

Options for providing more secure housing for older Australians on low incomes



Based on AHURI Final Report No. 406: Inquiry into housing policies and practices for precariously housed older Australians

What this research is about

This Inquiry final report brings together the findings of three research projects to address how Australia can deliver the types of housing needed by individuals who are in, or approaching, retirement, and who are precariously housed, to support their life aspirations, wellbeing, participation and inclusion.

The context of this research

The last 20 years have seen growing instability in the housing circumstances of the older population, with declining rates of home ownership, carriage of mortgage debt into retirement, restricted access to social housing and a decline over time in investment in alternative housing options. The size of the challenge Australia now faces is immense; by 2031 an estimated 440,000 older households will be without suitable housing.

The key findings

Lower income older Australians are increasingly reliant on private rental

Lower income older Australians aged 50+ years in or approaching retirement without the security of home ownership have traditionally relied on social housing but have grown increasingly reliant on the private rental market, with around 40 per cent of those residing in Victoria, Queensland and New South Wales for example living in private rental.

Lower income older Australians face additional barriers in the housing market related to their lower levels of education, their lesser likelihood of being employed and greater likelihood of living alone and needing housing modifications to address health issues- a challenge for those in the private rental system.

Lower income older Australians want affordable housing to own

People aspire to housing attributes that are achievable, with some factors gaining greater significance with increasing age, such as wanting to age in place in affordable, safe, accessible housing and neighbourhoods.

The Inquiry reviewed different housing models considered appropriate for older lower income households, developing seven composite housing models: mixed use apartment building, cooperative housing, communal housing, transportable house, two-bedroom unit, dual-key property and village-style housing.

The households surveyed had a clear preference for a shared equity home ownership model, a cooperative housing model and a transportable model. The strong preference for the shared equity model reflects the expectation that it is 'normal' to own one's home in Australia. The muted response to the other options offered is a result of a mismatch between the models and entrenched aspirations and a lack of familiarity older people have with 'alternative' housing options.

Reducing lending constraints can lift supply of innovative forms of housing

A key assumption is that older people cannot afford debt repayment, yet paying a very large proportion of their income on rent is the norm for older people who are not home owners or living in social housing. As a result, some older people are willing to trade discretionary income for security of tenure.

This Inquiry highlighted two areas of lending as having the potential to keep older people in home ownership or to use home ownership as a means of obtaining security of tenure and wellbeing: shared equity mortgages and provision of first mortgages.

Shared equity schemes for low income households need patient investors

Shared equity can assist people to accumulate housing wealth at an earlier stage in their lives, thus preventing them from falling into insecure housing when they are older. However, for older people whose incomes are low and are not going to rise over time, shared equity is a difficult proposition. While schemes without deeply patient investors face difficulties, government shared equity schemes could work if government acted as the patient investor and returns were generated through capital appreciation and, if necessary, a mechanism whereby a payment was made to government on future sale or transfer of the property.

Mortgages for Land Lease can provide another affordable housing ownership option

Land Lease developments provide the opportunity for many buyers to purchase a relatively affordable home. In a Land Lease arrangement, the household owns their dwelling but not the land, which is leased from another person/corporation for a specified period of time. As householders don't own the land component of their housing, they can be eligible for some Commonwealth Rent Assistance (CRA), which can improve housing affordability.

Not all buyers have sufficient cash to purchase a Land Lease home, but some could support a small mortgage as a way of obtaining security of tenure and preserving their capital. However, banks rarely lend for this type of product. This refusal to provide mortgages was criticised as being inconsistent, as banks lend for other depreciating assets such as cars.

In the case of loans for Land Lease homes, the mortgagee is also paying rent on the ground lease. Therefore, lenders need to consider not just the affordability of loan repayments but also the impact of the ground rent. The lenders interviewed all cited responsible lending regulations as limiting credit provision to older people.

There is a need for more nuanced evidence of the risk in providing small loans when the borrower has substantial equity. The Commonwealth provides a reverse mortgage scheme for home owners that could be expanded to encompass purchase; the effect is a form of shared equity.

The cost of land is steering households to regional areas

The search for lower cost land is driving interest in regional areas, which are expecting considerable growth in the number of older residents in the coming years. Lower land costs in regional centres ensures affordable housing can be financially viable. Regional centres may be able to provide the land parcels required for low-density Land Lease village and park models more easily. While it is not necessarily a market that attracts a broad range of developers/operators, it is suited to those who are more risk averse and willing to accept lower returns.

Developments of seniors housing in smaller cities and towns can bring benefits such as greater rate revenue to local councils and increased spending by seniors on goods and services in the wider community. Affordable seniors housing in regional areas could be catalysed through land being made available at a subsidy—for example, by regional councils.

However, regional areas have not been immune to the housing price spikes seen during COVID years. In addition, a population shift among older people will require investment in regional health and care services. Adequate health services involve capital and recurrent costs, much of which would need to be shouldered by the public sector. Even if funding were available, the difficulties in recruiting staff to regional areas remains a significant barrier.

