

# UNDERSTANDING AFFORDABLE HOUSING

## What is affordable housing?

Affordable housing is housing for people on moderate or lower incomes. Affordable housing is not 'cheap' or of a poorer standard – it is quality, fit-for purpose housing, priced at a level which is affordable relative to the income of its occupants.

At City of Melbourne, we use the definition of affordable housing provided by Victoria's *Planning and Environment Act 1987*, which states that:

**"Affordable housing is housing, including social housing, that is appropriate for the housing needs of very low, low, and moderate income households"** (Victorian Planning & Environment Act, 1987).

The Act specifies the income range classification for very low to moderate income households. These ranges are updated annually. Figure 3 (page 12) shows these income ranges as of July 2020.

The widely accepted definition of rental stress is when 30 per cent or more of a household's income is spent on rent (AHURI, 2019). When households on very low to moderate incomes are in rental stress, they are forced to sacrifice necessities of daily life such as food, healthcare or education.

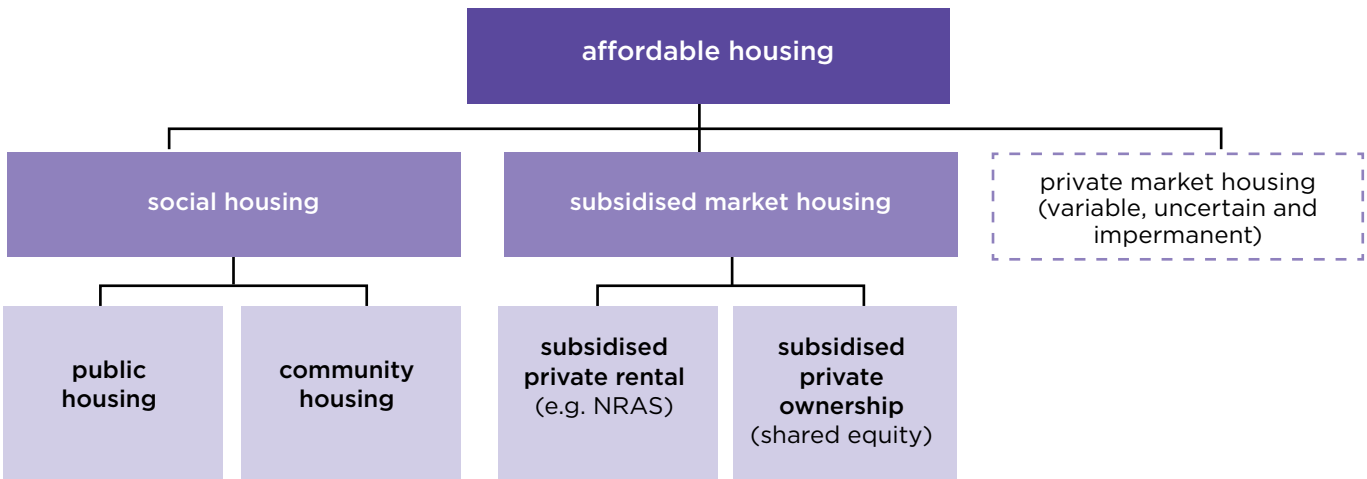
The term 'affordable housing' is often confused with 'social housing' and 'community housing', as these terms overlap.

**Affordable housing** is a broad term that includes:

- **Social housing** – a broad term that includes public housing and community housing.
- **Public housing** – long-term rental housing owned and managed by state governments.
- **Community housing** – long-term rental housing owned and/or managed by community housing organisations.
- **Subsidised market housing** – housing that is provided by the private market through a number of possible subsidy arrangements. Subsidies may support rental or ownership models.

In some instances, private market housing may qualify as affordable housing if it is affordable for very low to moderate income households. This is largely dependant on price, property type, location and size. However, for a number of reasons, the private market is increasingly unable to provide affordable housing in many neighbourhoods.

Figure 1: Affordable housing definition diagram



## Who is affordable housing for?

A wide range of people may need affordable housing during their life. Affordable housing is for anyone in our community who is part of a very low, low or moderate income household. This can include families, older people, artists, childcare workers, cleaners and healthcare workers.

Some people will need affordable rental housing for the duration of their life, while others will only need it for a short time – for example when their children are young or when an illness prevents them from working full time.

Some examples of very low to moderate income households and their living costs are explored on pages 12-13.

## Housing Spectrum

There is a strong relationship between the availability, accessibility and affordability of the different types of housing tenures and types, which is explained in the housing spectrum below.

