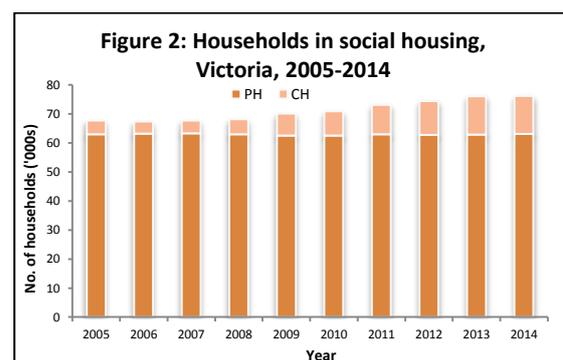
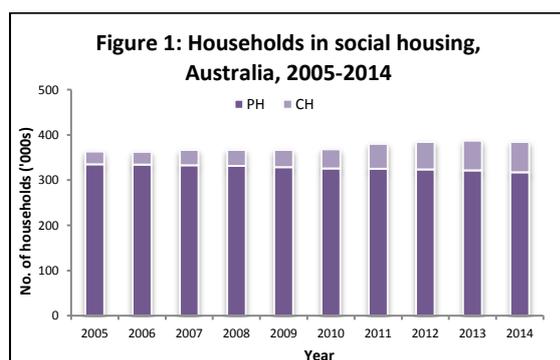




The supply – or lack thereof – of social housing, referring to both public and community housing, remains an enduring issue for states and territories around Australia, including Victoria. Public housing, whilst continuing to be the predominant form of social housing, has been declining in its share of total social housing supply, as government budgets constrain new development. What limited growth there has been in social housing over the last decade has increasingly been the result of community housing organisations. The shortage of social housing is forcing greater numbers of low-income and disadvantaged households to rent privately for long periods of time, with many households experiencing housing stress as a result, even after receiving support in the form of Commonwealth Rent Assistance. Recent research suggests that the actual level of social housing demand is significantly larger than appears. The rub is this dire situation calls for greater investment in social housing construction, requiring the exploration and implementation of new planning and funding models that could aid the creation of a sustainable social housing sector capable of meeting this growing need.

At the 2011 ABS Census 4.8 per cent of Australian households (around 380 000) lived in social housing, a level that has remained relatively unchanged in the last 30 years.¹ Nationally, since 1996 the community housing sector has taken an increased role in the provision of housing as the number of public housing dwellings has dwindled.² Figures 1 and 2 below show the number of households living in the social housing sector in Australia and Victoria between 2005 and 2014. As the graphs illustrate the number of social housing households has increased in Victoria and nationally. The increase in supply has been driven largely by the community housing sector as the proportion of those living in public housing has decreased over the previous decade.

In 2014 there were approximately 384 000 Australian social housing households, including 76 000 households in Victoria. From 2005 to 2014 the number of Australian households living in public housing decreased approximately 18 000 (5.4 per cent) to 317 000, while the number of households living in community housing has increased approximately 39 000 to around 67 000, an increase of 137 per cent. In Victoria during this period, the number of households living in social housing has risen by approximately 8 000 (12.5 per cent) to more than 76 000 households in 2014, with almost all of the increase found in the community housing sector.³



Limited social housing and housing stress

A dearth of social housing options has resulted in an increasing number of eligible households having to rent privately. Consequently, there are now many more low-income households, defined as those households situated in the bottom 40 per cent of income distribution, renting privately than there are households living in social housing. Table 1 shows selected characteristics of low-income renter

households, in both Victoria and Australia, who were spending greater than 30 per cent of their income on housing costs in 2008 and 2012.⁴ In Victoria, and nationally, the number of low-income renter households spending more than 30 per cent of their income on housing rose between 2008 and 2012.

