

3<sup>rd</sup> June, 2008



Sectional Manager  
c/ Department of Families, Housing, Community Services  
and Indigenous Affairs  
PO Box 7576  
Canberra Business Centre  
ACT 2610

**By email: [nras@fahcsia.gov.au](mailto:nras@fahcsia.gov.au)**

**Registered Office**

55 Johnston Street  
Fitzroy VIC Australia  
**Mail** P O Box 234  
Fitzroy VIC 3065  
**Phone** (03) 9411 1444  
**Fax** (03) 9416 051  
**Web** [www.tuv.org.au](http://www.tuv.org.au)

Dear Sir/Madam,

**RE: National Rental Affordability Scheme - Technical Discussion Paper.**

The Tenants Union of Victoria (TUV) welcomes the opportunity to respond to the National Rental Affordability Scheme (NRAS) Technical Discussion paper.

Whilst we understand the Government's current expectations of the NRAS are not to create full affordability we nonetheless have some deep reservations about the practicality of even lesser aims. Our research shows that the NRAS will produce only partial or improved affordability for most of the households it aims to assist.

The Tenants Union of Victoria (TUV) was established in 1975 as an advocacy organisation and specialist community legal centre, providing information and advice to residential tenants, rooming house and caravan park residents across the state. We assist about 25,000 private and public renters in Victoria each year. Our commitment is to improving the status, rights and conditions of all tenants in Victoria. We represent the interests of tenants in law and policy making by lobbying government and businesses to achieve better outcomes for tenants, and by promoting realistic and equitable alternatives to the present forms of rental housing, and financial assistance provided to low income households.

**Affordability**

In general terms we consider the best measure of affordability to be when the after housing income of a household is above the After Housing Henderson Poverty Line (AHPL). A more common proxy for affordability is where the cost of housing constitutes 30% or below of the total income for a low income household. Where the reverse is true and households pay more than 30% they are considered to be in housing stress and their housing is unaffordable.

The discussion paper identifies that 625,000 Australians are experiencing housing stress the majority of which are tenants in the private rental market. The TUV is committed to promoting Government policy innovation which reduces this number.

TUV modelling of housing affordability in Victoria highlights that NRAS may have little effect on most of those in housing stress. Each quarter the TUV updates its housing

affordability data. The data calculates the total income of typical low income households, such as single unemployed people, minimum wage earners, sole parents, families etc. and the percentage of their income they are likely to pay on rental housing in key metropolitan and regional areas. Rent figures are taken from the Office of Housing "Rental Report", which presents median rents for different sized dwellings in localities all over Victoria and is based on data from lodged bond payments. Using this data a further analysis of the potential effect of the NRAS scheme was undertaken.

### **Market rents v median rents**

One of the significant issues identified during the research was the disparity between what we will call "market rents" and "median rents".

As expected, the first issue we identified is that average rent for a new property is higher than the average rent overall for any particular dwelling type. This is because the average rent overall is a product of properties across a broad continuum of age, standard and amenity in any particular location. New properties will be clustered at the higher end of the rent spread and older/lower standard properties will be clustered at the lower end of the rent spread. The significance of this is that "market rents" for new properties in any given location will be higher than the median rent for that property type at that time.

The second issue is that there are different data sources for rent levels. Market rents as indicated by advertised rents are likely to be equivalent to those rents set by an independent valuation carried out at the same time. Median rents are most commonly sourced through bond data or other similar data sets and are generally available some time after the period for which the data was collected. Although it is possible to establish a median market rent, generally speaking the data source for median rents lags some way behind the market itself. For example, the Rental Report in Victoria which shows median rent data for all suburbs and property types for the December Quarter 2007 was only released in late April 2008.

The key finding of our research was that market rents for new properties in many suburbs were \$80 - \$100 per week greater than the median rent available for the same property type in the same location. This had the coincidental effect that 80% of the market rent was in many instances approximately equal to the median rent overall.

Generally, only households who would have achieved full affordability at the median rent will achieve full affordability at 80% of the market rent for new dwellings. Based on this equivalence, we modelled affordability outcomes against the median rent for respective property types in several locations.

