

Final Report

Boarding houses and Government supply side intervention

authored by

**Emma Greenhalgh, Anne Miller, John Minnery,
Nicole Gurrán, Keith Jacobs and Peter Phibbs**

for the

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ABBREVIATIONS

ABN	Australian Business Number
ABS	Australian Bureau of Statistics
ACC	Adelaide City Council
AHURI	Australian Housing and Urban Research Institute
BCC	Brisbane City Council
BHFAP	Boarding House Financial Assistance Program
BHAG	Boarding House Action Group
BHC	Brisbane Housing Company
BOLA	Building and Other Legislation Amendment Act (Queensland)
BHOMA	Boarding House Owners and Mangers Association
CLOG	Community Living Options Group
CURA	Centre for Urban Research and Action
DCF	Discounted Cash Flow
DHS	Department of Human Services
DOH	Department of Housing
FSMP	Fire Safety Management Plan
GST	Goods and Services Tax
HIDU	Hostel Industry Development Unit
IURHP	Inner Urban Rooming House Project
NSW	New South Wales
OFT	Office of Fair Trading
OSR	Office of State Revenue
RTA	Residential Tenancies Act (Tasmania)
QFRA	Queensland Fire and Rescue Authority
QLD	Queensland
SA	South Australia
SAAP	Supported Accommodation Assistance Program
SASHP	South Australian State Housing Plan
SII	Social Inclusion Initiative
SRO	Single Room Occupancy
SEPP	State Environmental Planning Policy (NSW)
SSCC	South Sydney City Council
TAS	Tasmania
TUT	Tenant's Union of Tasmania
VIC	Victoria

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EXECUTIVE SUMMARY

This report presents research undertaken by the Australian Housing and Urban Research Institute (AHURI) Qld, Sydney and Southern Research Centres. The research investigates the supply side strategies being implemented by State and Local Governments to ameliorate boarding house decline.

This project seeks to answer three main questions:

- What are the costs of boarding house decline in metropolitan Australia for residents and government?
- What strategies are available to governments to support boarding house providers (essentially the private market and community housing organisations) and so reduce the level of decline? and
- What are the likely impacts and costs of these government strategies?

A fourth question developed during the investigation, namely:

- What are the likely costs to residents and Government of Government non-intervention?

The project was undertaken in the metropolitan areas of Queensland, New South Wales and Tasmania.

What are the costs of boarding house decline?

It is difficult to fully ascertain the costs of boarding house decline. There is uncertainty about data the quantity and rate of decline of boarding houses. There are also differing definitions of boarding houses in each State and Local Government area. Yet even with this uncertainty about exact numbers and locations of boarding houses there is clear evidence that, at least in the major metropolitan areas, the numbers of establishments and beds are declining. Many boarding houses are being demolished and few new ones are being built. Many existing operations are shifting to provide accommodation for backpackers, students, or 'key workers'.

The costs to residents of boarding decline include uncertainty, loss of shelter, loss of networks and support as well as increased costs. Costs to government include the costs of crisis and emergency responses to closures, some of which may result from enforcement of health and safety standards. Queensland is expending \$2 million in 2002-3 on homelessness initiatives, including the provision of emergency response funding to address people displaced by caravan park and boarding house closures (Qld Department of Housing, 2003). The 2003/04 Queensland Budget has allocated \$0.5 million to the provision of emergency response funding to people displaced by caravan park and boarding house closures, and funding of the Brisbane Central Business District Homelessness project (Qld Department of Housing, 2003).

What strategies are available?

One set of strategies is to accept that closures are inevitable and to develop more cost-effective and measured responses. To be effective such strategies need to address the reasons for continued closures listed above. Supply-side strategies already in place include:

- Regulations to improve the minimum safety standards of the buildings, but where these are coupled with support for the industry to reach compliance and where a suitable timeframe is allowed;
- Grants, loans and technical advice to cover the up-grading of buildings to reach minimum fire and safety standards;

- Mechanisms to slow the demolition of existing boarding houses and to prevent their replacement with other residential or commercial activities, such as controls on demolition and compulsory impact studies;
- Support for current owners' financial viability through land tax exemption, rates concessions or reductions of other taxes and charges (such as concessional water or pedestal charges);
- Support for development of new boarding houses through special considerations in development assessment; and
- Partnership arrangements in provision of new stock involving State and local governments, or government and the community sector, or government and private operators.

Where policies have been implemented, however, they are far from comprehensive and have been of varying effectiveness. Where the supply-side policy measures have achieved less than desired levels of success, the research showed this was because of:

- Poor advertising and education about programs, so that levels of awareness amongst owners were low;
- The level of financial support was too low to make any real difference;
- The low level of business sophistication inherent in the industry;
- Reluctance by owners to divulge their financial position in return for financial support;
- Difficulties in finding adequate mechanisms for retaining the boarding house use after development concessions had been made;
- Poor coordination between government departments, and between State and local governments; and
- Inadequate information about boarding house stock and poor monitoring of the programs.

Policy responses that the research has showed will help overcome these shortcomings include:

- Help and support for owners and managers, possibly through supporting private sector consulting companies to help owners through application and compliance processes;
- Reviewing and modifying criteria for loans and support when experience shows the criteria are too onerous;
- Better and more targeted educational and information campaigns;
- Reviewing local town planning regulations – for example, addressing the problems inherent in boarding houses being a 'non-conforming use' when constructed before schemes came into force, and through the possibility of development approval concessions for new stock; and
- Recognition of the need to balance tenant's rights against the ability of landlords to be able to evict high impact residents (and recognition of the need for non-housing support for such residents).

Three problem areas emerged through the research, however, that require special attention through new or revised program initiatives, including:

- Public liability and building insurance premiums are escalating rapidly with many owners finding it almost impossible to obtain insurance. Governments need to consider ways of supporting current and future owners to obtain and maintain insurance. The analysis showed that direct support could be a cost-effective way of maintaining the housing stock, as insurance costs are now a critical component of the industry's cost structure;
- There is a need to consistent auditing and monitoring of boarding house stock to better target information campaigns, and to develop and implement effective policy responses; and
- There are a range of difficulties associated with developing new boarding house stock including new designs to reduce conflict and create more private space, the increased costs of local government rates and charges of accommodating these design changes, and the need for local government to guarantee the retention of affordable housing stock once developed and sold.

What are the likely impacts and costs of intervention?

It was not possible to obtain full direct costs of the existing interventions. Thus, the true costs of intervention are not known. However, experience in Queensland and NSW is that the direct costs of support programs can be less than the amounts budgeted because of low levels of up-take. The indirect costs of such support programs will then become higher as additional publicity and targeting, as well as advice and technical assistance, become necessary. Some of these costs are borne by local governments rather than State governments (such as with Brisbane City Council's provision of free Fire Safety Management Plans (FSMP) for boarding house operators). The information obtained for this research showed that direct and indirect costs of intervention are not high; but that the proportion spent in indirect costs (such as technical support, advice, administration, and publicity) are higher than were initially expected by program staff. Queensland's Boarding House Program, which actually provides capital funding to purchase and build boarding house-type accommodation, has committed some \$63.514 million over the last ten years. Clearly the direct costs building or acquiring new stock is high. It would seem impossible for Governments to directly replace stock that is removed from the private market.

What are the costs of non-intervention?

The costs of non-intervention include the political and financial costs that flow from the highly visible loss of private-for-profit but affordable housing stock. Intervention in terms of enforcing minimum fire and safety standards is unavoidable. Intervention in terms of closure responses then becomes necessary as part of Government's social welfare obligations.

Non-intervention in terms of specific supply-side strategies will result in continued, and possibly accelerated, decline in the provision of a critical form of affordable housing. It needs to be emphasised that boarding houses also provide a wide range of non-shelter services, through the community housing component of the industry or through the actions of current owners and managers. Non-intervention is likely to lead to a substantial and continuing increase in the demand for public housing stock and for a range of non-housing services. In effect, non-intervention is an unattractive option.

1 INTRODUCTION

Boarding houses are an important source of low cost accommodation in most Australian cities. In many instances, they can be a housing option of last resort, or only resort, for very disadvantaged people on low incomes in inner city and regional areas including a large number of people with disabilities, many of whom have been de-institutionalised.

Despite their importance, the number of boarding houses is in decline for a range of reasons. To counteract this trend, a number of State and Local Governments have implemented strategies and programs to arrest or slow decline. These strategies range from the provision of financial assistance to boarding house operators for building maintenance to capital works programs to replace lost boarding houses. Some State Housing Authorities also directly provide boarding house stock.

It is not known, however, whether these strategies are effective. Particularly, whether one strategy is more effective at reducing decline than another, or if a range of strategies is preferable. Very little work has been undertaken to determine the costs of these strategies to not only government, but also residents. This Final Report represents the final output of a research project to investigate whether it is possible for government to facilitate adequate levels of boarding house provision. The research was undertaken in Queensland, New South Wales and Tasmania by the Queensland University of Technology and the University of Tasmania, but has national implications. This project will not only investigate current strategies, but also recommend alternative strategies to ameliorate boarding house decline.

1.1 Aims

The intent of this study is to provide answers to this broad question by examining three questions:

1. What are the costs of boarding house decline in metropolitan Australia for residents and Government?
2. What strategies are available to Governments to support boarding house providers (essentially the private market and community housing organisations) and so reduce the level of decline?
3. What are the likely impacts and costs of these Government strategies?

The aim of this study is to examine the policy options available to governments to work through private and community sector providers to facilitate improvement in boarding house supply. This approach will be modified from the more formal techniques used by central agencies in assessing whether Governments should intervene directly in markets¹. By providing answers to the three research questions the project will help Governments consider their policy position and the efficiencies of policy action. This report represents the final output of this research process.

1.2 Defining a Boarding House

There are a variety of definitions of a boarding house. The Positioning Paper provided an overview of the range and types of boarding house definitions that exist not only in the case study states but also nationally (See Greenhalgh *et al.*, 2003). It also demonstrated the complexity surrounding these definitions, particularly in relation to the registration and licensing of premises and in terms of facilities that cater specifically for people with disabilities.

¹ See, for example, NSW Cabinet Office (1994) *From Red Tape to Results*, Sydney.

For the purposes of this research project a boarding house was considered to have the following attributes:

- It is the principal place of residence for the resident;
- The resident has the right to occupy a room but not the whole premises; and
- The resident shares facilities, such as bathroom, kitchen and laundry with other residents.

Traditionally, a boarding house provided long term single room accommodation and also provided meals and serviced, furnished rooms. A rooming house did not provide meals or serviced rooms, but did provide cooking and laundry facilities. Nowadays, the terms boarding and rooming houses are used interchangeably to describe low cost single room accommodation, regardless of whether they are serviced or not. For the purpose of this report, the term boarding house will prevail, except when discussing regional programs such as those in Victoria that specifically use the alternative term, rooming house.

A boarding house does not necessarily mean an entire dwelling. A boarding house can be a dwelling that is either fully or partly let. Size, in terms of the number of residents, may also be used as a criterion. To illustrate the diversity of boarding houses Appendix 1 contains some pictorial examples from each of the case study States.

In many States there are facilities that have similar characteristics to boarding houses but provide formal support for people with disabilities. These are often known as supported accommodation (Qld), licensed residential centre (NSW), supported residential facilities (SA) and supported residential service (VIC). For a national comparison on these facilities see Green (2001).

The existence of multiple definitions can make data collection on boarding houses difficult. Previous studies of boarding houses all discuss the problems inherent in defining boarding houses and how this contributes to problems with data collection (See Jope, 2000; National Shelter, 2000; ABS, 1995). This may result in 'gross distortions in estimates of the size and resident profiles of the sector' (National Shelter, 2000). Alternatively, it may result in an underestimation of the size of the sector and its levels of decline.

1.3 Rationale: The Decline of the Boarding House Sector

There have been substantial declines in the numbers of boarding houses in some Australian States. Table 1 attempts to illustrate the levels of decline. It can be seen that there are substantial gaps in the knowledge of quantity of boarding house stock, which impacts on knowledge of levels of decline. Despite this lack of detailed knowledge, the underlying issue of decline is very real. Chapter Two will go into detail about the reasons for their decline. A more detailed overview of the level of decline in each State and Territory can be found in the Positioning Paper (Greenhalgh *et al.*, 2003).

Table 1: Boarding House Quantity and Decline, Australia

All data from National Shelter (2000), p.15 except where indicated

Location	Previous Data			Most Recent Data		
	Year of data	Number of boarding houses & beds		Year of data	Number of boarding houses & beds	
New South Wales						
Greater Sydney Area	1995	1069	19825	n/a	n/a	n/a
Queensland	1992	1033	21896	2002 ¹	368	5500
Brisbane				2003 ²	284	
South Australia	1988 ³	125	1543	2002 ⁴	115	1160
Greater Adelaide area	1988	125	1543	2003 ⁵	97	894
Adelaide City				2003 ⁴	14	133
Victoria	1992	304	10000			
City of Port Phillip	1997	80	1401	2000 ⁷	72	1138
Tasmania	1995	30	500	n/a	n/a	n/a
Hobart				n/a	n/a	n/a
Northern Territory	1991	58	2319	n/a	n/a	n/a
Darwin	n/a	n/a	n/a	n/a	n/a	n/a
ACT	1991	14	1134	n/a	n/a	n/a
Western Australia	n/a	n/a	n/a	n/a	n/a	n/a
City of Perth including Vincent & Victoria Park	1984	82	n/a	1996	55 ⁶	1923 ⁷
City of Perth	n/a	n/a	n/a	1996	n/a	1923 ⁸
Fremantle	n/a	n/a	n/a	1996	16	344

1 www.consumer.qld.gov.au

2 BCC (2003)

3 Heffernan (1988)

4 SASHP (2003) – different counting rules and the introduction of the Supported Facilities Act affect the numbers

5 ACC (2003)

6 Community Organisations (2000)

7 www.portphilip.vic.gov.au

8 Shelter WA (2002)

9 n/a – no data available

Table 1 illustrates two important points;

1. That in some States there are alarming levels of decline. For example, Queensland lost approximately 665 boarding houses between 1992 and 2002;
2. That there is very little comprehensive knowledge on the quantity of stock, such as New South Wales, which translates into little knowledge of the level of decline in many States and Territories.

In areas where there is comprehensive knowledge of stock quantity, it has been predicted that in some local authorities that private-for-profit boarding houses will soon completely disappear (www.portphillip.gov.au/rooming_houses.html). These substantial gaps in knowledge make it very difficult to fully appreciate the problem, but it also can make it difficult for Government to respond effectively to the problem. This will be discussed further in Chapters Three and Four.

1.4 Importance of Low Cost Private Rental Market

The loss of private-for-profit boarding house stock is an important policy issue and is linked closely to the declining stock of low cost private rental, crisis accommodation and the Supported Accommodation Assistance Program (SAAP) program.