In 2012 the ABS estimated that there were as many as 267 000 low-income households in Victoria and approximately 1 233 000 households nationally. Table 1 highlights the deterioration of rental affordability in Victoria and nationally across all but one characteristic (group households), and that the rate of deterioration in Victoria is typically much higher than for Australia as a whole. The situation is particularly acute in Melbourne with over 50 per cent of low-income renter households experiencing housing stress, significantly higher than the national average. The largest increase in housing stress is associated with low-income couples with dependent children.

From 2008 to 2012, the proportion of Victorian low-income couples with dependent children paying over 30 per cent on housing has increased from 12 per cent to 39 per cent. Interestingly, this deteriorating situation for low-income households in Victoria is similar for those households earning a wage or salary as it is for those households relying on government pensions and allowances as their main source of income. The proportion of low-income households earning a wage or benefit paying more than 30 per cent of their income on housing costs have both increased by around one-third to 37.2 per cent and 40.6 per cent of households, respectively.

Table 1: Selected characteristics of Low Income Renter Households, Victoria and Australia, 2007-08 to 2011-12					
Selected household characteristics		Victoria		Australia	
		2008	2012	2008	2012
No. of households ('000s)		257	267	1 143	1 233
Location	Capital city	37.3%	51.9%	36.0%	43.1%
	Balance of state	17.4%	27.8%	34.2%	35.9%
	All households	32.4%	44.5%	35.4%	40.7%
Household composition	Lone Person	50.2%	57.0%	44.7%	45.5%
	Couple only	20.4%	36.5%	34.8%	47.1%
	Single Parent Family	23.6%	29.3%	28.9%	35.4%
	Couple Family	12.0%	39.1%	20.9%	32.2%
	Group Household	76.3%	57.7%	68.4%	53.2%
Main source of household income	Wage and salary	27.9%	37.2%	30.7%	36.9%
	Gov. pensions and allowances	30.2%	40.6%	34.3%	38.2%
Equivalised disposable household income (excluding CRA)	Decile 1	54.3%	73.2%	49.7%	60.0%
	Decile 2	27.6%	38.3%	31.3%	35.9%
	Decile 3	15.2%	28.8%	29.1%	33.3%
	Decile 4	17.7%	23.7%	23.9%	26.1%

In addition, a 2013 ABS report highlights a number of characteristics of Low Economic Resource (LER) households, those households in the bottom 40 per cent of income and household wealth distribution, in Australia in 2012.⁵ The report estimated that there were more than 1.8 million LER households in Australia in 2012, totaling an estimated 4 968 000 people. LER households are typically renters (67.7 per cent), including 52.1 per cent renting privately and only 12.6 per cent renting from a housing authority. 63.7 per cent of Australian LER households are families, identifying as either couples with dependent children (45.8 per cent) or single parent families (17.9 per cent), and are evenly split between wages and benefits as the primary source of household income (47.7 per cent and 44.4 per cent, respectively).

A lack of available social housing means that there are an increasing number of low-income and low wealth households needing social housing who will instead be faced with renting privately for an extended period of time. Indeed, research by the Australian Housing and Urban Research Institute (AHURI) has found that Australian low-income households are over represented in those households renting privately long-term (45.5 per cent) – i.e. households who have been renting continuously for a period of ten or more years.⁶

Consequently, the number of households requiring support in the form of Commonwealth Rent Assistance (CRA) is also rising. For instance, in 2014, CRA payments totaled 3.95 billion dollars, representing an increase, in real terms, of 736 million dollars (22.9 per cent) between 2010 and 2014. CRA payments to Victorian renters increased 188 million dollars (26.9 per cent) to 889 million dollars between 2010 and 2014.⁷

