and developed policies and programs are in place.

*South Australia*

In 2005 the South Australian State Housing Plan was released outlining intentions to encourage broader range of approaches to funding and delivering affordable housing. In 2006, the state government announced the Affordable Housing Innovations Program to be managed by Affordable Housing Innovations Unit (AHIU). The Affordable Housing Innovations Program facilitates the delivery of innovative, affordable housing solutions for low to moderate income South Australians by working with the private sector, government agencies and community partners. The objectives of the program are to:

- develop investment strategies, in collaboration with government, private, local government and community partners, to maximise value for money and to address the strategic housing priorities of South Australia;
- implement innovative housing solutions not previously undertaken by government, which may have valuable demonstration/expansion potential;
- contribute to a diverse portfolio of responses across a number of target groups, tenures, and locations;
- provide a greater diversity of housing options that match the changing community profile;
- promote planning initiatives to facilitate improved affordable and high needs housing supply.

The State Housing Plan sets a target for 15 per cent of housing in all new significant developments to be affordable, including five per cent for those with high needs. This target is supported through changes to legislation of the Statutes Amendment Affordable Housing Act 2007. Key provisions of the new laws support the reform agenda of the housing sector to facilitate an increase in the supply of affordable home purchase and rental housing in partnership arrangements with non-government organisations, financial institutions and local governments, including:

- governance structure amendments to the South Australian Housing Trust Act 1995 to support arrangements by which affordable housing outcomes can be funded and secured in ways that accommodate the interests of government and partner organisations;
- the creation of a Statutory Covenant to secure affordable housing outcomes over the long term;
- provisions relating to the Development Act 1993, providing councils and planning agencies to make special planning provisions for developers who agree to meet the affordable housing target in their developments.

All local councils in SA must now incorporate affordable housing policies within their Development

Plans and Strategic Plans. Supportive incentive based planning policy can also be included within local Development Plans to encourage affordable housing. The implementation of the 15 per cent target is focused on government land, declared major developments and significant rezoning or change in use to residential from non-residential uses. Affordable housing commitments are secured through a legal agreement registered on the land title.

Other initiatives of the SA Housing plan include 'leveraged rental projects' which work in partnership with other housing providers to enable demonstration projects funded in part by: philanthropic contributions, equity investment by the project partner, and debt finance. In addition, Housing SA launched the Home Ownership Initiative of the Affordable Homes Program which gives preference in the sale of affordable homes to eligible low and moderate income households within South Australia. Properties are listed on the Property Locator website (a search engine) and are made available exclusively for eligible buyers at a fixed price for a specified period of time. Properties consist of: Housing SA existing and new properties; private sector new supply as a result of the State Government's 15 per cent affordable housing target within all new significant developments; and an additional private supply nominated by private developers outside of these programs.

Previously the South Australian government has experimented with rent-to-buy schemes such as the Homeownership Achievement Scheme. This involved state funding of Housing Associations to develop stock for subsidised leasing with an option for the tenant to purchase via a 100 per cent loan. The scheme carried a "handback" option if negative equity occurred. This offered a degree of protection to at-risk tenants and enabled tenants to gain a credit rating. It also allowed a higher number of units to be developed: 100 units were developed via a $5 million grant compared to the $14 million that would be required for 100 units of traditional social housing.

In addition, HomeStart Finance—the state government's home lending agency—provides financing to low and moderate income buyers. These includes HomeStart's Breakthrough loan and the EquityStart loan which is only available to assist current public housing tenants into home ownership. The South Australian government has also recently announced a low- to moderate-income dual mortgage scheme.

*Australian Capital Territory*

The ACT Government released its *Affordable Housing Action Plan* on 12 April 2007 in response to recommendations made by a specialised taskforce to improve housing affordability for lower income households in the ACT. The key initiatives of the Affordable Housing Action Plan include:

- increasing the supply of affordable land to the market;
- regular englobo land sales;
- over-the-counter sales of affordable housing blocks;
- streamlining land release and planning approval systems;

- providing new house and land packages priced between \$200,000 and \$300,000, including target supply of blocks in the \$60,000 to \$120,000 price range;

- supplementing the land release program by providing more land for the expansion of the community housing and private rental programs;

- a major expansion of community housing that will deliver an additional 480 affordable dwellings over five years through Community Housing Canberra[8];

- making more effective and targeted use of public housing;

- an initiative through institutional investors to increase the supply of private rental dwellings by 200-400 homes in the first instance;

- ensuring the supply of sufficient land to meet the increasing demand for aged accommodation;

- land rent and shared equity schemes, including for public and community housing tenants; and

- targeted stamp duty concessions.