Consideration of broader infrastructure highlights the role of non-housing and land related policy interventions and programs as drivers of housing markets.

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Rising insurance costs will reduce affordability

An enormous and complex challenge facing government is the increasing cost of insurance and the withdrawal of insurance coverage from regions repeatedly affected by natural disasters. Non-profit and corporate providers of affordable rental housing are likely to exit such regions early given the low margins involved and their fiduciary responsibilities. Mortgage lenders are also likely to exit these markets, reducing the availability of private rental housing. Climate change will also drive demand for private rental and subsidised housing as uninsured home owners lose their homes and cannot afford to rebuild.

Higher density can improve housing affordability

Higher density housing is particularly suited to the older age group, providing potential affordability, lower maintenance and increased opportunity for social connections and support.

Small dwellings, one bedroom or studios, were viewed as a key means to provide affordability, and co-living was seen as a necessity for some older people. While older householders had a strong preference for larger, fully self-contained dwellings and private open space, many of the pre-retirement informants indicated an openness to communal living arrangements (from shared laundries to co-living), suggesting a generational shift.

Low-density, middle suburbs were identified as a source of land suitable for residential intensification. Design solutions for one or two one-bedroom units on a site in addition to a main dwelling are possible without compromising the character of the neighbourhood and while preserving or promoting the tree coverage required to mitigate the impacts of climate change. Limiting the number of bedrooms puts a break on price, thereby delivering affordability. Shared gardens and facilities such as laundries also reduce costs.

Governments can use planning schemes to encourage affordable rental housing models through zoning amendments (which provide land supply) and reducing the costs of planning through the provision of greater flexibility (e.g. in relation to car parking requirements). Accessory dwellings (such as 'granny flats') could be a key source of older persons' housing, but the planning system continues to be a constraint on this form of alternative housing.

'Low-density, middle suburbs were identified as a source of land suitable for residential intensification.'

Education is a key to making effective choices in affordable housing

Knowledge, or housing literacy, is critical to making effective housing decisions and transitions as housing needs change. However, older Australians in precarious housing do not always have a complete understanding of the housing options or services available to support their decision-making.

There is not a comprehensive system of support structures that deliver information in a way that is conducive to effective decision-making. Not only is the information itself flawed (complex, piecemeal, inaccessible) but also the modes of delivery do not always meet the needs of older Australians. A face-to-face approach with an individual – a system navigator – was the preferred mechanism for improving housing literacy among the target population.

'Rezoning of greenfield land in regional areas is a key to creating residential development opportunities.'

What this research means for policy makers

Increased development and service capacity in regional areas

Rezoning of greenfield land in regional areas is a key to creating residential development opportunities. There was support from developers for zoning amendments that include a requirement for a proportion of social and affordable housing (inclusionary zoning). This would result in the value of the land being discounted but the landowner would still receive an uplift in value at sale that more than compensates. Commensurate investment in services and their workforces must accompany the investment in housing.

State housing authorities to be able to borrow to operate properly

Public housing estates provide an obvious opportunity for intensification, with many estates in need of renewal and incurring high operating costs. Borrowing constraints imposed on state housing authorities (SHAs) by governments do not reflect best practice asset management or standard investment principles. Instead, SHAs must be able to borrow to recycle existing assets.

Planning flexibility could increase affordable housing supply

Planning flexibility involving an offset mechanism could be provided in cases where owners provide affordable seniors housing at some sites in exchange for greater flexibility at other sites. This would require a state-level planning mechanism to coordinate supply across each state and over time.

Micro-apartments reduce the cost of provision and, if well designed, are likely to appeal to more single people. Micro-apartments would provide the opportunity for affordable home ownership as well as rental (including for social housing).

Opposition from local government needs to be reduced

Affordable housing providers often encounter opposition from local governments and communities opposed to development. State governments could introduce education for elected members to understand the role of the planning system. Separately, elected members need to know the responsibilities and opportunities local government has in relation to social and affordable housing.

Tax incentives can increase affordable housing supply

Taxes and charges increase the cost of land and housing development and can be a disincentive to changes in use. Some options to overcome barriers to the provision of alternative housing include:

- rental villages providing affordable rents could be relieved from paying land tax
- infrastructure charges could encourage smaller dwellings to support affordable seniors housing
- smart contracts/blockchain could be utilised to reduce the administrative burden of development applications and reduce approval times
- under-utilised existing housing could be a significant source of affordable housing, with asset-rich, income-poor pensioners discouraged from providing lodgings as receipt of rental income triggers a requirement to pay Capital Gains Tax (CGT) on their home. The Commonwealth could reconsider the application of CGT where both the home owner and tenant are in receipt of the age pension or benefits.

Methodology

This Inquiry research project incorporated information from three research projects, which used census data; a desktop review of the literature; a national online survey; and interviews with housing industry stakeholders, focus groups and international housing experts.

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