What impact will the National Rental Affordability scheme have upon housing affordability?

MODELLING ESTIMATES OF A RANDOM ALLOCATION OF 50,000 NATIONAL RENTAL AFFORDABILITY SCHEME PROPERTIES TO A SAMPLE OF ELIGIBLE HOUSEHOLDS FINDS THAT OF THE 11,512 EXPERIENCING HOUSING AFFORDABILITY PROBLEMS, 4,614 (40 PER CENT) WOULD BE MOVED FROM ABOVE TO BELOW THE 30 PER CENT AFFORDABILITY BENCHMARK.

KEY POINTS

- Modelling estimates of a random selection of 50,000 Commonwealth Rent Assistance (CRA) recipients finds 11,512, a minority, paying more than 30 per cent of their income on housing costs. A 20 per cent reduction in their rent on allocation to an NRAS property would lift 4,614 (40 per cent) out of housing affordability problems.

- NRAS will have a varying impact on housing affordability in different parts of Australia; 38 per cent are moved from above to below the 30 per cent affordability benchmark in Australian cities, but NRAS is more effective in regional and remote parts of Australia, where 45 per cent are lifted out of housing affordability problems.

- Rates of housing stress are particularly high among the poorest 20 per cent of those eligible for NRAS (at 54 per cent), and many are markedly above the 30 per cent affordability threshold. NRAS will lift one in four of these very low income households out of housing stress.

- By lowering the rents of CRA recipients NRAS will reduce the total expenditure on CRA by $21 million per year.

This bulletin is based on modelling conducted by Dr Rachel Ong (AHURI Western Australia Research Centre) and Professor Gavin Wood (RMIT Research Centre) using the AHURI-3M model. This modelling was conducted in May 2008 using the preliminary NRAS eligibility criteria. The eligibility criteria have since changed.
POLICY CONTEXT

The National Rental Affordability Scheme (NRAS) seeks to stimulate the supply of private rental stock through the construction of 50,000 new dwellings for private rental households between July 2008 and June 2012. An establishment phase from July 2008 to June 2010 will see the first 11,000 allocations. An expansion phase from July 2010 to June 2012 will see a further 39,000 allocations. Subject to market demand an additional 50,000 allocations will be made from 2012 onwards.

The NRAS provides a $6,000 tax credit (grant if a non-income tax paying organisation) per new dwelling constructed, each year, for ten years, from the Australian government, plus $2,000 cash or in-kind contribution from the state or territory government. The in-kind element could be in the form of stamp duty or land tax concessions. The cost of NRAS to the Australian Government through to 2012 is projected to be $625 million.

The housing affordability component of the scheme requires the rent for each dwelling to be 20 per cent below its market rent for each of the ten years it receives an NRAS allocation. Tenants who can benefit from the Scheme are all those eligible for CRA, either because they receive income support payments or Family Tax Benefit Part A, regardless of their housing affordability situation. The incomes of those eligible range from $39,000 for a single age pensioner, to $80,000 for a working family with three children under 12. These income thresholds are modelled on eligibility criteria for Commonwealth Rent Assistance (National Rental Affordability Scheme, Technical Discussion Paper, Australian Federal Government, 2008).

Applications for NRAS funding will need to be endorsed by state/territory governments and approved by the Australian government on a competitive merit selection basis against the published criteria.

METHOD

The impact of NRAS on a target group of all CRA eligible, renting, households was modelled using a sample from the 2006 Household, Income and Labour Dynamics in Australia (HILDA) Survey. These estimates were then validated using a sample from the ABS 2002 Survey of Income and Housing Costs. CRA eligibility was imputed using the 2006-07 tax and benefit parameters from the AHURI-3M model. The sample comprises 727 households which is equivalent to approximately 786,091 CRA eligible, renting, households in the Australian population.

Housing affordability was defined for households using a net housing affordability ratio; defined as housing costs minus CRA, divided by income from all sources other than CRA. A household is deemed to have housing affordability problems when the net housing affordability ratio exceeds the 30 per cent benchmark. Households in the bottom two income quintiles that pay more than 30 per cent of their income in housing costs are adjudged to be in housing affordability stress.