The first major englobo release under the new requirements was "Macgregor West" acquired by the Village Building Company in April 2007. The land release sold at auction in April 2007 by the ACT government's Land Development Agency with a detailed Deed of Agreement attached to the holding lease. The Development Deed specified a maximum yield of 570 dwellings and included a preferred concept plan with mandatory planning requirements. Consistent with the ACT government's affordable housing action plan a key requirement of the deed was to ensure a minimum of 15 per cent of all dwellings of the site be affordable housing, as outlined in the concept plan.

The Macgregor West concept plan[9] was based on New Urbanist principles whereby the developer was required to carry out detailed design and obtain all planning and construction approvals. A key requirement of the Deed was to ensure 15 per cent of the site met the ACT government's affordable housing criteria.

Village Building Company came up with a range of products within the site, including small unit title townhouses and villa homes, in addition to the normal range of standard residential lots. The estate will contain a range of products priced from \$240,000 to over \$600,000. An increase in density of the site was sought which will now contain 768 homes, of which 37 per cent will be in a very

[8] Community Housing Canberra is a not-for-profit company that operates both as a community housing tenancy manager and a provider of affordable housing.

9 A Concept Plan is a planning tool, which provides a greater level of detail by specifying notional land uses, broad infrastructure requirements, higher order road network (distributor roads), key features and boundaries of the estate. It is a plan and report that documents the planning requirements for a proposed development area (established or Greenfield) and includes Important Planning Requirements.

affordable price range. The remaining blocks are sold to builders and members of the public.

In the construction of the houses, close attention is given to every item affecting costs so dimensions are in modules of standard size building materials to avoid waste. In addition, repetition of design is used to reduce costs. Longer-term affordability issues have been addressed with over 50 per cent of homes achieving six-star energy ratings and all houses being fitted with solar hot water systems.

In the ACT when land is sold and densities are subsequently increased the ACT government would normally impose a "betterment" charge - 75 to 100 per cent of the increase in the value of land derived from the change in density. In this instance, the Village Building Co asked that the ACT government waive most of the increase in betterment in return for a commitment to produce 200 house/land packages below $300,000 and 85 house/land packages below $365,000. The Government accepted this proposition and betterment was limited to $1,500,000.

In this scheme, first priority in sales goes to those who have not owned a home and who meet all of the income criteria. As the Village Building Co reports, most homes have sold on the day of release with the remainder selling over the ensuing week and only a few at the upper level of the affordable price range taking 6-8 weeks to sell. To date, 104 house and land packages have been offered and include: two-bedroom townhouses of $83m^2$ and $85m^2$ from $279,500 to $291,500; three-bedroom townhouses of $95m^2$ to $102m^2$ priced from $294,500 to $309,500; three-bedroom villa houses from $319,500 to $321,500; and three-bedroom courtyard homes from $334,900 to $355,900. The sale is conducted via a ballot process which requires buyers to register in advance.

In addition to the englobo land release, the ACT government has proposed a land rent scheme to reduce entry costs to the housing market and mortgage repayments. Under the scheme, eligible households will rent the land from the government. They will be required to pay the government rent, calculated on the unimproved value of the block of land. Households will then be required to construct a house on the rented land within two years of the lease being granted. The scheme will allow households to rent the land on an ongoing basis or to purchase the land from the government at a later date. This is roughly analogous to the US CLT model, with the exception that CLT residents can never access the underlying land value.

The Affordable Housing Action Plan also aims to increase the supply of private rental properties through partnership with institutional investors to develop and rent 200-400 private rental dwellings. In addition, Community Housing Canberra will offer eligible tenants the opportunity to purchase their properties through shared equity. Housing ACT will also offer shared equity purchases to eligible tenants with household incomes of more than $50,000 a year.

