



Lessons from the National Rental Affordability Scheme

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There's a case for helping low-income earners with rising housing costs

- **Low-income households** are spending more on housing; many are stressed
- Australia's **homelessness** problem is getting worse
- Worsening housing affordability **widens inequality**

Governments should think twice about doing NRAS again

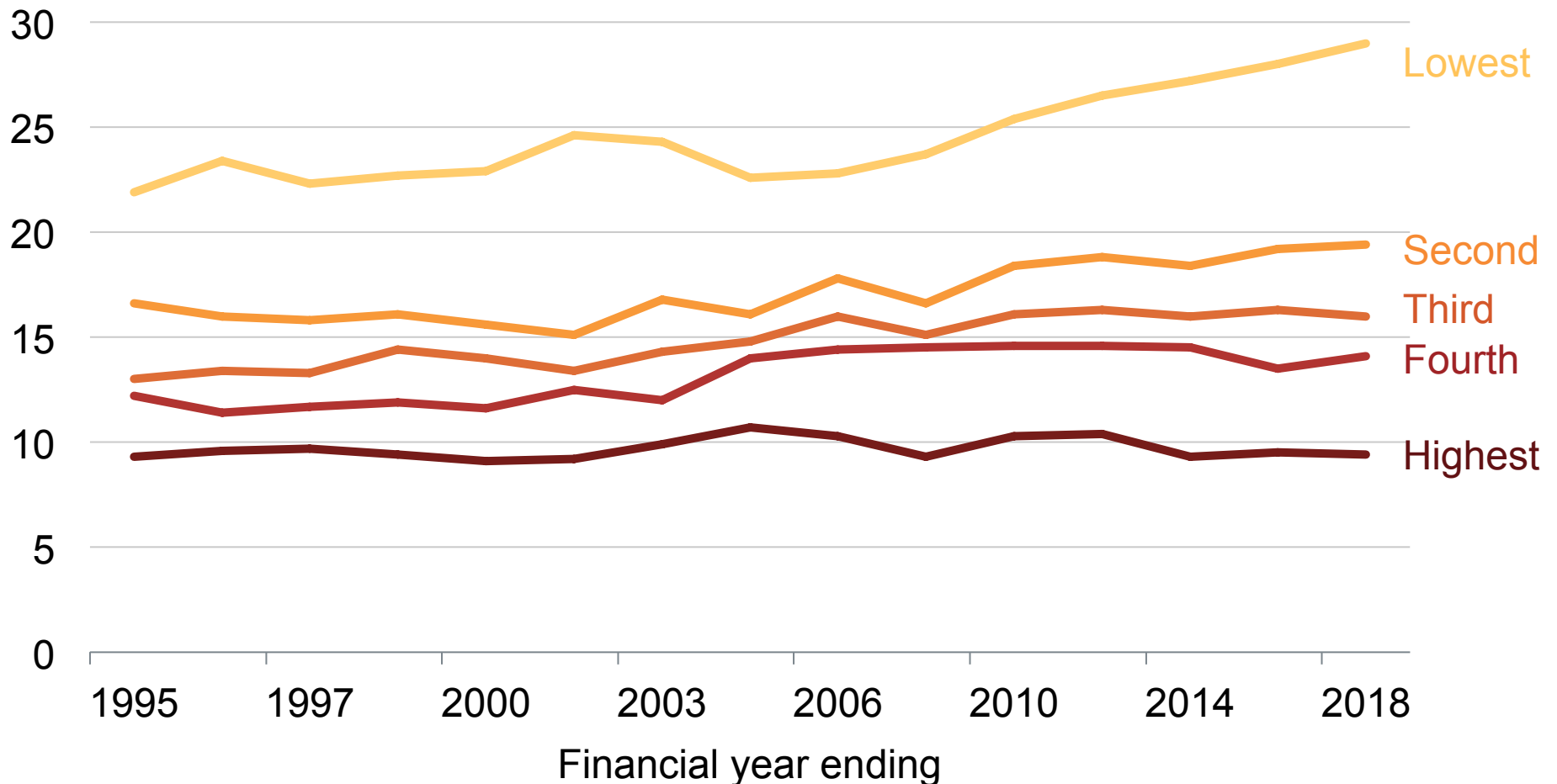
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- The scheme was **expensive, unfair, and poorly targeted**
- NRAS was **cumbersome**: it was slow to roll out and wasn't effective stimulus
- A **renewed NRAS** could fix some of these issues, but not others

But there are better ways to house Australians most in need

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- **Boost** Commonwealth Rent Assistance by 40% and index to low-income rents
- **Fix supply** to make all housing cheaper
- Strengthen **tenancy laws** to make renting more secure

Low income households have increased their spending on housing the most

Housing costs as a proportion of gross household income, by equivalised disposable household income quintile

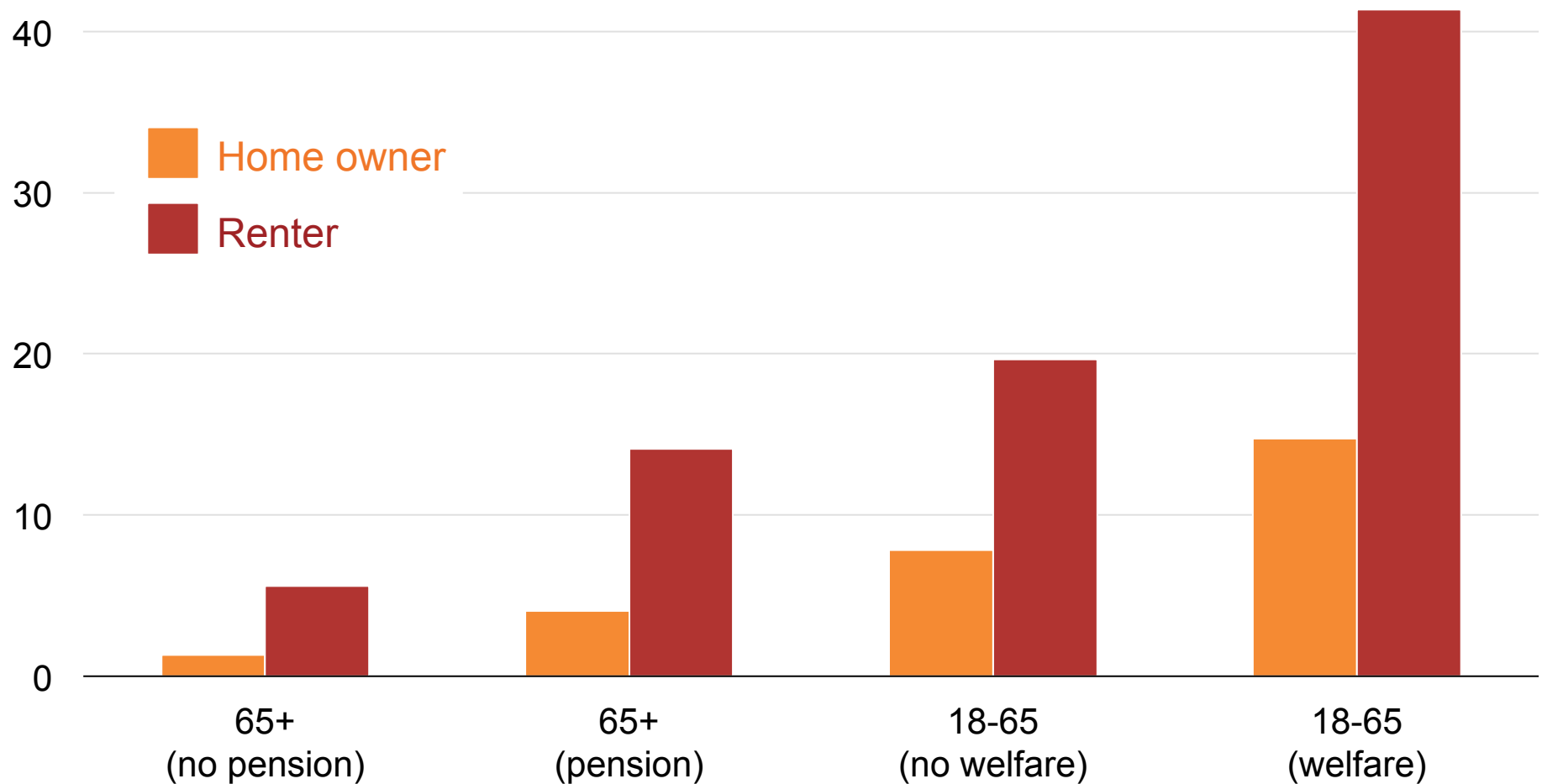


Notes: housing costs include rent, mortgage and rates (general and water) payments as share of gross household income for each quintile. Data interpolated for missing years

Source: ABS 4130.0 Housing Occupancy and Costs

Renting is a strong predictor of financial hardship in Australia

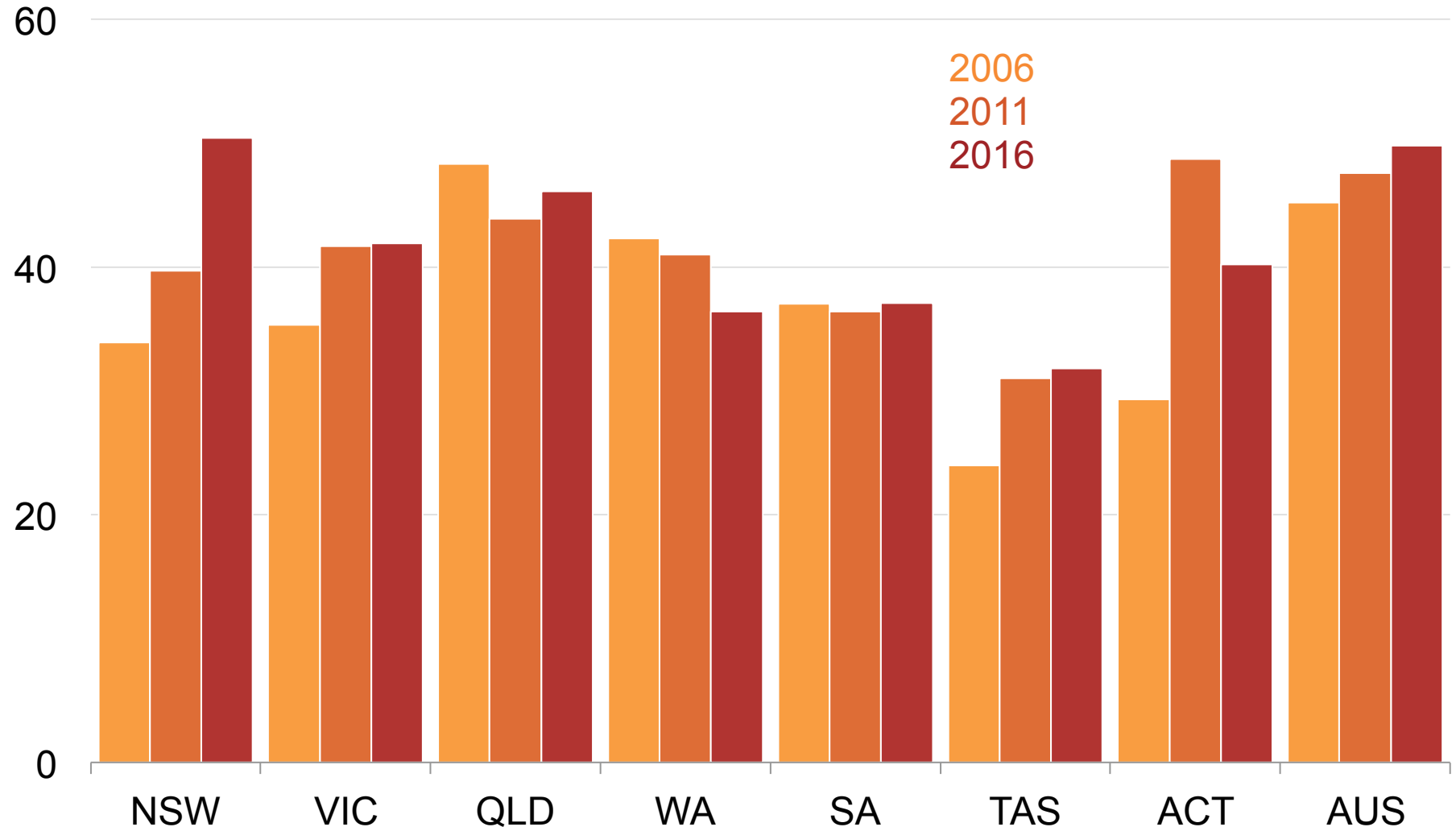
Percentage of households facing at least one financial stress, 2015-2016



Notes: Financial stress defined as money shortage leading to 1) skipped meals; 2) not heating home; 3) failing to pay gas, electricity or telephone bills on time; or 4) failing to pay registration insurance on time. 'Pension' and 'welfare' includes all those receiving cash benefits of more than \$100 per week
Sources: ABS Household Expenditure Survey 2015-16, Grattan analysis.

