

# **PRACTICAL BENCHMARKS AND TOOLS FOR AFFORDABLE PRIVATE RENTAL HOUSING**

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## **Introduction**

Affordability remains a widely applied concept for evaluating housing outcomes and rental market performance. However there is considerable ongoing debate about what constitutes appropriate use of affordability (Hulchanski 1995; Landt and Bray 1997; Burke and Short 2002). A variety of approaches continue to be used in Australia to quantify the extent of affordability problems (Yates and Wulff 2000; King, Percival and Phillips 2002).

Specifically, there is no agreement about how best to apply such an approach in evaluating local outcomes. Turning this concept of affordable housing into a practical tool with application and acceptance in the Local Government planning environment has emerged as priority project for the Queensland Department of Housing in 2003.

This paper outlines a new framework for establishing affordable rents benchmarks by bedroom size. The primary policy imperatives are to develop a monitoring tool capable of identifying emerging trends in supply of affordable housing at the local level, and to promote that tool as a guide for Local Government to retain and encourage private sector provision of affordable housing.

In the final section we also consider some of the emerging trends in housing research, and suggest that State Housing Authorities need to expand beyond our current emphasis on performance reporting to develop a dialog on both small-area and survey-based forms of housing analysis.

## **Context**

Many urban centres in Queensland have grown and developed rapidly in recent years. The latter half of the last decade established the South East corner of the State (the greater Brisbane metropolitan region and the Gold and Sunshine Coast regions) as the fastest growing region in Australia whilst the populations of many coastal centres (most notably Cairns, Townsville, Mackay and Hervey Bay) have also increased significantly. Continued growth is projected for these areas as a result of strong intrastate and interstate migration patterns.

This growth (in conjunction with current levels of investment in residential property) has had a profound impact on local housing markets. In “desirable” locations such as inner and near city suburbs redevelopment pressures have pushed rents and purchase prices upwards forcing long term residents and other low income households to seek housing elsewhere. The same phenomenon is occurring in many coastal centres as a result of the increasing demand for tourism accommodation and facilities.

This displacement of low income households (sometimes referred to as “social exclusion”) has severe consequences that transcend local areas and impact on the entire community. Of particular concern is the growing realisation that high housing costs or insecure or badly located housing can be a barrier to education and employment outcomes for individuals. Failure to address this issue will have significant longer term financial implications for governments at all levels.

A number of Local Governments experiencing housing affordability problems have identified the need to retain existing affordable housing and encourage the provision of new stock. Whilst Local Government in Queensland has played a relatively limited role in affordable housing to date (mainly through the provision of community housing in remote and rural

areas), Local Governments exercise significant influence on local housing outcomes and residential development practices through their core policy, planning and regulatory functions.

Efforts by Brisbane City Council to preserve low cost accommodation and to encourage the private sector to develop new stock through the land use planning system have highlighted the need for a robust definition of affordable housing<sup>1</sup>, along with a means of specifying affordable rents. Three scenarios were envisaged:

### **1. Monitoring existing affordable housing stock**

The Benchmarks may be used as a performance indicator for establishing and monitoring the proportion of affordable rental housing in an area. This can be achieved by measuring the proportion of rental stock falling above and below the Benchmarks for each dwelling size category, using actual rent and stock analysis for an area provided by the Department of Housing. In the event of declining numbers, Local Governments may wish to consider implementing strategies to increase or retain the supply of affordable housing.

### **2. Retaining existing affordable housing stock**

When used in conjunction with provisions in a planning scheme or local plan, the Benchmarks provide an effective means of identifying individual dwellings as affordable housing in the event of a demolition or material change of use application being lodged. For example, in areas where existing affordable housing is under pressure from redevelopment activities a Local Government may decide that a proposal to replace four units that are currently rented affordably (according to the benchmarks) should not be approved. Alternatively the developer could be required to mitigate the impact of the proposal by incorporating affordable housing into the new development.