*Queensland*

The Queensland Housing Affordability Strategy, released by the Queensland Government in July 2007 outlines actions to improve the planning and development assessment process; increase the supply of land for development; regulate infrastructure charging plans; develop underutilized government land; designate land for housing in regional areas; allow local governments to facilitate private sector financing of infrastructure; and, establish an Urban Land Authority, under the Urban

Land Development Authority (ULDA) Act 2007.

The ULDA's role is to streamline the planning and the development process in key urban areas nominated as Urban Development Areas (UDAs) by the state government. Within declared Urban Development Areas, the ULDA will assume the planning powers of local government and some state agencies – including assessing development applications. This will streamline the development process, ensuring infrastructure and other broad planning issues can be addressed in the early stages of development. In addition, the ULDA will have the power to attach conditions of sale to land to require a set contribution of affordable housing.

*NSW*

Unlike SA, ACT and QLD, NSW is without a state-wide affordable housing strategy, although there have been several measures and initiatives to address housing affordability.

<u>Planning mechanisms</u>

Similarly to the other states in Australia, the NSW Government has recently introduced major planning reforms to streamline the development assessment process, and to create a more accountable system for levying and delivering community infrastructure in a bid to improve—amongst other things—housing affordability.

The NSW government has targeted an expansion in the community housing sector, through a strategy for the sector's growth: *Planning for the Future: New directions for community housing in New South Wales*. The strategy outlines proposed growth of the community housing sector from 13,000 to 30,000 properties. Much of this growth will involve housing associations taking on debt to leverage the public investment and expand the supply of low-cost housing.

Legal provisions to levy funds from developers for affordable housing have been adopted by several councils in high value areas of Sydney. Waverley Council was the first to introduce a "density bonus" for developers in return for monetary contributions to finance affordable housing; North Sydney Council levies compulsory fees on all residential development to replace the loss of low cost housing; while Willoughby Council requires a proportion of total floor space of new dwellings to be dedicated for affordable housing (Gurran 2003b, p403). The former South Sydney Council applied an inclusionary zoning approach to all development within the former industrial area of Green Square, where three per cent of the total floor area of all residential development, and one per cent of non residential development, must be provided to council as an affordable housing contribution (Milligan et al 2004, p24).

Initiatives to generate new subsidised affordable housing supply by local governments through the NSW planning system have been very limited, due in large part to constraints within state planning legislation (Gurran 2003, Milligan et al 2004, Gurran 2005 in Gurran 2007, p32). The initiatives that have emerged reflect a particular combination of local circumstances and opportunities (Gurran 2003, Milligan et al 2004, Gurran 2005 in Gurran 2007, p32).

In 2001 the State government granted approval for the development of homes, businesses and a regional park on the former Australian Defence Industries site in the outer western Sydney suburb of St Marys, contingent on a requirement for three per cent of residential lots on the site to be provided for affordable housing (Gurran et al 2007, p34).

The affordable housing component was to be enforced as a condition of purchase and the developer would be required to enter into a contractual deed to this effect. Delfin Lend Lease won the tender in 2004 and development commenced in December of that year. The agreement stipulates that the NSW Land and Housing Corporation (Housing NSW) is to act as nominee for the transfer of affordable housing lots whilst the Centre for Affordable Housing (within Housing NSW) is to act as agent for the Minister for Planning to develop an affordable housing strategy for delivery and management of housing on the site. As the agreement is for the delivery of lots, not dwellings, finance still needs to be found for construction. To this end cash-in-lieu payments may be negotiated, or the NSW Department of Housing may accept and then sell some lots with proceeds used for affordable housing on site. Development will be staged over five precincts over 10-15 years and result in approximately 5,000 dwellings of mixed types and sizes, with the equivalent of 150 of the lots produced for affordable housing (Durham, forthcoming in Gurran et al 2007, p35).

Forest Glade

Forest Glade demonstrates a moderate-income private housing initiative by Landcom. The development, located in Western Sydney on a three-hectare site, produced 64 dwellings of which 13 (20 per cent) were provided through a public notice and subsequent ballot for sale to moderate-income households who were subject to income and asset eligibility criteria[10].