There have been significant declines (28 per cent) in proportions of private rental stock at the low end of the market between 1986 and 1996 (Wulff and Yates, 2001). This is despite an overall increase of 34 percent of total rental stock. The result of the decline is the mismatch of housing to income, particularly as during this period there was a 70 per cent growth of those with low incomes in the private rental sector between 1986 and 1996, and a 73 per cent increase in those with low-moderate incomes.

In terms of the case study States, Sydney has experienced a 61 per cent decline of low cost housing. In Brisbane this decline is 17 per cent, and 21 per cent in Hobart. Against this trend, all three States have experienced an increase in the proportions of low income households – 89 per cent in Hobart, 84 per cent in Brisbane and 30 per cent in Sydney (Wulff and Yates, 2001). Further research in Brisbane has found that between 1996 and 1999 there has been a tendency towards a further loss of lower cost stock (Seelig, 1999). This trend was found to be more pronounced within the inner suburbs of Brisbane, where large proportions of boarding house stock are located. Cameron (2002) found that in Hobart the occupancy rate in the private rental market has increased from 91per cent in October 1999 to 97.5per cent in August 2002 – the highest rate in Australia. The demand for public housing has also increased dramatically and Cameron (2002) reports a 74per cent increase in the number of households on the public housing waiting list between June 1999 and June 2002.

The loss of stock, increase in the proportions of low-income households, combined with high occupancy rates in the private rental market has increased pressure on the public rental market and in turn, is increasing the demand for boarding house accommodation. Both Davidson *at al.* (1998) and the ABS (1995) found that the demand for boarding houses is coming from residents displaced by boarding house closure and from residents who had previously rented in the private rental market. Modelling by Price Waterhouse Coopers for HIDU in Queensland indicates that demand for boarding house accommodation will exist for many years (1998). It is expected that with current population and housing trends, as well as de-institutionalisation, as many as 6000-7000 people could require boarding house style accommodation in Queensland alone between 1996 and 2011. It is acknowledged that the housing market varies between each State.

The loss of boarding houses impacts on the crisis accommodation sector. Agencies that rely on boarding houses to immediately house people are finding that options are limited and vacancies are difficult to obtain (Proudley and Wylie, 2001). The loss of boarding houses creates two problems for the crisis sector. First, there are fewer options available for crisis housing. Second, the decline of boarding houses creates further demand for crisis accommodation. Adkins *et al.* (2003) found that loss of rooming houses in Melbourne is creating greater demand for some services. Finally, boarding houses are also used by some clients exiting the SAAP. Approximately four per cent of SAAP clients exit the service into a boarding house (Chamberlain, 1999). While these clients essentially remain 'homeless', it demonstrates that boarding houses fulfil an important role for not only individuals but also for some services.

The result of the loss of low cost accommodation is of fundamental significance to any State Housing Authority and any agency involved in human service delivery and support. The loss of boarding houses impacts on a private rental sector which struggles to house family and single person low income households, and creates greater strain on already stretched crisis services.

This impact is recognised by government. For example, the impetus by a number of government agencies for the Inner Urban Rooming House Strategy in Melbourne was the recognition of the important contribution of this (i.e. rooming house) sector. A specific concern was that a continued decline of rooming houses in the inner suburbs of Melbourne would create further demand for crisis, transitional and public housing, and increase pressure on health and other homeless services. This is also recognised by the Queensland State Minister for Fair Trading who stated during the Second Reading of the Residential Services (Accommodation) Bill that it was '...vital to the housing of vulnerable people...' and that the '...government cannot afford to replace ...the for profit industry' (Rose, 2002). Additionally, Queensland is expending \$2 million in 2002-3 on homelessness initiatives, including the provision of emergency response funding to address people displaced by caravan park and boarding house closures (Qld Department of Housing, 2003). The 2003/04 Queensland Budget has allocated \$0.5 million to the provision of emergency response funding to people displaced by caravan park and boarding house closures, and funding of the Brisbane Central Business District Homelessness project (Qld Department of Housing, 2003).

This research is also timely because of a number of recent policy issues under discussion on boarding houses in a number of State and Local Governments across Australia including;

- The reform of the residential services industry, which includes boarding houses, in Queensland. This reform package includes the introduction of tenancy legislation for residents and minimum acceptable accommodation standards for premises;
- The initiatives announced in the New South Wales 2002-03 Budget, including assistance for boarding house operators to upgrade their properties and undertake fire safety work; and
- The introduction of the Residential Tenancy Amendment (Boarding Premises) Bill 2003 in Tasmania which will give greater tenancy rights to boarding house residents;
- The recent completion of a strategy and action plan for the retention and development of rooming houses in Melbourne. This includes the production of a practical guide for rooming house operators;
- The recent launch of a report on the boarding house sector in South Australia South Australian Department of Human Services and the subsequent establishment of the Boarding House Taskforce to assess the findings of the research paper; and
- The national audit of the boarding houses and supported residential facilities industries, being conducted for the upcoming November 2003 National Housing Ministers meeting.

1.5 Structure of the Report

This Final Report represents the final stage of the research project. The following chapter revisits the key points outlined in the Positioning Paper. It provides an overview of the changing nature of the boarding house industry, demonstrating how it has adapted to change in the past 100 years. Included in this is the changing profile of owners and residents of boarding houses. It also outlines some of the reasons for the decline of the boarding house industry.

Chapter Three outlines the research methodology employed during this project. The fourth chapter focuses on the strategies employed by the three States to assist boarding house operators and reduce decline. This also includes take up rates of the strategies by operators and the costs borne by government for implementing these strategies. Chapter Four also discusses strategies aimed at increasing stock. Chapter Five discusses how industry is responding to these strategies and they key points that have emerged in the course of the research. It concludes with a discussion on the impact and effectiveness of these strategies on the boarding house industry. This chapter is central to answering the three research questions. This is followed by Chapter Six which summarises the research and answers that key research questions.

2 THE CHANGING ROLE OF THE BOARDING HOUSE

Changes to the boarding house industry today need to be viewed within an historical context. This provides a broader overview of the issues confronting the industry and its ability to respond to the challenges facing it today. This chapter provides an overview of the changing role of the boarding house, including the changing profile of the operators and the residents. It will also examine some of the reasons previously given for the decline.

2.1.1 Room to Let: Boarding Houses in the Past 100 Years

Boarding houses were established in the 1800's in the inner city as reputable premises. They provided accommodation to either single or married tradesmen and/or to visitors to the city (Fisher, 1993). In Brisbane, boarding houses were also established in the seaside suburbs to accommodate holiday makers (See Figure 1). Some of these premises still exist today.

Figure 1: Boarding House, Shorncliffe (1897), now converted to a private residence



Source: BCC, www.brisbites.com.au

O'Hanlon's research on boarding houses in pre-war Melbourne (2002) provides an overview of the boarding house as a form of 'fashionable' and respectable accommodation, at odds with the current perception of boarding houses being associated with 'urban vice and anomie';

'In the early part of the twentieth century, however, boarding houses were a reasonably common dwelling choice, and provided accommodation for between 5 to 10 percent of Melbourne's population, including the rich and famous. Boarding houses were written up in the social pages of newspapers and the exploits of their residents were regularly reported in the society bible, Table Talk.'

O'Hanlon continues:

'Usually run by women, boarding houses provided safe and respectable shelter, daily meals as well as laundry and other housekeeping services. The tenants were mainly younger men, but also included couples, single women, and families unable or unwilling to cater for themselves in their own private dwellings'.

Boarding houses were one housing type within the boarder single room market (CURA, 1979). This market contained a number of accommodation types which varied depending on the range of costs, services and facilities provided. A boarding house, traditionally, provided long term single room accommodation and also provided meals and serviced, furnished rooms. This differs to a rooming or apartment house which did not provide meals or serviced rooms, but did provide cooking and laundry facilities. The following definitions give a greater indication of the range of single room accommodation:

- | | |
|------------------------|---|
| Apartment House | <ul style="list-style-type: none">• Provides long term accommodation for at least four residents;• Provides communal laundry, cooking and bathing facilities;• Rooms are furnished and may be serviced or un-serviced; and• Each resident has exclusive occupancy to the room, and as such there are lock up facilities for each room. |
| Boarding house | <ul style="list-style-type: none">• Provides long term accommodation for at least six residents;• Provides meals and serviced, furnished rooms.• Communal laundry and bathing facilities were available and rooms were generally unlocked. |
| Lodging house | <ul style="list-style-type: none">• Provides casual over night accommodation;• Examples include private unlicensed hotels, motels and some guesthouses. |
| Licensed hotel | <ul style="list-style-type: none">• Traditional 'pub-top' housing;• Provides overnight, casual and long-term accommodation; and• Controlled by the relevant liquor licensing authority. |

CURA, 1979

The differences in accommodation were evident in the types of person residing in the accommodation:

'...boarding houses were not the same as common lodging houses. The latter...were never regarded as respectable and acted as little more than cheap sleeping accommodation for the working class and the poor. Lodging houses catered to the more transient members of the society outside the norms of the nuclear family, and to those economically unable to find more permanent accommodation. Their clientele was predominantly male and included itinerant workers and sailors in the city between jobs or ships. Lodging houses also provided shelter to the lowly paid and to those whose work required them to live near wholesale and retail markets, wharves and other sources of temporary work. A subsidiary group consisted of the unemployed and the poor, whose incomes precluded them from regular accommodation.

Thus it can be seen that boarding houses were established as reputable accommodation, unlike lodging houses. Nowadays the terms boarding, rooming and lodging houses have lost their historical distinctions and are used interchangeably to describe low cost single room accommodation, regardless of whether they are serviced or not. Today it is more likely that distinctions are made between facilities that provide formal support to residents with disabilities and those that do not. O'Hanlon (2002) is critical that boarding houses are associated with urban decay and that presenting the 'transition of single family housing to multiple accommodation as evidence of neighbourhood decline and succession' disregards the need for housing for those who were not ready to move to the suburbs.

The fate of the boarding house has been predominantly impacted upon by the fortunes or otherwise of the inner city. For example, boarding houses in Brisbane boomed following the Depression and World War II when the inner city was predominantly industrial and working class and received an influx of migrants seeking work and being accommodated in boarding houses (BHAG, 1997).

During this period many inner city residents were relocating to the suburbs and the inner became places of low cost rental housing. Also during this period, the inner city was increasingly considered 'undesirable'. The changes to the global economy in the 1970's began to impact on the inner city, particularly with the decline in the industrial and manufacturing sectors and the subsequent closure or relocation of the industries to the outer suburbs (Day, 1989).

Also during the 1970s governments enacted a policy of deinstitutionalisation, relocating residents of state institution to community care (See Bostock *et al.*, 2001). One of the results of this was that many residents relocated to boarding houses in the inner city instead of returning to their family home or previous living arrangements (Allen, 1992). Overall the demographics of the inner city changed with a reduction in families with children, increased numbers of migrants from non-English speaking backgrounds, Indigenous people and people with disabilities.

The 1980's and 1990's saw the transformation of the inner city as a result of gentrification and targeted urban renewal programs. In some instances the process of gentrification was increased by hallmark events. These are large-scale events with national and international impacts, such as the 2000 Olympics, Brisbane Expo 1988 and 1987 Fremantle America's Cup. Documentation of hallmark events in Australia has found that boarding houses are often converted to tourist accommodation, may be demolished for site development, and that boarding house residents may be displaced by 'crowding out' affordable housing investment and increased rents (Cox *et al.*, 1994; Allen *et al.*, 1989; Day, 1998, BHAG, 1997).

One of the biggest impacts of a hallmark event is that it accelerates the processes of urban change, particularly gentrification. Gentrification is considered to be one of the factors leading to increased risk of homelessness (Chamberlain and Johnson, 2002). The efforts by all tiers of Government to invest in urban renewal projects in the inner city increases redevelopment pressures on boarding houses. Disinvestment in the industry follows because substantial profits can be made from sale or redevelopment (Price Waterhouse Coopers, 1998). The Hostel Industry Development Unit (HIDU) (N.D.) found that the inner city suburb of New Farm in Brisbane, which is part of the redevelopment area affected by the Brisbane City Council's Urban Renewal Program, has experienced substantial decline in boarding house numbers accompanied by an increase in land valuations between 1997 and 2001 of at least 48 per cent.

Urban renewal initiatives also result in boarding house conversion to other forms of accommodation, such as backpacker hostels. Heffernan (1988) found that premises converted to backpacker accommodation had the potential to double the income received when compared to a boarding house. South Sydney City Council found at least six backpackers hostels that were formerly registered as boarding houses (SSCC, 2002a). Davidson *et al.* (1998) found that of the stock loss of 521 dwellings in inner Sydney, the majority were converted to flats (51 per cent) or private residences (23 percent). The remainder were converted to short-term tourist accommodation (backpacker hostels, private hotels). Some have been converted into student accommodation and more upmarket temporary singles accommodation (See Jope, 2000; Davidson *et al.*, 1998). Similar conversions have been found in Brisbane (BHAG, 1997). The impact of gentrification and urban renewal is not only the loss of existing stock. Increased land prices make it difficult to develop replacement or supplementary

stock. Not all boarding house rooms have vanished because the dwellings are demolished.

It can be seen that boarding houses have performed a variety of roles in the previous 100 years, accommodating a range of residents and responding to the changing needs of the market. In some instances, boarding houses that were established in the 1800's still exist and continue to operate today demonstrating an effective response to the challenges and changes of the past 100 plus years.

2.1.2 *Changing Profile of Boarding House Operators*

Changes to boarding houses are also occurring in patterns of ownership. Previous studies of boarding houses in Melbourne (O'Hanlon, 2002; Jope, 2000; Downey, 1984; CURA, 1979) have identified an industry dominated by family businesses. Older proprietors, those who have been in the industry for over thirty years, have often inherited the properties from their parents. In some cases they bought the properties when they migrated to Australia. It was also an overwhelmingly female-dominated industry (O'Hanlon, 2002). Being the proprietor of a boarding house was considered an extension of a female's traditional duties, and was an option for women who were unable to rely on male income support.

Nowadays, there is no one 'typical' type of boarding house operator. The Inner Urban Rooming House Project (Beverly Kliger and Associates, 2003) found that there are four types of rooming house operators in Melbourne (See Table 2).

Table 2: Boarding House Operators, Melbourne

Long-term operators	Established boarding house 20 or more years ago Usually the only business they know, but the owner is now ageing and having difficulty with managing within the current regime of regulations Owner-managed premises
Unintended landlord	Owner did not consciously set out to be a boarding house operator Facility established and operated by parent Children now operating the business on behalf of aged parent or as an inheriting owner
Professional commercial operator	Bought existing leasehold (some freehold) of a boarding house and upgrading premises and business Operators do not usually live on the site Some operate/own more than one boarding house Impose selection criterion that will exclude residents with complex needs
'Socially responsible' professional commercial operator	Establish new boarding house, purchase or inherited properties Existing leasehold Own freehold and/or leasehold Understand the business and the resident group who prefer, or have no other option than, to live in boarding houses. Operators have both a commercial business focus and a social commitment to provide appropriate housing to people with complex needs

Source: Beverly Kliger and Associates, 2003

It can be seen that this typology of owners is compatible with the changing nature of the industry and this has implications for the future of the industry.