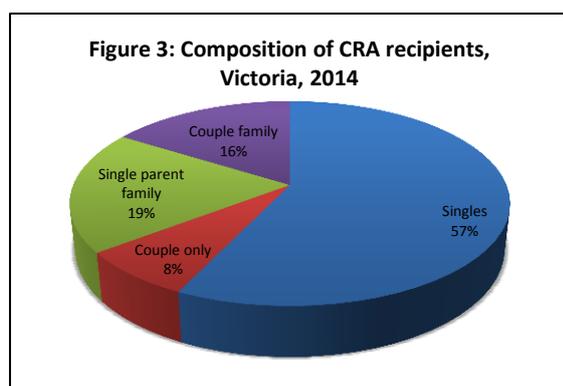
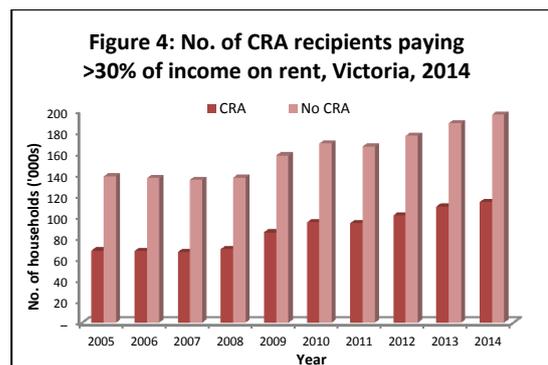


Table 2: Increase in CRA recipients 2005-2014, Victoria

Household type	2005	2014	% ↑
Single	116 317	171 367	47.3%
Couple only	15 346	22 439	46.2%
Single parent family	44 825	58 130	29.7%
Couple family	27 279	48 241	76.8%
Total	203 767	300 177	47.3%

In Victoria, the number of CRA recipients increased from approximately 204 000 to 300 000 between 2005 and 2014. Victorians receiving CRA, as illustrated by Figure 3, are largely singles with no dependent children (57 per cent), either living alone or sharing. However, the past decade has witnessed substantial increases in the numbers of all household types relying on CRA. Significantly, the number of privately renting couples with dependent children requiring CRA support has increased almost 76.8 per cent (approximately 21 000 households) over the period. CRA remains a crucial policy for supporting for low-income renter households needing to rent privately.⁸ Figure 4 depicts the impact of CRA on the number of households experiencing housing stress between 2005 and 2014. In 2014, for example, without CRA approximately 196 000 Victorian households (66 per cent) receiving CRA would experience housing stress.

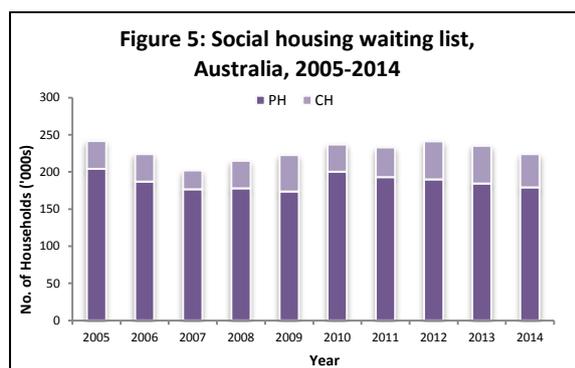
The provision of CRA reduces this to around 114 000 households (38 per cent). However, as Figure 4 demonstrates, the number of Victorian CRA recipients still paying more than 30 per cent of their income on rent has been steadily rising since 2005. This is particularly the case for those living in Melbourne. Further, the number of Victorian households receiving CRA who still had to pay greater than 50 per cent of their incomes in rent was almost 37 000 (12.4 per cent).⁹