### **3. Providing an affordability template for new development**

In some instances negotiations with developers may produce affordable housing outcomes in the form of new dwellings. The Benchmarks represent a means of establishing affordability criteria for different types of dwellings and households, and may simplify the negotiations between the Local Government, developer and possibly a third party affordable housing manager. The Benchmark Rents could be applied to privately owned sites and surplus government land and could be used as a basis for informing tendering processes.

The Benchmarks provide a guide to 'affordability' and are not in themselves a 'rent-setting' formula. This basic formula provides a guide to identifying households that may be in 'housing stress' (if paying more than 30% of income on rent). In the terms of the Department's definition of 'affordable housing', housing stress may also result if a dwelling is inappropriate to the household's needs (i.e., too small, inaccessible) or poorly located (thus imposing other costs on the household).

## **Method**

The impetus to develop a benchmark measure of affordable housing stock came from the loss of inner city low-rent dwellings, as they were increasingly replaced by much more expensive stock. Policy and analytic staff at the Queensland Department of Housing were attracted to the research done by Yates and Wulff (2000) which attempted to measure this change using Census data. They concluded that while there was a 34% increase in total private rental stock between 1986 and 1996, there was a significant decline in stock at the lower end of the rental market.

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<sup>1</sup> The Department of Housing considers housing to be affordable when:

- The dwelling is appropriate to the needs of low- and moderate-income households in terms of design, location and access to services and facilities.
- Rent paid by households in the lowest 40% of income units does not exceed 30% of gross household income after any applicable Commonwealth Rent Assistance is deducted.

We were also very aware that we had to improve on that work if we expected to gain credibility in Local Government planning, where guidelines would have to be detailed enough to inform decisions on specific development proposals, and where the ultimate test could be through legal challenge. Yates and Wulff's original work had used the following rent ranges (1986 \$):

Low	\$1-99
Low - moderate	\$100 - \$149
Moderate - high	\$150 - \$199
High	\$200+

There are three main problems with this approach. First, the benchmarks of "under \$100" etc are arbitrary, with no clear rationale for choosing those particular cut-offs. Second, they take no account of dwelling size. A decline in dwellings under \$150 might be mainly due to new dwellings having two bedrooms rather than one. This second limitation is particularly problematic for planning, where guidelines need to be specific enough to assist council and developers to agree on affordable rents for a given development of say 2 bedroom units. Third, the benchmarks do not incorporate the effect of Commonwealth Rent Assistance.

The Department was acutely aware that a more rigorous approach would be required for use in statutory land use planning processes where development assessment decisions are routinely subjected to legal challenges. The "low income" measure used for reporting under the Commonwealth State Housing Agreement was identified as a defensible starting point for defining a low income "benchmark". This level is based on the full pension plus discretionary income and Family Tax Benefit entitlement. As well as being an accepted social standard for social income, it is roughly equivalent to the traditional "lowest 40% of household incomes" cut-off for State Housing Authority assistance<sup>2</sup>. A "very low income" measure derived from the Newstart allowance plus Family Tax Benefit entitlements was added to identify affordable rents for households on basic incomes.

From these two income levels, affordable rents were calculated for the main household types, with each paying no more than 30% of income for rent after Commonwealth Rent Assistance entitlement. Treating the rent-income ratio of 30% as affordable is a relatively simplistic approach, popular more for its ease of calculation and transparency than its accuracy. However it remains widely accepted in Australia since its inclusion in the 1991 National Housing Strategy.

The Queensland Public Housing dwelling entitlement policy was then applied to allocate the bedroom requirements for each household type. There were alternatives<sup>3</sup>, but this policy is a relevant local standard for allocating low income housing. Our "affordable rent" benchmark for say one bedroom housing was then the level which could be afforded by all the households which need that dwelling size.

Tables 1 and 2 display the derivation of the Low Income measure, and the resulting Low and Very Low benchmarks.

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<sup>2</sup> The CSHA Low Income A level is as a performance indicator to measure whether social housing is delivered to appropriate clients.