### **Target clients & Eligibility**

The NRAS aims to increase the supply of affordable rental housing to singles and families on low and moderate incomes, but as the TUV research demonstrates it will in fact take very few of these households out of housing stress. Many low income earners, particularly single households, will gain only partial affordability and their experiences of poverty will persist.

We can demonstrate this clearly by comparing the median rent and the NRAS rent for a single person on Newstart who is living in a one bedroom flat in Brunswick. The most recent edition of the Office of Housing "Rental Report" is for the December 2007 quarter

and the median rent for a one bedroom flat in Brunswick was \$207 per week. Given that the general trend for rent increases is 12% per annum and we are already well into the second quarter, a more accurate rent figure would be 6% higher at \$219 per week. At this rate a single person on Newstart would pay approximately 82% of their total income on rent. By comparison, the current market rent (based on advertised rents) for a new one bedroom flat is approximately \$262 per week. The NRAS rent would reduce the market rent of a new one bedroom flat in Brunswick to \$210 which is higher than the known median but probably lower than the estimated median and still not affordable. Similar outcomes are observable at other locations across Melbourne.

For a single person on Newstart who is paying median rent levels the NRAS will have little to no affect on affordability. It should also be remembered that many low income households are actually renting at sub-median rent levels. These households are trading off renting lower standard and lesser amenity properties for a better affordability outcome. If as our research indicates, the NRAS 80% market rent is roughly equivalent to the median rent overall then for many of these low income households moving to an NRAS rent will worsen their housing affordability. The only benefit would be occupation of a better standard property but most of these households have already made the choice to have better affordability and lesser standard. Lower income households who currently pay below median rent may see little value in a scheme which asks them to pay more than what they are currently paying for housing in the mainstream market.

At its current subsidy levels the NRAS would best benefit people at the higher end of the low income range and the lower end of the middle income range. Given this, people with income equivalent to CRA recipients should be eligible for the scheme. If eligibility is not set higher, we doubt the scheme will be taken up by tenants at the levels envisaged in the discussion paper.

These problems of affordability also need to be seen in the context of rapidly escalating rents. So even if the NRAS rent was affordable at the commencement of the tenancy if it moves in line with the market in that location then it may not remain affordable over time.

For administrative simplicity and cost saving at least, the proposed annual process of market rent evaluation could be scrapped and the median rent for the dwelling size and the area could be charged instead. The TUV research discussed above has indicated that 80% of market rent for new dwellings is roughly the median rent. Following this proposal would mean, however, NRAS rents will lag behind the market. Another difficulty pursuing this proposal is that different states rely on different methods of rent data collection. Victoria, New South Wales and Queensland all produce rent reports from data collated by their respective bond boards. In the remaining states the Real Estate Institute of Australia Market Facts provides the best estimates. A decision would have to be made about which data source/s to rely upon.

### **Parallel Outcomes**

A tight handle on other administrative details, such as the proactive management of the location will produce a better outcome for the NRAS scheme. The first call for Expression of Interest should not just seek construction proposals that can deliver completed dwellings before July 2010, but also establish criteria about the location of the dwellings. The NRAS scheme may inadvertently encourage a boom in construction in areas with

cheap land but which have poor access to infrastructure, health care, education and government services. Initially this may create greater affordability outcomes but the long term costs of social isolation and concentrating disadvantage would far outweigh this. Development in areas which have social security penalties attached should also be avoided, since this will act as a disincentive to move, irrespective of savings on housing cost.

In addition to management of location there needs to be some proactive management of stock profile. The size of dwellings should match demand. There is little value in allowing the construction of three bedroom houses to flood the market when it is single people and sole parents, needing one or two bedroom units, who are experiencing the most housing stress. The environmental sustainability and accessibility of properties should also be established. Available properties should be required to demonstrate a reasonable energy efficiency rating and be physically accessible for people with disabilities.