Homelessness in Australia is increasing

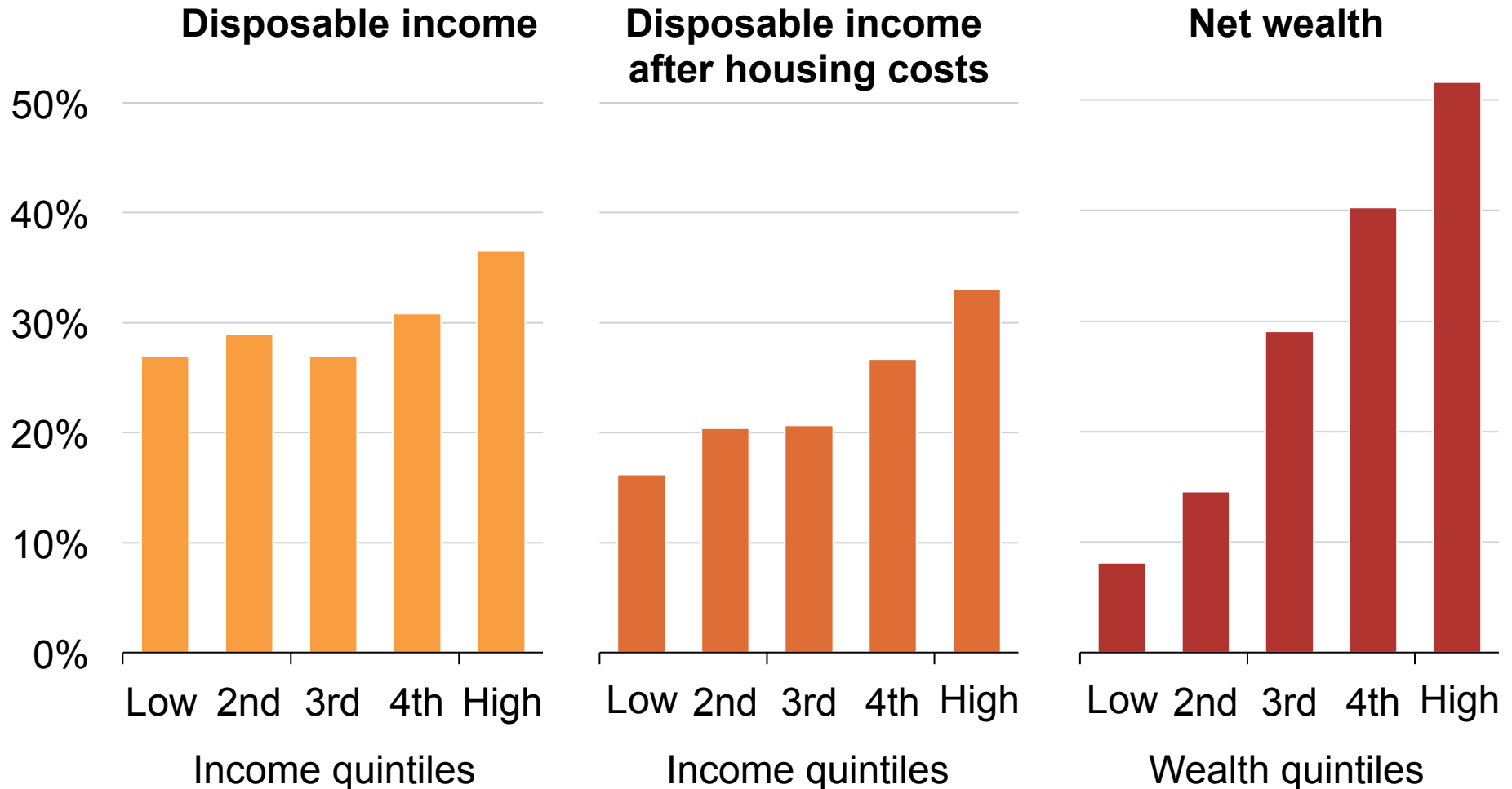
Number of homeless per 10,000 of population, per state, 2006 to 2016



Note: The NT is excluded for readability.
Sources: Estimating Homelessness, ABS (2016)

Incomes have risen across the board; but less so after housing costs; and wealth inequality is rising

Real growth from 2003-04 to 2015-16 per equivalised household



Notes: Income estimates for 2003-04 onwards are not perfectly comparable with estimates for 2015-16 due to improvements in measuring income introduced in the 2007-08 cycle.

Source: for income, ABS SIH 2003-04 and SIH 2015-16; for wealth, ABS 6523.0 Household Income and Wealth

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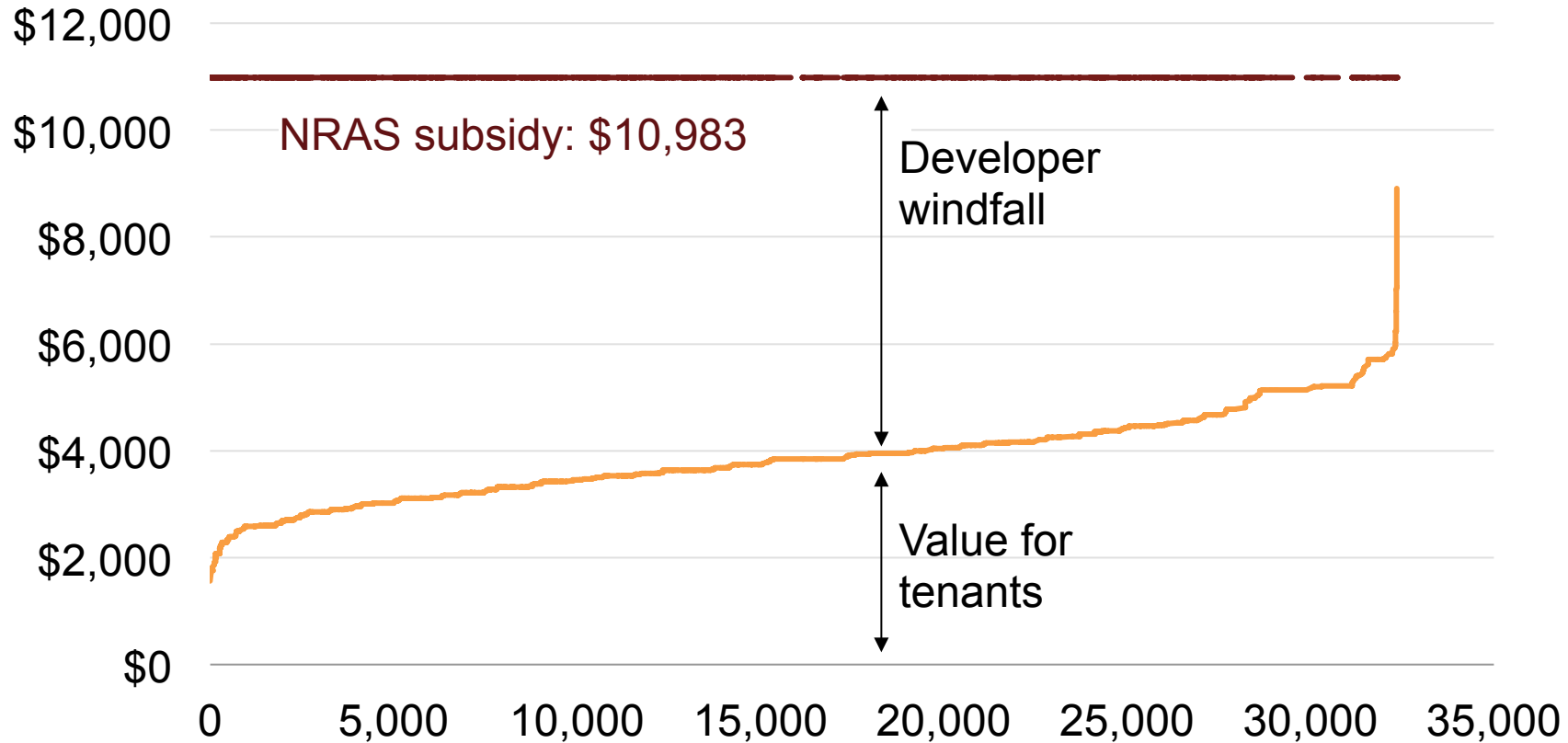
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NRAS subsidies were much larger than the value of rental discounts tenants received

Value of a 20 per cent discount to median rent for each NRAS dwelling, 2016

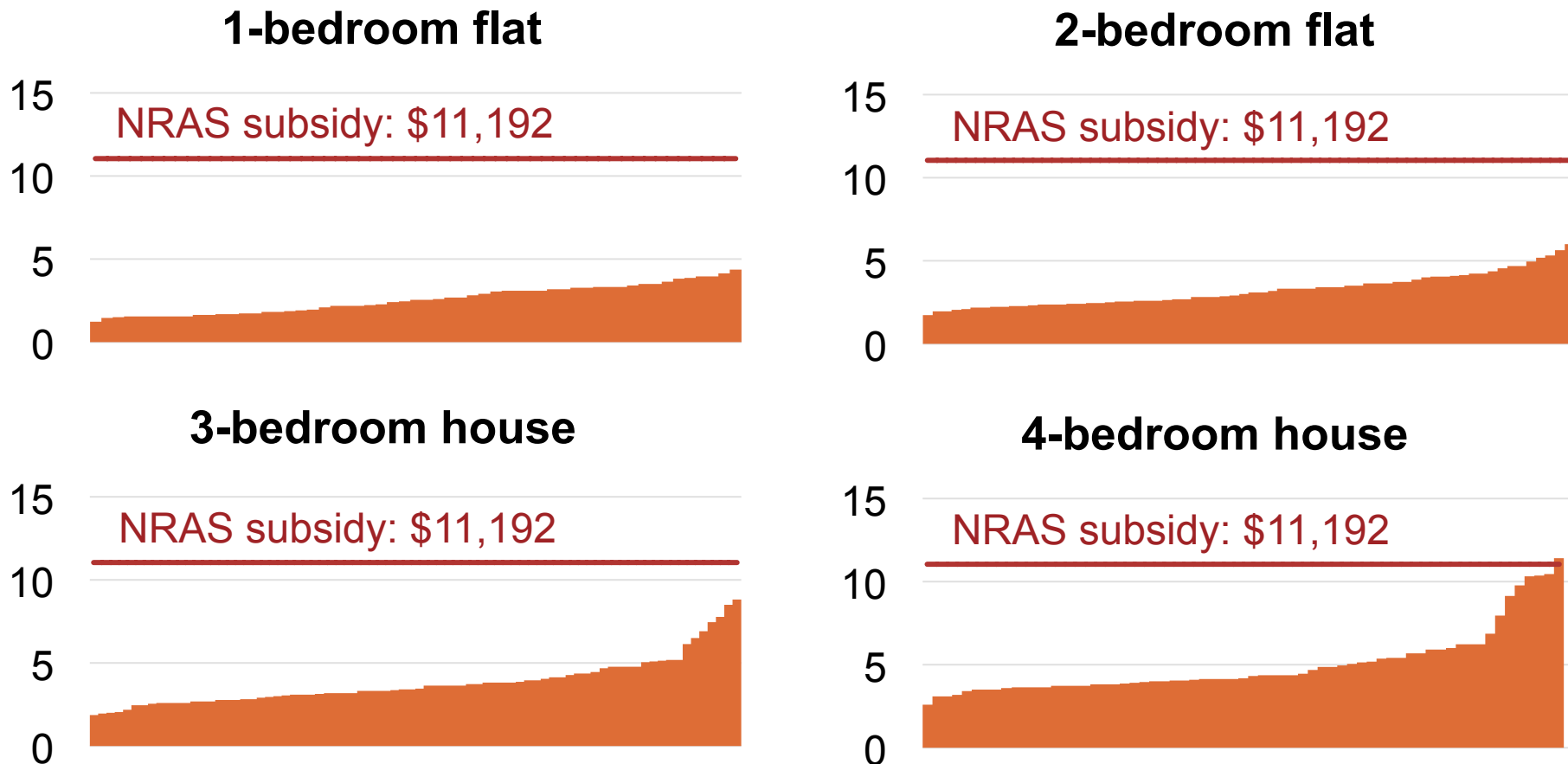


NRAS properties by median rent of suburb in which constructed

Notes: Assumes a landlord incentive of \$10,983 for a 20 per cent rent subsidy in each suburb. Incentive for the 2016 calendar year is an average of incentives for the 2015-16 and 2016-17 financial years. Assumes that each allocation would have market rent equal to the suburb median. Some suburbs are unable to be matched up, given different naming between the ABS and DHS, however the analysis captures more than 98 per cent of all NRAS allocations. Because NRAS dwellings were new, their market rent might have been higher. But even if an NRAS property were among the 10 per cent of most expensive properties to rent in its suburb, the developer still would have received over half the subsidy as additional profit. It's more likely that NRAS properties had rents lower than the median for their suburb because they had fewer bedrooms than is typical for Australian housing. Sources: DHS December 2016 NRAS Quarterly Report. ABS Census 2016.