<sup>3</sup> The Canadian Occupancy Standard is commonly used in research.

Table 1: Derivation of Low Income Affordable Rents Benchmark, June 2001 Centrelink rates

Household type		Income Per Week	Affordable Rent	Rent Assistance
Single - no dependent children	1 beds	\$254.00	<b>\$120.20</b>	44.00
Single -1 child	2 beds	\$324.40	<b>\$148.84</b>	51.52
Single -2 children	3 beds	\$394.80	<b>\$169.96</b>	51.52
Single -3 children	3 beds	\$465.20	\$197.80	58.24
Single -4 children	4 beds	\$535.60	<b>\$218.92</b>	58.24
Couple only	1 beds	\$429.50	\$170.25	41.40
Couple -1 child	2 beds	\$499.90	\$201.49	51.52
Couple -2 children	3 beds	\$570.30	\$222.61	51.52
Couple -3 children	3 beds	\$640.70	\$250.45	58.24
Couple -4 children	4 beds	\$711.10	\$271.57	58.24

Note: Rent assistance not shown for simplicity.

Table 2: Very Low and Low Income Rent Benchmarks (rounded to \$5)

Bedroom Requirement	Affordable Rents	
	Very Low	Low
1 bedroom	\$100	\$120
2 bedroom	\$125	\$150
3 bedroom	\$145	\$170
4 bedroom	\$185	\$220

This grouping of households to arrive at affordable rents by bedroom size may appear complex, but it does mirror a fundamental reality of the market - the landlord will charge the same rent regardless of the tenant's household size or income. In practise this feature is also useful when applied as a baseline for specific development proposals, since it acknowledges that the affordable rent level varies for different household types. A developer whose project has particular character, location and target group might then negotiate with Local Government for an appropriate variation from the standard affordable rent benchmark.

### Testing the Benchmarks

Next we looked to see how the benchmarks match up with rental market reality. If they failed this test we could be sure they would have little credibility with either Local Government or private developers. The relativities across dwelling size are a good fit overall (Table 3).

Table 3: Benchmarks compared to market rents

Bedrooms	25 <sup>th</sup> percentile	Very Low Benchmark	50 <sup>th</sup> percentile	Low Benchmark
1	100	100	120	120
2	135	125	160	150
3	160	145	180	170
4	185	185	220	220

Source: Residential Tenancy Authority rental bonds Brisbane LGA June 2001, bonds no more than 1 year old.

This comparison may prompt the reader to suggest that we adopt the 25<sup>th</sup> and 50<sup>th</sup> percentiles of market rents as a simpler point-in-time benchmark, testing if each segment of the market shrinks or gains over subsequent years after adjustment for inflation. But if the connection to a social standard is removed entirely, we are left with no obvious way to relate the impact of stock changes to the community - a decline in 'low cost stock' might simply be a market response to rising incomes. This connection to real households is a key part of both "telling the story" and "selling the product". It develops an understanding of what the benchmarks mean by referencing real households and income levels, and a justification for Local Government adoption through translating stock loss to human costs.

Comparing the two benchmarks to the median and bottom quartile of the rental market is potentially misleading though; it leaves the impression that the market is meeting the needs of very low income households when 25<sup>th</sup> percentile rents line up well with the “affordable rents”. One of Yates and Wulff’s most significant conclusions was that low income households have at best marginally better access to low cost private rental properties.

Checks of the actual rents paid by households receiving Centrelink assistance confirmed this, with no substantial differences in rent between the two income levels. Median actual private rents are however noticeably lower than the benchmarks for one and four bedrooms. The most likely explanation is the ability of low income single persons to access low cost options such as sharing, boarding houses or older stock, and larger families living in dwelling sizes below their entitlement to reduce rents.

The derived benchmark levels for one and four bedrooms are more suitable as guidelines for Local Government and private sector developments, since they reflect a social standard for appropriate housing. Importantly, these levels will also be more financially viable for the developers who are expected to current standards and tenant expectations.

