

## AFFORDABLE HOUSING: WHO SUPPLY IT?

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### Abstract

At the present time, Queensland is experiencing severe demand pressure on housing stock in the South-Eastern metropolitan region and in many regional and coastal centres. Whilst median house prices are still well below Sydney and Melbourne, Australia's third largest housing market is showing no signs of slowing in the current economic climate of low interest rates and stable levels of employment. Despite the comparatively good affordability of the Queensland housing stock, access for low income and other disadvantaged and minority groups in the state is being eroded rapidly, partly by increased demand and partly by a loss of base level stock through renovation and redevelopment.

This paper will discuss the current situation regarding the stock of affordable housing by reference to current literature and pilot surveys of stakeholders in the public and private sector. A particular focus of the paper will be a discussion of the expectations and limiting factors, nominated by supply side participants, in respects of the partnership arrangements which facilitate their involvement.

**Keywords:** Affordable housing, housing supply, stakeholders, participation, partnerships, Queensland, Australia

### 1. Introduction

Affordable housing initiatives are becoming more important in Queensland. The rapid increase of house prices for both new and established dwellings has eroded the capability for homeownership (Housing Industry Association and Commonwealth Research, 2003). As a result, affordable private rental housing and social housing have experienced higher demand pressure. Without additional residential supply, demand will pull the price up and, therefore, reduce the amount of low priced accommodation and lead to an increase on social disadvantage. Thus, solving the core problems of affordable housing supply is essential and more cost effective than overcoming the impacts of doing nothing or too little.

Housing providers are aware of this problem and this is reflected in their current initiatives to increase the supply of affordable housing. However, there are some constraints in attracting more investment into this housing sector.

This study is aimed at evaluating current initiatives undertaken by affordable housing providers. Pilot interviews with the government, private sector and non-profit organisation have also canvassed a range of expectations and limitations involved in delivering affordable housing.

## 2. Affordable Housing Problems

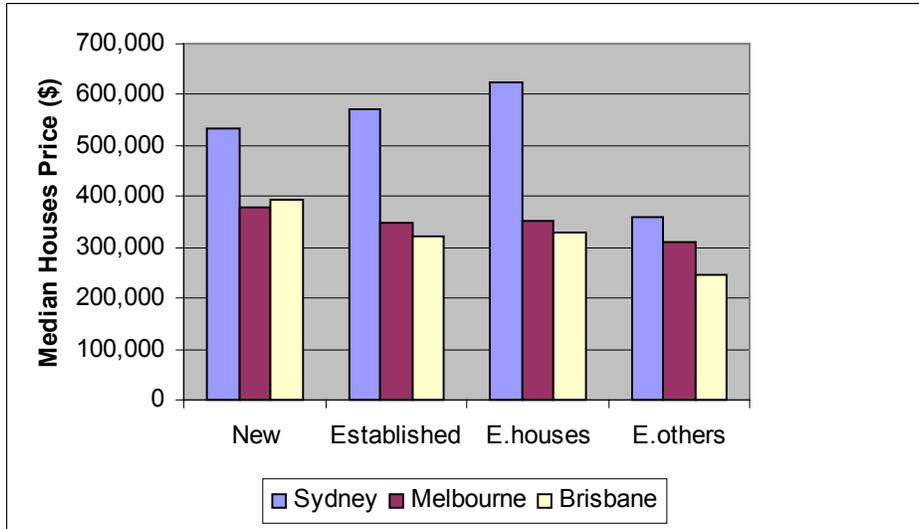
Three terms are used in this paper to explain the problem of the lack of affordable housing: affordable housing, housing affordability index and housing stress and each will be defined. Then, the affordable housing problems are discussed in both supply and demand sides.

The first term, *affordable housing*, is a measure of access which is defined as being achieved if a 'household can acquire use of that housing unit (owned or rented) for an amount up to 30 per cent of its household income' (Miles, Weiss and Berens, 2000, p.293). Queensland's Department of Housing described affordable housing as fitting the household needs and should be well located in relation to the services, employment, transport and the cost for housing should not be more than 30 per cent of their income (Department of Housing, 2001a).

The second term is *housing affordability index* a ratio of average household disposable income to the income required to meet payments on a typical dwelling (Housing Industry Association Ltd, 2003). The movement of the housing affordability index is highly influenced by fluctuation of median housing prices.