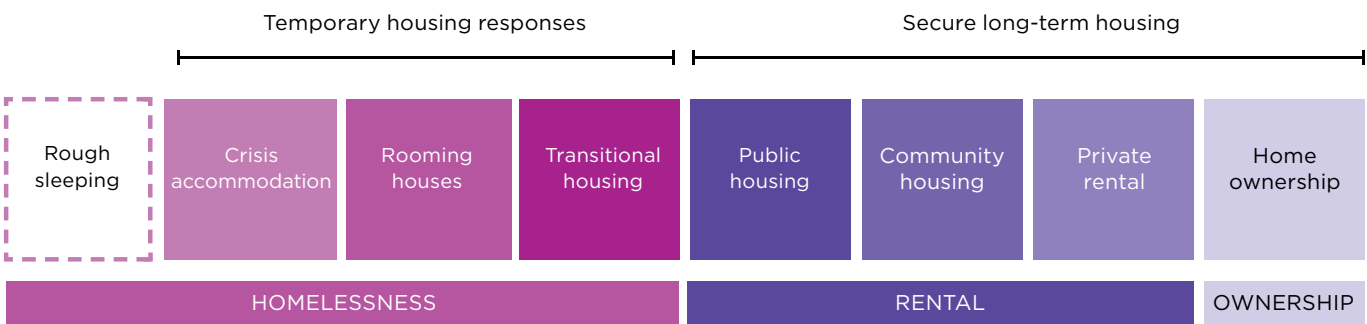
While historically housing affordability may have been considered to only affect low income households, the reality is that it now extends to moderate income household seeking to rent or buy housing.

At the far end of the housing spectrum - and worse case outcome - is rough sleeping. The number of people who are sleeping rough in the City of Melbourne is a great concern; the 2018 StreetCount for the City of Melbourne recorded 279 people sleeping rough.

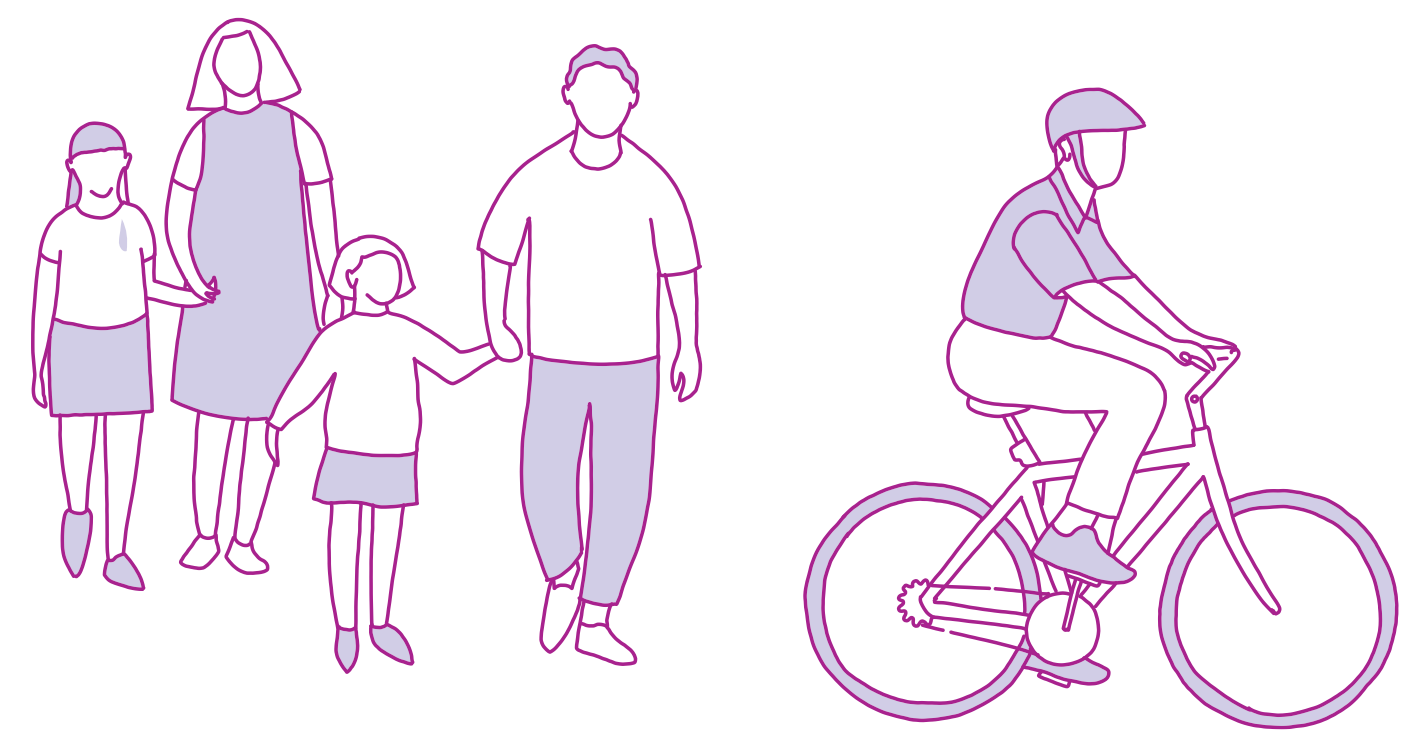
With more than 100,000 people on the public housing waiting list, including 30,000 children, and a lack of affordable housing options, it is increasingly difficult for people to break the cycle of homelessness and enter secure long term housing.