These homes were nominated as moderate-income housing and sold for $156,000 to $223,000 compared with $272,000 to $413,000 for at-market homes; a total of $1,170,000 less than total market price. To avoid windfall profits occurring and to maintain affordability, restrictive covenants were placed on the titles of the moderate-income housing. These covenants limited increases in resale prices to 9 per cent per annum for a period of 7 years as well as limiting on-selling to other buyers who met the moderate-income criteria (Milligan et al 2007, p62).

To achieve efficiencies and cost savings, the project focussed on the levers that could be operated by producers of land and housing, as well as a change to local planning provisions (Milligan et al 2007, p63). The largest saving was obtained from revisions to the Development Control Plan (DCP), the second largest by urban design and the third by materials selection and labour efficiencies. Using a house land package approach (instead of traditional sale of land and allocation of dwellings) added to the efficiencies (and consequent savings) through providing for land efficiencies, and design and construction efficiencies under the one delivery model (Milligan et al 2007, p65).

Habitat for Humanity Australia

Habitat for Humanity (HFHA) is a charity which draws largely on volunteer labour to partner with low- to moderate-income families in building affordable homes for purchase. In return for a $500 deposit and 500 hours of labour ('sweat equity') on their own home, in the HFHA offices or on

[10] The target income group was households in an income band of 80 per cent to 120 per cent of the estimated median Sydney Region household income, who did not own or were not purchasing another home.

another HFHA home, the family gains access to a dual mortgage of roughly 50 per cent market value, with HFHA as partner. Upon resale, the family repays HFHA and the house is made available to another low-moderate income household.

HFHA prepares the family for homeownership and continues its partnership beyond purchase to ensure the smooth transition for often marginalised families into stable homeownership and community participation; the social networks developed through the sweat equity component of the program are also core to this. To date HFHA has completed 33 homes in NSW with another 12 planned for 2008; access to land, lack of scale and an absence of public funding have all constrained HFHA's activities within high-value areas.

Cooperative Housing

The NSW public rental co-operative housing sector currently comprises 37 co-operatives representing 456 properties worth over $100 million. In addition to this, there exist a number of private ownership cooperatives in non-metropolitan areas. While Australia established housing cooperatives in the nineteenth century, there has been limited development of the sector or form. This is in stark contrast to the US sector of 1.2 million households and the Swedish cooperative sector, which represents 20 per cent of the total housing market.

Public rental cooperatives in NSW fall under the jurisdiction of the Office of Community Housing within Housing NSW and are supported by the Association to Resource Cooperative Housing. While ultimately answerable to Housing NSW, rental cooperatives house a mix of residents, with the requirement that 65 per cent of residents are drawn from Housing NSW waitlists, while 35 per cent are able to earn higher incomes. This has generated varying degrees of surplus accumulation amongst the cooperatives, which were initially established with tied federal money with the intention of equity gain to cooperative members. This equity accrual has not been realised however, due to the retention of title by Housing NSW, which is now exploring the adoption of the Victorian cooperative housing model discussed below in order to enable the expansion of the sector. In addition to this primary rental focus, there is capacity and interest in the sector to expand into both limited-equity and market-rate forms of share-based ownership as developed in the US and Sweden.

*Victoria*

A major source of affordable housing initiatives in Victoria is VicUrban, which lists affordability as one of its key objectives in creating sustainable communities. VicUrban has a number of key initiatives.

Ownhome

This product provides homes (on a ballot basis) at 75 per cent of market value. The land is supplied by VicUrban at 25 per cent below market value and building construction costs are kept 25 per cent below normal by more modular design etc. The purchaser buys at 75 per cent of market value and generally will retain just 75 per cent of the interest in the property. No rent is payable on the top slice 25 per cent. Purchasers obtain conventional bank finance with financial eligibility for the scheme managed by four financial institutions with careful scrutiny of the borrower to make sure that housing costs remain below 35 per cent of household income after allowing for a two per cent rise in interest rates. VicUrban retains a second mortgage behind the main lender to secure their retained interest in the property. The purchase price includes window blinds, carpets and most appliances. This is to reduce the financial burden during the first few years of occupation.

Sustainable and Affordable Homes

VicUrban also has a scheme where it has commissioned a number of architectural firms to design sustainable and affordable homes which are highly energy efficient and have a target market price range of $230,000 to $270,000 for house and land package (subject to land price movements). The first of the homes will be built this year.