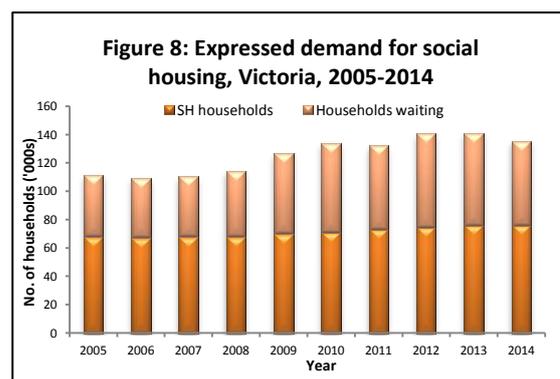
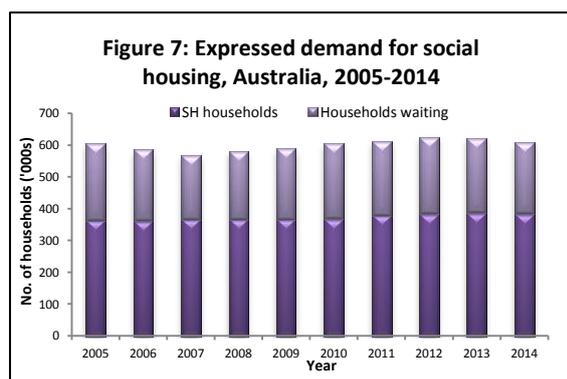
Measuring the social housing supply gap

There is clearly a shortage of available social housing as the waiting lists illustrated in Figures 5 and 6 below attest. In 2014, the number of households waiting for placement in either public or community housing – including current social housing households awaiting transfer – in Australia was approximately 224 000, while in Victoria there were over 59 000 households awaiting placement in social housing.¹⁰ While waiting lists for social housing in Victoria have fluctuated from year to year, as

illustrated in Figure 6, the number of Victorian households waiting for placement in social housing has increased over the last decade.

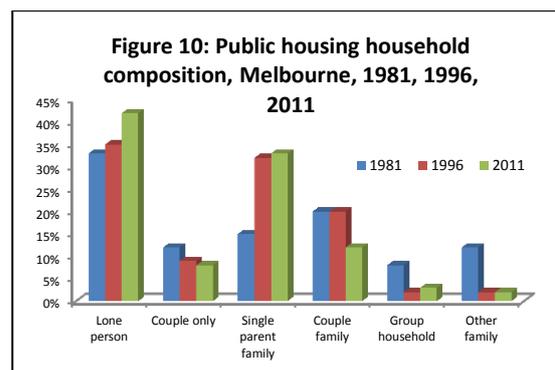
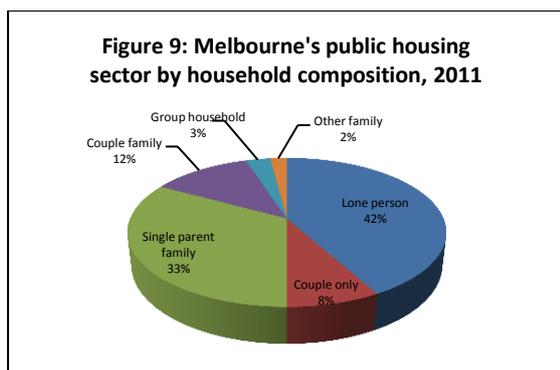


Social housing waiting lists are often discussed as a manifestation of expressed need in the housing sector. Adding these households requesting placement in social housing to those households already living in social housing provides a crude measure of expressed demand for social housing and the corresponding supply gap.¹¹ The trend in expressed demand since 2005 for Australia and Victoria are illustrated by Figures 7 and 8 below, respectively. Nationwide expressed demand is little changed over the previous decade; in 2014 there were approximately 607 800 households either living in or waiting for social housing. Expressed demand social housing in Victoria, as Figure 8 shows, has increased from 111 600 households in 2005 to 135 500 households in 2014.¹²



However, recent research by AHURI suggests that relying solely on waiting lists to measure expressed need for social housing is inadequate and may undercount the real need for social housing.¹³ This is because many eligible households may not apply for social housing due to prevailing stigma attached to social housing, or because the waiting times for placement in social housing are far too long.