### Concluding Remarks

NRAS should always be thought of as making a small contribution amongst other efforts to boost affordable housing supply. The NRAS aims to attract greater private investment in the provision of affordable rental housing and produce 50,000 new dwellings over ten years.<sup>1</sup> Even if the NRAS was able to achieve these numbers, research by housing expert Terry Burke suggests it would be nowhere near enough to affect affordability. It is estimated that future demographic trends mean that an additional 2 million households will be necessary by 2025. Current patterns of income inequality mean, conservatively, that 10 to 11 percent of these households will be on the poverty line. These figures suggest that more than 200,000 additional households would have such a level of income that targets for 10,000 social housing units per annum for the next *twenty years* are necessary. If we were to include the provisions of affordable housing for those on low but not poverty line incomes, the reduction of the wait list and the making up of national shortage of low cost rental stock, an additional 15,000 to 20,000 social housing units per annum for the next twenty years is necessary.

Given existing slow growth in the development of new affordable housing, more policy innovation is needed. The new Federal Government is right to seek policies which are responsive to institutional investors.<sup>2</sup> Institutional investors have the capacity to outlay large funds with the potential to make positive and more immediate inroads into the housing affordability problem. Rental housing is currently not viable for investment by large banks, insurance companies and the superannuation funds for reasons such as low rental yields, a high risk market, high management costs, illiquidity of property assets and a lack of reliable market information. Governments need to find more ways to reduce the gap between the required and actual rate of return facing these investors. As the Government has already admitted the NRAS is “no silver bullet”.<sup>3</sup> Many other detailed options for how to facilitate and channel large scale private debt and/or equity capital

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<sup>1</sup> Australian Labor Party (2007) ‘Federal Labor’s National Rental Affordability Scheme’, [Media Statement], *Australian Labor Party*, retrieved 1<sup>st</sup> February 2008, <http://www.alp.org.au/media/0807/mshouloote130.php>. See also Australian Federal Government (2008) ‘More people need affordable housing in Australia’, *egov monitor*, retrieved 1<sup>st</sup> February 2008, <http://www.egovmonitor.com/node/16892>

<sup>2</sup> Berry, Mike. (2002) New Approaches to expanding the supply of affordable housing in Australia: an increasing role for the private sector, *AHURI*, p. 11, retrieved 15<sup>th</sup> January 2008, <http://www.ahuri.edu.au/publications/p30021/>

<sup>3</sup> Australian Federal Government (2008) ‘More people need affordable housing in Australia’, *egov monitor*, retrieved 1<sup>st</sup> February 2008, <http://www.egovmonitor.com/node/16892>

into affordable housing have already been identified and researched in Australia.<sup>4</sup> The Government should act on this advice.

Very importantly, since the NRAS cannot provide for full affordability and seriously reduce housing stress, priority should be focussed on redressing this flaw.

### **Recommendations:**

As rents continue to rapidly escalate the affordability outcomes of the project will deteriorate. We look forward to seeing the roll out of other complimentary initiatives to the NRAS to ensure housing affordability for more Australians.

In consideration of the above we recommend for that the following occur if greater benefit is to come from the NRAS:

- Eligibility: Should be set high and include people with equivalent income to CRA recipients.
- Rent Setting: Cost of evaluating 80% of the market rent be scrapped for a simpler benchmark, the median rent for respective area and property size.
- Proactive Management of Construction: States should set guidelines about dwelling locations, size, energy efficiency ratings and physical accessibility

Throughout this paper we have referred to our detailed modelling, which compares affordability impacts of market rent for new lettings and median rent overall in nine metropolitan and nine regional areas in Victoria. We can provide this information on request.

We welcome any further opportunity to discuss our research and recommendations with the relevant departmental staff.

Yours sincerely

MARK O'BRIEN  
CHIEF EXECUTIVE OFFICER

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<sup>4</sup> For example see Berry, Michael (2002) "New Approaches to expanding the supply of affordable housing: an increasing role for the private sector", *AHURI*, retrieved 1<sup>st</sup> February 2008, <http://www.ahuri.edu.au/publications/projects/p30021> and Lawson, J & V. Milligan (2008) 'What can Australia learn from international trends in housing and policy responses', *AHURI*, retrieved 1<sup>st</sup> February 2008, <http://www.ahuri.edu.au/publications/projects/p60323>