NRAS subsidies don't vary with the size (or location) of the dwelling

Value of a 20 per cent rental discount on the median rental dwelling by LGA, Victoria, 2018, \$ thousands



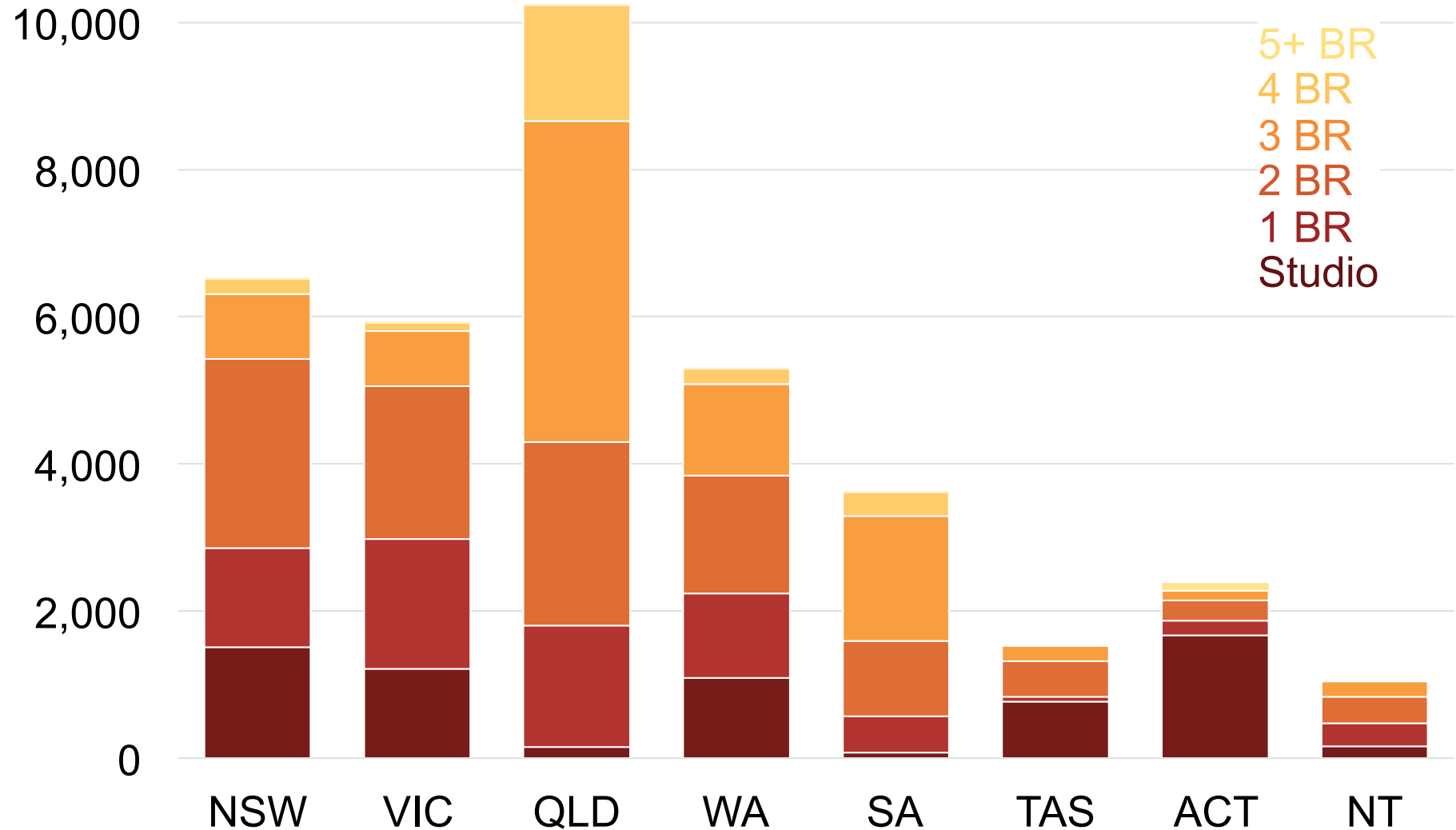
Victorian Local Government Areas by value of an 20% discount to median rent

Notes: Data is for new bonds lodged in September 2018. Total LGAs = 79. Data unavailable for some LGAs, for some dwelling sizes, due to small number of new bonds lodged. NRAS Incentive reported is for 2018-19, valued at \$11,192.

Source: Victorian Rental Report September Quarter 2018.

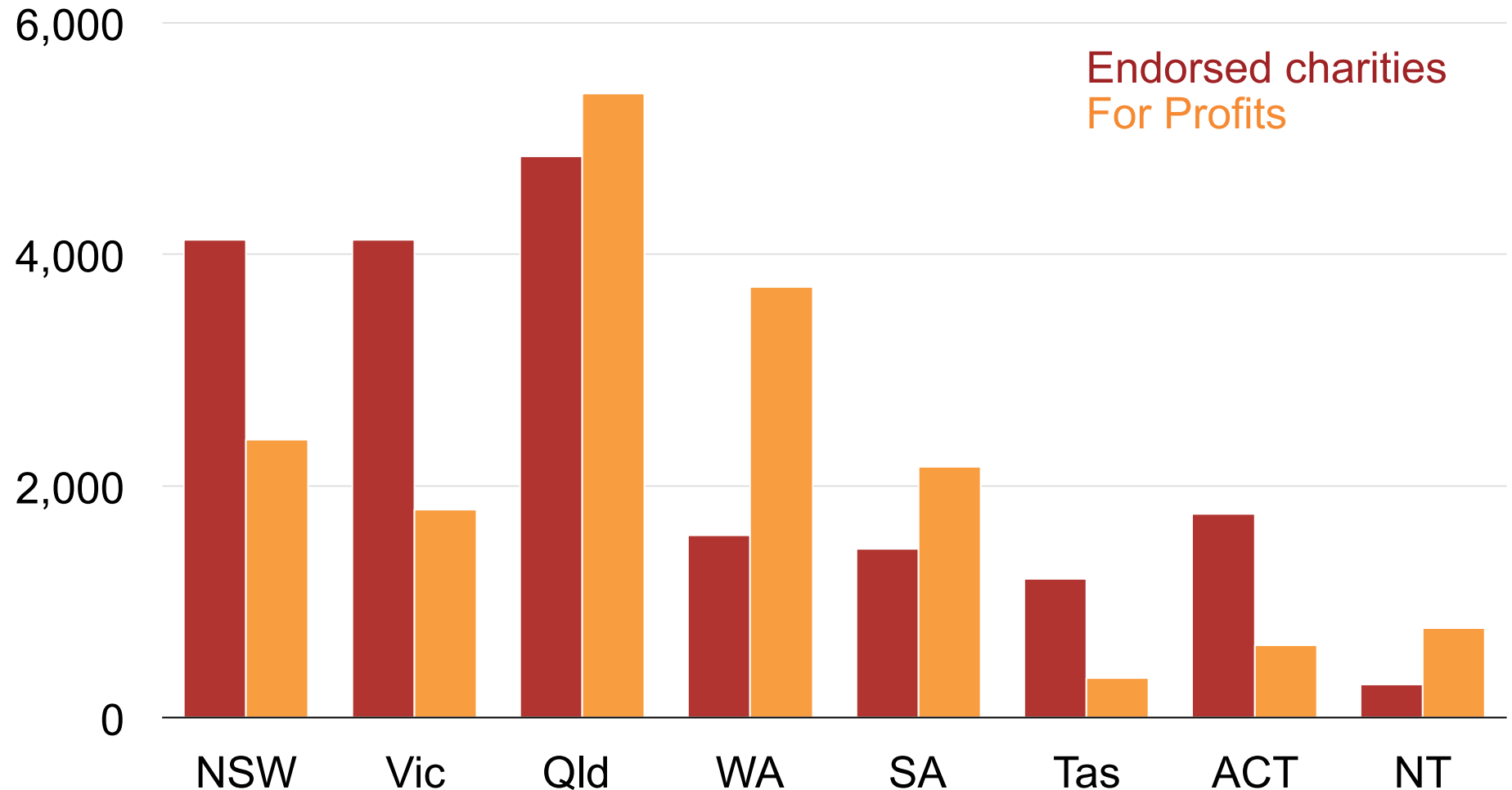
Most NRAS dwellings were small, so landlords could pocket more of the subsidy

Allocations by number of bedrooms by state/territory, 30 Sept 2018



Around half of NRAS subsidies are received by endorsed charities ... and half aren't

Number dwellings by charitable status of participant, by state, 30 Sept 2018

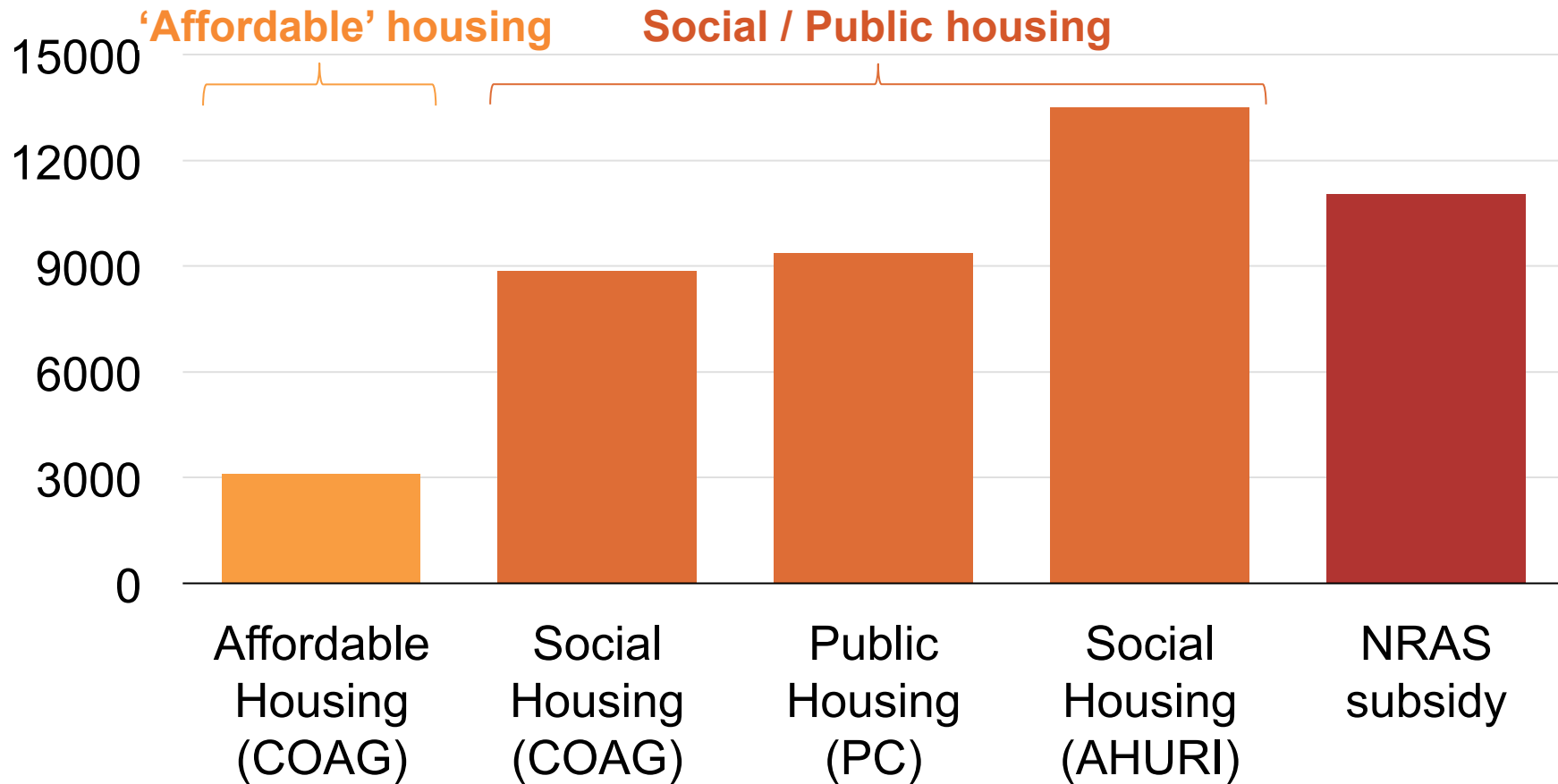


Source: Quarterly Performance Report Sept 2018, Table 8

Notes: Endorsed charities are those exempt from income tax under 50-105 of the Income Tax Assessment Act 1907 as determined by the ATO, and endorsed by the ACNC. For profit also includes non-profits not formally registered as charities. Numbers reported are total allocations, including provisional allocations not yet built.