Older operators who are exiting the industry may bequest their property to their children (unintended landlords). The phenomenon of inheritance and family business ownership is as important in the boarding house industry as it is in the wider private

rental market. Recent research has shown that only 30 per cent of people sell an inherited property within one year of inheritance (O'Dwyer, 1999). Inherited properties are a significant proportion of private rental dwellings. As older operators currently own many boarding houses, the question is what will happen to the stock if it is bequeathed to children.

Older operators, and the unintended operators, will have serious difficulties in coming to terms with the changing regulatory environment. But more importantly they may be unable to deal with the implications of the changing tenant profile of boarding houses, particularly where tenants may have high needs. The combination may be enough to lead to operators exiting the industry.

The emergence of the term 'socially responsible' operator is a reaction to the new operators who understand the 'business' of boarding houses and the resident group. They are individuals and organisations that have a commitment to providing affordable and appropriate housing (Beverley Kliger and Associates, 2003). This may include community-housing organisations, some private developers of new stock and agencies such as the Brisbane Housing Company.

2.1.3 *Changing Profile of Boarding House Residents*

The previous discussion on the changing role of boarding houses provided an overview of the changing profile of the boarding house resident. Once providers of accommodation to the employed and those seeking work, over the last thirty years boarding houses have become home for a large group of marginal and vulnerable people and people with high needs, including psychiatric illness and substance abuse (Burdekin, 1994). The changing role of boarding houses and boarding house residents is one issue that is thought to significantly impact on operators of boarding houses and influence their decision to leave the industry.

Boarding houses represent the interface between homelessness and low cost housing, as boarding house residents are said to be experiencing secondary or tertiary homelessness² (Chamberlain, 1999). This is because boarding house residents may have precarious tenure and they are viewed as falling below the minimum community-housing standard.

In 1996, there were 23,300 boarding house residents in Australia on census night. Of these residents 81 per cent reported that they were 'at home' (Chamberlain, 1999: 19). Further analysis of these statistics by Chamberlain estimates the number of households in boarding houses on census night as 21,157 (1999)³. It is expected that this is an underestimation of the number of residents and households. It is crucial to recognise that some residents of boarding houses may not consider themselves 'homeless' and consider the boarding house to be their 'home'.

This is reflected in the profile of boarding house residents where approximately 20 percent of residents have been living in the one boarding house for over five years and a further 20 percent were previously residing in a boarding house (ABS, 1995). Approximately 50 percent in the ABS sample had lived more than one year in their current boarding house. Other research has shown that there are large proportions of

² The degrees of homelessness are: **Primary Homelessness**: people without conventional accommodation, such as sleeping rough; **Secondary Homelessness**: people moving between various forms of shelter including friends, emergency accommodation, refuges, hostels and boarding houses; **Tertiary Homelessness**: people living in single rooms in a boarding house without their own bathrooms, kitchen or security of tenure; **Marginally Housed**: people in housing situations close to the minimum community standard (Chamberlain and MacKenzie, 1992).

³ This estimate is derived from the data on boarding house residents marital status (2 548 stated that they were married) and the number of children aged 14 or younger (868). It is then assumed that these people were either with their spouse, and the children were with accompanying parent(s). For further explanation see Chamberlain (2000: 27-28).

residents who have resided long term in the sector and/or one dwelling (Davis, 2002a). Thus the decline of boarding houses should be seen in terms of loss of 'home' for some residents.

There are, however, significant proportions of residents who were previously in a private dwelling, and have lived in a boarding house for less than one year (ABS, 1995; Davis, 2002a, Shelter 2000). Thus, boarding houses provide accommodation for a range of residents with varying needs.

In terms of a demographic profile of residents, the residential profile is still overwhelmingly older, single males, there are growing proportions of women, younger people and people from non-English speaking backgrounds in boarding houses (Anderson *et al.*, 2003; Shelter, 2000; Chamberlain, 1999; Davidson *et al.*, 1998). Large proportions receive government benefits, particularly Newstart/Unemployment, followed by the Disability Support Pension. This is reflected in the lower incomes of the residents (Waite, 2002).

Boarding houses also accommodate a large proportion of residents with disabilities. The role of boarding houses as providers of housing for those with psychiatric illness was a particular focus of the Burdekin Inquiry into Human Rights and Mental Illness (1994). This reflects the higher incidence of mental disorders amongst homeless people generally, (Hodder, Teesson & Buhrich, 1998). There are also high levels of chronic illness amongst the homeless and many people with problems of cognitive impairment.

Boarding house operators are faced with the burden of meeting the high needs of their residents. In many cases, operators were and still are ill equipped to do so, and are often criticised for failing to meet obligations of care, even if the clients are referral from government departments; 'Now I won't place for a government body because there's little backup' (Boarding House Operator NSW, July 2003) and 'DOH referrals make up 99per cent of these cases – they are trouble makers – on drugs, ex-prisoners, soon kicking down doors' (Boarding House Operator NSW, July 2003). They should (refer their clients carefully) not offload problems on us'. It is believed that some operators are exiting the industry because of this issue. Many operators are 'more than a landlord' (Beverly Kliger & Associates, 2003) providing accommodation, dispensing medication, providing support and transport for some residents.

2.2 Reasons for Boarding House Decline

There is no single reason for boarding house decline. A number of issues confront the industry. Some of these were discussed previously, including gentrification and the changing profile of owners and an increasing number of residents with high and complex needs. The remaining factors can broadly be categorised as relating to the viability of the boarding house industry, including; the impact of the Goods and Services Tax (GST), insurance, viability, compliance with new regulations, and awareness of rebates and grants.

Goods and Services Tax (GST)

At the introduction of the GST, the Federal Government predicted that following the abolition of wholesale tax, 'long term accommodation charges may increase slightly, as providers pass charges on to residents' (ACCC, 2000). This was expected to be about 2.1 percent. However, research undertaken by Wood (2001) suggests that this is an under estimation and the impact may be more in the vicinity of a five to six percent increase in rent. The impact of this is that operators would find it difficult to pass on rent increases to long-term residents, making it 'more economic for them to exit the business' (2001). This is more likely to affect operators in the lower tax brackets. As well as businesses closing, it is anticipated that GST changes will result in some operators switching to provision of short-term accommodation.

Insurance

The boarding house industry is having difficulties obtaining public liability and building insurance. This has included substantial increases in premiums and, increasingly, operators not being able to obtain insurance. West (*pers. comm.*, 2003) provided an example of an operator in Queensland who had insurance premiums for both public liability and building insurance policies increase in 2002-2003 from \$4,500 pa to \$22,500 pa. Other's have been refused insurance all together, and some premises are operating without insurance. The inability of some operators to obtain insurance may be directly linked to poorly maintained and unsafe dwellings.

Little research has been undertaken on this issue; thus the full effect of increased insurance premiums on boarding house operators is uncertain. However, it would be expected that substantial increases in premiums would lead to:

- Increased costs that would be passed on to residents as rent increases, which they may not be able to pay; and
- The businesses becoming un-viable and closing.

Compliance

The issue of changing legislation and regulations and the decline of boarding houses is a matter of contention. It is suggested that increased regulation forces operators to exit the industry. For example, the Brisbane City Council (BCC) is currently concerned that the introduction of the Building and Other Legislation Amendment Act (BOLA) will result in a raft of boarding house closures. Under the legislation budget accommodation premises were expected to have early warning, emergency lighting and a Fire Safety Management Plan to be installed by the 1st July 2003. A risk analysis by BCC has found that approximately 130 boarding houses are thought to be either 'critically' or 'highly' at risk of closure as a result of the new legislation. This may displace 2258 residents (BCC, 2003).

The threat by boarding house operators to close down in the face of increased regulation is seen by some, however, to be political manoeuvring and an attempt to generate leverage for the industry. It moves any argument for increasing standards away from consideration of tenant outcomes and increased safety to the industry. HIDU (N.D.) suggests that the 'State Government must ask itself what standards and what quality of life does it want to enshrine for its citizen, and how are they best protected?' It may be that the closure of some marginal facilities is an advantage to the industry as only those interested in increasing standards and ensuring the safety of their residents would remain.

Viability

The issue of profit and loss in the boarding house sector is not new. It was documented in studies in the 1970s and 1980s (CURA, 1979; Wilson, 1981). Although there is some conjecture about the real levels of profitability of boarding houses, it is an issue consistently raised by operators. The NSW Office of Housing Policy (cited in National Shelter, 2000) states that boarding houses would be a poor investment, returning as they do a profit of below three per cent. However, in Brisbane recently a boarding house was sold that was advertised as having a 15 per cent return. Objective assessments are difficult without access to 'commercial in confidence' financial data.

Recent work has found that boarding house operators are very sensitive to changes in prices or costs, with operators suggesting that a reduction in rent of \$10 per client per week would result in them leaving the industry (Price Waterhouse Coopers, 1998). The financial issues will vary from operator to operator and by location but include operating costs, interest rates, occupancy rates, and management costs (Davidson, 1999).

The report found that single operators of smaller dwellings found it more difficult to generate sufficient revenue. The more profitable operators would own a number of properties enabling economies of scale (Price Waterhouse Coopers, 1998). This is supported by Davidson's analysis of boarding house viability in Sydney (1999). Many operators were meeting their costs and were able to draw a wage; however, the low profits did not allow for capital improvements. This means that few facilities would have the financial capacity to meet new regulatory requirements. The report states that 'the decline in the number of businesses is believed to be a natural market adjustment to the poor risk return trade off identified within the industry' (Price Waterhouse Coopers, 1998).

National Shelter (2000) has suggested that decline in the traditional family run business is affecting viability and the decline of stock. Boarding houses were traditionally run by families; they were labour intensive (See earlier discussion). The viability of the business relied on the unpaid labour of family members. Older businesses were operated in a time when they were rarely made accountable for business standards and industry practices (HIDU, N.D.), unlike today.

Awareness of Rebates and Grants

The focus of this research is on the programs produced by Government to assist boarding house operators. These are designed to alleviate some of the costs of providing and improving low cost accommodation and would appear to be very attractive. They will be discussed in further depth in Chapter Four. However, previous research has suggested that some boarding house operators are not aware of these programs of financial assistance, thus not taking advantage of them.

Research undertaken for the Queensland Department of Housing to determine uptake of an affordable loan package to meet minimum standards found that there was support for a loans package by operators, but only in principle (The Wright Consultancy Qld Pty Ltd, 2002). Many operators suggest that they would not take up the loan because:

- They are more concerned with the recurrent costs of running the business; and
- They felt the funds would be better used in providing technical advice, to undertake capital improvements, and providing support for residents' needs.

Thus the issue is not so much the funding itself but whether the assistance is being properly targeted to meet the needs of operators. It may also be that some sections of the industry are not interested in any assistance because they fully intend to exit the industry sooner rather than later.

2.3 Summary

This review of previous research on boarding houses has pointed to some important issues that shaped the research. There are a number of broad assumptions about the boarding house industry including the impact of increased regulations on supply, the viability of the industry and the true nature of increased insurance premiums and the impact this may have on the industry.

Secondly, there are many reasons for decline, ranging from urban land use pressure to taxation. However, many of these issues are not based on rigorous research rather assumptions and speculation. Third, the boarding house sector is experiencing immense changes. Proprietors who were running a family business are now becoming too old to continue and it remains to be seen whether their children will continue. Also, the resident profile of boarding houses is changing from single, older men to including more women, younger people and people from non-English speaking backgrounds. Boarding houses accommodation needs to be seen as a loss of 'home' for many residents.

The major issue facing boarding house operators is the dilemma of continuing to run a marginal business or to sell the property to realise substantial capital gains. There is no one issue contributing to boarding house decline. The industry is faced a range of challenges and these factors cannot be considered in isolation. There is a need to determine whether current strategies developed by government are able to reduce decline, and where possible, encourage the development of new stock. At present, the combination of increasing land values, rising insurance premiums, increased regulation and factors affecting the viability of business make the redevelopment or conversion of boarding houses an attractive option.

3 PROJECT METHODOLOGY

The aim of this research is to examine the policy options available to governments to work through private and community sector providers to facilitate improvement in boarding house supply. The research is focused in the States of Queensland, New South Wales and Tasmania.

3.1 Research Questions

The fundamental overarching question for the project is:

How can governments facilitate adequate levels of boarding house provision?

This question will be answered by examining the following three questions:

1. What are the costs of boarding house decline in metropolitan Australia for residents and Government?
2. What strategies are available to Governments to support boarding house providers (essentially the private market and community housing organisations) and so reduce the level of decline?
3. What are the likely impacts and costs of these Government strategies?

3.2 Research Methods

The research focused on the States of Queensland, New South Wales and Tasmania. These were selected because of documented decline of boarding houses, and to provide a broad coverage in the Australian housing system with differing legislative contexts, and to include a range of current policy responses.

Prior to the commencement of the research a project reference group was established. Its members acted as a point of referral for other key stakeholders and assessed the written research material as it was produced. It is comprised of a representative from the State Housing Authorities in Queensland, New South Wales and Tasmania, Brisbane City Council, the Tenants' Union of Tasmania and Queensland Shelter.

3.2.1 Literature Review

The first phase of the research was a national literature and research review. Boarding houses have been the focus of research for over thirty years. There has been a dual focus to the research;

1. Supply (stock and standards): understanding the environment - reasons for loss of stock, deteriorating standards and what could be done about this; and
2. Quality of life for the rights and choices of residents.

(Hill, 2003)

This phase was impacted on by the various definitions of boarding houses. Definitions differed within and between States and Territories (see earlier discussion on definitions). It was also vital to distinguish between facilities that do not provide formal support to residents with disabilities and those that do (see earlier discussion on definitions). The variety of definitions also impacted on the later phase of research.

This review of the literature also identified government responses that informed the later phase of research. It also identified points of concern that informed the interviews carried out for the research.

3.2.2 Review of State Legislation, Policy and Programs

The second phase of the research was a review of State Legislation, policy and programs that impact on boarding house supply. These included:

State	Jurisdiction	Legislation	Programs
Queensland	State Government	Residential Services (Accreditation) Act 2002 Residential Services (Accommodation) Act 2002 Building and Other Legislative Amendment Act 2002	Residential Services Industry Building and Fire Safety Improvements Conditional Grants Scheme Boarding House Program Brisbane Housing Company
	Local Government		Brisbane City Council Private Boarding House Support Program Brisbane City Council auditing and monitoring boarding house stock Brisbane Housing Company
New South Wales	State Government	Local Government Act 1993 State Environmental Planning Policy No. 10	Office of State Revenue Land Tax Exemption for Low Cost Boarding Houses Boarding House Financial Assistance Program
	Local Government		South Sydney and Marrickville Council auditing and monitoring boarding house stock
Tasmania	State Government	None available	None available
	Local Government	None available	None available

This included the introduction of new legislation in Queensland relating to dwelling and fire safety standards, and strategies explicitly targeted at assisting operators by providing financial support. While the focus was on the three case study States, a national review was also conducted to gain a better understanding of the variety of programs being undertaken across Australia. Some States provide financial assistance to private operators, other States construct boarding houses, and some do very little, including in relation to tenancy protection for residents.