By improving and increasing affordable housing outcomes, both the likelihood of people re entering homelessness decreases and likelihood of people remaining in stable long term appropriate housing dramatically increases.

Figure 2: The housing spectrum



# WHO LIVES IN AFFORDABLE HOUSING?



## Kashvi (34) and Zac (31)

Kashvi and Zac live with their 9 and 12 year old children in Carlton. A busy family, Kashvi, Zac and their children enjoy the local park and visiting Zac’s mother on the weekends.

Kashvi works for a hospital caterer with a weekly income of \$985. Zac receives a Disability Support Pension of \$355 per week.

Without an affordable housing option, Kashvi and Zac rent a three bedroom apartment in Carlton at a weekly cost of \$600. This leaves \$740 per week for utilities, transport and groceries and other living expenses to support their family.

Kashvi and Zac are classified as a low income family, and meet the criteria for access to affordable housing.

## Luke (46)

Luke has a full time job as an office cleaner in the central city. His weekly income after tax is \$811. As he works outside of business hours, Luke is able to spend time cycling and assisting his retired parents.

Luke lives close to work, in a one bedroom apartment in Southbank.

Without an affordable housing option, his rent is \$360 per week, which leaves him with \$451 per week for essentials.

Luke is eligible for affordable housing, as he meets the moderate income single threshold.

## Ana (72)

Ana is a pensioner with a weekly income of \$472. A long-time Kensington resident, Ana volunteers her time at the local community garden, and connects with her friends via a book club each week.

Without an affordable housing option, Ana would be in extreme housing stress. If Ana rents a one bedroom apartment near to her community in Kensington at an average cost of \$345 per week, she would only be left with \$127 per week for essentials and all other living expenses. It is extremely unlikely Ana would be able to live in the area.

Ana is eligible for affordable housing, she is classified a very low income single.

## Mae (26)

Mae is completing their PhD in Biomedical Sciences at Melbourne University. They receive an income from the university for teaching, which is supplemented with government support. They have a weekly income after tax of \$540.

To keep a close eye on their lab and ensure a short commute from teaching class in the evening Mae shares an apartment in the central city. Without an affordable housing option, Mae’s average weekly rent costs \$240. This leaves Mae with \$300 per week for living expenses.

Mae is eligible for affordable housing, as they meet the low income single threshold.

## Natasha (33)

Natasha is a nurse at the Royal Melbourne Hospital and single-parent to two children aged 5 and 7 years. Natasha’s current weekly income is \$1000. Natasha rents a two bedroom apartment in Kensington, which is in walking distance to the local primary school and close to her job at the hospital.

Without an affordable housing option, the weekly rent for their apartment is \$428. This leaves the family of three \$572 per week to pay for essentials including groceries, utilities, clothing and transport; and a small portion put aside to save for an interstate holiday to visit Natasha’s parents next year.

Natasha meets the income criteria for affordable housing, and is classified as a low income family.



Figure 3: Income ranges for very low, low and moderate income households, July 2020

HOUSEHOLD	VERY LOW INCOME RANGE (ANNUAL)	LOW INCOME RANGE (ANNUAL)	MODERATE INCOME RANGE (ANNUAL)
Single adult	Up to \$26,090	\$26,091 to \$41,750	\$41,751 to \$62,610
Couple, no dependent	Up to \$39,130	\$39,131 to \$62,620	\$62,621 to \$93,920
Family (with one or two parents) and dependent children	Up to \$54,780	\$54,781 to \$87,670	\$87,671 to \$131,500

Victorian Planning and Environment Act 1987

Without access to affordable housing options, these households spend more than 30 per cent of their income on rent to live in the City of Melbourne, placing them in housing stress.