Table 4: Benchmarks Compared to Median Actual Rents Paid By Centrelink Recipients on Very Low, Low Incomes +/-5% (2001 \$)

Bedrooms	Actual Paid Median Rent	Very Low Benchmark	Low Benchmark
1	80	100	120
2	130	125	150
3	150	145	170
4	155	185	220

Source: Department of Family & Community Services Housing Dataset June 2001.

To provide a comparison of stock from say 2001 to 2003, the 2001 benchmark is adjusted for inflation to produce a comparable 2003 benchmark in constant dollars<sup>4</sup>.

### Changes in Private Rental Provision of Affordable Housing Stock

The following tables give an overview of the 1996-2001 trends for Queensland, and Brisbane Local Government Area in particular. These changes should be viewed in the context of large annual population increases for the State during this period.

Table 5. Affordable Rental Dwellings - Total Gains and Losses 1996-2001

Area of Analysis <sup>5</sup>	Very Low Income Affordable	Low Income Affordable	Overall Gain in Rental Dwellings
Brisbane - Inner City	-1,237	-296	2,075
Brisbane - Near Inner	-1,504	-509	1,908
Brisbane - Outer	498	2,762	7,340
Brisbane - Total	-2,243	1,957	11,323
Queensland - Total	15,147	10,343	39,642

Source: ABS Census custom dataset (excludes bedrooms unstated).

Despite large overall increases in rental dwellings, Inner and Near Inner Brisbane both saw overall<sup>6</sup> losses of Very Low Income Affordable and Low Income Affordable dwellings. This loss was more than balanced at the upper end of the market by increases in Outer Brisbane, but at the lower end (Very Low Income Affordable) there was an overall loss of affordable stock during 1996 - 2001.

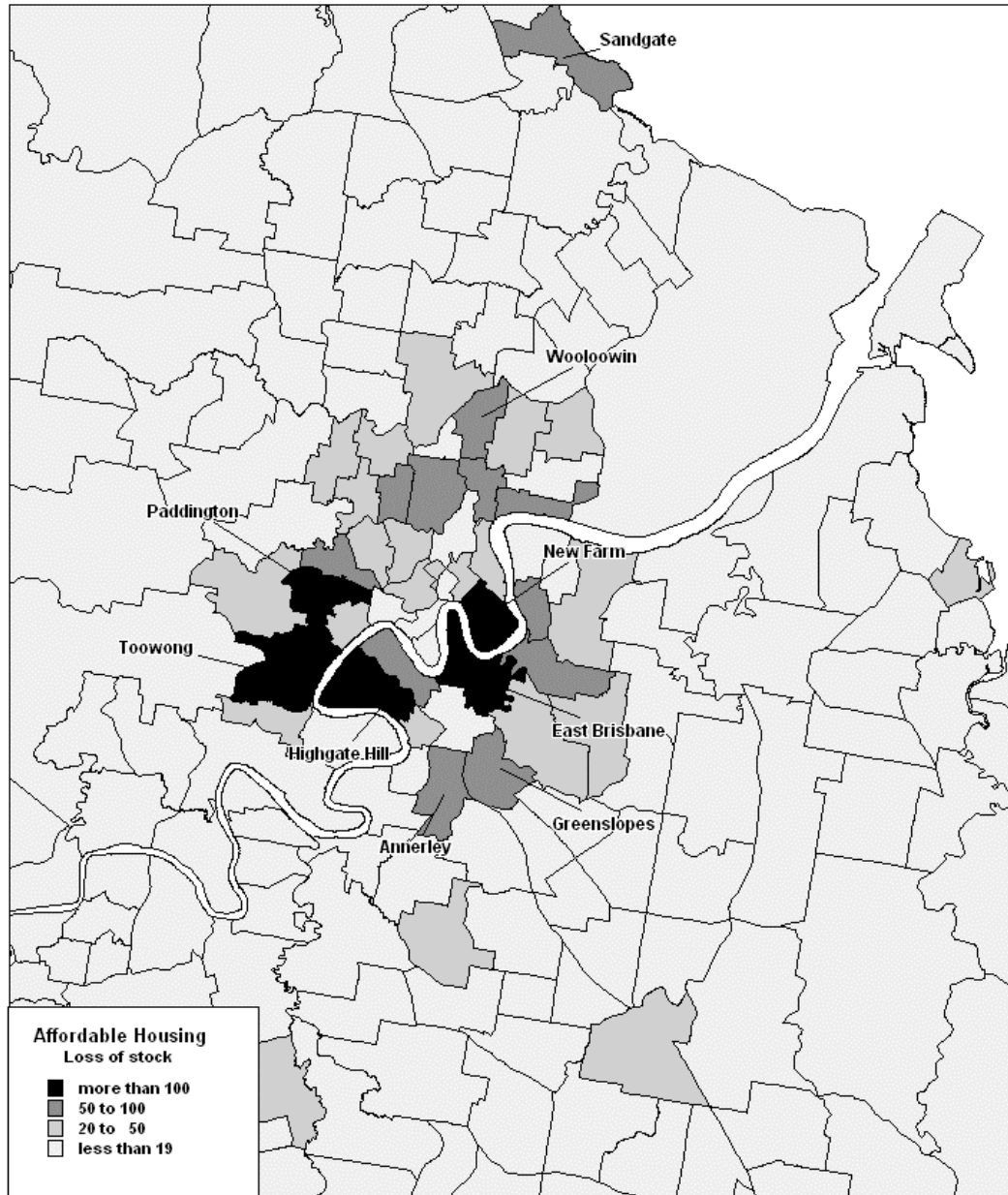
<sup>4</sup> Rent distributions are strongly clustered around \$5, \$10 and \$20 multiples, so a sensitivity analysis is useful to check changes are not unduly influence by an adjusted value falling just to one side of say \$100. Such checks are being applied to 2001-2003 rental bonds data from the Residential Tenancy Authority.