Partnerships with Housing Associations

VicUrban is currently forming partnerships with Victoria's not-for-profit Affordable Housing Associations to develop a supply of affordable rental housing in VicUrban communities for low-income and disadvantaged households. They are using a variety of strategies to finance these partnerships and currently have projects with three housing associations. The partnerships have considerable potential given the commitment of the state government to expand community housing. The Victorian government has allocated $300 million to help expand the supply of affordable rental housing through housing associations.

Common Equity Rental Cooperatives

In addition to the VicUrban programs discussed above, Victoria has a strong and growing cooperative housing sector. Victoria's Common Equity Rental Co-operative (CERC) Program operates under the auspices of Common Equity Housing Limited (CEHL). CEHL is a registered growth Affordable Housing Association owned by shareholder housing co-operatives - the CERCs. CEHL was established in 1987 as a vehicle for acquiring properties to be used as rental housing co-operatives. CERCs now range in size from six to 23 households with CEHL holding title to nearly 1,700 properties sublet to over 110 CERCs. CEHL has also expanded into a resource company for CERCs and provides model documents and procedures for CERCs.

Both CEHL and individual CERCs are involved in property management, with the arrangements for this varying between co-operatives. Currently CERCs are targeted at tenants eligible for public housing and have been able to accommodate groups with specific cultural and physical needs. CEHL is now keen to expand into moderate-income equity housing.

### *Western Australia*

KeyStart

Over the past 12-18 months, Western Australia has developed KeyStart, its dual mortgage product. Similar to HFHA, KeyStart offers a model whereby homebuyers partner with the state to co-purchase a home. Currently this enables low-moderate income households to purchase properties of up to $375,000 market value and hold a mortgage of 60 to 70 per cent of that value. Income limits apply of up to $80,000 for families, $70,000 for couples and $50,000 for singles. The program also waives mortgage insurance and has a low deposit requirement of $2,000. To date, 607 loans have been approved and 426 are in pre-approval. Residents can purchase all or part of the second mortgage at a later stage.

*Federal incentives*

Initiatives recently introduced by the federal government that target housing affordability and the renegotiation of a new National Affordable Housing Agreement present the potential for new affordable housing initiatives by all tiers of government, government agencies and the private sector. Specifically, the new federal government has introduced several policy measures to begin addressing housing affordability. One of the first policy commitments on housing by the federal government was to establish the National Housing Supply Council. This body is responsible for gathering information on both demand and supply side factors to guide governments and developers on how many houses are needed, of what type and in which locations. It will also be tasked with providing advice to government on a 20-year horizon on factors affecting the supply of housing. This will include the effects of an ageing population, internal and overseas migration, family separation, skill shortages and planning delays (Winzar 2008 in Select Committee 2008, p72). The Council will publish an annual State of Supply report to assess the adequacy of construction and land supply. The first of these reports will be released in January 2009 (Select Committee 2008, p72).

In addition, the federal government is currently in the final stages of an audit of surplus government land available for housing. It has requested that the states and territories undertake a similar process. The land audit is being coordinated by the Department of Finance and Deregulation through a Council of Australian Governments working group, chaired by the Minister for Housing. A comprehensive assessment of the states and territories' surplus land is expected to be available by about mid year (Winzar 2008 in Select Committee 2008, p72).

<u>National Rental Affordability Scheme</u>

The federal government has also established the National Rental Affordability Scheme (NRAS), which is roughly analogous to the US LIHTC scheme. This is at a cost of $623 million over four years, to increase the supply of affordable rental dwellings by 50,000. If demand for rental properties is still strong, a further 50,000 properties will be built from 2012 onwards. This new scheme will offer investors incentives to build new affordable homes for rent at 20 per cent below market rents. The federal government's incentive will be $6,000 per dwelling per year as a refundable tax offset or payment for 10 years. State and territory governments have also committed to supporting the scheme by providing an incentive for 10 years to investors of at least $2,000 per dwelling per year in direct or in kind financial support (Australian Government 2008).

<u>Housing Affordability Fund</u>

The other key federal government initiative in addressing supply side housing shortages is the Housing Affordability Fund (HAF) with an investment of $512 million to be spent over five years in order to lower the cost of building new homes. The HAF will make housing more affordable by addressing two significant supply-side barriers to housing development:

- holding costs incurred by developers and home purchasers through lengthy planning and/or development assessment processes;

- infrastructure costs, such as water, sewerage, roads, open space and community facilities, which are incurred variously by local and state governments, often passed on to developers and in turn to buyers of new homes (Australian Government 2008, p8).