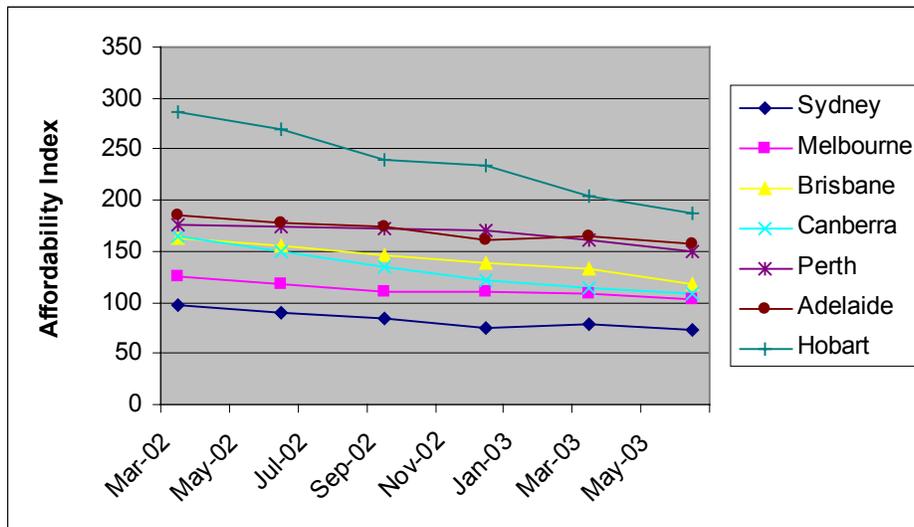
A brief comparative study of the housing affordability index in Sydney, Melbourne and Brisbane illustrates the geographic/ location variation of affordable housing problem in Australia. Brisbane is the third largest city in Australia, after Sydney and Melbourne. The size of the city also generally reflects the median housing prices. The median housing price for new dwellings in Brisbane was higher than for Melbourne in 2003 (See Figure 1), whereas, median price for the established dwellings in Brisbane was still below Sydney and Melbourne.

Currently, housing affordability has fallen for all states in Australia at a different rate. As illustrated in Figure 2, Queensland has a comparatively better affordability index than New South Wales and Victoria. Hobart, Canberra and Brisbane have a rapidly decreasing rate of housing affordability (see Figure 2). If this trend continues, housing in Brisbane and Canberra may be less affordable than housing in Melbourne in the near future.



(Source:Housing Industry Association and Commonwealth Research, 2003)

Figure 1. Median houses price in June 2003 for Sydney, Melbourne and Brisbane



(Source:Housing Industry Association and Commonwealth Research, 2003, p.2)

Figure 2. Affordability index decrease at different rate in Australian capital cities

The third term to describe affordable housing problems is *housing stress*. Households which pay more than 30 per cent of their income on housing and are in the lowest 40 per cent of the income distribution range are considered to be in financial housing stress (National Housing Strategy, 1991). They may have difficulty having enough money to buy other necessities such as food, clothing, transportation, medical care and education (National Housing Strategy, 1991; United States Department of Housing and Urban Development Affordable Housing, 2003).

Further discussion on affordable housing problems are explained in both supply and demand sides. The supply side problems are related to the funding and policy that leverage the housing price. In the demand sides, the change in demographic are influenced

The Commonwealth government has reduced funding for delivering new public housing stock as well as for maintaining and upgrading existing stock (Department of Housing, 2003). Moreover, housing prices are being escalated by indirect costs and by land shortage (Housing Industry Association Ltd, 2003). The indirect costs related to land and building taxes, levies and charges have been the main contributors to increasing housing prices (ACIL consulting, 2002; Housing Industry Association Ltd, 2003). Both the public and private sector have the same problems, as mentioned above, in providing affordable housing.

The affordable housing supply suffers more tension because existing private affordable housing stock has been disappearing. Most of the existing housing stocks are old houses and they have been upgraded for the higher end market segment. As a consequence, the average rent price has gone up further limiting access to low income housing (Berry and Hall, 2001).

In the demand side, the trend of increasing affordable housing need is caused by the changes in the demographic pattern of the society. The ability to access housing has declined due to constraints on income that is the rent increment has not been equally followed by rises in income. Because many people have shifted their working status from full-time to part-time or casual, their income is uncertain. Other evidence of great demand for low-income housing is the number of people on the waiting list for the public housing (Department of Housing, 2003).