This review formed the basis for identifying the range of Government and Community organisation to interview for the next phase. It also informed the questions to ask the boarding house industry.

3.2.3 Stakeholder Interviews

Government and Community Organisations

Structured interviews were undertaken with a range of State and Local Government representatives, as well as community organisations. In Queensland, 20 interviews were conducted, 4 in New South Wales and 2 in Tasmania. The disproportionate number of interviews in Queensland reflects the focus of the research in that state which will be discussed later in this report. A full list of interviews is in Appendix Two. The focus of these interviews were:

Uptake	How many boarding house operators have participated in the programs (absolute and proportionate)? Is this under or above expectation? What could be done to increase the uptake of these programs or why have they been so successful?
Costs	What are the costs of boarding house closure? Staff time; Administration; Impact on existing programs? What are the costs of the program; Costs of program development; Costs of program administration and compliance; and Costs of the subsidies. Would it be possible to implement strategies utilised in other states? Why or why not? What would be the costs of these strategies?
Impacts (as perceived by State officials and boarding house operators)	Are these programs successful? Were formal evaluations conducted? Why or why not? How is this success or otherwise measured by Government? If these programs are not successful, what would be done by government to make them more so?

In many cases, specific information was identified during the interview that was then forwarded to the research team at a later date. The interviews also acted as points of referral for locating other sources of information and interviewees.

The research process demonstrated that responsibility for boarding house programs is often diffuse and confused. In Queensland, for example, the responsibility for the co-ordination of the Residential Services (Accreditation) Act 2002 is held by the Department of Premier and Cabinet. However, implementation of the legislation falls to the Queensland Office of Fair Trading, the Queensland Fire and Rescue Service and local councils.

The Boarding House Industry

A range of semi-structured interviews were undertaken with the 'boarding house industry'. This translates into boarding house operators, professional interest groups, real estate agents and private enterprises that assist boarding house operators.

A total of 21 interviews were undertaken with boarding house operators – 5 in Queensland, 13 in New South Wales and 3 in Tasmania. It was intended at the commencement of the project to undertake 55 interviews with operators. Despite the smaller sample, it is not thought to have impacted on the quality and depth of

information. In New South Wales, the 13 operators interviewed, owned 33 boarding houses between them.

The smaller sample in Queensland is the result of the impact of the substantial regulatory changes implemented at the same time as the research interviews were being carried out. Many operators who were approached to participate felt overwhelmed by the new regulatory environment and were unwilling to contribute their time. However, an interview was also undertaken with an organisation that provides services to the boarding house industry by assisting with the processes for legislative compliance. This company provides services across the budget accommodation industries, thus was felt to have an in-depth knowledge of the range of issues impacting on a number of boarding house operators.

Boarding house industry representatives were asked the following questions.

- The impact of existing legislation and regulations
- The impact of changes to the legislation covering fire and safety in low-rental accommodation
- The cost implications of the changes necessitate by the new regulatory environment
- Factors affecting financial viability including
 - The cost implications of changing insurance regimes
 - Land value pressures
- Changes in the clientele of the boarding house sector and;
 - Strategies to assist owners and operators of boarding houses to remain in the sector and;
- To encourage the development of new boarding houses.

A full list of questions is in Appendix Three.

In addition to the existing boarding house operators, interviews were undertaken in Queensland with companies and individuals who are in the process of developing new privately developed boarding house and single room occupancy stock. Three developments were discussed and these developments were in varying stages; from development approval, substantially through the development application process, and pre-lodgement of a development approval. These interviews provided a wealth of information about the processes of developing affordable housing at a time when there is substantial decline of affordable housing.

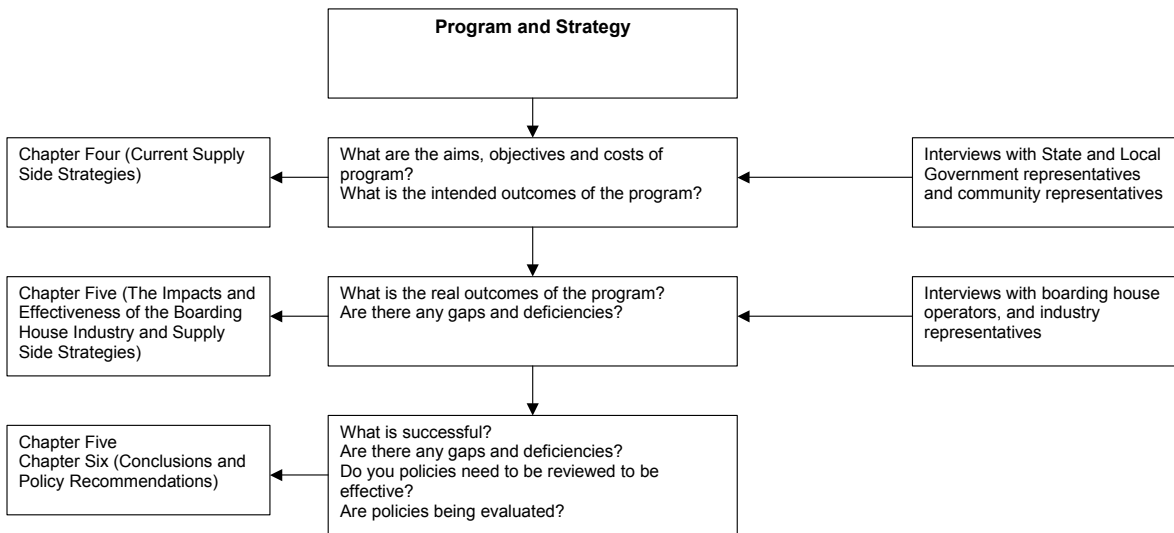
Discounted Cashflow Analysis

A discounted cashflow analysis (DCF) was undertaken of four boarding houses; three in Brisbane and one in New South Wales. This phase of the project was not originally intended, however, the research team was fortunate to obtain access to financial information from a small component of the boarding house industry. The aim of the DCF analysis is to fully understand the financial viability of the boarding house industry, particularly in relation to increased operating costs. The three boarding houses in Brisbane had 25, 13 and 15 rooms while the boarding house in Sydney had 20 rooms. A full discussion of the DCF analysis is provided in Appendix Four.

3.2.4 Analysis

The analysis summarises the findings of the previous components of the study. It identifies the likely impacts of intervention (for example, by reducing the costs of boarding house closure) and compares them against the costs to Government of intervention. Gaps in policy responses are identified and recommendations made about how government, both state and local, can respond more effectively to boarding house decline. The process utilised in the analysis can be seen in Figure 2.

Figure 2: Analysis of Boarding House Programs



4 CURRENT SUPPLY SIDE STRATEGIES

This chapter discusses the current programs to retain boarding house stock in Queensland, New South Wales and Tasmania. This review of the programs will go some way in answering the key research questions, particularly in terms of identifying the strategies, costs and impact on the boarding house industry. An overview of each program is given, beginning with its description and purpose, target groups and history. This is followed by the take up rate of the programs (where applicable) and costs of each program.

The programs and policies that are discussed here are those explicitly targeted towards boarding house retention and the development of new boarding house stock. It is acknowledged that there are broader planning based strategies that aim to retain low cost affordable housing – but a discussion about these programs are outside the scope of this report. For information about these systems, specifically Queensland and New South Wales, see Gurrán (2003). Gurrán's final report outlines the broader planning system in relating to housing and local governments in these states, specifically the planning framework which impacts on affordable housing provision. This includes State Planning Policies and metropolitan planning strategies. The range of programs aimed at supporting boarding house residents (such as the Commonwealth's Boarding House Pilot Program) are also excluded.

The Positioning Paper (Greenhalgh *et al.*, 2003) provides a national overview of the strategies to address boarding house decline. This Final Paper, however, focuses on the three case study States.

4.1 Queensland

4.1.1 State Government Strategies Aimed at Existing Boarding House Stock

The Queensland State Government has recently introduced a major legislative reform package affecting budget accommodation⁴ operators and the residential services industry (both of which include boarding houses). These reforms are the result of long running research and consultation by the previous Hostel Industry Development Unit (HIDU). HIDU was developed to facilitate an industry development strategy in collaboration with industry and consumer groups as a result of an Interdepartmental Working Party on Boarding Houses. The reform process has also been impacted on by the events of the fatal fires at the Childers Palace Backpacker Hostel in 2000 and the Seabreeze Boarding House in 2002.

The legislative reform package includes:

- The Residential Services (Accreditation) Act (2002); and
- The Residential Services (Accommodation) Act (2002).
- The Building and Other Legislative Amendment Act (2002);

The following discussion will focus on the Residential Services (Accreditation) Act 2002 and the Building and Other Legislative Amendments Act 2002 as these two pieces of legislation are concerned with the standards of the dwelling. The Residential Services (Accommodation) Act 2002 is concerned with tenancy rights and responsibilities. The tenancy component of the reform package is important as it, for the first time, provides rules for renting in boarding houses for both operators and residents in Queensland. However, it is not applicable to the discussion here, as it does not contribute to the retention of boarding houses.

⁴ Budget accommodation includes student accommodation, backpacker hostels, boarding houses and pub-top accommodation. Residential services include boarding houses, supported accommodation and some aged residential facilities.

The implementation of the legislative reform package requires responses from a range of Government departments, both State and Local. This includes the Queensland Department of Premier and Cabinet, the Queensland Office of Fair Trading, Queensland Department of Housing, Queensland Department of Local Government and Planning, Queensland Fire and Rescue Authority, Queensland Residential Tenancies Authority, and local governments.

Residential Services (Accreditation) Act (2002)

The purpose of the Residential Services (Accreditation) Act (2002) is ‘to establish a regulatory framework to mandate the standards and conditions under which residents of the residential services industry live’ (Rose, 2002). Under the Act there are three levels of residential services (See Table 3).

Table 3: Levels of Residential Services in Queensland

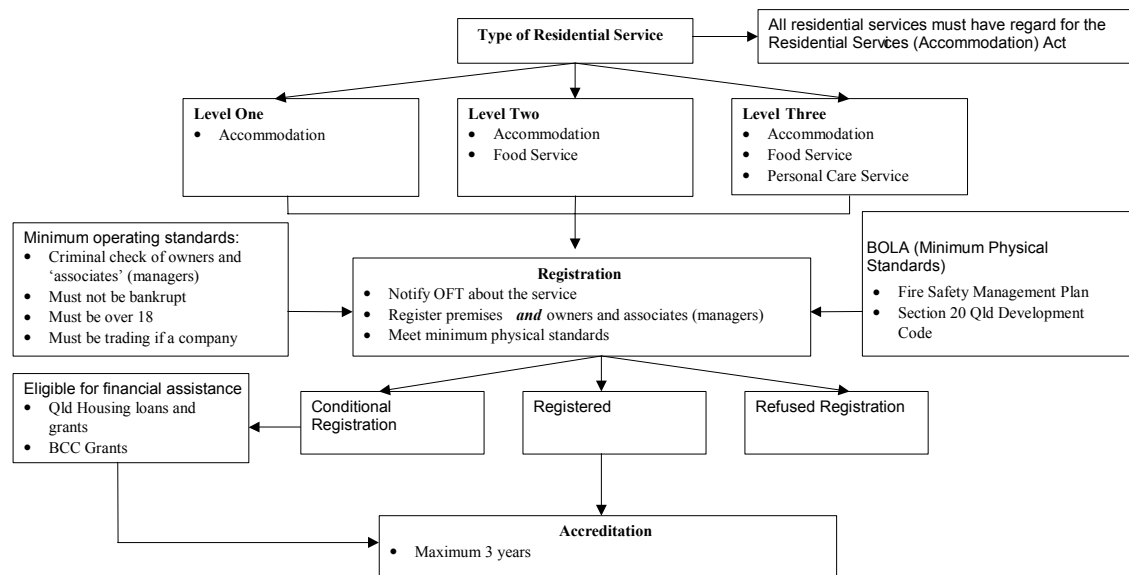
<p>Level One Accommodation Service</p>	<p>All service providers will require this level of accreditation. Accreditation will include standards relating to tenancy law (Residential Services (Accommodation) Act), standards relating to building and amenities, and relating to management and staffing. A typical example is a boarding house, which usually provides accommodation only.</p>
<p>Level Two Food Service</p>	<p>This level will apply to services that provide meals to residents. A typical example is a private rental facility for the aged that provides both accommodation and meals for residents, but no personal support.</p>
<p>Level Three Personal Care Services</p>	<p>The level will apply to providers of personal support services. A typical example is supported accommodation that provides accommodation, meals and assists residents with medication, clothing and hygiene management and financial support.</p>

(Source: Residential Services (Accreditation) Act, 2002)

There is a four-year rolling implementation of the Residential Standards (Accreditation) Act (2002). Existing boarding house style accommodation will need to be registered by August 2004 and accredited by August 2006. The registration system will ensure that both the operators and the premise are suitable and the accreditation system will ensure that the residential services meet minimum standards. Premises that begin operating after the 23rd August 2002 have to register immediately and be accredited within six months of registration.

There are a number of other pieces of legislation and regulations that are attached to the Residential Services (Accreditation) Act 2000. These additional components go some way to retaining boarding house stock, albeit in the form of providing ‘compensation’ or ‘incentives’ for operators to upgrade their facilities. Figure 3 demonstrates the connectivity between the regulations and legislation.

Figure 3: Residential Services (Accreditation) Act 2003 and Boarding House Strategies



(Source: Author)

Building and Other Legislative Amendment Act (2002)

It can be seen from Figure 2 that BOLA, which is a separate piece of legislation, feeds into the registration and accreditation process of the Residential Services (Accreditation) Act. BOLA took effect in July 2002, and is aimed at ensuring the safe evacuation of occupants if a fire occurs in a budget accommodation building. The new legislation requires all budget accommodation buildings (including boarding houses with six or more occupants) built, approved or for which an application was made prior to 1 January 1992, to comply with the prescribed Fire Safety Standard. The legislation required the installation of early warning and emergency lighting by 30 June 2003 and a further two years is available to achieve compliance with the other provisions of the Standard. Owners and occupiers of all existing budget accommodation buildings were also required to prepare and implement a Fire Safety Management Plan by 30 June 2003.

Financial Assistance

To assist boarding house operators to comply with the provisions of BOLA and the Residential Services (Accreditation) Act 2002, the Queensland Department of Housing developed a financial assistance package. The Department of Housing's Residential Services Industry Building and Fire Safety Improvements Conditional Grant Scheme includes the provision of either a principal and low interest loan, or a conditional grant. Both schemes are to assist eligible applicants with costs associated with the capital works and improvements needed to comply with the new standards. Initially, the main criteria to be eligible were that applicants were an existing operator and had been given conditional approval by the Office of Fair Trading. However, in response to industry concerns, the Department has removed the links between the grant and residential services registration process. This allows operators to access funding for fire safety work without having to first apply for registration with the Officer of Fair Trading. Table 4 below sets out the terms and conditions for assistance.