NRAS subsidies appear expensive compared to the costs of affordable or social housing

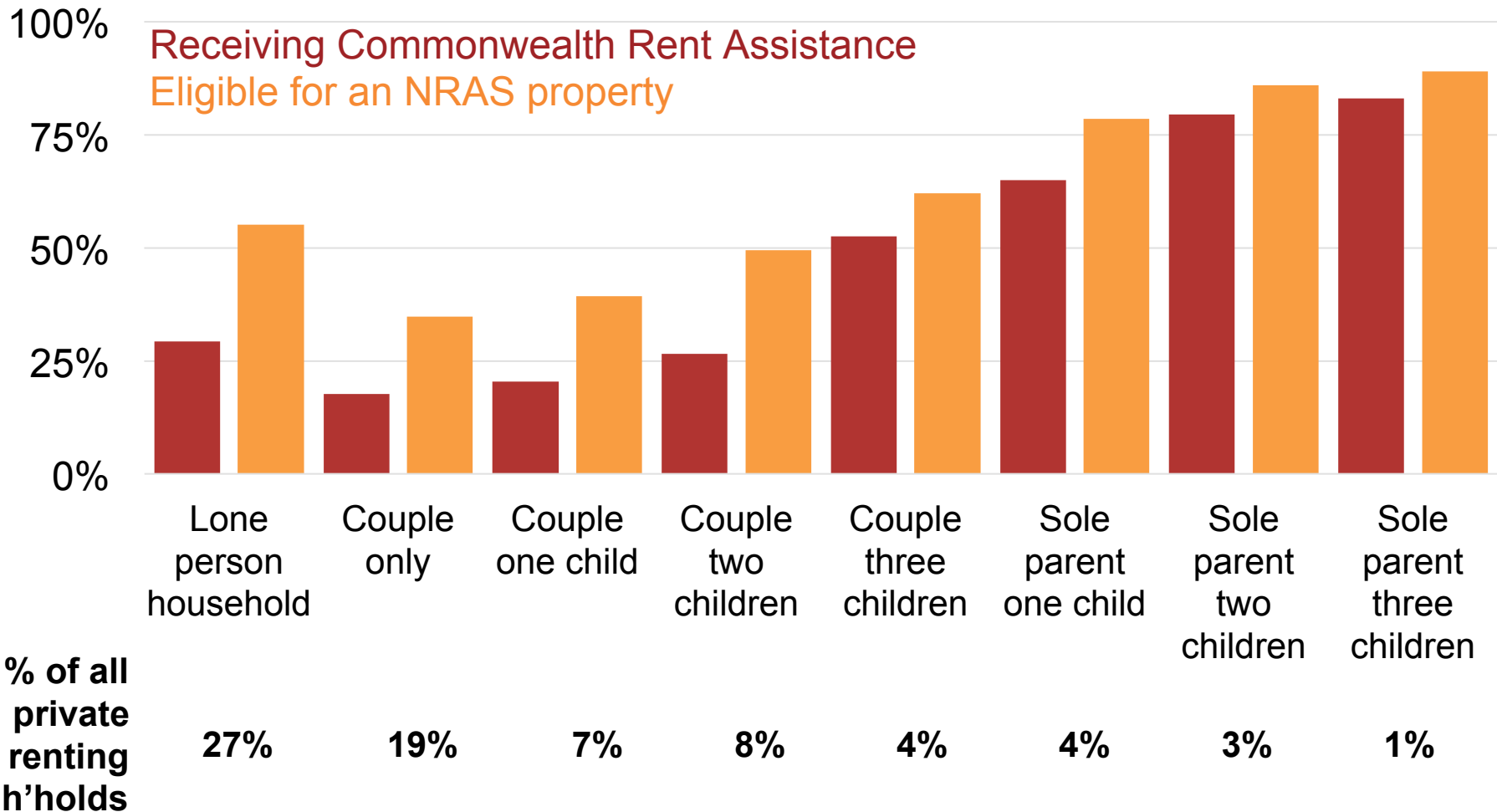
Estimates of average cost per year of providing a social and affordable housing unit, compared to NRAS subsidies



Notes: COAG estimates are for income based rents, not exceeding 25 % of a \$30,000 annual income for social housing, or 75 % of a \$47,500 annual income for affordable housing. Public Housing is based on net recurrent real government spending per average public housing unit. AHURI estimate based on providing 5.5% increase on social housing dwellings across 20 years. COAG figures also assume a capital cost of \$225,000. Sources: COAG Affordable Housing Working Group, Supporting the implementation of an affordable housing bond aggregator, September 2017, p. 12.; Productivity Commission Report on Government Services, Housing 2018; Lawson, J et al (2018), Social housing as infrastructure: an investment pathway, AHURI Final Report 306, p. 55.

NRAS-eligible households aren't on low enough incomes to receive rent assistance

Share of private renting households by family composition, 2015-16

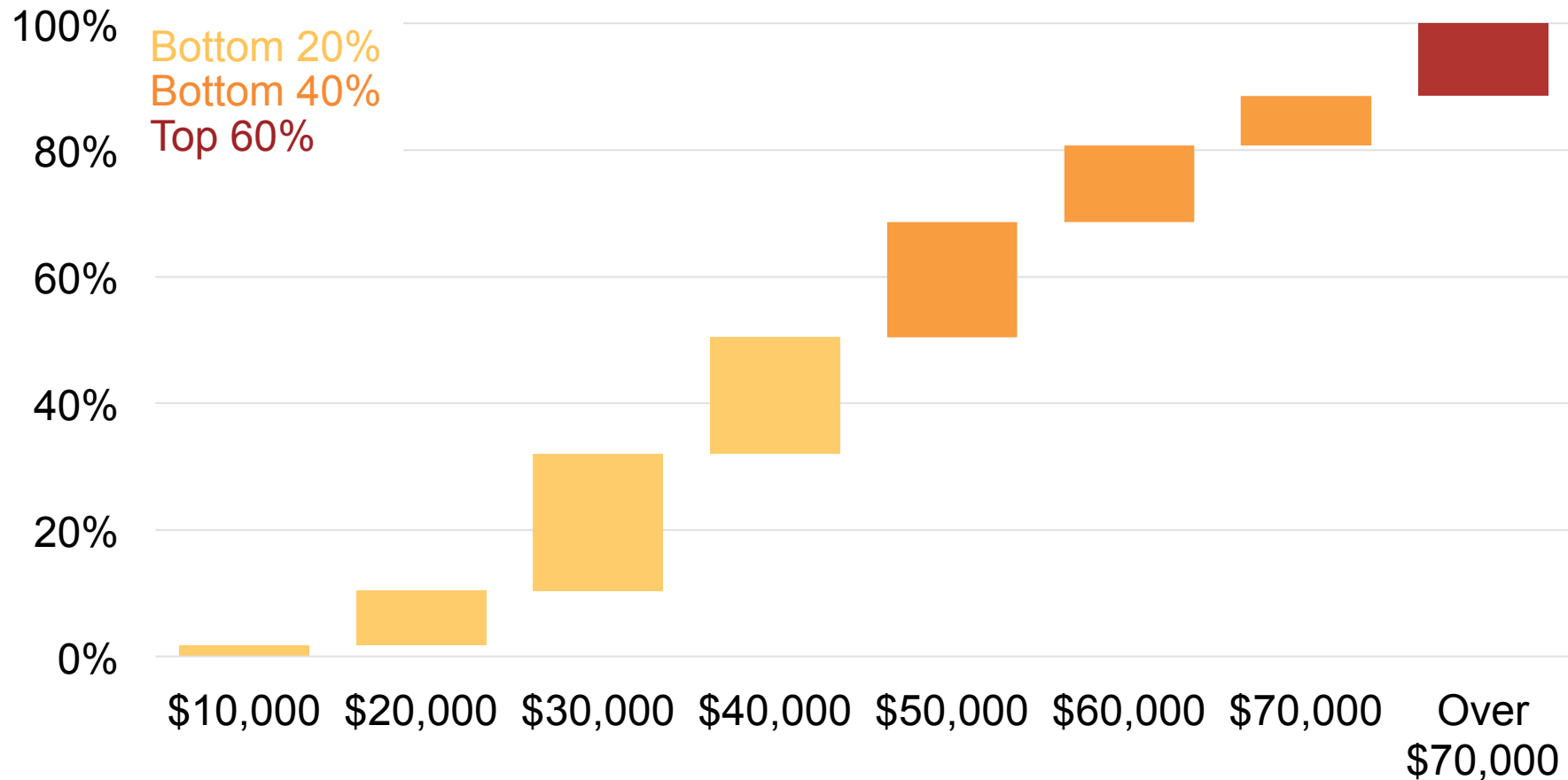


Notes: Not all family compositions shown. Eligibility for NRAS is set by household gross income. Income thresholds shown are for initial acceptance into NRAS in 2015-16. Households can earn 25% above the initial income threshold for two years before losing eligibility for NRAS. Households on Commonwealth Rent Assistance received at least \$1 of rent assistance in 2015-16.

Sources: ABS Survey of Income and Housing 2015-16; Grattan analysis.

Only half of NRAS properties went to the poorest 20 per cent

Share of NRAS households by unequivalised household income, 2015-16

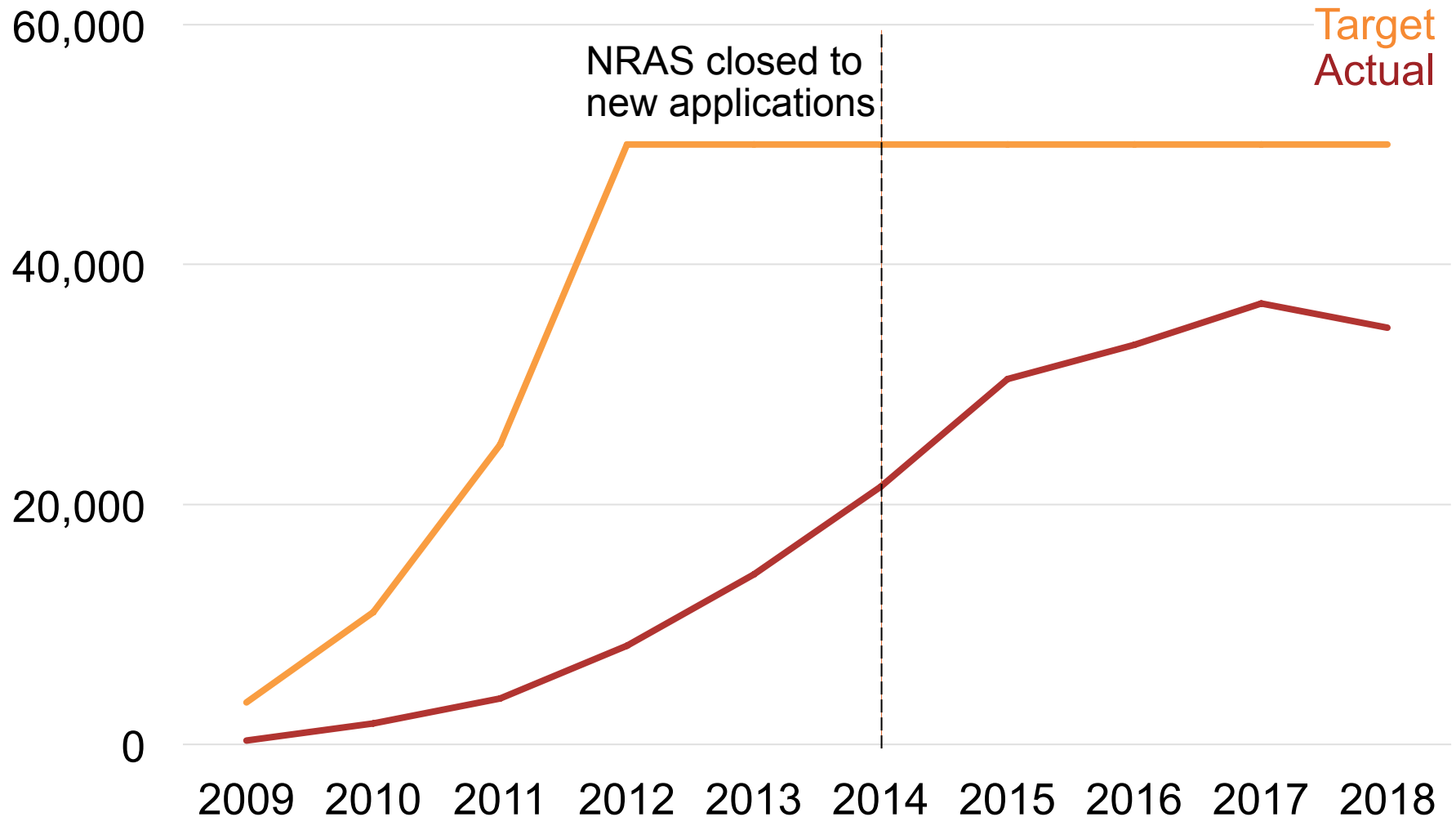


Households with gross household incomes below...