<sup>5</sup> Boundaries are ABS 2001 ASGC with Brisbane-Inner being Statistical Local Areas falling predominantly within 2.5 km of GPO, Near Inner 2.5 - 7 km of GPO, Outer as LGA balance.

<sup>6</sup> "Overall" includes all dwelling sizes combined (1-4 bedrooms).

The use of mapping to identify the spatial distribution of changes in affordable housing is illustrated with another sample of data in Figure 1.

Figure 1. Loss of Affordable 1-2 Bedroom Private Rental Dwellings 1996-2001.



Source: ABS Census custom dataset (excludes bedrooms unstated) Combined Low and Very Low Income Affordable benchmark.

Finally, Table 6 shows illustrative changes in Inner Near Brisbane (2.5 - 7 km from GPO) by bedroom size. The overall loss of smaller accommodation is evident with a net decline in total one bedroom stock, and a much larger loss of affordable one bedroom dwellings. For two bedroom stock there is a significant increase in overall provision, and even a small increase in Low Income Affordable rental. Three bedroom housing again has losses in both categories at the lower end of the market, while four bedroom provision is relatively static.

Table 6. Near Inner Brisbane: Affordable Rental Dwellings by Bedroom Size 1996-2001

Brisbane - Near Inner	Very Low Income Affordable	Low Income Affordable	Overall Gain in Rental Dwellings
1 Bedroom	-478	-302	-124
2 Bedrooms	-552	132	834
3 Bedrooms	-317	-346	1,140
4 Bedrooms	-157	7	58

Source: ABS Census custom dataset (excludes bedrooms unstated).

Work is now under way analysing 2001-2003 rental bonds, which will allow timely release of annual trends<sup>7</sup>. Queensland renters have been fortunate over the past decade in having relatively flat rent increases, particularly in real terms. We are very aware that the recent surge in housing prices will progressively flow on to rent increases and loss of affordable stock on a much larger scale. Annual trend information will be a critical tool for the Queensland Department of Housing, not just to tell the story but to underpin responses by Local Government and the private sector.