Table 4. Queensland Department of Housing Financial Assistance Terms and Conditions

Terms and Conditions		
	Conditional Grant	Principal and Interest Loan
Minimum and maximum amounts	Up to \$350 per resident, based on the maximum number of residents who can be accommodated in the residential service (capped at the cost of any building and/or fire safety work required). If the grant funding is insufficient to complete the capital repairs and improvements required, then no grant funding will be provided unless there is a demonstrated ability to fund the balance of the costs from other sources.	Minimum loan is \$10,000. Maximum loan is \$140,000. The Department may consider variations to the maximum limit in certain circumstances.
Application fees	Nil	Application fee (approximately \$468 per application)
Terms of repayment	Applicants for the conditional grant must be willing to enter into a legal agreement with the Department of Housing that they will maintain the premises as registered premises for the registered service for three years following the receipt of the first advance of grant funds. The grant will be repayable on a pro-rata basis if the premises are sold or change use within this three year period where the changed use results in the premises no longer being registered under the Residential Services (Accreditation) Act 2002.	Monthly repayments of principal and interest to a maximum term of 10 years. The Loan must immediately be repaid if the premises are sold or change use, where the changed use results in the premises no longer being registered under the Residential Services (Accreditation) Act 2002.
Interest rate	Interest free	Interest is fixed at 4% per annum for the term of the loan providing the premises continue to be used as premises registered under the Residential Services (Accreditation) Act 2002, and while all terms of the loan continue to be met
Security	No security required	Mortgage over appropriate land and/or other assets. Additional security may be required if necessary.

(Source: Author)

4.1.2 Local Government Strategies Aimed at Existing Boarding House Stock

The focus of this report is on metropolitan boarding house areas. As a result, this section refers only strategies undertaken by the Brisbane City Council.

Brisbane City Council Strategies

The BCC has historically used its Local Laws to set and enforce health and safety standards in certain forms of affordable housing which includes boarding houses. Recent State legislation has modified this role to one of auditing and compliance. Council has introduced a number of initiatives to address the loss of boarding house rooms, increase safety and quality of accommodation and to address reports of reduced viability including:

- Reduction in general rates by 40 per cent - introduced in 1994;
- Joint funding of industry support position with the Department of Housing to provide 'one stop shop' for financial assistance for boarding house and supported accommodation owners and operators;
- Piloting of water reduction and energy efficiency devices in boarding houses to reduce operating costs;
- Development of a cross-agency database for boarding house and supported accommodation containing both State and local government information on closures, registration and compliance status; and
- Working with private boarding house sector to develop a package of incentives for developers and operators of affordable housing (which includes boarding houses). (Wyeth, 2003)

Financial Assistance

The Brisbane City Council also provides financial assistance in the form of grants, and is the only local government in Queensland to do so. Established by Council in 1999, the Private Boarding House Support Program provides financial assistance, which directly assists in meeting costs of upgrading fire safety in registered boarding houses and supported accommodation facilities in Brisbane.

This program provided for a maximum grant of up to \$200 per registered room to assist owners to carry out works in accordance with fire safety regulations and supported by a (free) Fire Safety Management Plan. Grant amounts are calculated upon the number of registered rooms per premises, Council will reimburse applicants three quarters of the cost of completed works up to the maximum allocated. Operators can apply for both Queensland Government and Brisbane City Council assistance. A maximum grant of \$10,000 per premises is available, with Council considering allocations of an amount above \$10,000 in exceptional circumstances. As a condition of the grants, owners are required to operate for a period of three years or are required to repay the grant in full. Boarding house operators in the Brisbane City Council area can apply for financial assistance from both BCC and the Qld Department of Housing.

4.1.3 Costs and Impact of Implementation of State Government Strategies

Residential Services (Accreditation) Act 2002

The full extent of the costs of the Residential Services (Accreditation) Act 2002 will not be known for some time. The current phase of implementation of the Act is focusing on supported accommodation facilities. As boarding house operators do not have to register until 2004 and be accredited until 2005, it is difficult to fully ascertain the costs of this legislation.

The Residential Services Accreditation Branch in the Queensland Office of Fair Trading has estimated their costs of operation and education of the legislation \$535,000 in the period of September 2002 and June 2003 on operational costs. They also estimate that they have expended \$15,000 on 38 State-wide information sessions targeting service providers, residents and their advocates (OFT, 2003). A major evaluation of the legislation is being undertaken in 2006/2007 and would provide a better indication of the costs of implementation.

Building and Other Legislative Amendment Act (2002)

There are some unknown costs in the implementation of the reform package, particularly the inspections currently being conducted by the Queensland Fire and Rescue Authority. Further, the Queensland Department of Public Works has made 'Q-Build and its pool of sub-contractors available to assist residential service operators to undertake fire safety upgrades in situations where operators are unable to meet a

private contractor to undertake this work' (Beattie, 2003). As this is a recent initiative, it is not known what the costs of this will be.

Financial Assistance

It would appear that in Queensland that the State Government has been realistic about the impact that the legislative reform package may have on boarding house operators and provided 'compensation' or 'incentives' to operators to comply with the legislation. However, in these early days of implementation, particularly of BOLA, there appears to be cause for concerns.

As at the 21st August 2003, of the 443 budget accommodation dwellings inspected (out of the total 1500 budget accommodation premises across the State), 366 do not fully meet the requirements (Beattie, 2003). While the rate of non-compliance is high at 80 percent, there are a number of reasons (Odgers, 2003a, Moore, 2003):

- Honest but inaccurate or incomplete attempts to comply;
- Despite receiving assistance there is still ongoing confusion over requirements; or
- Some operators are still unaware that they must comply.

Furthermore, as at the 23rd of August 2003, the Qld Department of Housing has only expended \$137,000 on financial assistance grants to a total of 20 budget accommodation operators. There is a further 18 being assessed (Odgers, 2003b). To date not one operator has applied for a loan. This is incredibly disappointing, given that the Queensland Department of Housing has allocated \$30.5 million to the Residential Services industry. This is comprised of \$29.1 million in loans and \$1.1 million in grants (Qld Department of Housing, 2003).

4.1.4 Costs and Impact of Implementation of Local Government Strategies

Since 1999, the Brisbane City Council has approved a total of \$755,800 on financial assistance to 174 premises. The total amount expended between 1999-2003 is \$302,503. (as at 28 July 2003) (BCC, 2003). After an initial strong take-up rate in the grants, the industry was slow to apply. To counteract this, a number of strategies were formulated to encourage stronger interest in the assistance, including:

- Direct mail-out to operators, work with the industry representative bodies, and newspaper advertisements;
- Move away from a opening/closing dates to a program of rolling funding;
- Simplification of eligibility criteria, application forms and other supporting documentation (response to industry sector);
- Individual support for applicants – from filling in forms, to reviewing 'potential' claim material, looking for flexibility in the program;
- Consideration of exceptional circumstances; and
- Short-turn around times for assessment and payment.

In 2003/2004 financial year, Brisbane City Council has committed \$295,000 for the continued support of the boarding house and supported accommodation sector. Brisbane City Council was the first and remains the only Council in Australia to provide direct grants to private boarding houses to keep them open.

Administration Costs

As well as the capital costs of programs and grants, there are also costs of administration and staff. The Brisbane City Council has anticipated that it expends approximately \$323,000 per year on the provision of staff to implement programs,

conduct inspections and provide coordination. Similar figures are not available from the State Government.

The Brisbane City Council has also provided Fire Safety Management Plans (FSMP) free of charge to operators. Each FSMP costs approximately \$1000 - \$1200. There is a total of 284 premises in the BCC area, thus the total cost would be between \$284,000 to \$340,800.

There are other costs that are difficult to quantify. For example, the Brisbane City Council has been providing a reduction in local government rates payable by 40 percent since in 1994. It is not possible to quantify these forgone local government charges. Furthermore, the Positioning Paper provided further information about the range of strategies being undertaken by the BCC to assist the boarding house industry. The costs of these strategies are not known.

4.1.5 State Government Strategies Aimed at Developing New Boarding House Stock

Boarding House Program

The Queensland Boarding House Program⁵ is administered by Community Housing within the Queensland Department of Housing. The program was established in 1992/93 with the aim of assisting people on low incomes by providing community-managed boarding house accommodation. The program is targeted towards single, low-income people who are homeless or at risk of homelessness. Of specific concern are people who find it difficult to access the private rental market. The program provides capital funds to construct, acquire and modify boarding houses. Funds are also used for furnishing the units and one off costs, such as disability modifications. The facility is managed by a community housing organisation but the title to the property remains with the Department. The organisation is not directly funded by the Department, but can retain rent revenue to finance the management, operations and maintenance costs of the dwelling.

Since its inception the program's budget has changed from \$3m in 1992/93 to \$5.118m in 2002/03. However Table 5 demonstrates that this varied greatly with each financial year.

Table 5: Boarding House Program Funding Levels

Financial Year	Program Funding (\$M)
1992/93	3
1995/96	3.414
1996/97	11.6
1997/98	11.9
1998/99	8.105
1999/00	5
2000/01	8.007
2001/02	7.370
2002/03	5.118

(Source: Hill, 2003).

A total \$63.514 million has been spent on this program in the past ten years. The result of this is 431 dwelling units that have either been purchased or purpose built.

⁵ While being called a 'boarding house program' it is not only boarding house accommodation that is provided. The types of accommodation provided include one-bedroom self-contained units; self-contained bedsits and traditional bedrooms with shared facilities. Also, it is not a program that assists in reducing decline, but instead replaces boarding houses and makes this style of accommodation more available.

There are currently boarding houses in the inner Brisbane suburbs, Cairns, Gold Coast, Townsville, Bundaberg, Nambour and Rockhampton. There are currently 25 units under construction at Ipswich and four projects planned in Sandgate, inner-Brisbane, Hervey Bay and Gladstone. This demonstrates that boarding house accommodation is not an issue only for metropolitan areas, but also an issue for coastal and regional areas.

4.1.6 State/Local Government Strategy aimed at Developing New Boarding House Stock

Brisbane Housing Company

The Brisbane Housing Company (BHC) is a joint creation of the Queensland Government (through the Department of Housing) and the Brisbane City Council, incorporated on 5th July 2002. Its aim is to provide rental accommodation for low-income households in inner-city and near city areas with about one quarter of its housing as boarding houses, targeted at very low-income lone households. The BHC's initial funding came from the State government (\$50M) and the Brisbane City Council (\$10M) and its structure is designed to maximise tenants' access to Commonwealth Rent Assistance payments, and its charitable status will enable it to receive charitable donations and private contributions, as well as minimising its GST liability. It is intended that the Company will develop a self-sustaining housing portfolio within four or so years.

4.1.7 Local Government Strategies Aimed at Developing New Boarding House Stock

The Brisbane City Council has developed an incentives package for affordable housing developers and operators which includes boarding house stock. It has also developed a Brisbane Boarding House Viability cross-agency database for the monitoring supply of boarding houses in Brisbane and for planning and policy development across government. No further information is available at the time of writing.

4.2 New South Wales

4.2.1 State Government Strategies aimed at Existing Boarding House Stock

In NSW, State Government strategies relating to boarding houses fall into three main categories:

- Land tax exemptions; and,
- Planning mechanisms.
- Financial assistance to enable boarding house operators to upgrade their properties, and to comply with fire safety requirements;

Land Tax Exemptions

Boarding houses in New South Wales are afforded land tax exemptions under the Land Tax Management Act (1956). This program commenced in 1990, and is administered by the Office of State Revenue, NSW Treasury.

The requirements for exemption include:

1. The boarding house must be occupied by long term residents; and
2. At least 80 per cent of the total accommodation available to resident must have been occupied or available for occupation in the taxation year and let within specified tariff limits;

Other low cost accommodation is also exempted from land tax.

Boarding house operators must apply for the exemption each financial year, and the Office of State Revenue provides application forms to all owners on their database each tax year.

Planning Mechanisms

In NSW a specific planning policy aims to protect low cost rental accommodation, including boarding houses, in all local government areas in the Greater Metropolitan Region of Sydney⁶. State Environmental Planning Policy No. 10 – Retention of Low-Cost Rental Accommodation (SEPP 10) was first gazetted in 1984 in response to the decline of affordable private rental housing. Boarding houses were included in the policy in 1988. This extension covered the demolition, alterations and additions or change of use of boarding houses (DUAP, 2000).

The SEPP 10 assessment process requires the local authority and the Director General of Planning (within Planning NSW⁷) concurrence to demolish, subdivide, alter the structure or change the use of a boarding house. Matters to be considered include the availability of comparable accommodation, structural soundness and fire safety, cost of necessary improvements and financial viability. However, it is not mandatory for an application to be refused if comparable accommodation is not available.

In addition to SEPP 10, the NSW planning framework contains a broader requirement for local councils to consider the social impacts of proposed developments, under the NSW Environmental Planning and Assessment Act 1979 (s 79(c)). As the objectives of this Act include a commitment to promoting and retaining affordable housing (s 5 (a) (viii)), some councils have begun to consider the impacts of development proposals on opportunities for low cost housing (Gurran, 2003).

Boarding House Financial Assistance Program

The Boarding House Financial Assistance Program provides grants to help owners and operators of boarding houses to undertake essential fire safety work in existing boarding houses. The aim of the program is to improve fire safety in boarding houses and help retain boarding houses to provide long term, low cost accommodation. Grants are also available for owners who are extending existing boarding houses and constructing new boarding houses. The program is now administered by the NSW Department of Housing. The 2002-03 State Budget allocated \$200,000 for fire safety works under this program.

Expenditure limits per room apply depending on whether the boarding house is deemed to be small (BCA Class1b - accommodating 12 people or less,) or large (BCA Class 3 - more than 12 people,). Small boarding houses must spend at least \$500 per room, and large boarding houses, \$1500 per room. The grant limit is usually \$50,000 per boarding house. Works that may be funded under this Scheme, include automatic sprinkler systems, emergency warning systems, hose reels and the associated building application and professional services fees. To be eligible for the grants the premises must also be eligible for exemption from Land Tax and new premises must be retained for long-term low-cost accommodation for the following 12 months.

The grant is paid over five years, with one fifth of the grant payable on final inspection and approval of the building works. The remainder of the grant is paid in four equal instalments, with the operator having to demonstrate the premises have continually provided long-term low cost housing.

⁶ When the policy was initially gazetted it only applied to 15 local government areas but was subsequently extended in the year 2000 to apply to the entire Greater Metropolitan Region, as part of a broader package of changes.

⁷ PlanningNSW is responsible for land use planning within the larger Department of Infrastructure, Planning and Natural Resources.