The gap between demand and supply is widening and more people are suffering under housing stress. The impacts of housing stress are more complex and the cost for solving the problems can be expensive, for example, poor housing conditions or homelessness leads to health problems. Moreover, financial stress puts more pressure within households and might cause family break-ups and poor educational attainment. Furthermore, job insecurity and limited job opportunities will increase crime (Berry, 2001).

### **3. Current Initiatives**

This paper concentrates on increasing affordable housing supply to avoid higher social costs caused by poor housing conditions and financial stress. A number of examples of current initiatives in the supply are gathered from references and pilot interviews of stakeholders, both in the public and private sector. Each organisation may contribute differently in facilitating their involvement in the affordable housing investment.

The Queensland Department of Housing which published the 'Affordable Housing in Sustainable Communities Strategic Action Plan' to focus on increasing the affordable

housing supply as well as providing housing choices (Department of Housing, 2001b). One of the initiatives of this action plan is pilot partnership programs between the Queensland state government and local government in the Brisbane Housing Company program. This is an independent charity organisation which has been established by government and other non profit organisations and funded by the state government and the Brisbane City Council to deliver affordable housing in the inner city.

Another ongoing affordable housing project, Kelvin Grove Urban Village, is a master planned community which offers broader housing options in a mixed used development (Department of Housing, 2003). It will integrate education facilities, student accommodation, affordable housing, medium priced housing, retail, restaurants, clinics, parks and sport facilities (Department of Housing and Queensland University of Technology, 2002) in a city fringe location.

Since private investors require additional incentives to put their money into affordable housing projects which provide low rate of return (Sirmans and Macpherson, 2003), so government assistance in overcoming production cost problems will bring down the cost of homes which will benefit new home buyers and renovators and encourage private sector investment. It will also indirectly impact on rents in the private housing sector and housing affordability in general terms.

Further collaboration between government and private sector is supported explicitly in the Commonwealth State Housing Agreements (CSHA). Partnership initiatives are endorsed by both Federal and state governments through the CSHA. State government pursues partnerships with the private sector to deliver additional affordable housing (Department of Housing, 2003). For example, 'A national partnership amongst all the players in the housing market ... is essential to identify and deliver real reform to the housing market' (Housing Industry Association Ltd, 2003).

The Queensland government published its Public Private Partnerships (PPPs) policy in September 2001. The Queensland Department of State Development defines PPPs as 'a risk-sharing relationship between the public and private sectors to deliver timely public infrastructure and related non-core services' (State Development, 2002b, p.2). The policy only applies to major infrastructure projects where 'the expected capital value will exceed \$30 million or the net present value (NPV) or the strategic priority will exceed \$50 million during the term of the contractual relationship' (State Development, 2002a, p.5).

Moreover, the community/ private partnerships have been endorsed by national development industry bodies such as the Urban Development Institute of Australia (UDIA), the Housing Industry Association (HIA) and the Property Council of Australia (PCA). The Queensland Community Housing Coalition (QCHC) will provide the medium to develop relationships between community housing, the private sector and governments to increase the supply of affordable housing (Queensland Community Housing Coalition, 2003).