We conclude that these benchmarks have proved very effective in measuring changes in private sector provision of lower cost housing. For general local-area trend analysis<sup>8</sup>, the overall measure of affordable stock (all dwellings below the Low Income Affordable level) with breakdown by bedroom size provides a simple and easily digested measure. For specific proposals the further breakdown to Low and Very Low categories is useful, since it facilitates discussion of development options targeted to specific tenant sub-groups.

Preliminary drafts of the benchmarks have also been positively received by Local Governments and the development industry as a credible "starting point" for discussions and negotiations on affordable housing projects during the development assessment phase. This role for affordable rent benchmarks is much more important over the long term, since planning guidelines have the potential to package affordable housing as a normal part of the development process.

### The Future for Housing Affordability Analysis?

Working with the "30% of income" criteria for affordability in a new context prompted us to reconsider its appropriateness - not just here, but also in other areas of housing needs analysis where it is in common use. While the definition is transparent and self-explanatory, it simply is not accurate across different household types<sup>9</sup>.

Recently, overseas researchers have been re-evaluating accepted methodologies following the revival of poverty reduction as an outcome measure for government. Australia has done probably the most significant and substantial investigation of "residual income" methods through development and critique of Indicative Budget Standards (Saunders et al 1998), a form of poverty line with a much more developed method of derivation.

Briefly, this approach considers both a "Low Cost" standard and a "Modest but Adequate" income standard. Each was based on substantial work in focus groups to refine the costs associated with the standard. The Low Cost standard sits slightly above current benefit levels, but applies a more consistent approach across household types. There is a growing body of supportive research which is applying and improving this methodology, particularly in relation to accurate treatment of rental costs (Saunders 1998; Henman 2001; Startup 2002; Siminski and Saunders 2003).

<sup>7</sup> Queensland rental bonds data is available as a file transfer at end of quarter. It is a complete record of bonds held, with high coverage of the private rental market particularly in urban areas. Rents need to be adjusted for older bonds as these are not updated while the bond is held. A comparison with Census rents will inform those adjustments.

<sup>8</sup> Queensland rental bonds data is available and generally valid for Statistical Local Areas.

<sup>9</sup> A commonly quoted illustration is the comparison of a single person and a couple, both on the same income and paying the same rent, where the couple clearly faces greater hardship due to their greater living costs but affordability measured as a percent is equal.

With the recent development of a Statistical Local Area identifier in the Housing Dataset<sup>10</sup> available to State Housing Authorities, after-housing poverty measures emerge as a strong candidate to replace the traditional affordability or "housing stress" approach for small area needs analysis. A further advantage is that properly derived residual income approaches have proven to be more accurate across household types, so they facilitate secondary analysis of which groups are in need at a local level<sup>11</sup>.

As a minimum the time has come for further discussion between State Housing Authorities at national level on these options, as we become more active participants in developing planning, research and policy agendas. We could also apply some of our considerable experience in improving performance reporting to agree standards for housing needs analysis where that is possible.

Finally returning to the future of our original proposition, an affordable housing benchmark which can be applied within the legislative planning environment, we are asking for feedback rather than making any recommendations<sup>12</sup>. We look forward to increased discussion of all alternatives, and to better information to inform our housing planning and policies.

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<sup>10</sup> The Housing Dataset is a confidentialised unit record file of low income Centrelink recipients provided to State Housing Authorities for statistical analysis, through the Department of Family and Community Services.

<sup>11</sup> The Housing Dataset allows for detailed sub-group analysis including disability, benefit type, duration on benefit, and earned income. The major limitation in this regard is the exclusion of low income workers without children, who may not receive Centrelink support.

<sup>12</sup> The framework we have documented here is derived from point-in-time levels of social welfare support, which are complex and contain some arbitrary distinctions. One alternative would be to consider households at the after-housing budget standards income cut-offs, then identify median rents which those households currently face in the private rental market. Local planning interventions which retained or enhanced this supply could then be directly related to the size and circumstances of the target groups they were assisting.