## WHAT IS THE PROBLEM?

### There is currently a significant shortage of affordable homes in Melbourne.

There isn't enough social and affordable rental housing in the municipality. City of Melbourne commissioned SGS Economics and Planning to undertake a Housing Needs Analysis in 2019 (SGS Economics & Planning, 2019). The research found that in 2016 there were 9400 households in need of affordable rental homes in the municipality of Melbourne but only 3900 social and affordable homes available – a shortfall of 5500 affordable homes. COVID-19 has increased the need for affordable housing in the short term.

The SGS Economics and Planning research shows that only five per cent of available housing in the municipality of Melbourne is affordable to the lowest 25 per cent of earners. Of this, only one per cent of affordable housing was available in the private market (City of Melbourne, 2014). This means when people on moderate, low or very low incomes choose to live in the municipality, they typically need to spend more than 30 per cent of their gross household income on housing – putting them in housing stress and forcing them to forgo other essential spending, like heating, cooling, food or health care.

The problem has been getting worse. Between 2011 and 2016, median rent increased by 12.5 per cent, while household incomes only grew by 0.15 per cent over the same period (Australian Bureau of Statistics, 2016).

### The need for affordable housing is forecast to grow.

Without intervention the current affordable housing crisis will worsen. By 2036 the demand for social and affordable housing is expected to almost triple to approximately 27,100 households.

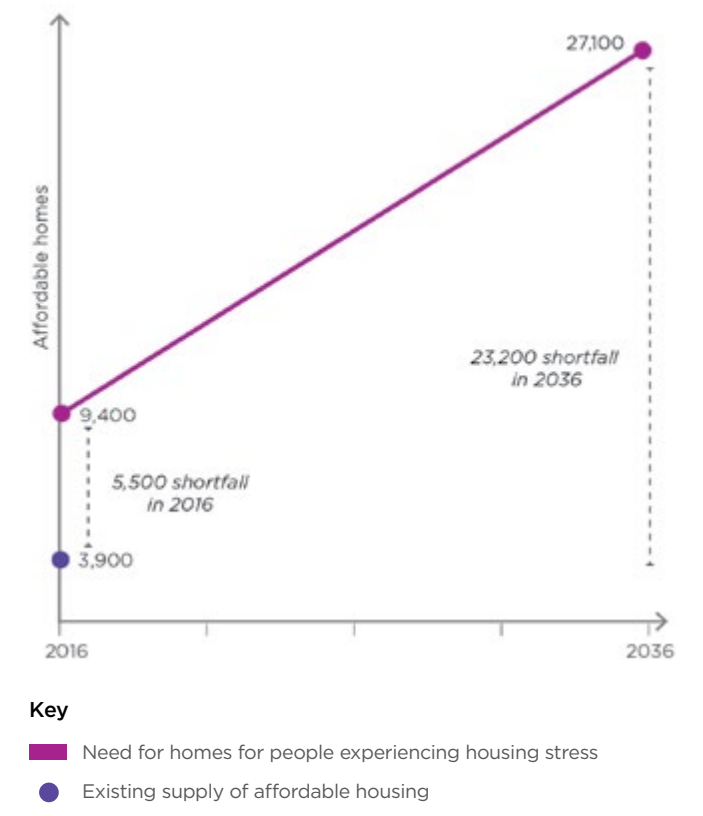
The need for action is clear and urgent. Approximately one in four new dwellings will need to be social and affordable rental housing to address the shortfall.

This crisis will require all actors within the housing market – Victorian, Australian and local governments, the not-for-profit sector, the development industry and the finance and investment industry – to collaborate to deliver a solution.

The recent Victoria's Big Housing Build announcement will make a significant impact on the supply of housing in Victoria, delivering around 12,000 homes in the next four years. This level of investment will have a significant impact on affordable housing supply, and will require sustained investment to respond to the level of need.

Figure 4: Municipality of Melbourne affordable housing needs projections (2019)

Figure 4: Existing supply and demand and projected demand for affordable housing in the municipality of Melbourne





# WHY DO WE NEED AFFORDABLE HOUSING?

## Affordable housing is essential infrastructure.

Housing is essential infrastructure and is vital to the functioning of our society and economy.

Infrastructure Victoria, the infrastructure advisory group to the Victorian Government, identified investment in affordable housing for vulnerable Victorians as one of its top three priorities in Victoria's 30 Year-Infrastructure Strategy (2016).

We need to ensure that people on very low to moderate incomes have access to a place to live which is safe, secure and appropriate. Access to adequate housing is a fundamental human right. It allows people to participate fully in their community. Numerous studies have shown that a safe and stable home improves physical and mental health, personal relationships and quality of family life, education and employment outcomes.