4.2.2 Local Government Strategies aimed at Existing Boarding House Stock

Local government initiatives and responsibilities relating to boarding houses include:

- Legislative requirements (such as those under the Local Government Act 1993)
- Planning mechanisms and rating concessions
- Auditing and monitoring boarding house stock

Legislative requirements

Historically there was a requirement under the old NSW Local Government Act 1919, for local councils to maintain records of boarding houses within their areas. The new Local Government Act 1993 contains no such requirement, and, as a result, the majority of councils in NSW no longer maintain systematic records. This has created several problems. For example, it is now difficult to obtain an accurate assessment of the numbers of unlicensed boarding houses in NSW, let alone rates of boarding house decline. Another issue is that the implementation of SEPP 10 depends on council planners adequately identifying applications involving boarding houses (in order to avoid having to comply with SEPP 10, developers do not always identify their properties as boarding houses when making an application).

However, the Local Government Act 1993 contains some new provisions relating to boarding houses and to boarders and lodgers. When serving orders that might make low income residents (including boarders and lodgers) homeless, councils are required to defer enforcement of the orders until they have ensured that satisfactory alternative accommodation arrangements can be found within the locality (s 131 A). The Act was also amended in 1997 to enable boarding houses to be classified “residential”, and rated accordingly, thus avoiding the higher rating applicable to business premises.

Planning mechanisms and rating concessions

Local government is critical to implementing State planning mechanisms to retain low cost rental accommodation, such as SEPP 10. As noted above, the implementation of this policy depends on council planners being able to identify applications involving boarding houses, to assess the potential impact of the proposal on the loss of low cost rental accommodation within the local area, and, if the application is to be approved, to develop strategies to mitigate this impact. Recognising these issues, the inner city council of South Sydney has developed a “good practice model” and a training package for assisting town planners assess SEPP 10 applications.

A few councils, such as Waverley and South Sydney, have developed or are preparing specific development control plans for boarding houses. Waverley council has also introduced a grant of up to 70 per cent rate rebate for boarding house operators providing affordable, long-term rental accommodation.

Auditing and monitoring boarding house stock

In addition to the residential rating provision described above, some council’s in NSW also actively monitor existing boarding house stock. In November 2000, South Sydney commenced a dedicated auditing program of boarding house stock to assist council monitor health and fire safety requirements, and to provide information about affordable housing trends. The database contains information about boarding house operators and managers, numbers of bedrooms and the quality of facilities, as well as profiles of residents. With the recent local government boundary changes, approximately 120 boarding houses previously located in South Sydney are now within the jurisdiction of Sydney City Council, which is now embarking on its own auditing project.

Marrickville Council also maintains a record of key residential indicators based on dwelling approvals. In 2000-2001, the council recorded a net increase of 53 boarding house bedrooms (Gurran, 2003).

4.2.3 *Costs and Impact of Implementation of State Government Strategies*

It has not been possible to gain the more detailed costings from New South Wales that were available in Queensland. However, some costs are available and there scope for discussion around the impact of the polices and programs.

SEPP 10

There has been some concern about whether the policy is fulfilling its intention. Davidson, Phibbs and Cox (1998) state that SEPP 10 'encourages owners to let properties become 'run down'⁸.

Ryan (2002) states that the South Sydney City Council has processed approximately twelve applications for changes of use of boarding houses and these applications are generally approved, particularly when the property is showing low or negative returns. These approvals occur despite the local authority having suffered a 66 per cent loss of boarding house stock in the last 12 years. Ryan (2002) has noticed a trend among owners to provide notice to tenants to vacate resulting in a dilapidated, vacant building set amidst rising property values, insurance and public liability costs. In this environment, applications are expected to increase.

Other criticisms of the policy are that its effectiveness is somewhat limited as it relies on a development application being lodged (Davidson, 1998). There is also an issue about conversions taking place 'covertly', and that some local governments have difficulties policing the policy.

The impact of SEPP 10 appears to be more problematic. Whilst the intention of the revisions to the SEPP in 2000 was to tighten the SEPP, widen its coverage, and to make certain elements of the operation of the SEPP more transparent, it would appear that changes in financial circumstances have made the financial viability issue particularly problematic.

The Director General of Planning may approve the change of use for an existing boarding house if its continued use as a boarding-house is not financially viable. Appendix C of the SEPP 10 guide (Department of Urban Affairs and Planning, 2000) describes the method used by the Department in Assessing Financial Viability. A target yield of 6per cent is required to establish viability where yield is equal to:

$$Y-E-d$$

$$V+U$$

Where

Y=rental income

E=Expenses

d=annual depreciation

V=current investment value

U=capital upgrading

Although the report concedes that net yields in the private rental market are generally much lower than 6 percent, it is considered that "a higher yield threshold compensates the investor for lower expectations of capital gain". Whilst this approach seems reasonable the method described in the Appendix for calculating net yields means that it is very difficult for yields to be greater than 6 percent. This is largely because of the method used to calculate the current investment value of the property (the purchase

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⁸ However, the subsequent amendments in 2000 did aim to address some of the issues associated with its operation.

price multiplied by a price inflator for strata properties). The ten year price inflator in many Sydney suburbs is well over 2. Or in other words the method is using capital returns in the private housing market to calculate yields even though the description in the text says that these returns will not be available to boarding house owners. This inconsistency inflates the denominator in the yield calculation and places downward pressure on yields.

Indeed, using figures on expenses provided by owner managers and purchase prices in 1993, it is difficult to generate a yield at or greater than 6 percent even with low vacancy rates. This seems consistent with the comments by owners in the survey who thought that:

‘The insurance issue has negated SEPP 10 – most owners could now show they’re operating non viable businesses.’ (Boarding House Operator, July 2003)

Using the financial model of Davidson (1998) but updating it with current data suggests that whilst yields are less than 6 percent, over a ten year period the rates of return from boarding houses are still viable (most scenarios delivered an internal rate of return of over 10 percent) for many boarding house owners that they sell because of the attraction of the large selling prices not because of collapsing yields. Even though yields have decreased over recent years in the sector as the rents (usually funded by social security payments) have not been able to keep up with property values, the yields are higher than investors can obtain in more traditional residential investment.

Boarding House Financial Assistance Program

There appears to be a lack of knowledge of this form of assistance. Davidson, Phibbs and Cox (1998) found that in 1998 only 38 per cent of operators were aware of State Government assistance for fire-safety upgrading. Since the Davidson, Phibbs and Cox study (1998) there has been no published information about enquiries and take up rates of the scheme.

However, even if awareness of the scheme has improved since 1998, take up rates are likely to be low due to two key disincentives associated with the scheme. Firstly, the grant is taxable by the Commonwealth. Secondly, benefits of the assistance for fire upgrades are frequently outweighed by the additional costs of fabric upgrades to comply with health and amenity requirements (Ryan, 2002). Ryan states that the majority of residences are over 100 years of age, and have been running on minimal maintenance and marginal returns. The combination of these upgrades frequently renders the property financially unviable as a boarding house (Ryan, 2002).

A further issue may be that owners receive the payment over a five-year period following full payment of the works. While this is to ensure that the accommodation remains as low cost rental housing over the funded period, when a maximum amount of \$10,000 per year is compared with the growth of land values and capital gain in inner-Sydney, the grant may be ‘irrelevant’.

Currently, the NSW Department of Housing expends \$30,000 per year to administer the grant. In the 2003/2004 budget, \$200,000 has been allocated for this program.

Land Tax Exemptions

It has not been possible to obtain full figures about the take up rate of this program from the relevant department. The Office of State Revenue provides application forms to all owners on their database each tax year. However, South Sydney City Council has indicated that a significant number of operators are not aware of the exemptions and have been paying land tax for quite some time (Ryan, 2002). In fact, an officer from the NSW Department of Housing stated that:

'The Office of State Revenue (OSR) only contacts the boarding house owners who have previously received land tax exemptions for their boarding houses. OSR does not undertake any proactive efforts to ensure that other new or existing boarding house operators are aware of the exemption. Therefore the authors' statement that implies that boarding house owners are aware of the land tax exemption is a questionable conclusion'. (*Bigsworth, 2003, pers. comm.*).

Of the owners that have utilised the exemptions, most regarded the land tax exemption as an important concession and central to their viability. This is demonstrated in the financial viability of boarding houses in Appendix 4. Unfortunately, it was not possible to undertake an analysis of reduced land tax in the Sydney example as land tax was already at zero. However, the Queensland example demonstrates that a reduction in land tax of 50 percent, combined with the reduced insurance premiums, made the boarding house more viable in terms of income and value.

The NSW Department of Housing estimates the cost of this program is \$3 million dollars in forgone land tax annually.

The total cost of administering all boarding house programs in New South Wales, as estimated by the Department of Housing, is \$3.4 million.

4.2.4 Local Government Strategies Aimed at Developing New Boarding House Stock

In some cases, the issue facing councils is not only the loss of existing boarding houses, but also the need to ensure that new boarding houses are able established. Many of the boarding houses in NSW were established prior to the introduction of local planning instruments and would no longer be permissible under these schemes. They continue to operate under "existing use rights", but when this use ceases, there are no provisions to enable replacement stock, as many councils do not permit the development of new boarding houses in lower density residential zones. Marrickville and Leichhardt Councils, both inner city local government areas with significant demand for low cost accommodation, have addressed this issue by explicitly making boarding houses permissible within all residential zones (Gurran 2003, Leichhardt Local Environmental Plan 2002).

4.3 Tasmania

4.3.1 State Government Strategies aimed at Existing Boarding House Stock

In Tasmania, policy-makers, peak bodies and government agencies recognise the importance of the sector and the implications of its decline. A working party, '*The Community Living Options Group*' (CLOG), was established in 2000 and comprises staff working for peak body organizations, representing the homeless, the voluntary sector and the Department of Health and Human Services (DHHS). The primary role of the CLOG is to: develop a shared understanding of the issues that impact on people residing in boarding/rooming houses; and research accommodation and support options that respond to the needs of people requiring access to forms of boarding house accommodation. CLOG has published a report that sets out a strategic framework that outlines a number of key focus areas for boarding houses and community living options (CLOG: 2001). These include: providing a range of sustainable community living options, improving linkages and access to specialist support, promoting client rights and responsibilities, service management, and management of the plan.

Considerable progress has been made by CLOG especially in relation to their aim of putting in place measures to regulate boarding house landlord responsibilities. Legislation is expected this parliamentary session (2003) to extend the scope of the Residential Tenancy Act (RTA) 1997 to cover all boarding house agreements. The intent of the Bill before parliament is to afford comparable rights to boarding house residents as to other residential tenancies. Where appropriate, the RTA will apply to boarding house arrangements however some variations are included to better reflect the nature of boarding house arrangements such as greater flexibility of tenure and house rules.

In short, the conundrum for government agencies seeking to arrest the decline in boarding house accommodation is that additional pressure to enhance service provision to tenants and achieve higher standards may actually deter landlords from continuing to offer boarding house accommodation. Anecdotal information collected by CLOG and the Tenants' Union indicates that some landlords are concerned about how profitability can be maintained if additional regulations are imposed. On the other hand, much of the accommodation that is available in Tasmania is of a poor quality and legal protection is rarely enforced either to improve conditions or uphold resident's rights.

4.3.2 Costs and Impact of Boarding House Strategies in Tasmania

There are no documented strategies to reduce the decline of boarding houses in Tasmania. The State is currently grappling with the implementation of residential tenancy law that covers boarding house residents. Thus there are no monetary costs to include in this study. However, both the boarding house industry and Government are concerned about the impact that the proposed amendments to the legislation. Of particular concern are:

- The are increasing numbers of problem tenants in recent years;
- Proposed changes will make it difficult to get rid of problem tenants;
- Leading to more vacancies as managers avoid potential problem tenants;
- Concern over increased paperwork given levels of transience; and
- Having to deal with 'so many different agencies'.

The introduction of tenancy legislation to include boarding house residents has been one argument for the decline of boarding houses. Previous research (such as HIDU, N.D) has found that boarding house operators argue against increasing regulation. However, as mentioned in Chapter Two, it is seen as a mechanism by the industry to generate leverage. It highlights the tension of increasing standards for residents and assisting an industry that is crucial to the housing system.

4.3.3 State Government Strategies aimed at Developing New Boarding House Stock

Considerable work has also been undertaken by CLOG to explore the scope of community managed boarding and rooming houses organizations to run boarding house type provision. Housing Tasmania conducted an environmental scan of community managed models in other jurisdictions in order to develop specifications for a community managed communal accommodation model in Tasmania. Funding has been earmarked to pilot a communal accommodation model of a minimum of 20 beds. The proposed model will seek to be self-sustainable and Housing Tasmania will conduct an expression of interest to evaluate capacity in the provision of such a service. Organizations will be required to demonstrate their competence to provide a viable model prior to awarding a service model contract.

4.4 Summary

It can be seen that there are a range of strategies in place to address boarding house issues.. The approaches can be grouped into the following categories.

First, there are strategies designed directly to slow or reduce the decline of boarding house stock, mainly as part of a strategy to reduce the decline in low cost housing. Land tax exemption in NSW, for example, is available to boarding house owners as well as the owners of other low rental housing. Queensland's proposed State Planning Policy is aimed at enhancing the supply of all kinds of affordable housing; reduction in the decline of boarding house stock is but a component of that Policy. The NSW and Queensland approaches do illustrate, however, how affordable housing and the land use planning system are intimately connected. The connection is not perfect, however, and as NSW shows it is possible for owners to circumvent the requirements of SEPP 10.

Second there are strategies designed to improve the standard and safety of boarding houses (and of other low rental accommodation). The debate in Tasmania and Queensland over amendments to regulations exemplifies the dilemma of increasing standards in a marginally profitable industry. There is a need to carefully balance the fire and safety requirements, and the cost of improving them, against the availability of low rental accommodation. Recognition of the changing nature of boarding house tenants is implicit in many of the strategies. NSW requirements for licensing of premises offering services for tenants with special needs, and Queensland's recognition of three levels of accommodation accreditation both address the issue, but by exclusion rather than support. The debate from Tasmania about tensions between improving conditions and protecting tenants rights has occurred in Queensland with the implementation of the Residential Services (Accommodation) Act 2002. This debate has direct relevance to New South Wales where boarding house residents are not included in the residential tenancy legislation.

The third group of strategies specifically addresses this dilemma by attempting to support private landlords to upgrade their buildings through grants and loans. The financial support is normally tied to continued provision of accommodation for a period after the support been made available. The fourth group of strategies addresses the need to encourage the development of both replacement and additional stock. Queensland appears to be the only one of the three States to have strategies in place to increase the stock of boarding house accommodation, although provision through the Boarding House Program is really replacement stock that may or may not actually be boarding houses. The Brisbane Housing Company will provide additional boarding house stock in inner Brisbane.

4.4.1 Conclusions

Three general issues arise from this overview of strategies:

1. The take-up of financial and other incentives are somewhat uncertain. Specifically in the case of NSW rates of take-up, and even of knowledge of the financial assistance packages available, are low.
2. People have been aware of the decline in boarding house accommodation for many years, major public strategies are relatively recent. In Queensland changes are still in the process of being implemented; in Tasmania strategies are still being put in place. NSW's SEPP 10 has been in place for some time but was extended to boarding houses only in 1988.
3. There appears to be considerable scope for the community sector to be involved in boarding house provision and so in reducing the rate of decline. Tasmania's developing policy identifies a strong role of the community sector, for example.