Notes: Household income isn't equivalised for household size due to limitations in the NRAS data. The cut point for the 20th percentile is \$36,481 and \$65,707 for the 40th percentile by gross unequivalised household income. Sources: DSS Tenant demographic report 2016. ABS SIH 2015-16. Grattan analysis.

Fewer NRAS properties were delivered than planned, and at a much slower rate

Number of approved NRAS subsidies, cumulative to March 2018



Notes: Cumulative figures at April for each year. 2018 figures are for March due to available data. As of December 2017, 2,308 NRAS incentives had been approved but the housing not yet built.

Source: DSS monthly and quarterly reporting.

Some flaws can be fixed, others appear inherent to affordable housing, and there are better alternatives

Flaw

It's a lottery: many more people are eligible than can possibly benefit, therefore many miss out

Rental discounts offered are **too shallow for those most in need**

Complex policy design makes the program slow and cumbersome to roll out, and prone to 'leakage' to intermediaries

Crowds out private housing: unlikely to lead to much more housing being constructed

Alternative

Higher Commonwealth Rent Assistance provides the **same extra help** to all those that are eligible

Social housing provides a **deeper rental subsidy** and **reduces homelessness**

Rent Assistance is provided directly to tenants; **social housing** via the states or capital grants to CHPs

Reforming planning rules would have a much larger impact on new housing supply, and cost the budget much less

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Social housing substantially reduces the risk of homelessness

“...a lack of adequate and affordable housing contributes to housing stress and homelessness, and is detrimental to people’s physical and mental health. Homelessness affects life expectancy, with **homeless people estimated to live 15–20 years less than the mainstream population.**”

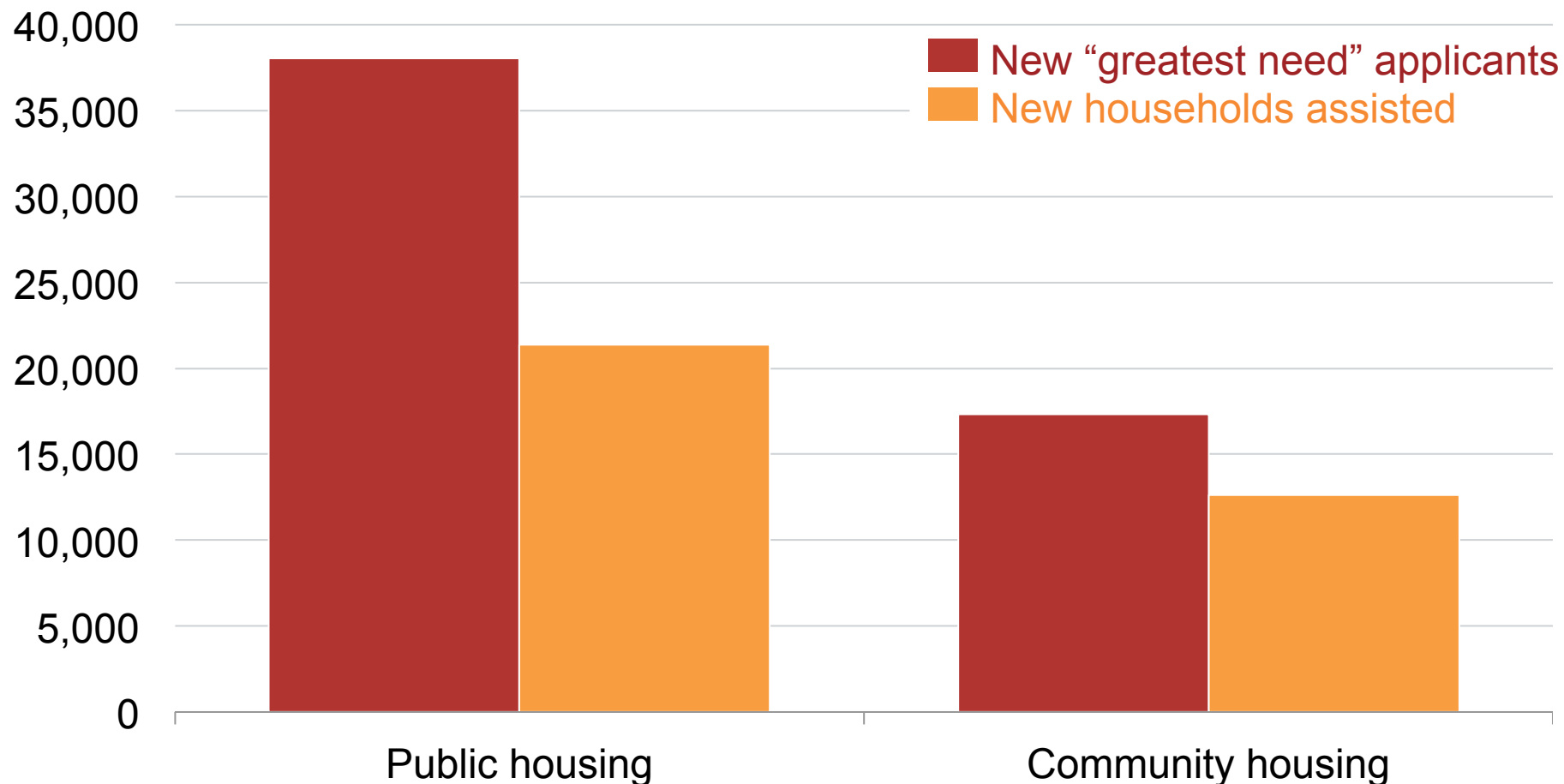
Productivity Commission, *Report on Government Services: Housing and Homelessness*, 2017, G.11

“In the period following placement, **the person’s probability of experiencing homelessness was 13 percentage points** lower than similar individuals not in social housing, who have a homelessness rate of about 20%. This is equivalent to a **65% reduction in the risk of homelessness for social housing residents.**”

Scutella, R., *Social housing protects against homelessness – but other benefits are less clear*, The Conversation, 4 July 2018

But there isn't enough social housing: there are more new greatest needs households than those helped

Number of new “greatest needs” applicants and number of new households assisted for social and community housing, 2017



Notes: A “greatest need” applicant is a low-income household which at the time of allocation was either homeless, had their life or safety at risk in their current accommodation, had housing inappropriate to their needs, or had very high rental housing costs. A low income greatest need household satisfies eligibility for housing assistance

Source: Productivity Commission, Report on Government Services, Housing, 2018

Why not just pay the states to build social housing like Rudd did?

*"The Commonwealth **Social Housing Initiative** will provide **up to \$6.0 billion** to fund the construction of approximately **20,000 new public and community housing dwellings**, to be largely completed by **December 2010**.*

*"The Government will also provide **\$200.0 million** in 2008-09 and **\$200.0 million** in 2009-10 for **repairs to existing public housing stock**."*

Australian Government, *Updated Economic and Fiscal Outlook*, February 2009.

NATIONAL PARTNERSHIP AGREEMENT ON SOCIAL HOUSING



An agreement between

the Commonwealth of Australia and
the States and Territories, being:

the State of New South Wales;

the State of Victoria;

the State of Queensland;

the State of Western Australia;

the State of South Australia;

the State of Tasmania;

the Australian Capital Territory; and

the Northern Territory of Australia.

This Agreement facilitates the establishment of a 'Social Housing Growth Fund' that will support reforms to increase the supply of social housing.

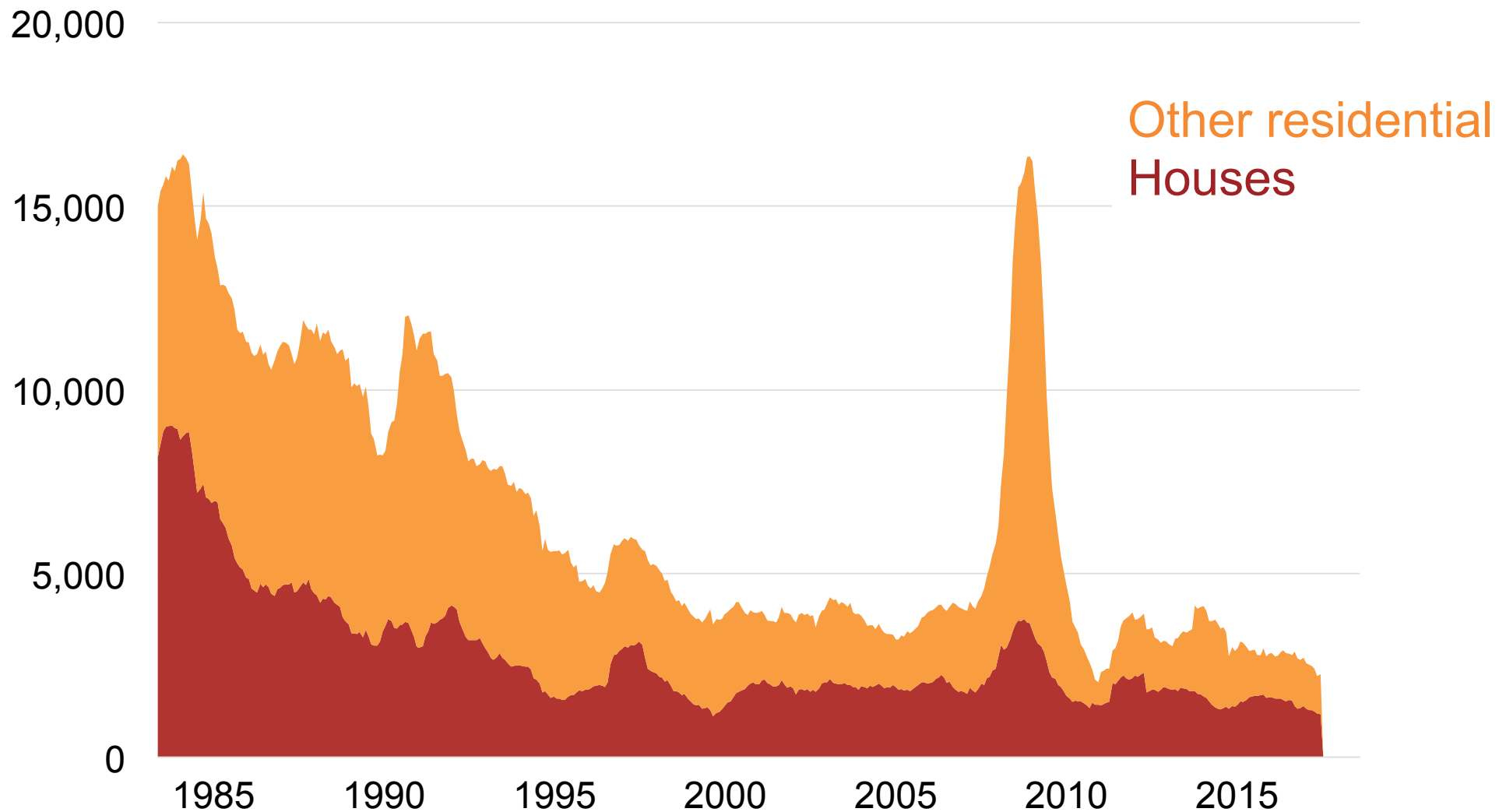
It largely helped those most in need of housing support...