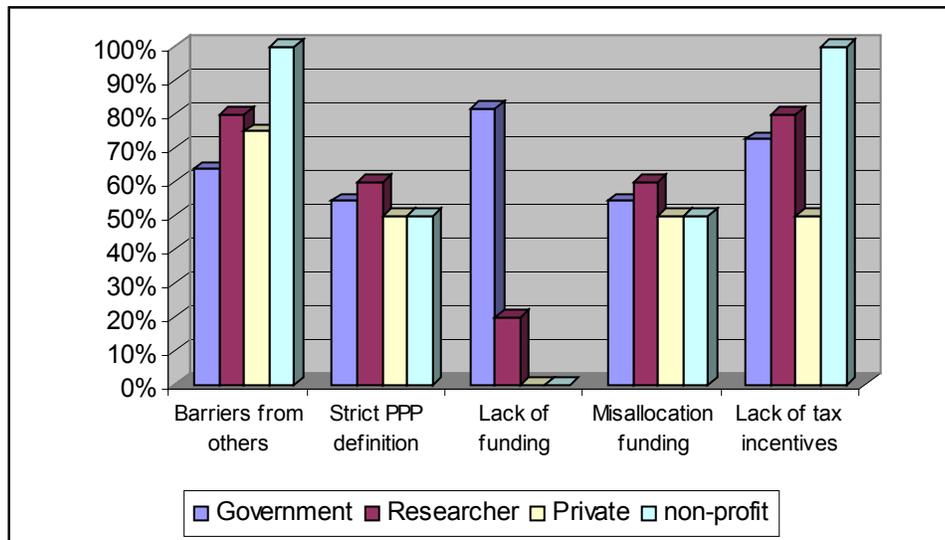
### 3. Stakeholder participation

An exploratory study has been used in this research to pinpoint problems with the current initiatives in the affordable housing arena both from the literature and the stakeholders’ perspectives. Informal interviews have been conducted with relevant stakeholders which focused on identifying attributes which attract stakeholders to get involved in affordable housing investment in Queensland. The discussion was expanded to include the project delivery methods such as Public Private Partnerships (PPPs) in affordable housing.

This preliminary study was developed from personal interviews with four groups of stakeholders to investigate the problem of affordable housing investment in Queensland. The first group interviewed were lecturers and researchers. The researchers have research projects which directly relate to stakeholders’ policies and their projects. The second group were government officers at both state and local levels. The third group consisted of private companies. The fourth group is from non- profit organisations involved in the community housing sector.

Twenty two people were interviewed as the pilot stage, with 50% from government, while the others were distributed among the three stakeholder groups. The participants were ruminated by the earlier interviewees who were involved in affordable housing and also Public Private Partnerships initiatives. They provided not only explanation of their current initiatives but also further literature, publications and contact details of related stakeholders.

The resulting transcriptions were analysed into a frequency distribution by stakeholder, which is shown in Appendix 1. The table includes their limitations, expectations and also some comments on further recommendations to support affordable housing initiatives. The above analyses will be shown in Figure 3, Figure 4 and Table 1 respectively.

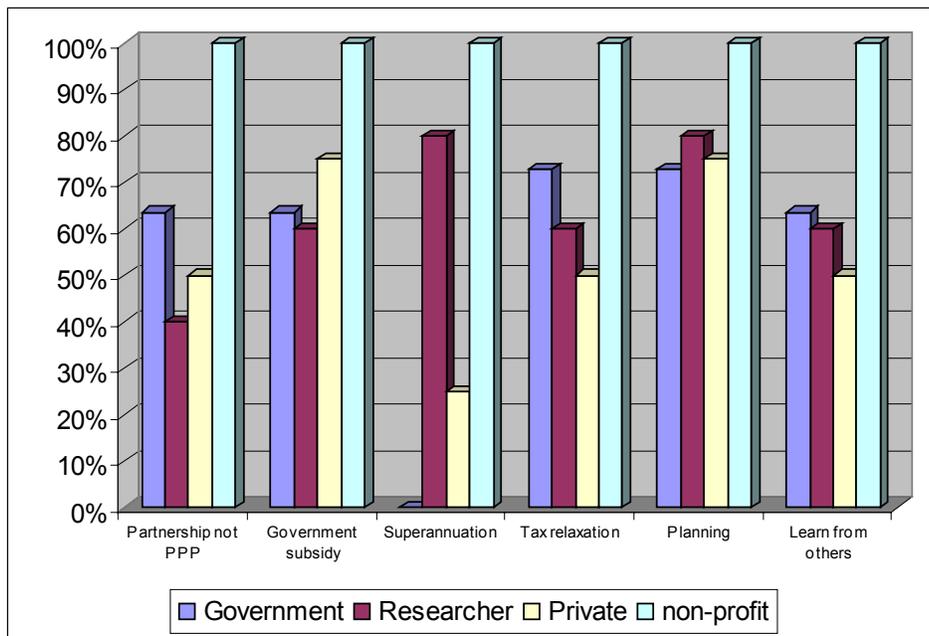


Source: authors

Figure 3. Limitation factors for entering affordable housing investment

Figure 3 shows that the major problems which impede affordable housing initiatives are a lack of support from other stakeholders and also a lack of tax incentives. At least half the participants from each stakeholder group support almost all the limitations, except the lack of funding barriers. The financial shortages in the public sector have driven the government to seek private sector involvement as an alternative way of financing public infrastructure (European Commission, 2003). The government strongly agrees with this argument, however, the others have not agreed that the government has funding problems. They believe that there is some government funding but it is misallocated (see Figure 3).