A critical assumption in the modelling is that the NRAS will in effect randomly assign the 50,000 properties among the pool of CRA eligible households, so that each has an equal chance of renting an NRAS property. Because the HILDA sample of 727 is equivalent to 786,091 households in the Australian population, it is assumed that the Scheme randomly allocates 1 in every 16 renting households (50,000/786,091 = 1/16) to an NRAS property.

It is also assumed that the current rent being paid by households in the sample is a market rent and not one that is discounted below market rent levels.

KEY FINDINGS

A key finding determining the potential impact of NRAS is the number of households eligible for an NRAS property that are actually experiencing housing affordability problems. Importantly it is a minority. Table 1 shows the estimates of the numbers of households eligible for NRAS that would be above the 30 per cent benchmark before and after allocation to an NRAS property; 11,512 households of the 50,000 randomly selected eligible households are found to be above the 30 per cent benchmark prior to allocation. Of these 4,614 (40 per cent) would be brought below the 30 per cent benchmark after their rent was reduced by 20 per cent. This finding from the 2006 HILDA sample was validated by estimates from the ABS 2002 Survey of Income and Housing Costs where 54 per cent of NRAS recipients, a similar order
of magnitude, were estimated to be moved from above to below the 30 per cent benchmark.

Targeting of NRAS to lower income households, rather than a random allocation to CRA eligible households, would improve the Scheme’s capacity to alleviate the housing affordability circumstances of a larger number of households.

Table 2 documents the mean and median net annual housing costs before and after application of the NRAS discount of 20 per cent of market rent. Mean net housing costs per household fall by $1,259 from $6,005 to $4,746. Median net housing costs fall by $1105 from $5,352 to $4,247. The typical household is then over $20 per week better off as a result of NRAS.

Mean and median net housing costs after the NRAS discount are 15.8 per cent and 17.7 per cent of gross household income, respectively. Among all private renters, mean and median net housing costs are $7,905 and $6,516 and 16.3 per cent and 17.0 per cent of gross income.

NRAS will have a varying impact on housing affordability in different parts of Australia because housing market conditions and hence rents vary across different locations. In Australia’s major cities (Sydney, Melbourne, Brisbane,
Adelaide, Perth and Canberra) the average annual rent is $11,457, 37 per cent higher than in regional/remote parts of Australia. As a consequence, city renters are more likely to be markedly above the 30 per cent affordability threshold with fewer being brought below the threshold by a 20 per cent reduction in their rent. As Table 3 indicates this results in 38 per cent of city residents being moved below the 30 per cent housing affordability benchmark, as compared to 45 per cent in the rest of Australia.

The impact on housing affordability varies somewhat across household types. Forty-one per cent of singles (including sole parents) are lifted out of housing affordability problems compared to 38 per cent of couples.

As one would expect the effectiveness of NRAS also varies by household income. Among the poorest 20 per cent of households rates of housing affordability stress are extremely high at 54 per cent. Their average net housing costs of $4,780 are 42 per cent of average gross income, which is very high compared to 20 per cent of average gross income for all NRAS eligible tenants. NRAS lowers average net housing costs by $962, so that spending is now 34 per cent of average gross income for the poorest 20 per cent of households. Just over one in four of the poorest households are lifted out of housing stress by NRAS. This is nevertheless lower than typical impacts among all NRAS recipients. NRAS is less effective in reducing rates of housing stress because the net housing costs of the poorest 20 per cent of NRAS eligible tenants are more likely to be markedly above the 30 per cent affordability threshold.

One of the rarely mentioned potential policy benefits of the NRAS is that it could create savings in CRA expenditure. Any NRAS properties rented to CRA recipients, with their rent 20 per cent below the market rent, could see some reductions in the amount of CRA paid to tenants. Amongst the 50,000 randomly selected CRA recipients to be allocated to an NRAS property, the modelling estimates that CRA savings of $21 million or 5 per cent would be created. Sixty-one percent of all CRA eligible private rental tenants are paying a fortnightly rent above the maximum threshold at which CRA is capped at the maximum rate. For this reason CRA savings are somewhat smaller than might have been anticipated. Indeed, 37 per cent of CRA recipients who would benefit from the rent discount and NRAS continue to receive the same amount of CRA after the rent discount.