Key outcomes of the Social Housing Initiative

	Funding (\$m)	New homes built (#)	Homes repaired (#)	Percentage of new dwellings tenanted (%)				
				Homeless or risk of homelessness	Indigenous Australians	People with disability	Aged 55+	Family violence
NSW	1,894	6,330	31,672	47	15	47	52	5
VIC	1,266	4,663	9,363	47	10	29	22	8
QLD	1,167	4,035	27,420	57	13	58	34	2
WA	590	2,083	10,489	81	10	24	48	5
SA	434	1,470	503	69	13	50	9	12
TAS	135	530	534	35	5	40	37	5
ACT	94	421	259	24	5	14	63	5
NT	60	208	297	60	68	23	28	22
AUS	5,638	19,740	80,537	53	13	42	38	6

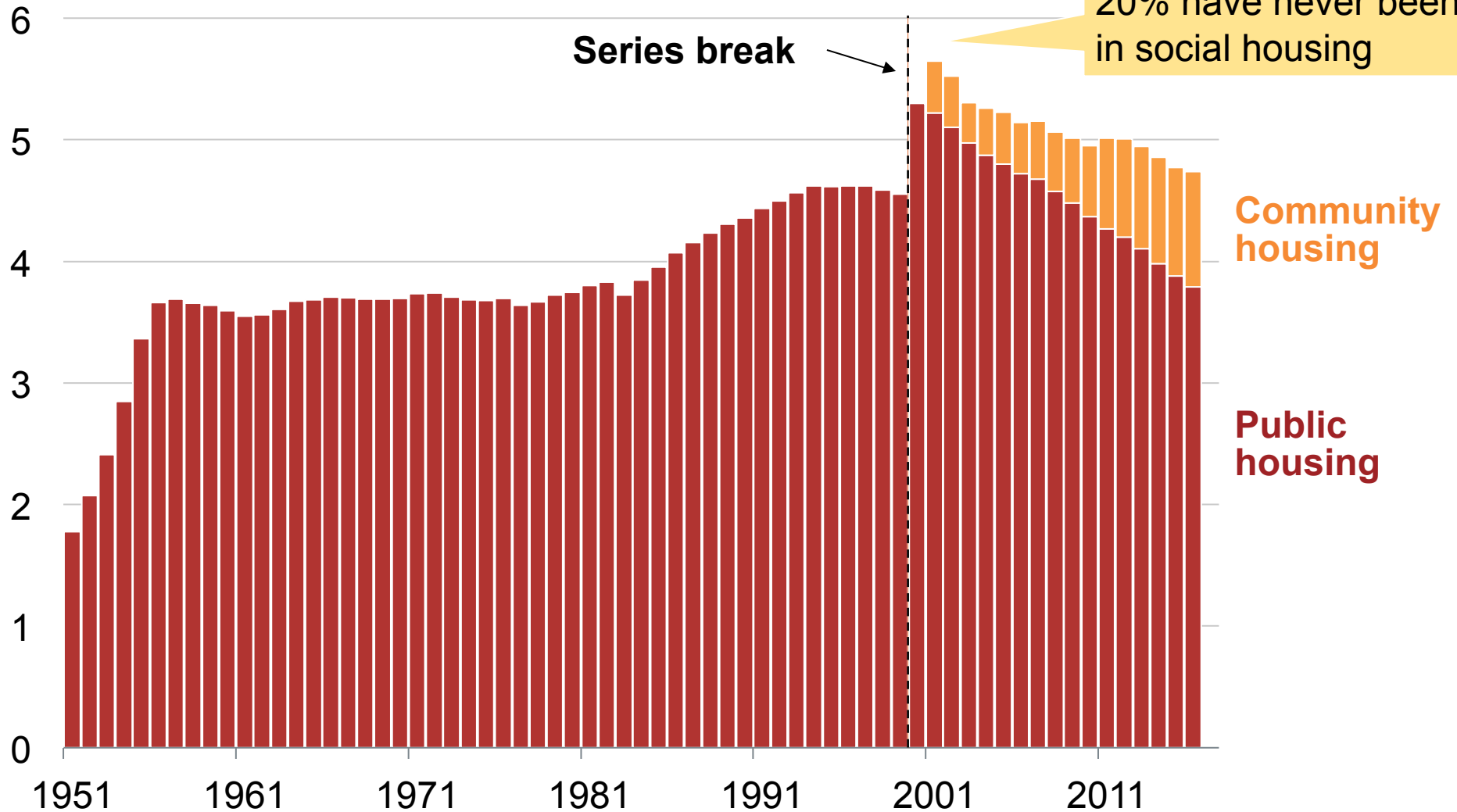
... and in very quick time

Dwelling approvals, public sector, rolling 12-month sum



But social housing has never housed the majority of low-income Australians

Social housing as a proportion of all housing, per cent

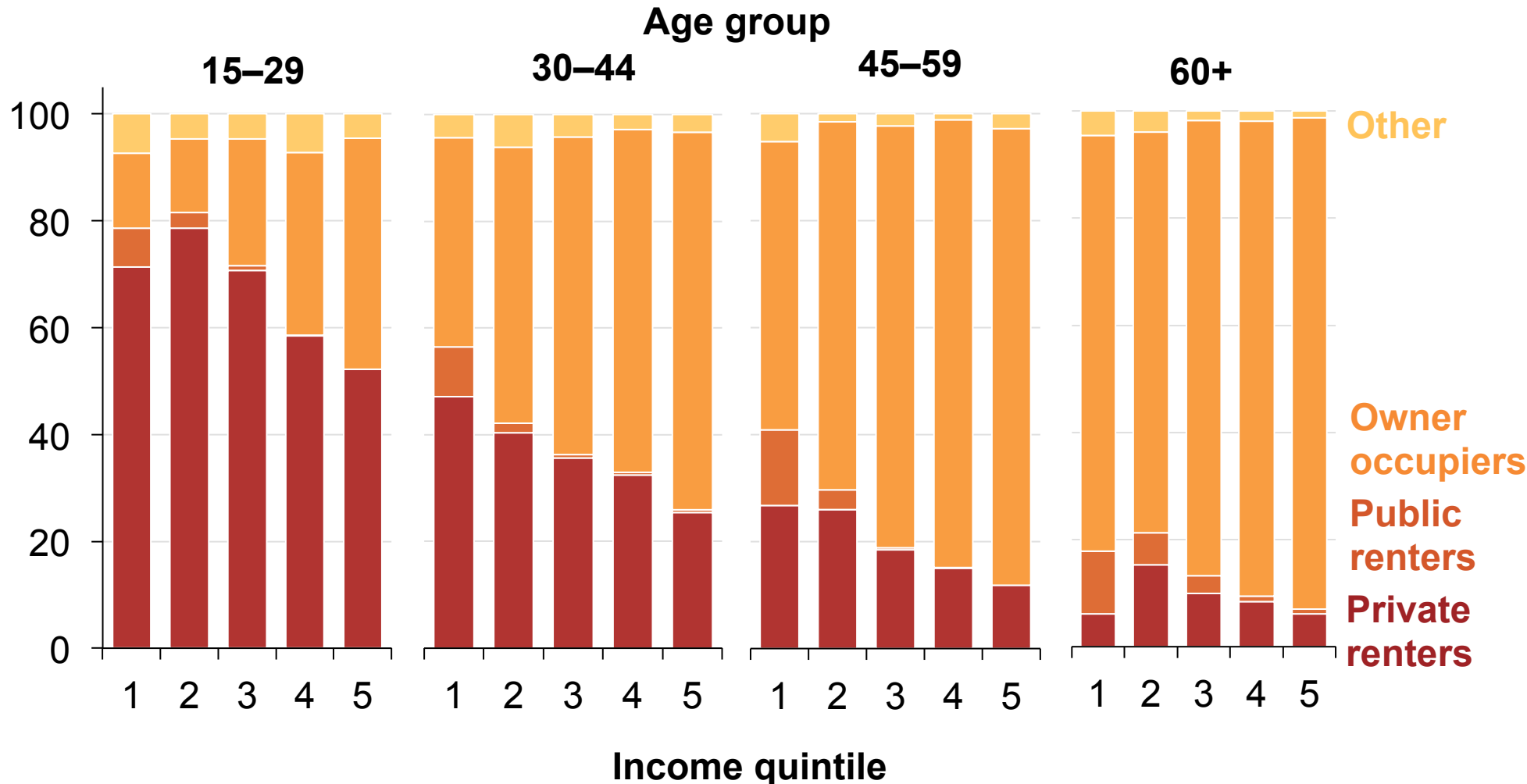


Notes: Series break after 1999.

Sources: Eslake 2017; Productivity Commission 2015

Younger, poorer Australians live in private rentals

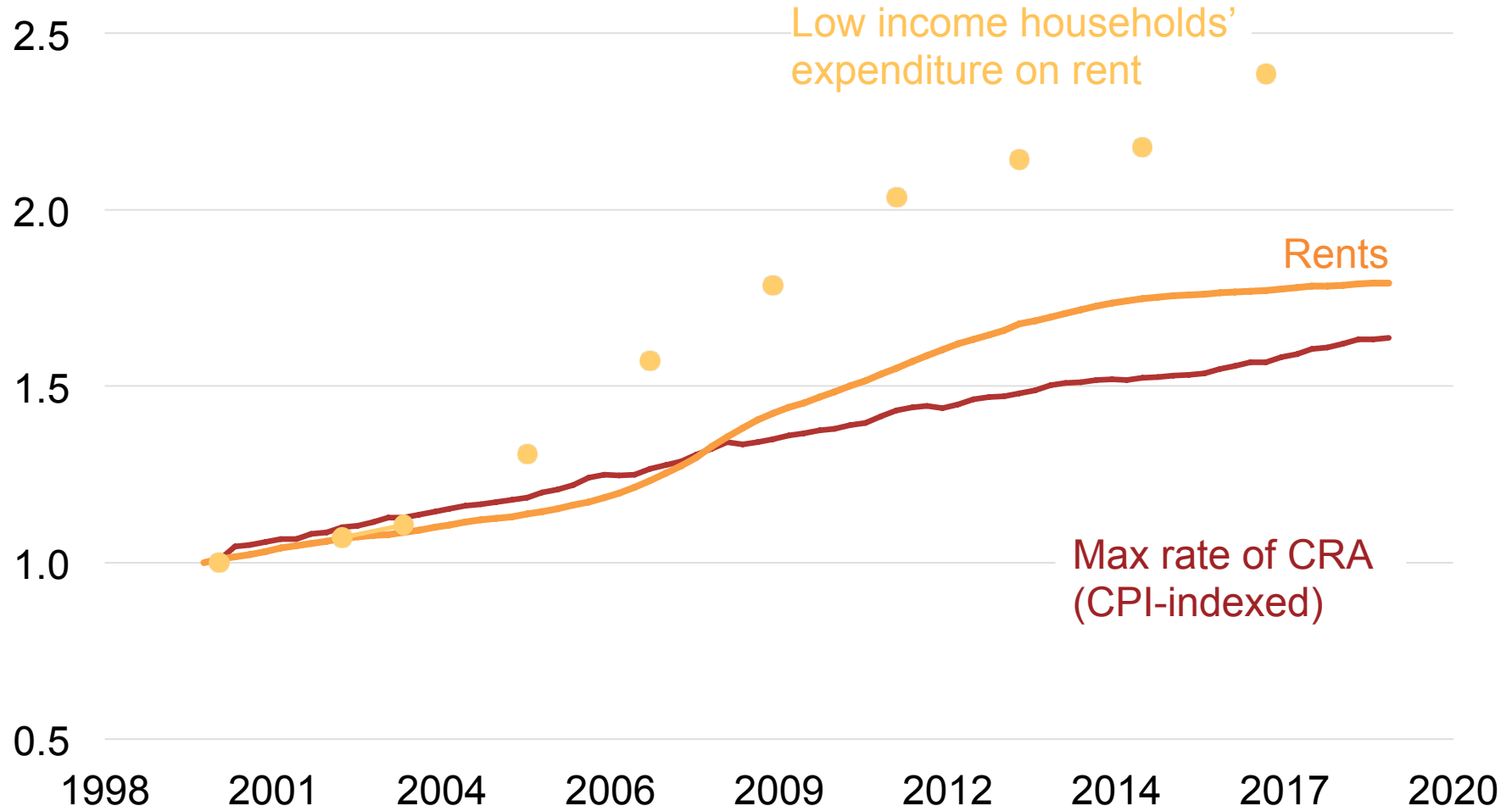
Share of each age and income quintile by housing tenure type, 2015-16



Notes: Age groups are determined by the "Age of Household reference person" category given in the Survey of Income and Housing. Income quintiles are calculated by age group based on equivalised household disposable income
Source: ABS Survey of Income and Housing (2017)

Commonwealth Rent Assistance hasn't kept up with rents, or low-income households expenditure on rent

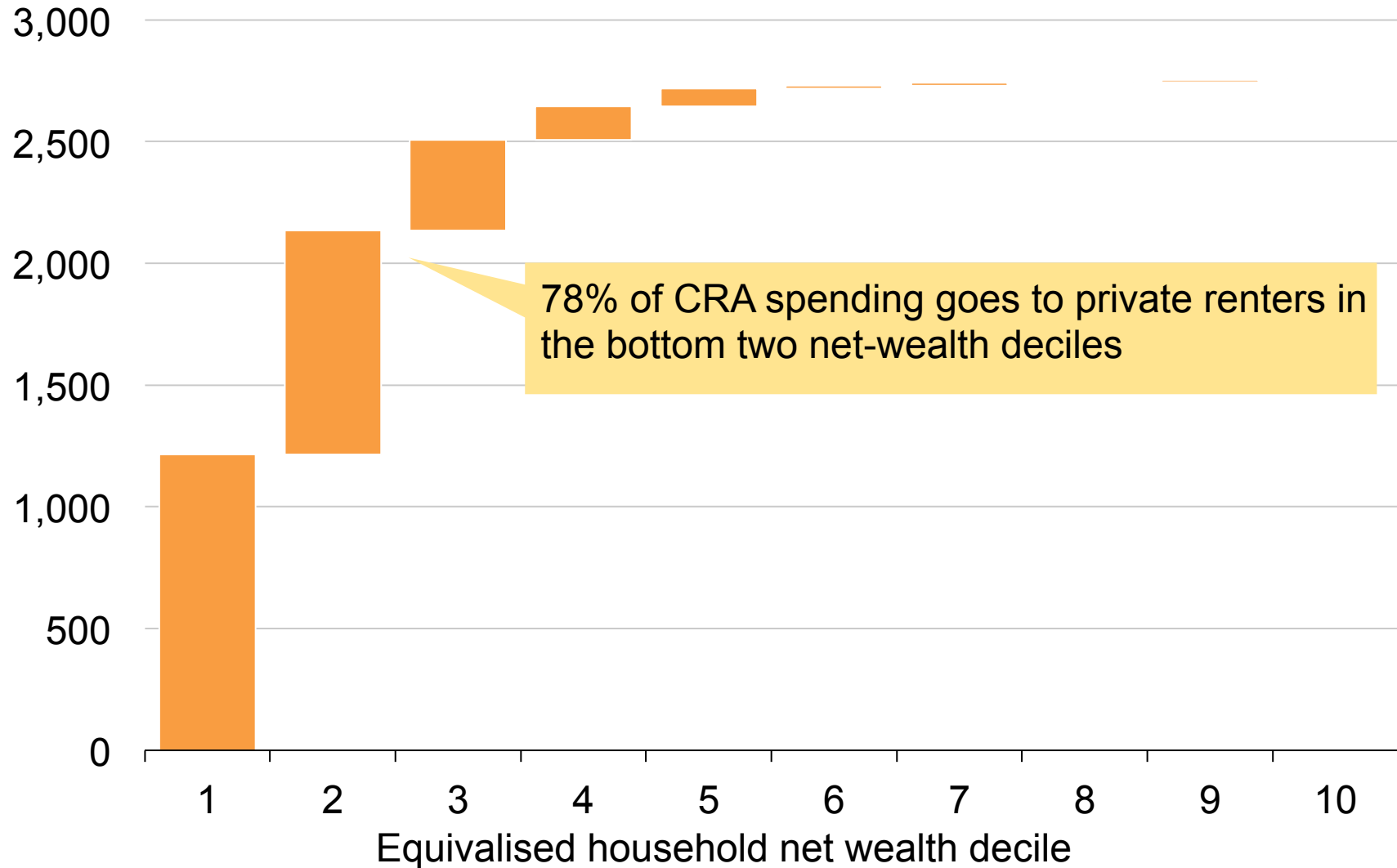
Rent, change in the maximum rate of CRA, low-income HH median expenditure on rent, index, weighted average of eight capital cities