Figure 4 illustrates some proposals of stakeholders in finding the solutions to increase affordable housing supply. In general, the stakeholders agreed that partnership is very important to solve this problem, but it is not necessary to utilise PPPs. Collaboration among government, financial institution and other stakeholders is needed to solve this problem.



Source: authors

Figure 4. Expectation factors for entering affordable housing investment

The listed factors in Appendix 1 can be classified into three groups: financial, planning and project delivery. Each group is linked to current initiatives to solve the affordable housing problem (see Table 1). Although the current initiatives have not been fully implemented yet, they reflect the good intention of the stakeholders to seek new approaches and more comprehensive solutions. However, they tended to blame other parties for the problems and demanded that changes should be made by others first, before making their contribution.

Table 1. Current initiatives by housing providers

<b>Major Factors*</b>	<b>Current Initiatives (initial stage)</b>
<b>Financial group:</b> 7, 8, 9, 10, 11, 20 and 23	Non traditional financial model and financial incentives to attract more investment in affordable housing development.
<b>Planning group:</b> 1, 12, 13, 14, 15 and 18	National Housing framework and comprehensive solution with three level governments.
<b>Project delivery group:</b> 2, 3, 4, 5, 6, 16, 17, 19, 21 and 22	Joint venture/ partnerships projects, but not limited to the Public Private Partnerships framework.

Source: \*Appendix 1

In addition, some stakeholders strongly recommended the adoption of affordable housing initiatives from other countries such as USA, Canada and UK. Firstly, the American taxation incentive system is successfully protecting affordable housing outcomes in that country. Secondly, the Canadian planning system is more appropriate for the Australian context because of the similarity of the three level governments' role in the planning system. Finally, the United Kingdom has a social housing system that is more appropriate for the community housing sector. However, direct adoption of those strategies would not be appropriate since there are differences among countries in respect of ideological values, political and social structure, culture and other policies, but some characteristics may be open to adaptation.

#### **4. Conclusion**

The widening gap between demand and supply in affordable housing needs to be solved by increasing the supply of affordable housing. The impact of failing to meet the required demand leads to more people suffering under housing stress. Moreover, the impacts of housing stress are more complex and the cost for solving the problems are expensive.

From the initial interviews, stakeholders have slightly different views for entering Public Private Partnerships (PPPs) in affordable housing. However, all stakeholders agreed with the concept of collaborative initiatives as a potentially effective methods of providing new outcomes and more comprehensive solutions. The collaboration arrangements are not tied up only with PPPs but also partnerships with non-profit organisations and among the three levels of government.

Finally, further research is required to find the best model to ensure that Queensland achieves a better affordable housing profile. Although it may be wise to adopt systems used by other countries, they must be tailored to our local conditions. Clearly, further study is needed, while additional implementation will necessitate better coordination and collaboration among the stakeholders.

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## Appendix 1: Frequency analysis of stakeholders' view about PPPs in affordable housing

No	Statement	Researcher (5 participant)	Government (11 participant)	Private (4 participant)	non-profit (2 participant)
1	Barriers from other parties (include psychological barrier and lack of political will)	4	7	3	2
2	Strict definition of PPP not included affordable housing	3	6	2	1
3	Partnership but not PPP	2	7	2	2
4	Previous and current short term joint venture/ partnership projects	3	7	1	2
5	Strength of each partner as contribution in partnership project	3	5	2	2
6	Sales and leased back agreement with private sector	2	2		
7	Lack of government funding	1	9		
8	Misallocation of funding	3	6*	2	1
9	Government subsidy	4		3	2
10	Financial institution (superannuation model)	3	8	1	2
11	Lack of tax incentives (tax and duty relaxation)	4	8*	2	2
12	Planning scheme and State Planning Policy	3	7	3	2
13	Planning bonus, affordable housing contribution (# not agree the contribution)	2	4+1#	1+2#	2
14	Mixed use concept	2	6	1	2
15	Comprehensive solution with three level governments	3	11	3	2
16	Study from other states or countries initiatives	3	7	2	2
17	Covenant in the land title	2	4	1	1
18	Clear definition of affordable housing	3	6	3	2
19	PPP abuse	1		1	
20	Risk management to reduce acceptable rate of return	3	1		1
21	Strategic long term asset/ facility management	2	2	1	1
22	Property Standard Index as performance measurement tool	3	1		
23	Financial modelling (risk analysis)	3	3	1	2

Note: \* Yes, but not applicable in our organisation.

Source: author (based on interview)