

APPENDIX to Election 2007: Affordable rental housing

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This Appendix illustrates key impacts of a scheme which would provide an annual National Affordable Rental Incentive (NARI) for a period of ten years for each eligible dwelling. It assumes that the scheme would require 80 per cent of the dwellings to be let for at least 20 per cent below market rent so that, for example, if market rent is \$200 per week the rent discount would be \$40 per week. Other assumptions used for the purpose of calculating the impacts are reasonably conservative but precision is impossible and accordingly the figures given below should be interpreted as illustrative approximations.

RATES OF RETURN FOR INVESTORS

Table 1 illustrates approximate rates of return which different levels of NARI could provide for different types of institutional investor on a nominal, post-tax basis.

Table 1: Annual value of NARI

	\$5,000	\$7,500	\$10,000
Superannuation fund	7%	8%	9%
Other corporate investor	6%	9%	12%

The scheme would also be available to charitable housing organisations, for which the comparable rates of return could be approximately 5 per cent, 7 per cent and 9 per cent. This 'surplus' would assist them, where desirable, to reduce rents by a greater amount, or for a longer period, than the NARI scheme or to finance other affordable housing.

RENT REDUCTIONS FOR TENANTS

Table 2 illustrates the scale of initial rent reductions that could be achieved as a proportion of household income. The figures relate to households with incomes that are lower than about three-quarters ('very low-income') or two-thirds ('low-income') of all households.

Table 2: Impact of NARI on rent for low income households

	Market rent (pw)	NARI rent cut (pw)	Rent levels (as % of income)	
			Pre-NARI	Post-NARI
Very low-income households				
Sole parent, one child	\$200	\$40	36%	26%
	\$250	\$50	49%	36%
Couple, two children	\$300	\$60	35%	27%
	\$350	\$70	43%	33%
Low-income households				
Sole parent, one child	\$250	\$50	33%	24%
	\$300	\$60	41%	31%
Couple, two children	\$350	\$70	30%	23%
	\$400		35%	27%

These outcomes can be compared with the widely-used affordability benchmark of 30 per cent of household income. At present, hundreds of thousands of lower-income households are paying rents above that benchmark, with many of them paying rent exceeding 50 per cent of their income.

Where the NARI discount is insufficient to achieve reasonable levels of affordability, the Capital Grants Program and other elements of the proposed National Affordable Housing Agreement would be available to provide complementary assistance.