The research, tracking the supply and consumption of public housing between 1981 and 2011, suggests this is the unintentional result of nationwide policies to specifically target the most disadvantaged households or those experiencing significant housing affordability issues, typically lone person households and single parent families. In 2011, 66 per cent of households living in public housing in Melbourne, as shown in Figure 9, were comprised of lone person households and single parent families (42 per cent and 33 per cent, respectively). Figure 10 below highlights the increase in the proportion of lone person households and, in particular, single parent families from 1981 to 2011, and the relatively small (and mostly decreasing) proportion of other household types over the 30 year period.¹⁴



Policies targeting the most vulnerable households – those dealing with mental illness and addictions, or victims of mental illness, for example – or those experiencing multiple disadvantages continue to be important. Yet it is important to recognise that an inadvertent consequence of such policies is the raising of barriers to many low-income households that are eligible for social housing yet forced to rent in the private market. These low-income households may be experiencing housing stress and often marginal employment – and, hence, meet the income eligibility criteria for social housing – but they may nonetheless remain incapable of ever gaining access to either public or community housing.¹⁵

In an effort to more accurately measure social housing need the AHURI research, rather than using waiting lists, takes a broader approach which encompasses both income and housing affordability criteria. Social housing need in this instance is calculated as the total number of low-income households renting in the private rental market who are experiencing housing stress, defined as spending more than 30 per cent of their income on rent,¹⁶ in addition to those who are already living in social housing. Using 2011 ABS Census data, this method suggests that in 2011 the real demand for social housing in Australia was 8.4 per cent of households, compared to the 4.8 per cent of Australian households who were living in social housing at the time.¹⁷

If we extrapolate this need for social housing as a proportion of all households to the situation in Victoria – i.e. 8.4 per cent of the approximately 1 945 000 Victorian households captured in the 2011 Census – then the existing and potential demand for social housing in Victoria in 2011 may have been over 163 000 households. This implied demand of 163 000 Victorian households is significantly higher than the expressed demand of approximately 132 000 in 2011. At this juncture it is important to point out that not all low-income households renting privately and experiencing housing stress necessarily require a supply response through placement in social housing. However, the argument can be made that the real demand for social housing in Victoria in 2011 was somewhere between the expressed and implied demand – i.e. between 132 000 and 163 000).

When compared to the level of actually existing Victorian social housing supply, of slightly more than 73 000 households, it becomes clear that the actual level falls way short of the mark. By 2014 there were 76 149 households living in social housing. While growth in this sector is a welcome improvement, existing and potential demand is unlikely to have shifted significantly. Particularly as affordability issues within in our major cities continue to bite, as indicated by sustained annual increases in the number of households receiving CRA.

The proportion of Australian households seeking or eligible for social housing is rising. The number of actual social housing dwellings, on the other hand, as a proportion of all dwellings has been in decline. Indeed, the deficit has become so large that more than 150 000 new social housing dwellings would need to be constructed nationwide simply to return social housing's share of housing stock to 1996 levels.¹⁸ There is now a clear need for social housing construction this imperative only intensifies given Australia's population is forecasted to reach almost 36 million by 2050.¹⁹

Increasing social housing construction in Victoria

Increases in social housing stock in Australia have, historically, been the result of direct investment of governments. As mentioned above, government funding for new social housing construction, in the form of direct capital investment, has been in decline for 20 years. During this period, a central policy of federal and state governments in Australia has been to encourage private investment in social housing construction.

Strategies aimed at encouraging private investment in social housing can take many forms and include both direct subsidy, such as the dedication of government land, as well as indirect subsidy, such as reducing financial barriers for private developers by fast tracking planning approvals and scrapping fees. In addition, governments have offered density bonuses and other financial incentives through favourable taxation to encourage new social housing construction, as well as using planning levers such as inclusionary zoning. The effectiveness of these policies, using examples and experience from Australia and overseas, has been well discussed.²⁰