This brief overview has identified the range of policy responses to the decline of boarding house stock, and other affordable housing, in the three States. The report will now discuss the impact and effectiveness of these supply side strategies on the boarding house industry.

5 THE IMPACT AND EFFECTIVENESS OF SUPPLY SIDE STRATEGIES ON THE BOARDING HOUSE INDUSTRY

5.1 Boarding Houses Owners and Operators

The owners and operators who were interviewed for this research represent the diversity of this sector. The boarding houses are operated as family businesses or as business investments and the owners/operators have been in the industry from between three to fifty years. Most entered the industry expecting a good cash flow and for the potential capital gains.

Of the twenty-one owners interviewed, only six are definitely planning to remain in the industry. In NSW, SEPP 10 has thwarted plans by two operators to convert their properties for other uses (offices and a private residence). Only one owner (in Queensland) is hoping to develop another boarding house, however these plans have stalled through financing and planning approvals. In NSW, one owner is planning to extend but the outcome is dependant on a heritage study.

For the majority of owners, their future plans are uncertain and dependant on a range of circumstances including;

- Changes in the tenants 'its too intensive' (Boarding House Operator, Tasmania, 2003)
- The impact of increasing regulations
- The perceived lack of support for both owners and tenants; but especially
- The impact of rising insurance costs.

5.1.1 *Changes in the Clientele of the Boarding House Sector*

In Queensland, following the implementation of the residential tenancy legislation, operators still grapple with the increased regulation. One operator states that the legislation means that they have lost 'all authority to run the premises' and an inability to immediately evict residents that are violent, cause damage or use drugs. The result of this is operators are becoming more 'selective' when choosing residents. This extends to requesting assistance from the Department of Housing or Centrelink to co-ordinate the screening of tenants. However, these were only a small proportion of the industry. It is difficult to fully ascertain the impact of tenancy legislation until the legislation is formally evaluated.

In Tasmania operators are concerned about the impact of the proposed amendments to the Residential Tenancies Act for the reasons outlined previously in this report. While this research does not purport to be a widespread study of resident profile throughout Australia, or even throughout the study states, operators have noted a change in the resident behaviour in recent years; 'It's hard to get people who won't be nasty' (Boarding House Owner, NSW, 2003).

As a result, operators in all states are now screening residents to a greater or lesser degree, becoming 'more selective' - 'empty rooms make more money and are less trouble' (Boarding House Manager, Queensland, 2003). This can be expected to continue and increase in response to increasing behavioural issues and greater protection for tenant's rights. Critically, some operators report refusing clients from some community groups as they are 'never given a true picture of their background and behaviour' (Boarding House Manager NSW 2003).

At the same time, in NSW, operators have noted a distinct change in their clientele as more students and working people (particularly those in hospitality, tourism and security sectors) seek boarding house accommodation.

“More income earners are now seeking this kind of accommodation – it used to be mainly pensioners and people with substance abuse problems, but now working people are coming in.” (Boarding House Manager NSW, July 2003)

As well as different kinds of residents seeking boarding house accommodation, some operators are targeting different clientele because they do not wish to accommodate high need clients any longer; ‘Target quiet people, personable, good citizens, no drinkers’ (Boarding House Owner NSW, July 2003).

The combination of these factors means that some operators are now actively seeking these clients to avoid behavioural problems. In NSW, the owner of 9 boarding houses plans to lift the standard of accommodation as ‘servicing the bottom level is too expensive – there is maintenance and liability’ (Boarding House Owner NSW, July 2003). The impact is that while some boarding houses may not close, groups of people are effectively displaced.

5.1.2 The impacts of existing legislation and regulations on the boarding house industry

In Queensland, the impact on operators of negotiating a range of Government departments, both State and local, was widespread confusion. This has led, in part, to a refusal from many operators to be involved in this research.

Response from government

In response, the BCC and the Department of Housing jointly established the Residential Services Industry Project to provide a ‘one stop shop’. The Project’s Community Engagement Officer then accompanied Queensland Fire and Rescue Authority (QFRA) officers on an inspection of all registered premises. The focus of these inspections was to provide the free FSMP’s along with advice on works required to comply with the (then) impending deadline and to provide information kits, which included Grant and Loan Application Forms. The process was complicated by the diverse needs of the different types of operators and, as explained earlier in this report, the initial rate of non-compliance is of concern. However, as also explained earlier, many of the non-compliant premises have only minor works outstanding.

Non-complying operators have been served with notices and these premises will be subject to further inspections. As a result the process of closing boarding houses for non-compliance with this stage of BOLA will take some time to unfold – possibly as long as 6-12 months. The expectation in the regulatory bodies is that some owners will take full advantage and ‘play the game through to the end’ regardless of whether they intend to close or comply.

What is significant about this response is that the widespread closures anticipated before 30 June deadline, have not eventuated. Additionally, it is reasonable to assume that the range and number of non-compliant issues would have been significantly greater had the industry been left to respond without this level of assistance.

Operators in Queensland now face another three years of rolling deadlines under the combined effects of BOLA and the Residential Services (Accreditation) Act. The registration process is described as a straightforward and once only process. However industry representatives have disputed this. Both industry and government agree that the accreditation process is more complex and a number of the respondents (OFT, Shelter, BHOMA) believe that the industry is yet to react to the legislation and its potential impact. Operators are concerned that they will be responsible for

understanding and complying with complex (and varying) requirements and have requested assistance with both the procedure and the implementation. One of the most significant activities in the first few months of the Accreditation Branch's operations was conducting a series of state-wide information sessions. In partnership with the Queensland Department of Housing and the Residential Tenancies Authority, thirty-eight sessions have been held targeting service providers, operators and advocates.

The lesson from the first stage of BOLA suggests that government should continue build on the collaborative framework developed by the BCC and the Queensland Department of Housing. An intensive implementation programme providing clear, consistent direction will be required if the industry is to respond in a positive and effective manner.

5.1.3 *The impact of Eising Insurance Premiums*

While owners were generally reluctant to discuss their financial situation in detail, the majority were very aware of the current value of their land. Every owner interviewed cited insurance as the biggest impediment to their ongoing viability.

In each of the study States boarding house operators are experiencing difficulty in either obtaining public liability and/or building insurance, or obtaining insurance at a financially viable rate:

- 'Subsidies to upgrade should be matched by reduced insurance liability' (Boarding House Manager, NSW, 2003).
- 'Insurance has gone through the roof, this fact alone is an incentive to get out' (Boarding House Manager, NSW, 2003).
- 'Insurance is a major issue now, none of the major insurers will cover you unless you've been a long term client even then its sometimes difficult' (Boarding House Manager, NSW, 2003).
- 'Insurance has gone from \$3000 to \$45,000 for all properties. Two I can't insure. They comply with council requirements but insurers wanted extra staircases and I can't do that' (Boarding House Manager, NSW, 2003)
- 'Insurance has increased by 50per cent and is very high (at \$900 per month)' (Boarding House Owner, Tasmania, 2003)

Interviews conducted with boarding house operators in New South Wales found that most operators are paying between \$8000 - \$12000 per annum triple the premium that was paid 1999. In Tasmania, insurance costs have increased by 50 percent to \$10,000 (for public liability only). Queensland has recorded the most substantial increases of approximately \$15,000 per annum with annual premiums now ranging from \$22,000 to \$26,000 per annum.

The substantial increases have been attributed to a combination of factors, primarily to the changes in the liability market overall (Insurance Council of Australia, *pers. comm.*). Significant recent events such as the Childers Backpacker fire are thought not have had as big an impact as first thought. Insurance is being provided on a case-by-case basis to boarding house operators with agencies taking into a consideration a range of factors:

- **Resident profile:** This contributes to the risk profile in that the industry perceives that there will be a greater than average incidence of drug and alcohol use which is more likely to result in incidence of property damage and personal injury;

- **Age and fabric of the buildings:** 'at least one insurance provider uses a guideline whereby insurance will not be offered to buildings with less than 50per cent brick construction' (West, *pers. Comm.*). This impacts considerably in Queensland where the much of the stock is timber and tin construction; and
- **Management style and expertise.**

In one case only one out of eleven insurance companies were prepared to provide cover. In other known cases, no insurance companies were prepared to offer cover on any terms. Many operators are now having their premium underwritten by overseas insurance agencies, such as Lloyds of London.

Interviewees from both the industry and government in all States have indicated that there are large proportions of the industry operating without insurance, or with insufficient or inappropriate cover. Owners have either been refused insurance altogether, cannot afford the premiums, or in some instances, have insured their premises under another category (such as flats) erroneously presuming this will provide coverage. One owner in New South Wales admitted to operating without insurance 'cross my fingers nothing goes wrong. That would ruin me' (Boarding House Owner, NSW, 2003).

This issue has a number of ramifications for the boarding house industry. The first, and most obvious, is the moral issue of proportions of the sector operating without adequate insurance and the result this may have if there is a fatal fire.

The second issue is that the increase in premiums is affecting the viability of the boarding house industry. This is demonstrated in the Discounted Cash Flow (DCF) analysis undertaken for this project (See Appendix Four). The DCF found that if insurance premiums were reduced by half then three of the four premises would be substantially more viable.

Continued significant increases in insurance will contribute to continued decline in the industry. In Queensland, one operator advised that the next insurance bill would determine his future in the industry. For another, the increase in insurance from \$4000 to \$17,000 has consumed most of the business income from the boarding house and the owner is planning to exit the industry. In New South Wales, these increases meant that most operators can demonstrate they are no longer viable by pointing to increasing insurance premiums effectively rendering SEPP 10 obsolete.

Response from government

In Queensland, the state government is currently considering intervening to provide information to the insurance industry about the new regulations and their potential to improve the risk profile of the residential services industry. The possibility of a group purchase arrangement was explored but appears not to be viable because of the lack of a comprehensive information profile of the industry, combined with its small size.

One of the confusing elements to this issue is that increased regulations (such as BOLA in Queensland) do not, despite expectations of operators; result in lower premiums. It would be expected that operators adhering to increased fire safety standards, as well as registering and gaining accreditation would enjoy a lower risk profile (Insurance Council of Australia, *pers. comm.*). However there are no guarantees and in any event, a fully compliant industry will not emerge in Queensland until after August 2005. At present, the situation Australia-wide is that registering premises and complying with all existing building codes does not impact on either the availability of insurance or on the premiums.

In the meantime, the industry will continue to operate without access to adequate insurance. It would be expected that continued substantial increases in premiums would lead to:

- Increased costs that would be passed on to residents as rent increases, which they may not be able to pay; and
- Decreasing viability and increasing liability for owners, leading to closures (Courier Mail, 18 August 2003).

This issue is one where the cost of closures can be quantified. As an example; if all 284 premises in Brisbane City were to receive a contribution to the cost of their insurance premium of \$15,000; the total cost could be \$4.26 million per annum. This cost equates to the direct provision of housing for about 38 people per annum⁹. However, the Brisbane City Council estimates that between March 2001 and March 2003, 40 registered rooms closed per month. Rehousing these people would cost \$4.4M per month and entail the construction of 16 new premises per annum (if the limit of 30 rooms per establishment is used) at a total cost of some \$52.8M per annum.

5.1.4 Strategies to assist operators to remain in the industry

In Queensland, the experience has been that simply sending information has not been enough to ensure a response from the diverse range of operators. As discussed previously, Community Engagement Officers may make the difference.

‘The land tax exemption is a huge help financially’ (Boarding House Owner, New South Wales, 2003)

In New South Wales the examples of NSW land tax and financial assistance packages, this would enable government to provide targeted information to ensure that existing operators are aware of the availability of assistance. In the case new or proposed policies, such as in Tasmania and Queensland, the problem is identifying the extent of the premises likely to be affected.

In an atmosphere of increasing legislative reform, operators are concerned about the extent of the likely impact. The issue for government is to be aware of the range of operator ‘types’ and act to provide clear, consistent and frequently prescriptive information. In Queensland, many owners accept the importance of fire safety, but would prefer that government complete the necessary work on a fee-paying basis to avoid disagreements over compliance standards.

Some operators have expressed concern over the sometimes officious and punitive approach to policy implementation.

5.1.5 Who and Where are the Boarding Operators?

One of the concerning aspects of this study is that it is revisiting some of the issues that have been documented in the research conducted in the 1970’s and 1980’s. All previous research emphasises the lack of comprehensive and consistent data for detailed policy formulation by governments. This is still the case today.

The Positioning Paper (Greenhalgh *et al.*, 2003) demonstrated the lack of information on boarding house stock at a national level. The reason for this lack of documentation is because in many instances there is no regulatory requirement for authorities to do so. For example, in New South Wales, while a few inner city councils do take an active role (most notably South Sydney City Council), there is no State legislation that mandates monitoring or registering their ‘unlicensed’ boarding houses. The result is that it is now very difficult for governments at all levels to legislate to improve conditions for boarding house owners and residents in the absence of reliable data about the existing numbers and conditions.

Secondly, the collection of data does not guarantee that a fully accurate profile of the industry is captured. In many instances there may be an underestimation of the size of

⁹ Based on the Brisbane Housing Company estimate of \$110, 000 per person.

the industry. Operators who register may register under an incorrect use where as others may avoid registration because of problems with insurance.

Thirdly, the focus of policy and research on the metropolitan areas neglects the fact that boarding houses do exist in non-metropolitan areas. This research is no exception. Of the premises tabled in the Queensland Parliament for non-compliance of legislation, approximately 93 percent were located out side of the Brisbane City Council area. This demonstrates that there are large numbers of budget accommodation, including boarding houses, in non-metropolitan areas (Beattie, 2003). The fact that the Queensland Department of Housing develops boarding houses in large regional centres, such as Cairns, is an acknowledgment that boarding houses have a vital role to play in non-metropolitan areas.

This lack of knowledge of stock has ramifications for the development and implementation of appropriate policy responses to the industry (as discussed earlier). It also impacts on the ability to assess the efficiency of an existing government subsidy program. A key problem in assessing the efficiency of government subsidies is simply not really knowing what changes in the number of boarding houses have been occurring. For example, despite not knowing what the decline of boarding house stock is in Sydney, it would appear from SEPP 10 data that there is no evidence that the downward slide in boarding house numbers is easing.

‘The goal is to regulate boarding houses, as they exist, out of existence’. (Former Boarding House Owner, Brisbane, 2003)

5.1.6 Strategies to Encourage the Development of New Boarding Houses

During the course of this research it emerged that there is interest in Queensland, New South Wales and Tasmania in the provision of new boarding house stock. The discussions with the private developers yielded insights into some of the difficulties and emerging issues regarding the development of low cost affordable housing including boarding houses. It is not the intention here to provide an in-depth discussion but instead to outline some of the key issues facing both developers and government (both Local and State). It is worthy of its own research.