Under the fund, local governments will apply through a competitive process to receive grants to cover some of the cost of new housing infrastructure. In their proposals, local governments, in conjunction with private sector, will have to outline how their proposals will cut red tape and reform the planning processes. They will need to produce an 'efficiency dividend' and pass the savings on to home buyers to qualify for any federal funding. Innovative, development specific proposals from state governments that cut development costs will also be considered under the HAF.

The HAF will target:

- High growth areas including those forecast and currently existing in greenfield and infill areas;

- Smaller scale connecting infrastructure projects including water, sewage and roads;

- Remediated sites;

- Community infrastructure such as libraries and youth centres;

- Planning and development assessment reforms through a reduction in the time it takes to bring houses to market.

As part of the HAF, the federal government has committed up to $30 million to develop IT infrastructure and software required to implement electronic development assessment (eDA) systems and online tracking services nationally. These systems will inform the three tiers of government, as well as developers and the community, where and why undue planning delays are occurring. However, as the Select Committee notes, it remains to be seen as to whether providing this information actually leads to faster planning decisions, given the shortage of planners (Select Committee 2008, p72). This may however, be a relevant funding opportunity.

## Commentary on the Australian programs

As Gurran et al's (2007) research into international practice in planning for affordable housing finds, mandatory schemes are not only more effective (in terms of numbers of affordable housing units created) than voluntary ones, they are critical to the effective implementation of other strategies to increase affordable housing. Even planning-based incentives (such as density bonuses) or financial subsidies (direct or tax-based) to encourage affordable housing are likely to be much more effective if they are tied to a mandatory planning requirement for affordable housing (Gurran et al 2007, p64).

Similar experiences are recorded in relation to the framework for negotiating planning agreements for affordable housing in the United Kingdom. While these agreements are negotiated, the contributions are mandatory in the sense that the planning authority can refuse an application on the grounds that sufficient provisions for affordable housing have not been made (Gurran et al 2007, p64). A mandatory approach is also important for ensuring that developers provide a mix of lower cost housing alternatives, such as smaller, less expensive housing units, and accessible dwellings (Gurran et al 2007, p65).

The evidence suggests that favourable economic conditions are critical for the effective use of the planning gain mechanism in the United Kingdom (Crook and Whitehead 2004, Crook et al. 2002), and of inclusionary housing programs in the United States (Lerman 2006). A key condition is high market demand for housing (Gurran et al 2007, p67) and the availability of developable land. Moreover, a strong needs assessment methodology, including clear information about local and/or regional housing need, is critical to justify planning programs for affordable housing.

Clear national government support for planning approaches to affordable housing in the United Kingdom has underpinned the increasing success of the English system. In the United States, state mandates for local government to provide for affordable housing are critical supplements to the enabling legislative framework needed to support statutory planning mechanisms for affordable housing, and to promote community acceptance (Basolo 1999, HUD 2005, Koebel et al. 2004, Sewell 2003 in Gurran et al 2007, p68).

Voluntary schemes are certainly preferred by developers, though this express preference is not an indication that they will take them up. It is also difficult to ensure the planning incentive more than offsets the affordable housing contribution, which is needed for the incentive to be attractive enough for voluntary take-up. This depends largely on market conditions. However, voluntary schemes may be effective if they are linked to clear local policy and supported by strong subsidies and incentives (Brunick 2004a in Gurran et al 2007, p65). For instance, in the United States, the authorities of Chapel Hill and Lexington have expressed clear expectations regarding the inclusion of affordable housing, and planning approval is more difficult and expensive without an affordable component. In Morgan Hill, California, a limited local growth policy restricts the annual number of residential development permits but gives preference to projects that include affordable housing (Brunick 2004a in Gurran et al 2007, p65).

At the local level, local political leadership and advocacy are important factors in achieving effective affordable housing planning schemes, even within a context of strong central government support such as exists in the United Kingdom (Calavita 1998, Monk et al 2005). The level of community support for affordable housing, or acceptance of responsibility to provide for regional housing need, explains why affordable housing schemes have been successfully implemented within some local areas and not others (Gurran et al 2007, p69).