One of the more enticing and popular policy initiatives in Australia in recent years has been mandating inclusionary zoning. Inclusionary zoning requires a proportion of all new developments to be set aside for social and affordable housing. During the 1990s in the United Kingdom, for instance, affordable housing targets ranging from 15-50 per cent catalysed the construction of 10-15 000 affordable dwellings per annum.²¹ Similarly, states such as New Jersey and Massachusetts in the US sought to remove – through ‘anti-snob laws’ – exclusionary regulations that prevent affordable housing by restricting certain types of housing, in the interests of protecting property values. Research suggests these laws have helped ensure that more than 20 000 affordable housing dwellings had been constructed since the 1970s.²²

In Australia, mandatory inclusionary zoning by the City of Sydney was responsible for creating 550 affordable housing dwellings as part of the council’s Green Square and City West redevelopments. This compares to just 63 units when voluntary mechanisms were used.²³ In 2005, South Australia set a target of 15 per cent affordable housing, split equally between purchasers, renters and high needs households. By the close of 2011 more than 2 200 new affordable housing units had been committed, largely on the urban fringe or government owned land.²⁴

Importantly, the experience in Adelaide, although arguably successful, illustrates the importance of government intervention. It has proved difficult for private developers to incorporate the 15 per cent target and remain economically viable without some form of government subsidy.²⁵ Further, the provision of housing catering to different needs has been difficult. The vast majority of newly constructed dwellings feature one and two bedrooms and were priced close to market value, excluding many household types.²⁶

Indeed, land values, remediation costs and as well as the complexities of working within higher density environments, have largely consigned much of Australia’s affordable housing development to the periphery – outer ring suburbs and new greenfield developments – typically a long way from employment opportunities, public transport and services, as well as other amenities.

The effectiveness of policies that shift the burden of direct capital investment in new social housing stock from public to the private sphere, utilizing planning levers and financial incentives to stimulate construction, provide a useful contrast to that of direct investment on the part of governments. The experience in the Netherlands, for example, where Dutch jurisdictions viewed affordable housing as an important social goal, brings this contrast into stark relief.

Throughout much of the twentieth century, the Dutch government and municipalities controlled the housing sector, primarily by regulating the supply of land and directly funding and constructing new dwellings. From the 1970s, construction was increasingly undertaken by independent housing associations, funded primarily by government.²⁷ As a result of these actions, the proportion of social housing reached as high as 42 per cent of dwellings in the Netherlands in the 1980s. Interestingly, since the 1990s the Netherlands moved to a market led housing model which has witnessed a slump

in housing production. By 2006, the proportion of social housing dwellings in the Dutch housing market had fallen to around 33 per cent, around which it remains today.²⁸

With government capital investment stagnating in Australia over the latest couple of decades, new investment in social housing is now predominantly supplied by not-for-profit community housing associations. Experience from the UK and the Netherlands illustrate that a thriving independent housing association sector is possible. This is, of course, a possibility here in Australia; however, as demonstrated in figures 1 and 2 above, the community housing sector remains small.

In particular, the emergence of a sturdy social housing sector which is primarily driven and supported by the community housing sector requires a funding model that can help reduce the often exclusionary financial barriers to social housing development. Recent research by AHURI proposes the creation of an Affordable Housing Finance Corporation (AHFC), whose role it would be to raise capital through issuing low-yield, long-term bonds, guaranteed by the Australian Government.²⁹ The AHFC would provide a simple and effective mechanism for funding social and affordable housing by providing capital through loans to qualified community housing providers to develop social and affordable housing.

Such a mechanism has the potential to significantly reduce the costs of financing such development undertaken by community housing organisations. A similar funding scheme in Switzerland has been operating for more than a decade has shown that interest rates for affordable housing bonds closely followed Swiss Government Bonds and by mid-2014 had not recorded any repayment defaults.³⁰ It should be noted, however, that for the scheme to be economically feasible the vast majority of dwellings would need to be targeted at households in lower paid jobs or who can make an adequate income. This could present problems depending on the scale of need exhibited by households.