Affordable housing reduces the amount of a household's income that is needed for rent, leaving money to spend on other necessities.

Investing in affordable housing makes economic sense. Our research shows that for every \$1 invested in affordable housing, \$3 worth of community benefit is provided due to worker retention, educational benefits, enhanced human capital, health cost savings, reduced family violence and reduced crime.

We know affordable housing is essential to the continued success of our cities and regions across Australia. Failure to provide enough affordable housing will have economic and social consequences.

## Affordable housing improves social and economic resilience.

The availability of affordable housing directly improves the resilience of our community and our collective ability to respond to major shocks and stresses. In 2020, we have experienced catastrophic bushfires followed by the global COVID-19 pandemic.

Surviving and recovering from these events is contingent on access to safe, secure and affordable housing across all states and territories.

### Climate change

Climate change is compounding the housing crisis. The increasing severity and frequency of extreme weather events such as storms, fires, and flooding are destroying people's homes and leaving them without a place to live. The recent bush fires of the 2020 summer are just one example. These events are expected to continue and worsen.

City of Melbourne has declared a Climate and Biodiversity Emergency. We must prepare to house people displaced by climate change locally, nationally and internationally.

Further, climate change worsens the conditions for people experiencing homelessness and people experiencing housing stress. Heat waves and cold spells are often more acute for those living in financial stress as people are unable to pay for the electricity to run their air conditioning and heating. These weather events heighten physical and mental health conditions. They often result in heat stress-related deaths and rises in mental health issues and domestic violence.

## Affordable housing supports an inclusive and diverse city.

A broad spectrum of professionals, students, artists, service and hospitality industry professionals make a significant contribution to our city. They are critical to Melbourne's liveability and economic prosperity.

Workforce diversity supports economic productivity (Berry, 2003). Cities which lack sufficient affordable housing often see the displacement of low-income workers to outer suburb locations. This can then lead to the loss of industry – as it relocates to be closer to its workforce. Cities experiencing housing pressure have difficulty attracting quality key workers for their schools, hospitals and other services due to the inability for workers to live close to their employment.

As the affordable housing crisis worsens, some current and future residents, including families, will be excluded from our community.

### Our community cares about affordable housing

The City of Melbourne's vision is for a 'bold, inspirational and sustainable city'. We strive to represent our community goals and aspirations for the municipality.

We have heard from our community, through numerous forums, events and engagements that they care about affordable housing and want to see increased accessibility and supply of affordable homes. This is a priority identified in both the **Future Melbourne 2026 Plan** and **Council Plan 2017-2021**.

For more information on the community engagement process for the Draft Affordable Housing Strategy, see pages 34-35.

## Aboriginal Housing

The City of Melbourne acknowledges that Aboriginal and Torres Strait Islander peoples were the First Peoples of this land and have strived to retain their culture and identity through the period of European settlement for over 200 years.

We also recognise that European settlement forced the displacement of many Aboriginal people from their traditional lands, including those of the Kulin Nation. Despite the destructive impact of European settlement, Aboriginal culture has endured and is recognised globally as one of the oldest living cultures.

Aboriginal people show enormous resilience and generosity of spirit towards other people with whom their land is now shared. However the echoes of this displacement are still experienced today and Aboriginal people disproportionately experience homelessness and housing insecurity in Australia.

Aboriginal and Torres Strait Islander people continue to experience complex historical disadvantage, including; lower education and training levels, lower incomes and the compounding disadvantage of dispossession of their land. As a consequence, Victorian Aboriginal people face severe housing disadvantage and are 14 times more likely to experience homelessness than non-Aboriginal Victorians.

The City of Melbourne is committed to reconciliation and working in partnership with local Aboriginal organisations to ensure greater housing security for Aboriginal people in our municipality.

As the Victorian Aboriginal Housing and Homelessness Framework states: 'Aboriginal households are generally more open and often likely to care for elders or be kinship carers and cater for large extended and mobile families. This strength should be acknowledged and supported in considering housing requirements' (Aboriginal Housing Victoria, 2020).

It is expected that the Victorian Aboriginal and Torres Strait Islander population will grow from 57,782 in 2016 to 95,149 in 2036 and will require an additional 5,085 Aboriginal Housing units by 2036 (Aboriginal Housing Victoria, 2020). Affordable housing should be developed in partnership with the Aboriginal community to support the specific cultural and kinship needs of Aboriginal households. Once developed, the housing should be owned and managed by Aboriginal-led community housing organisations.

Figure 5: Every \$1 spent on affordable housing provides \$3 of community benefit

SGS Economics and Planning, 2019