In addition, in the United Kingdom, the United States and the Netherlands, strong not for profit housing companies/associations have played an important role in developing and managing affordable housing opportunities secured through the planning process. Finally, staff expertise and commitment within local planning authorities is consistently reported as fundamental to successful schemes (Calavita 1998, Monk et al 2005, Tewdr-Jones et al 1998 in Gurran et al 2007, p69).

Pro-active planning strategies such as planning bonuses, inclusionary zoning and betterment taxes have had a chequered history in Australia (Hamnett and Freestone 2000; Stretton 1989). In large measure the latter two approaches have failed because of private sector opposition, while the former is seen to result in relatively few opportunities for affordable housing (Beer et al. 2007, p19). Inclusionary zoning and betterment taxes are both perceived to be forms of taxation that add to the cost of providing housing to the broader community of home purchasers (Beer et al 2007, p19). Advocates of such strategies have had difficulty justifying why new home buyers, rather than the community as a whole, should subsidize the housing of low-income earners (Productivity Commission 2003, 2004 in Beer et al 2007, p19). This stems in part from a growing fuzziness of the boundaries between what should be funded by the private sector and what should be funded by the public sector (Campbell et al 2000; Healey et al 1993 in Crook and Whitehead 2002, p1266).

Currently in Australia, the use of mandatory requirements for affordable housing is restricted to the schemes in NSW reviewed above. A key recommendation (Recommendation 6.1) from the Select Committee was that state and territory governments introduce enabling legislation for inclusionary zoning to require affordable housing in all new developments, including a proportion of social housing (Select Committee 2008, p6). Changes to planning legislation across Australia will be needed to support an expanded use of this approach (Gurran et al 2007, p71).

Despite this, the SA, ACT and—to a lesser extent—Qld governments have mandated affordable housing contributions in their respective policies and programs and have all amended legislation to enable them to do so. In the ACT, reforms to the Territory Plan and planning legislation have improved the land release and planning approval systems. Further, new planning guidelines allowed for the introduction of affordable house and land packages. Similarly in Qld, the newly legislated Urban Land Development Authority Act 2007 will enable the Urban Land Authority to streamline the planning process and set conditions for affordable housing contributions in specific Urban Development Areas. In SA, changes to legislation of the Statutes Amendment Affordable Housing Act 2007 have enabled affordable housing policies to be incorporated within all local council's development plans and strategic plans, to require 15 per cent affordable housing requirement in all new significant developments, focussed on government land. However, considering that the legislation to enable the affordable housing programs in SA, ACT and Qld were recently introduced, as with any new legislation implementation, an appropriate lead time is needed to review and assess the effects of the new legislation.

In NSW, the demonstration project by Landcom demonstrated cost savings in the production of the land and housing product which was transferred to the buyer through a reduced purchase price. This was also demonstrated in the Macgregor West land release in the ACT, where significant savings were made in the production of land and housing packages that were able to be passed down to the homebuyer. Common elements in the Australian affordable housing programs outlined were the need to reform the planning system, the need to increase land supply and affordable housing development, mechanisms to assist home ownership (including dual mortgages) and to expand the community housing sector. Furthermore, the issue of subsidy retention in these models needs to be addressed at this relatively early stage of development.

The US Low Income Housing Tax Credit (LIHTC) scheme is roughly analogous to the currently proposed Australian NRAS scheme but with slightly longer affordability requirements – generally 15 years. This has generated affordable rental housing similar to that enabled by the proposed NRAS and has a definite role to play in a diversified tenure market. Deed-restricted housing, CLTs and

LEHCs represent affordable ownership schemes adding another component to a diversified portfolio of durably affordable housing. Some states in the US are now transferring housing with expiring affordability controls to CLTs and LEHCs.