Crucially, what can be taken away from these Australian and international examples is that there is no silver bullet when it comes to the provision of social housing. There is a very real need for new planning and funding models to be explored and implemented, and any endeavor to encourage and facilitate the construction of a meaningful number of social housing dwellings will likely require the application of a number of policies operating in unison.

Evidence from Australia and overseas demonstrates that policies like mandatory inclusionary zoning, the provision of government land and offering financial incentives can achieve some success in stimulating the supply of social housing in existing urban areas rather than just on the urban fringe. What seems abundantly clear, however, is that such policies still require significant levels of government subsidy to remain economically viable. And, critically, the higher value the market, the greater the subsidy that is required.

If the goal is the creation of diverse and inclusive communities and reducing socio-spatial inequality, then moving the focus away from (often poorly serviced) greenfield development and towards inner and middle ring urban sites becomes imperative. This overarching goal includes a number of financial and regulatory headaches. The value of land and the other costs of development in these higher value markets, where competition for diminishing space is fierce, present significant barriers to the construction of new social housing stock.

In the case of Melbourne, recent moves by the state government and a number of council to lock up vast swaths of well serviced areas close to the CBD³¹ and the City of Melbourne's removal of mandatory inclusionary zoning of 15 per cent from its recent housing strategy³² will only compound this issue in Victoria.

A recent report commissioned by Shelter NSW³³ on increasing the supply of social and affordable housing in New South Wales notes that the social housing sector could feasibly become operationally self-sufficient through the construction of developments that can house a combination of social and affordable housing tenants.³⁴ However, on a more fundamental level, if we are to achieve the urgent goal of dramatically increasing the number of social housing dwellings to address the increasing social

housing supply gap, in Victoria and nationally, then the only realistic way this can occur is through increased direct capital investment on the part of governments.

The Shelter NSW commissioned report points out that many recurrent public services, such as education, health and trains, for example, are heavily subsidised with no expectation of becoming operationally self-sufficient. Citizens continue to support the funding of these public services on the understanding that they are important public goods, with positive social impacts. So too should social housing and affordable housing more generally. These should be considered public goods with clear social goals of universal access to affordable, appropriate and stable housing, and with positive health, social and economic impacts.

¹ Lovering M. 2014a, 'What is the right level of social housing?', AHURI, Evidence Review 068. Found at http://www.ahuri.edu.au/housing_information/review/evrev068.

² Groenhart L. and Burke T. 2014, 'Thirty years of public housing supply and consumption: 1981-2011', AHURI Final Report no. 231, October 2014, p.58. Found at http://www.ahuri.edu.au/publications/download/ahuri_51002_fr.

³ Productivity Commission (PC) 2015a, 'Housing', Report on Government Services, Chapter 17, Canberra: Steering Committee for the Review of Government Services, Tables 17A.4. Found at <http://www.pc.gov.au/research/recurring/report-on-government-services/2015/housing-and-homelessness>.

⁴ Australian Bureau of Statistics (ABS) 2013a, 'Proportion of low income rental households paying more than 30 percent of their gross income on housing costs, 2007-08 to 2011-12', Housing Occupancy and Costs, 2011-12 (4130.0). Found at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4130.02011-12?OpenDocument> [Additional tables – low income rental households]. Low-income households are defined in this instance as households situated in the bottom 40 percent of income earners.

⁵ ABS 2013b, 'Household Income and Income Distribution, Australia, 2011-12' (6523.0), p.20. Found at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02011-12?OpenDocument#Publications>. Low economic resource households are those in the lowest two quintiles of both equivalised disposable household income and equivalised household net worth.

⁶ Stone, W., Burke, T., Hulse, K. and Ralston, L. 2013, 'Long-term private rental in a changing Australian private rental sector', AHURI Final Report No. 209, p.29.

