

# Submission

to

## Senate Community Affairs Committee

### Inquiry into the National Rental Affordability Scheme Bill 2008 and the National Rental Affordability Scheme (Consequential Amendments) Bill 2008

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Friday, 7<sup>th</sup> November 2008

Dear Secretary

**RE: Inquiry into the National Rental Affordability Scheme Bill 2008 and the National Rental Affordability Scheme (Consequential Amendments) Bill 2008**

The Tenants Union of Victoria welcomes the opportunity to make a submission to the Inquiry into the National Rental Affordability Scheme (NRAS) Bill 2008 and the National Rental Affordability Scheme (Consequential Amendments) Bill 2008.

The Tenants Union of Victoria was established in 1975 as an advocacy organization and specialist community legal centre, providing information and advice to residential tenants, rooming house and caravan park residents across the state. Our aim is to improve the status and rights of residential tenants in Victoria and we directly assist about 15,000 private and public renters in Victoria every year.

**1. Is the NRAS targeted to deliver affordable housing to those in greatest need?**

The Australian housing system no longer works effectively for many low and middle income Australians. The persistence of historically low rates of affordability in the private rental market is of particular concern. Recent research suggests that nearly 30% of low income households are experiencing housing stress. Research by AHURI (2007) has found that those currently experiencing the most acute stress are those in the private rental market with 65% of low income renters experiencing housing stress.

Several factors have contributed to the level of housing stress in the private rental market. The public housing stock has been in decline for the past two decades. The Australian Institute of Health and Welfare (2007) found public housing stock has declined by approximately 30,000 dwellings between 1996 and 2006, with a much greater in real terms due to overall the lack of growth. This has resulted in the increased targeting and shorter tenure periods. The income thresholds for public and non-profit housing are now very low, forcing many low income earners and leaving into the private rental market. All major capital cities are now experiencing historically low vacancy rates. Significantly, rent increases continue to outstrip wages growth. For example, rents increased across Melbourne by 12.7% in the June 2008 quarter while wages increased by approximately 4%. In addition to placing pressure on public housing, crisis accommodation and transitional housing managers have been placed under severe pressure.

*Clearly, those with the greatest need are private renters on low incomes. The key households in this group are those on statutory incomes or earning wages equivalent to statutory incomes.*

We understand that the government does not intend the NRAS to provide full affordability. Indeed both the Housing Minister and Treasurer have suggested the NRAS is 'no silver bullet'. While we acknowledge the NRAS forms part of a wider suite of measures aimed at improving housing affordability, we have some reservations of the scheme's ability to target those in greatest need. This submission will focus on the question of whether NRAS is targeted to delivering affordable housing to those in greatest need.

We are concerned that the NRAS in its current form is not sufficiently targeted to deliver affordable housing to those in greatest need. We believe the NRAS will make a contribution to increasing the availability of affordable housing to moderate income households due to the rent setting mechanism. However, we believe the NRAS is likely to make a marginal contribution to the rental stress experienced by those on low incomes.

In our submission to the NRAS technical paper we addressed this question and outlined our modelling of housing affordability in Victoria. This data is reported below as it is pertinent to the questions addressed by the current inquiry.

Our modelling highlighted that NRAS may have little effect on most of those in housing stress. The modelling 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 be paying 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. Additional rent data for new properties was obtained from advertised rentals. Using this data a further analysis of the potential effect of the NRAS scheme was undertaken.

Our research indicated the following:

- Average rent for a new property is higher than the average rent overall for any particular dwelling type, thus "market rents" for new properties will be higher than the median rent for that property type in any given location;
- Significantly, our research discovered 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;
- As many low income households are currently renting at sub-median rent levels in any particular location (that is, renting properties of lesser quality or amenity) then a move to an NRAS dwelling in the same location is unlikely to improve their housing affordability;

- Improvement in affordability will generally be greater where households move outward to NRAS housing in areas of lower housing demand which are also primarily areas of lower social and economic opportunity.