Above and beyond the 10 years of secure affordable rental housing enabled under NRAS, long-term deed restrictions, LEHCs and CLTs provide financially viable mechanisms for enabling a degree of equity accrual through the home, as well as participation in the maintenance and/or management of the home. Australia is experimenting with forms of home purchase financing termed "shared equity". However, these refer to shared borrowing practices involving dual mortgages, in which the state holds a mortgage for a certain percentage of the home's value. These carry the assumption and intention that the homebuyer will eventually buy the state out and take full ownership, with the funds returned to the state then being used for a similar relationship with a new home buyer. This represents a form of slow subsidy leak, however, with the pool of money available to re-loan to another homeowner falling relative to increasing house prices and requiring further subsidisation to retain affordability.

Further, the subsidy embodied in this mechanism is not generally tied to the creation of physical housing stock, so may in fact overstimulate heated markets by increasing the numbers of potential buyers. In contrast, the models discussed in this paper represent supply-side strategies that use subsidy retention rather than recapture, locking the funds into a dedicated stock of affordably-priced owner-occupied housing. In this way the mechanisms reduce future subsidy requirements relative to shared borrowing schemes and add a permanent and expanding pool of dedicated affordable housing stock to the market.

## What other opportunities are there for new initiatives?

A key focus in policy must be to make every improvement possible in the housing production pipeline, so that supply elasticity might be improved (SGS 2007, p7). SGS (2007) argues that, for greenfield development, this includes strategic planning for growth areas, land acquisition by developers, statutory conversion to developable land, lot construction, marketing and sales and housing construction. This process can take up to a decade from the identification of a release area on a strategic plan, to the turn off of the first lot. This lies at the heart of the inelasticity of supply. Releasing more raw land is not going to help much in these circumstances. It will increase the pool of land in the reservoir, but supply will still be trickling through a tightly confined outlet. All stages of the pipeline need to be tackled in an effective policy drive to improve housing affordability, not just raw land supply. Moreover, establishing the basis for the metropolis to spread further out at low densities will ultimately cost the economy dearly (SGS 2007, p8). This also has implications in high energy-cost scenarios with regard for both the market attractiveness and sustainability of the resultant housing.

One proposition to consider according to SGS is to radically streamline the rezoning process. This would involve a mass rezoning of say 20 to 30 years supply of land in a corridor, but subject to a structure plan and a comprehensive sequencing framework (SGS 2007, p9). The sequencing plan would identify those areas which are preferred for development within five-year stages. All infrastructure agencies would be invited to plan their services roll outs based on this preferred development sequence. Developers would be encouraged to stay in-sequence but would have the flexibility to take on projects on land which is not 'scheduled' for development for some time (SGS 2007, p10).

However, as mentioned, current strategic planning directives in Australian cities are centred on urban consolidation policy, where the majority of additional dwelling requirements in all the major cities will need to be accommodated within the existing metropolitan footprint. According to SGS, though, there are also major shortcomings in the housing production pipeline, with most infill occurring in an inefficient (and resented) manner, focussing on 'salt and pepper' sites. There is considerable scope for more aggressive regeneration activity involving;

- Public sector land assembly around key activity centre sites; and

- Pooling of development risks on contaminated brownfield land, via some form of insurance levy across all major developers active in redevelopment projects (SGS 2007, p10).

# 4. Conclusion

There is no doubt that some progress is being made in the international arena on improving the housing affordability situation. Largely, this progress and the successes it has enabled have been assisted by the use of mandatory requirements in the planning and development process. One recurring theme in the international debate on statutory land-use planning systems and affordable housing, however, is the limited extent to which planning can increase the supply of affordable housing, although the English case shows clearly that planning can influence the location of new affordable housing (Paris 2007, p1). Additionally, some of these measures have been in place for some time, allowing for 'cultural' attitudes among developers, not for profit groups and governments to mature.

In Australia, while some state governments have made progress towards emulating their international peers, there remains a need for concerted, state and nationwide action on housing affordability. While there have been some positive developments recently, obstacles remain, including a lack of a common definition of affordable housing and the ongoing—and largely diversionary—debate over whether increasing land supply is the obvious answer to housing affordability issues.

For the purposes of delivering affordable homeownership, there exist numerous relevant overseas models, some with embryonic forms in Australia. These include initiatives involving the cooperative housing sector and emerging dual mortgage schemes which can be built on to develop Australian analogues of deed restrictions, LEHCs and CLTs. There exist opportunities and a need to develop Australia's emerging innovative programs further, which can avoid subsidy leakage and generate substantial and long-term outcomes for improved affordability in homeownership.

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