⁷ PC 2015b, 'Housing and homelessness services sector overview', Report on Government Services, Volume G, Table GA.12. Found at <http://www.pc.gov.au/research/recurring/report-on-government-services/2015/housing-and-homelessness>.

⁸ Figures sourced from PC 2015b, Table GA.15 and PC 2006, 'Housing', Report on Government Services, Chapter 16, Canberra: Steering Committee for the Review of Government Services, Table 16A.46. Found at <http://www.pc.gov.au/research/recurring/report-on-government-services/2006/2006/housing>.

⁹ Figures sourced from PC 2015b, Table GA.24 and PC 2010, 'Housing', Report on Government Services, Chapter 16, Canberra: Steering Committee for the Review of Government Services, Table 16A.48.

¹⁰ PC 2015a, Tables 17A.5 and 17A.7.

¹¹ Lovering M. 2014a.

¹² PC 2015, Tables 17A.4, 17A.5 and 17A.7.

¹³ Groenhart and Burke 2014, pp.55-7.

¹⁴ Figures 3 and 4 are constructed using data found in Groenhart and Burke 2014, p.40, Table 7.

¹⁵ *ibid*, p.55.

¹⁶ *ibid*, p.56. The method used for calculation is described in more detail in Appendix 1.

¹⁷ Lovering M. 2014a.

¹⁸ Lovering M. 2014c, 'Can bonds fund affordable and social rental housing?', AHURI, Evidence Review 009. Found at http://www.ahuri.edu.au/housing_information/review/evrev009.

¹⁹ Lovering M. 2014b, '28% increased demand for public housing projected by 2023', AHURI, Evidence Review 008. Found at http://www.ahuri.edu.au/housing_information/review/evrev008.

²⁰ See Gurrán N., Milligan V., Baker D. and Bugg L. B. 2007, 'International practice in planning for affordable housing: lessons for Australia', AHURI Positioning Paper No. 99; Gurrán N., Milligan V., Baker D., Bugg L. B. and Christensen S. 2008, 'New directions in planning for affordable housing: Australian and international evidence and implications', AHURI Final Report No. 120; and Davison G., Gurrán N., van den Nouweland R., Pinnegar S., Randolph B. and Bramley G. 2012, 'Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales', AHURI Final Report No. 195.

²¹ Gurrán et al. 2007, pp.38-45.

²² *Ibid*, pp.46-54.

²³ Gurrán et al. 2008, p.53.

²⁴ Davison et al. 2012, p.52.

²⁵ Davison et al. 2012, pp.63-4.

²⁶ *Ibid*, p.5.

²⁷ For a more detailed look at the Dutch model and the history of the social housing sector in the Netherlands see Gurrán et al. 2007, pp.57-62, and Gurrán et al. 2008, pp.91-9.

²⁸ Gurrán et al. 2008, pp. 91-2.

²⁹ Lovering M. 2014d, 'Bonds to lower costs of building affordable housing', AHURI, Evidence Review 057. Found at http://www.ahuri.edu.au/housing_information/review/evrev057.

³⁰ Ibid.

³¹ Lucas, C. 2014, 'Planners warn new housing zones could make rich richer, poor poorer', *The Age*, 28 April 2014. Found at <http://www.theage.com.au/victoria/planners-warn-new-housing-zones-could-make-rich-richer-poor-poorer-20140428-zr0w8.html>.

³² cbdnews.com.au 2015, 'Councillors compromise on housing strategy', 29 January 2015. Found at <http://cbdnews.com.au/councillors-compromise-housing-strategy/>.

³³ Ferrer E. 2014, 'The cost of increasing affordable housing supply in New South Wales', Sydney: Shelter NSW. Found at <http://www.sheltersw.org.au/publications-new/policy-papers/financing-housing-supply/449-the-cost-of-increasing-social-and-affordable-housing-supply-in-new-south-wales/file>.

³⁴ Johnston C. 2015, 'Investing in our housing future', *Around the House*, No. 100, March 2015, p.5