Note: Rent index for all households is constructed by the ABS using a weighted average of the eight capital cities. Max rate of Commonwealth Rent Assistance is indexed to CPI. Note that low-income households' median expenditure
Sources: ABS (2019), 6401.0 - Consumer Price Index, Australia, Jun 2019, A2325841T, A2331876F

Most rent assistance goes towards the bottom 20 per cent by wealth

Rent assistance spending for private renters by household wealth decile, \$ millions



Australian literature suggests increasing Rent Assistance has little impact on rents

Most of any increase in Rent Assistance wouldn't be spent on rents

Foard (1995) – Renters are likely to spend almost all additional net income on non-housing goods and services

Pender (1996) – Even with a segmented private rental market, a \$100 million increase in CRA would only increase rents by 0.59%

Bray (1997) – When people on low incomes gain higher incomes, they spend most of it on food, clothing, or bills

Rents would be unlikely to increase

Vipond (1987) – The price elasticity of supply for the private rental stock is almost perfectly elastic, meaning landlords don't increase rents when demand increases

Bray (1997) – Each \$1 of Rent Assistance raises rents by 1 and 5 cents

Hulse (2002) – concludes Australian housing market is already relatively well-informed, regulated, and competitive – suggesting CRA increases would be unlikely to cause rental price inflation

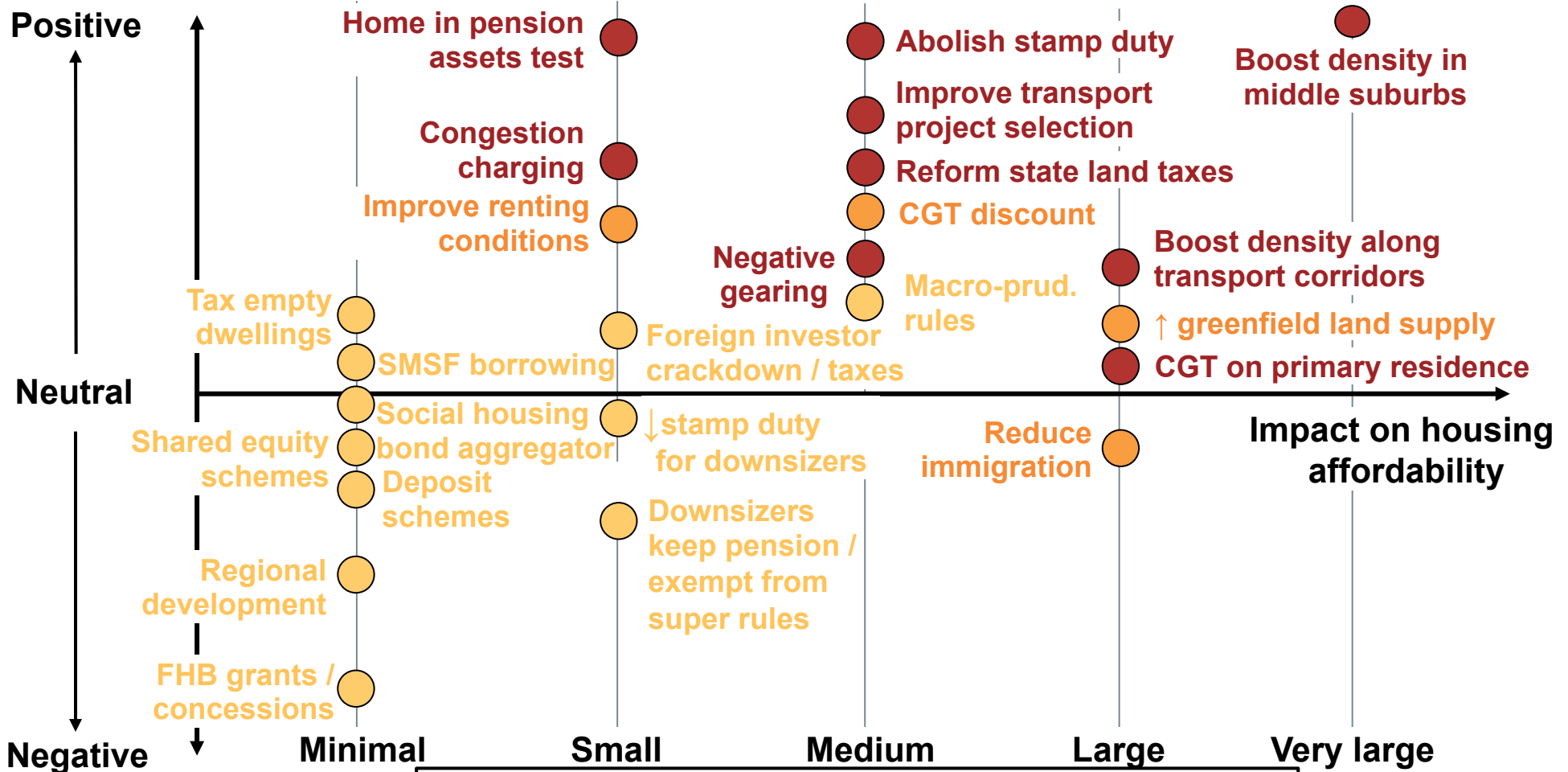
When rents have risen in other countries, markets have been different

Fack (2006) – Reforming housing assistance in France in the 1990s lead to rents increasing nearly 80 cents in the dollar. But French supply for lower-cost rental housing is almost perfectly inelastic.

Kangasharju (2010) – Increasing housing allowances in Finland in 2002 also increased rents by 60 to 70 cents in the dollar. But in Finland housing allowances are paid directly to the landlords.

All the important reforms to improve affordability are difficult; all the easy reforms are cosmetic

Social, economic and budgetary impacts



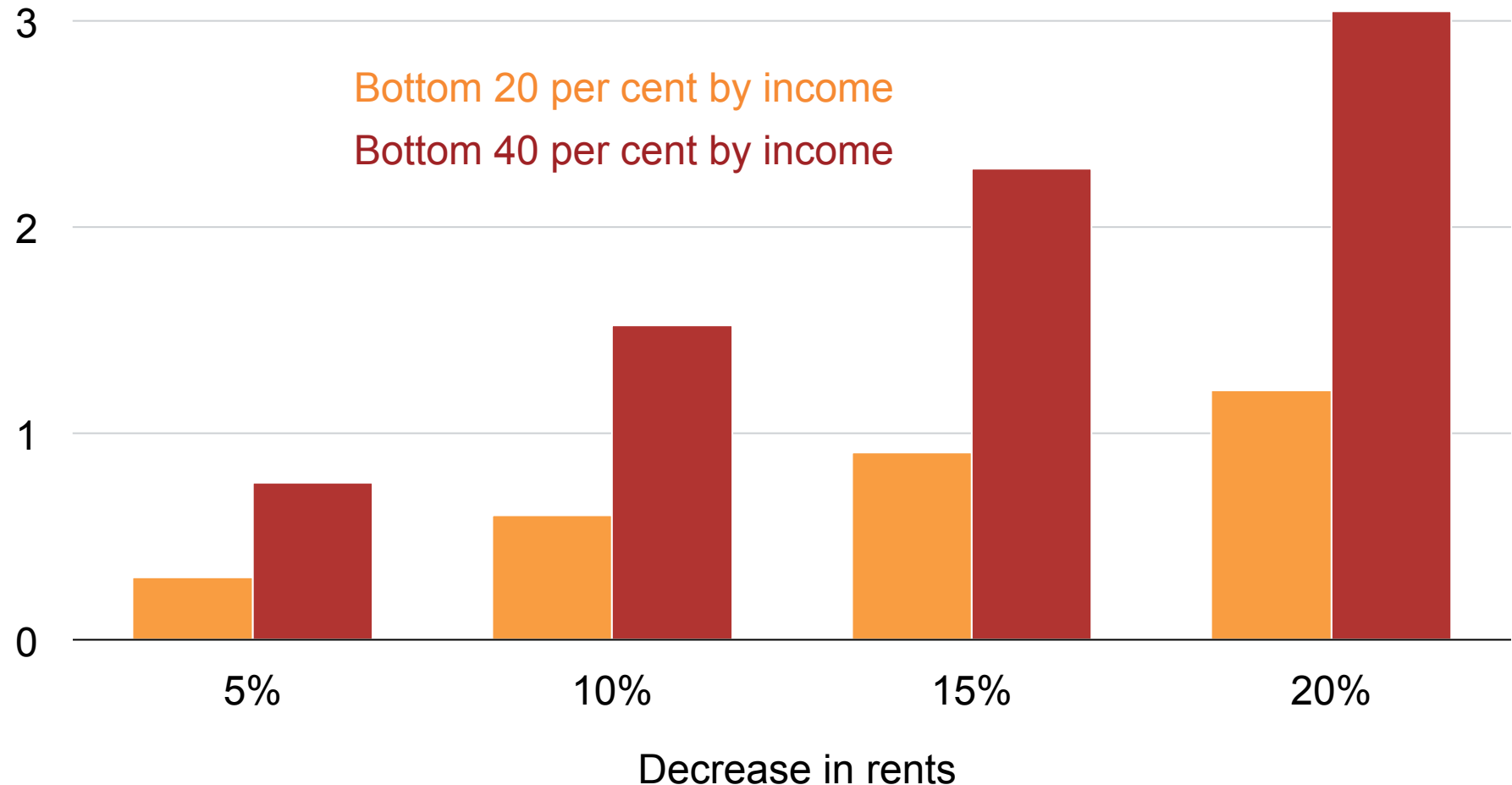
Political difficulty: Easy (yellow dot) Medium (orange dot) Difficult (red dot)

Source: Grattan analysis.

Notes: Prospective policies are evaluated on whether they would improve access to more affordable housing for the community overall, assuming no other policy changes. Assessment of measures that boost households' purchasing power includes impact on overall house prices. Our estimates of the economic, budgetary or social impacts should not be treated with spurious precision. For many of these effects there is no common metric, and their relative importance depends on the weighting of different political values. Consequently our assessments are generally directional and aim to produce an informed discussion.