Despite the NRAS aim to increase the supply of affordable rental housing to singles and families on low and moderate incomes, our 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. For example, in our 2007 modelling, the median rent for a one bedroom flat in Brunswick was \$219 per week. At this rate a single person on Newstart would pay approximately 82% of their total income on rent. The market rent (based on advertised rents) for a new one bedroom flat was 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 were observable at other locations across Melbourne.

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.

At its current subsidy levels the scheme would be unlikely to benefit those private renters in most need, rather it would best benefit renters at the higher end of the low income range and the lower end of the middle income range.

## **2. Is the NRAS an efficient and effective way to deliver increased affordable housing?**

As noted above we do not think that NRAS will be an effective means to deliver fully affordable housing, particularly for those private renters in greatest need. However, as we understand it this is not the purpose of the NRAS. Despite our reservations outlined above, we do believe that the NRAS will make an important contribution to the overall supply of rental housing and that this mechanism is far more efficient than the alternatives currently employed such as untargeted negative gearing. At the very least a general increase in the supply of rental housing at sub market rents will have some flow through effect on other rents in the same location.

## **3. Will the NRAS Bills facilitate investment in social housing by not for profit community housing organisations, as well as private investors?**

We do not consider that the NRAS mechanism per se will facilitate management by community organisations.

However we are to some extent agnostic about the nature of the property management under NRAS. The desire to have community management is mostly a proxy for securing other tenancy outcomes such as security of tenure and responsiveness to other complex needs. As we don't think that low income and complex needs tenants will be the primary target of NRAS housing we do not see an overriding necessity for community management.

If the NRAS is intended to provide for other tenancy outcomes then these should be specified clearly within the program guidelines or within the Bill to ensure consistency and compliance.

## **Additional measures**

The NRAS may make a contribution to increasing the availability of affordable housing to low to moderate income households. However, we believe this is likely to be a marginal contribution in the scheme's current form. Importantly, the NRAS should not be seen as the Commonwealth's only contribution to improving affordability for private renters. NRAS should always be thought of as making a small contribution amongst other efforts to boost affordable housing supply.

NRAS should form part of a wider coordinated approach by both Commonwealth and State government to invest in affordable housing and ensure housing assistance is targeted to those in greatest need. Given slow growth in the development of new affordable housing, more policy innovation is needed. Policies to encourage institutional investors are likely to play a crucial role. 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. Many other detailed options for how to facilitate and channel large scale private debt and/or equity capital into affordable housing have already been identified and researched in Australia.<sup>1</sup> The Government should act on this advice.

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

We endorse the six key recommendations for the National Affordable Housing Agreement presented during the National Housing Advocacy Day in October. We believe these recommendations provide a acceptable starting point for tackling housing stress:

1. A Growth Target should be established involving an increase in the stock of public and non-profit housing by 30,000 additional dwellings by 2012;
2. An Affordable Housing Growth Fund should be established with funding of \$7.5 billion over 4 years strictly ear-marked for expanding the stock of public and non-profit housing, contributed on a proportional matching basis by the Commonwealth and the States/Territories;
3. An Operating Subsidy Program should be established, with funding of \$3.5 billion over four years provided by the Commonwealth;
4. These funding arrangements will require approximately \$5 billion above funding currently provided by the Commonwealth and State/Territory Governments through the Commonwealth State Housing Agreement (CSHA);
5. New stock should meet standards relating to dwelling quality, disability accessibility and energy efficiency;

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<sup>1</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>

6. Commonwealth Rent Assistance (CRA) should be reviewed to ensure that it best meets the needs of all low income renters. As a first step, the maximum rate of CRA should be increased by 30% (approximately \$15 per week) for low income households currently receiving the highest rate of CRA at a cost of \$500 million per annum.

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

Yours sincerely,

A handwritten signature in black ink that reads "Mark O'Brien". The signature is written in a cursive style with a large, looped initial "M".

Mark O'Brien  
Chief Executive Officer  
Tenants Union of Victoria