Decreasing market rents would help low-income Australians a lot even without more rent subsidies

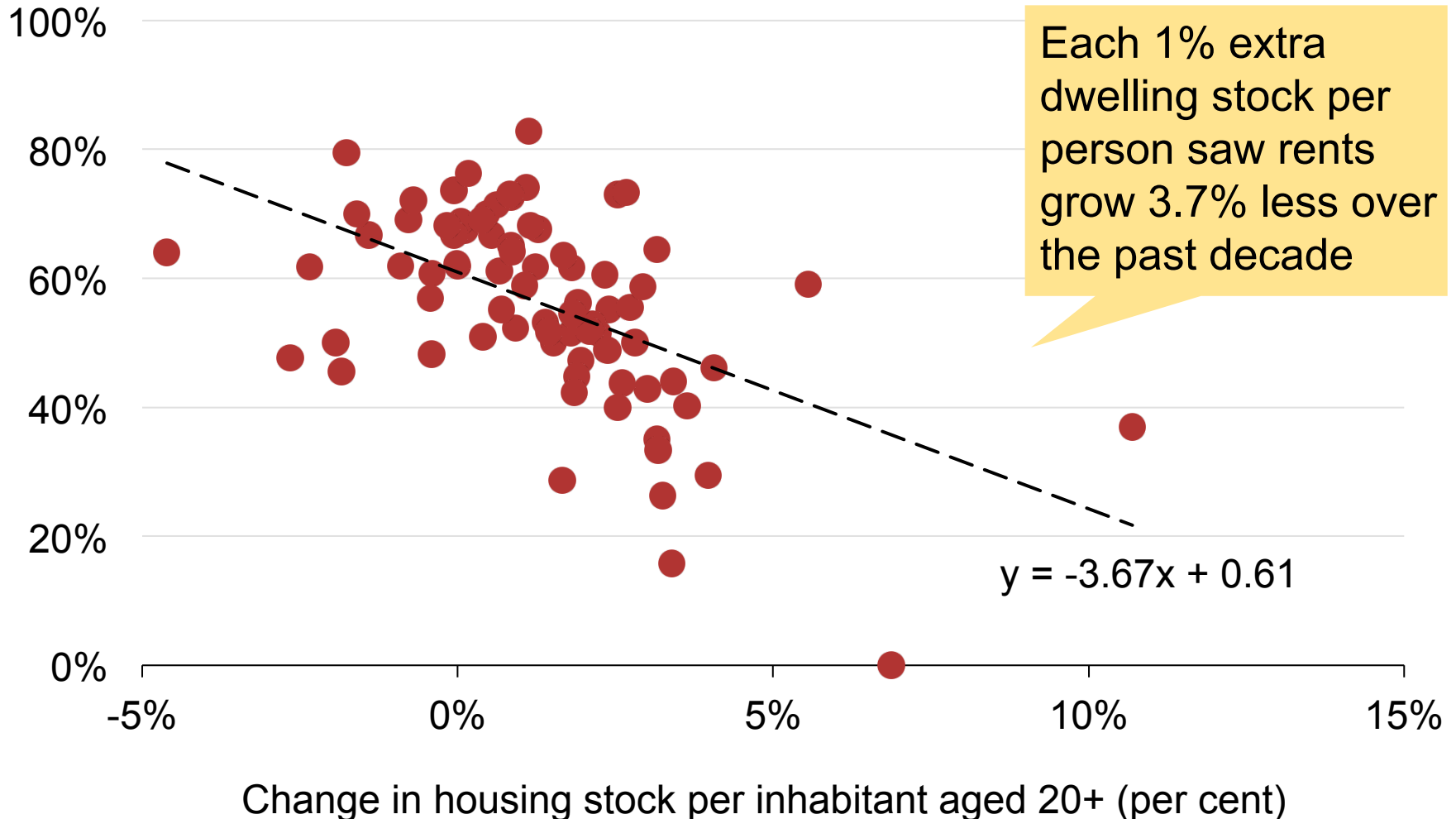
Rental savings to low income private renter households, billions of dollars



Notes: Excludes those with tenure type not stated. Private market includes those renting from a real estate agent, parent or other relative, or other individual
Source: ABS Census Data (various years)

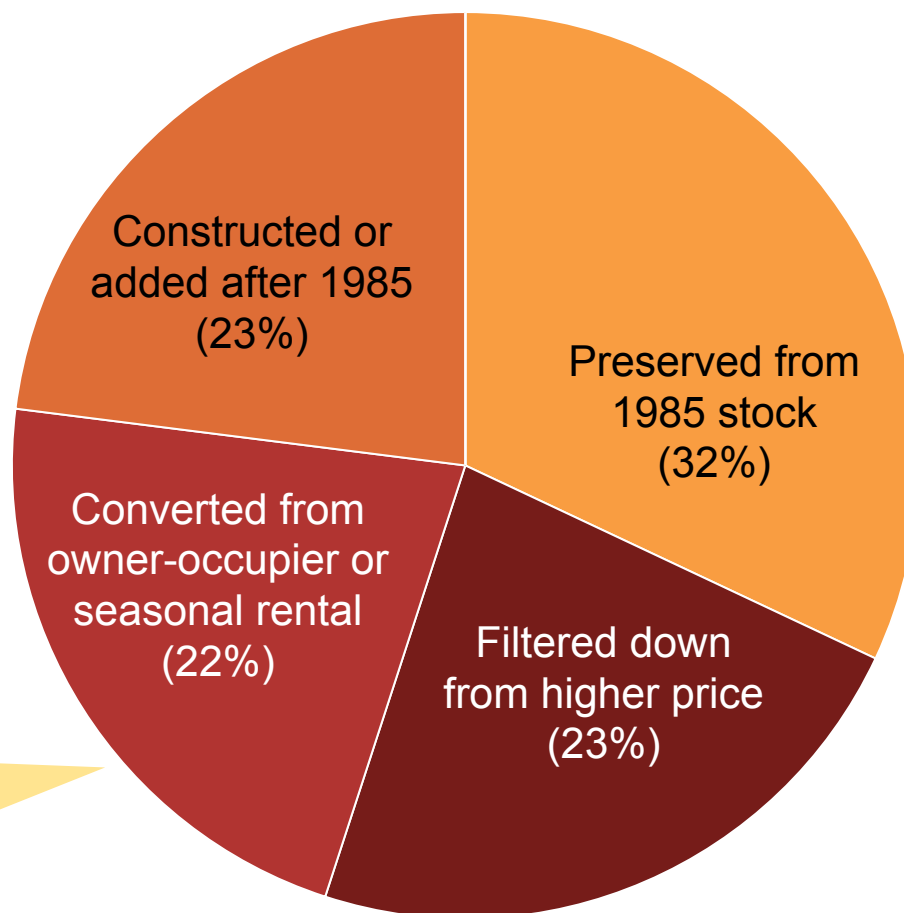
In Victoria, areas that built more housing have seen lower growth in rents

Change in median rents by LGA, 2006 to 2016



Filtering is an important source of affordable housing for low-income earners

Per cent of US affordable rental housing stock in 2013 by source



Filtering accounts for 45% of affordable housing available to low-income earners in the US

Notes: Affordable housing is defined as costing no more than 30 per cent of income for households with very low incomes (earning less than 50 per cent of area median). Units added include rentals that were temporarily out of the stock in that year.

Source: Weicher, Eggers, Moumen (2016), The Long-Term Dynamics of Affordable Rental Housing.

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If elected, the ALP had planned to construct 250,000 in affordable homes in the next decade

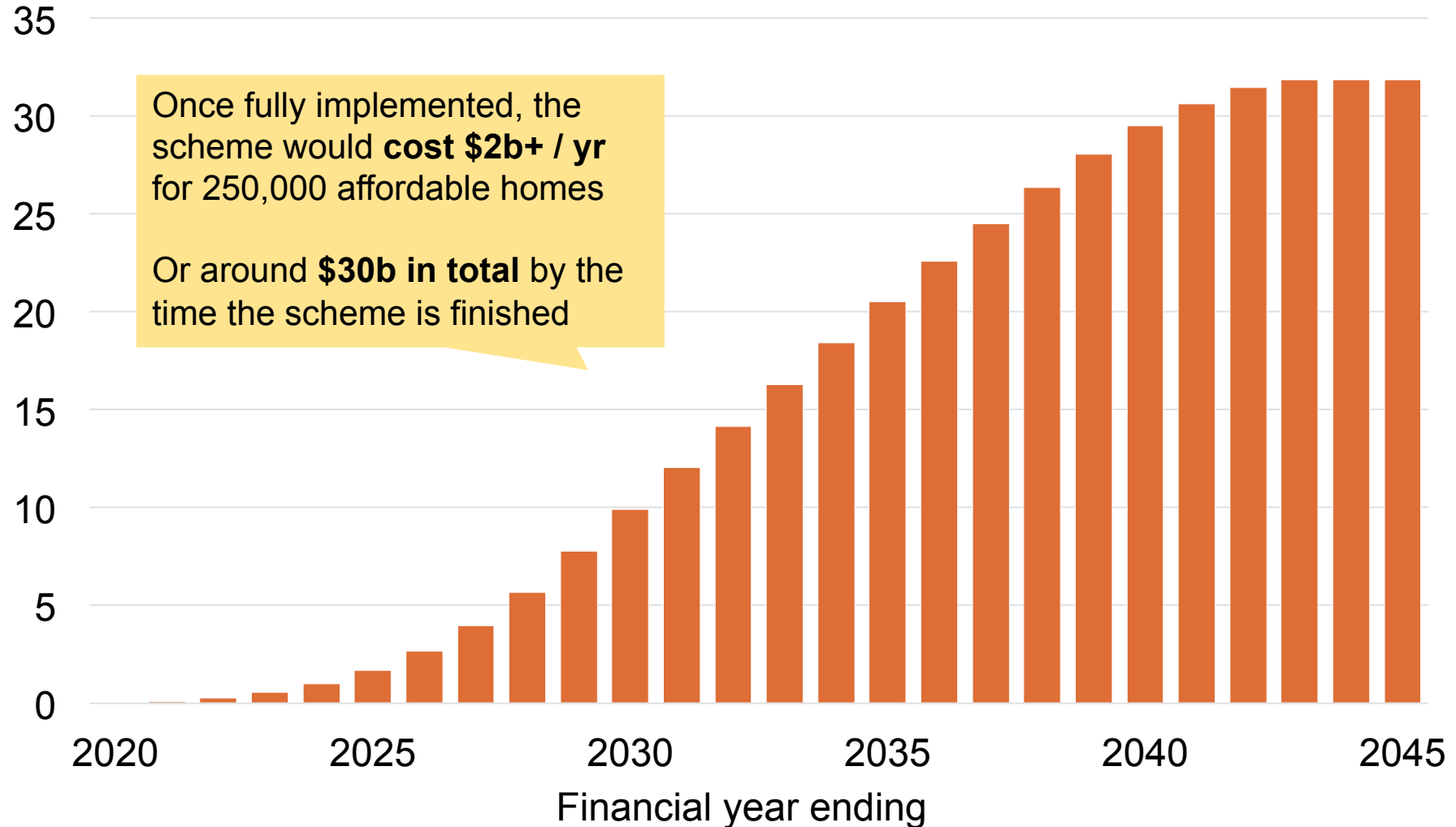
*"I'm proud to announce that if we are elected, a **Labor government will build 250,000 new affordable homes** for low-income working families, for key workers like nurses, police, carers and teachers"*

*"**Building on the National Rental Affordability Scheme**, the program will provide annual incentives of \$8,500 per year for 15 years for newly constructed properties that are owned or managed by a registered community housing provider, and will be mandated to provide 20% below market rent for eligible Australian tenants on low and middle incomes."*



NRAS 2.0 was a once-in-a-generation spend on housing for low-income earners

Total projected NRAS 2.0 spend, cumulative sum, \$b



The administration of NRAS was highly problematic

*An internal review of the assessment processes in relation to the early rounds concluded that the **transparency of the processes could have been improved** with some of the processes considered to **not comply with procedural fairness requirements** or sound administrative decision making principles.*

Auditor General's first report (2015, p.29)

*The department has [acted in] accordance with the requirements of the Regulations, based on the information submitted by approved participants. However, there is **no consistently applied method for verifying the reliability of the information provided**.*

Auditor General's second report (2016, p.8)

*A key risk ... is the payment of incentives for ineligible dwellings ... In mid-2014 the department examined a sample of 100 incentive claims ... and identified that **70 per cent of incentive claims were potentially non-compliant** with the requirements of the Regulations. This was largely due to **errors in submitted market rent valuations**.*

Auditor General's second report (2016, p.22)

Any successor to NRAS could face constitutional hurdles

A 2018 Bill¹ tried to shore-up the constitutional validity of NRAS under:

The **Corporations Power** 51(xx), as NRAS creates rights and responsibilities for constitutional corporations.

The **External Affairs Power** 51(xxix), as NRAS supports Australia's obligations under the *International Covenant on Economic, Social and Cultural Rights* to provide everyone an adequate standard of living, including adequate housing.

The **Taxation Power** 51(ii), as the payment of NRAS subsidies determined the tax liability of a person.

But these provisions might be a stretch:

The legislation must regulate a foreign or trading corporation's activities, functions, relationships or business.² **Making a grant with few strings attached may not be enough.**

Australia's commitments under the ICESCR **may not be sufficiently specific.** The High Court has previously acknowledged that some treaties do not enliven the external affairs power because they are too vague and aspirational.³

It's unclear how this applies to community housing providers.

¹ *Social Services Legislation Amendment (Housing Affordability) Bill 2018*, which 'expressly identifies the Constitutional powers being relied upon and [gives] the NRAS Act operation within the scope of those Constitutional powers', see revised Explanatory Memorandum.

² As per *Williams v Commonwealth of Australia [2014] HCA 23*.

³ As acknowledged by the High Court in *Victoria v Commonwealth [1996] HCA 56; 187 CLR 416; 138 ALR 129; 66 IR 392*