The development of new boarding houses has the advantage of being sustainable long-term investments in which there is some control on the quality and type of housing being provided. However, there are a number of issues around the development of new stock that were identified by private developers before the progression towards larger scale investment in the industry. These include:

- Design;
- Development approval process;
- Management structure and ensuring the retention of the development as affordable housing.

These are discussed further below.

Design

New boarding house stock is moving away from the typical boarding house model of single rooms with shared facilities towards self-contained single occupancy, with some shared living space. The movement towards this new type is not surprising. In the United States and Canada new Single Room Occupancy (SRO) developments tend to provide more self-contained accommodation than traditional SRO stock, while still providing some communal facilities (Davis, 2002b). This trend is also happening in both the public and private sector in Australia and overseas.

The Queensland Department of Housing and the Victorian Department of Human Services boarding/rooming house programs provide a majority of bed-sit and one room accommodation and minority of more traditional style boarding house accommodation. This is also the experience of the Victorian Government and community housing providers in their Rooming House Program; new stock provided in the program is now more self-contained rather than the traditional boarding house model

According to Davis (2002a), community housing providers specialising in managing boarding house stock in the Queensland program estimate that about 80 percent of their residents prefer more self-contained accommodation and transfer into it at the first opportunity.

The boarding house model is evolving to allow more private space. Shared space (such as bathrooms and kitchens) is seen to be a source of conflict between residents. The provision of increased private space is strongly believed to reduce the potential for conflict amongst residents.

Stakeholders from both government and the boarding house industry, thought that the era of the boarding house model with shared facilities is at an end.

‘Now most people want their own bathrooms...some clients are just loners, they don’t want to share’ (Boarding House Owner, Sydney, 2003)

Additionally, there is a desire for a new term as the term ‘boarding house’ is seen to be derogatory and unfavourable. Stakeholders believe that a new term may counter some of the problems relating to insurance and funding difficulties

Development approval process and issues

Another issue raised by potential developers was the process of development approval. These concerns include the costs and timeframes for approval, and the lack of certainty of process and outcome.

Private developers who are in the process of developing new boarding houses appear to be of the opinion that because they are providing affordable housing that the local authorities should offer reduced charges, particularly to ensure the viability of the development. Some of the cost issues are infrastructure charges, pedestal taxes and pre-lodgement meeting charges.

The issue of the changing design of the boarding house was discussed earlier, and there are ramifications about providing this type of new development particularly in relation to development costs. A number of the proposals propose en-suites to reduce areas of contact and conflict. However, this increases the numbers of pedestals, thus increasing pedestal taxes. For some proposals the ongoing pedestal charges are a bigger financial impediment than the capital costs of adding the en-suite.

There are also concerns by local authorities on the movement towards single-room occupancy or bed-sits, particularly in relation to socially and financially sustainable design. The specific concern is that the focus on self-contained bed-sits (rather than traditional shared areas) will create ‘battery hen’ developments. Both developers and local authorities are aware of a tension between providing ‘quality’, ‘amenity’ and ‘quantity’.

Management structure and retention of affordable housing

A major concern for government and developers at all levels is certainty of outcome. This ranges from the management of the new premises to ensuring the development remains as affordable housing. It is a key point of discussion in the development approvals process, as Local and State Government want to be guaranteed that the

development they approve, with relaxations of planning and related conditions, will remain as affordable housing.

There are a number of options currently being explored to ensure retention of existing boarding house stock. One of these is a statutory covenant. The other is requiring developers to assign a community group a head-lease role and attaching this requirement to the development approval. Both of these arrangements are being explored in Queensland, with the latter being included in the recent development approval of an affordable housing development in Brisbane.

5.2 Implications for Policy Development

5.2.1 Effectiveness of Government Strategies

It can be seen in Table 6 that governments are expending substantial funds to the retention of existing boarding house stock. Table 6 does not include allocated funds not expended, administration costs and lost revenue through rebates. The economic argument for government intervention in the boarding house sector in Sydney and Brisbane is fairly clear – market failure is occurring even with subsidies. There is a clear failure of the market in the major capital cities to provide housing for low-income individuals and households. The case of Hobart is less clear-cut.

The issues arising from these strategies are three-fold. It is difficult to fully assess the impact of some strategies because they are relatively new and only recently implemented. In the case of the development of replacement stock it will still be years before this stock can make a significant impact in offsetting the demise of existing stock. The second issues is that condition of the existing stock is the direct result of the industry being left largely under-regulated despite some thirty years of investigation and recommendations to the contrary. This has resulted in the need for a greater allocation of funding for stock that is, in many instances, of poor quality. It is also difficult for government to respond to an industry that is suspicious of government intervention and that is not well organised. Sectors of the industry have avoided reacting to other legislations affecting small businesses with many operators still do not treat their premises as a small business as evidenced by the lack of ABN's.

What is clear is that given the nature of this industry and the diversity in types of boarding house operators, strategies need to be effectively implemented if the industry is to survive and respond to increasing legislative atmosphere in a positive and sustainable manner. If regulations are going to increase in all States, government has to understand the nature of the industry and provide support. Whether this industry can expect to continue to receive assistance and still retain the range of rights to the private profit and to the full capital value is also a policy decision.

Table 6: Summary of Impacts, Costs and Issues Government Strategies

STRATEGY	IMPACT	COSTS	ISSUES ARISING
NSW Office of State Revenue Land Tax Exemption for low cost boarding houses	Central to viability Slowing decline	\$3M foregone land tax	Need for ongoing publicity Need to audit stock to encourage retention
NSW Boarding House Financial Assistance Program (BFHAP) Fire safety works	Small budget Grant is taxable Difficulty finding out how to apply Age of stock adds to costs additional fabric upgrades	\$30,000 administration \$200,000 allocated for 2003/04	Need for publicity Need to audit and monitor stock

STRATEGY	IMPACT	COSTS	ISSUES ARISING
NSW - State Environmental Planning Policy No. 10	Impact waning Concern if policy is fulfilling intention	Not available	Need for a review to respond to viability issues
QLD - Residential Services Accreditation Act BH deadline 2004	Complex package of reforms involving a number of state and local government departments	Office of Fair Trading \$535,000 (Sept 2002-June 2003) \$15,000 admin costs	Clear, consistent Information for owners 'One stop shop' Need to audit and monitor
Dept of Housing Residential Services Industry Building and Fire safety improvements Conditional Grant Scheme	Few applications to date	\$137,000 to 20 operators	May be too new to assess
Dept of Housing Residential Services Industry Building and Fire safety improvements Conditional Loan Scheme	No applications to date Disappointing response for government	No cost	May be too new to assess, or May need to be reviewed to ensure effective policy as many operators cannot service further loans
BOLA DoH/BCC	Complex implementation process invoking a coordinated state/local govt response	Unknown	Concerns over initially high levels non-compliance
Brisbane City Council Private Boarding House Support Program	Grants are reportedly covering all the work required for this stage of BOLA	\$755,800 since 1999 approved \$302,503 expended (July 2003)	Effect of coordinated response First local council to fund grants targeted at retaining stock
Dept of Housing Boarding House Program	431 dwelling units of accommodation in Qld (mostly in SEQ)	Total cost \$63.514M (1992/93 – 2002/03)	Differing financial and management structure does not reflect true nature of the boarding house industry – difficult to fully compare.
TAS Amendments to RTA	Concerns over inability to evict high impact residents Increasing 'screening' of tenants to prevent problems Concerns over dealing with a number of levels of govt		Information on operator rights & responsibilities Awareness that groups of tenants may be displaced Coordinated response

It would appear on the available evidence that Government strategies are having some impact on slowing down the level of decline. In NSW, the owners appear more positive than in past surveys about the impacts of various concession programs, particularly the land tax exemption program. In Queensland, the expected wholesale closures of boarding houses since July 2003 has not occurred.

5.2.2 Strategy Review and Evaluation

One of the key criteria for a responsive program is that it is evaluated, and where indicated, amended. The issue of reviewing policies focuses on the present ease with which owners can circumvent the intention of SEPP10 in New South Wales by demonstrating that their business is not viable. Insurance costs, stock age and condition all play a significant role in financial viability and this is discussed further in the next section.

The low take-up rates for BFHAP in NSW and for the Department of Housing loans in Queensland also point to a need for policy review. In NSW, operators are concerned that grants are taxed as income, which in turn reduces the viability of their business. In Queensland, owners affected by the Residential Services (Accreditation) Act are concerned over the cost of compliance. While loans are available to assist, to date not one application has been received. This may be in part because of the newness of the scheme. Other reasons include:

- Some operators are yet to acquire an ABN
- Industry reluctance to disclose detailed financial information, but most importantly
- Those most in need of a loan also frequently have a low-income stream and cannot demonstrate an ability to service a loan.

The question for government is to determine if these responses are appropriate, given the diversity of stock and operator types.

6 CONCLUSION

This report provides an overview of the boarding house industry and of the kinds of supply-side policies that State and local governments have put in place to slow its decline. The retention of private-for-profit boarding houses is critical in maintaining adequate amounts of low cost housing stock. Increasing numbers of low-income households are competing for a reducing supply of low cost rental accommodation. Boarding houses fill a critical niche which governments do not have the capacity to fill.

The research identifies the range of current policy responses. Some of these are new and innovative. Unfortunately, the research has also highlighted a number of long-standing problems that have not yet adequately been addressed. This final chapter starts with these seemingly intractable problems.

The decline of boarding house stock is not a new phenomenon. There has been a plethora of studies and reports by reputable and knowledgeable agencies in the past. They have, for at least the last twenty years, pointed to land use, regulatory, public policy and business pressures on boarding house owners. Many of these reports have pointed to the necessity of government intervention and have made workable and sensible recommendations. Yet little has happened. Identifying the reasons for the inadequacy of previous policy responses was not part of the brief for this current study, but it is clear that boarding houses, as a form of provision of housing for people 'on the margins', have not gained policy salience. Housing advocate groups have pointed to the problems associated with deinstitutionalisation, with inner city gentrification, with the impacts of hallmark events, and with changing patterns of tenancy and ownership, but all with little impact.

The reasons for important social issues such as this failing to reach the policy agenda are discussed by a number of public policy analysts (eg Davis *et al* 1993). One possible reason is the rather limited number of avenues through which public policy work arises (Queensland Office of the Cabinet 1996, p. 31). Boarding house provision seems to be slowly climbing on to the policy agenda, but the journey has been long and faltering. The climb has been helped in particular localities through the passionate concerns of a few 'white knights' in critical positions in both State and local governments. But the research reported here shows clearly that policy responses in the different jurisdictions in Australia demonstrate considerable variation in their depth and effectiveness.

Private-for-profit boarding houses fill a number of important housing niches. They provide a range of housing options on a scale that is beyond the capacity of governments to provide. This includes accommodation for people facing various kinds of short-term crisis, low cost (and low entry cost) accommodation for people on very limited means, affordable longer-term accommodation for a growing mixture of people, and accommodation for many people with social, personal and intellectual problems. Without the accommodation offered by private-for-profit boarding house operators the limited stock of available public housing would be swamped. Because many current boarding houses offer informal welfare support as well as providing rooms, the decline of boarding house stock has a range of important non-housing social impacts. Of course, boarding houses also provide accommodation for a number of people who could afford more expensive housing but who choose boarding house living.

The aims of this project were to investigate current Government strategies aimed at reducing boarding house decline and to recommend alternative strategies to ameliorate this decline.

From this overall aim, three broad questions were identified:

- What are the costs of boarding housing decline in metropolitan Australia for residents and Government?
- What strategies are available to Governments to support boarding house providers (essentially the private market and community housing organisations) and so reduce the level of decline? and
- What are the likely impacts and costs of these Government strategies?

A fourth question developed during the investigation, namely:

- What are the likely costs to residents and Government of Government non-intervention?

The remainder of this section provides answers to these four questions.

6.1.1 What are the Costs of Boarding House Decline?

It is difficult to give a definitive answer to this question. One reason for this is uncertainty about data and so uncertainty about the actual rate and scale of decline. Definitions vary from State to State. Within any one State, different definitions may be used by State and local governments that reflect their responsibilities for different aspects of boarding houses (for example, for licensing, and for fire safety). Identification of the overall scale of the problem, and thus of its impacts and costs, depends on there being some consensus about definitions. There is a need for agreement amongst the States and local governments about what is best considered a 'boarding house'.

Yet even with this uncertainty about exact numbers and locations of boarding houses there is clear evidence that, at least in the major metropolitan areas, the numbers of establishments and beds are declining. Many boarding houses are being demolished and few new ones are being built. Many existing operations are shifting to provide accommodation for backpackers, students, or 'key workers'.

The costs to residents of boarding house decline have been well documented in the many previous studies. They include uncertainty, loss of shelter, loss of networks and support as well as increased costs. Costs to government include the costs of crisis and emergency responses to closures, some of which may result from enforcement of health and safety standards. Enforcement can be catapulted onto the policy agenda by one or two high profile events. There are clear community expectations that governments will provide emergency responses to support residents when governments close boarding houses. When they close for business or development reasons there is not such an immediate community expectation, but there is increased pressure on other low cost housing stock, including public housing. Continued decline in stock is likely to produce continued pressure on public housing.

6.1.2 What Strategies are Available?

One set of strategies is to accept that closures are inevitable and to develop more cost-effective and measured responses. Continued closures are highly likely, because:

- Boarding houses are often very old buildings, built long before modern standards of construction, health and safety, which are expensive to bring up to even basic modern standards;
- Some people have become owners 'accidentally' and without adequate preparation for running such undertakings;

- Some boarding houses are clearly marginal in terms of financial returns (although there has in the past been suggestions that operators 'cry poor' mainly to avoid having to pay the costs of regulatory compliance, the Discounted Cash Flow analysis undertaken for this research clearly shows that some operators would obtain a far higher return from selling than from continuing to operate as a boarding house); and
- Boarding houses located in inner city areas are on land that is increasing rapidly in value. Capital gains through sale can be considerable.

A number of coordinated closure responses have been implemented in the various jurisdictions. However, the focus of this report is on supply-side strategies. To be effective such strategies need to address the reasons for continued closures listed above. Supply-side strategies already in place include:

- Regulations to improve the minimum safety standards of the buildings, but where these are coupled with support for the industry to reach compliance and where a suitable timeframe is allowed;
- Grants, loans and technical advice to cover the up-grading of buildings to reach minimum fire and safety standards;
- Mechanisms to slow the demolition of existing boarding houses and to prevent their replacement with other residential or commercial activities, such as controls on demolition and compulsory impact studies;
- Support for current owners' financial viability through land tax exemption, rates concessions or reductions of other taxes and charges (such as concessional water or pedestal charges);
- Support for development of new boarding houses through special considerations in development assessment; and
- Partnership arrangements in provision of new stock involving State and local governments, or government and the community sector, or government and private operators.

Where policies have been implemented, however, they are far from comprehensive and have been of varying effectiveness. Partly this reflects the dispersal of responsibility for boarding house issues across State government departments, and between State and local governments.

- Where the supply-side policy measures have achieved less than desired levels of success, the research showed this was because of:
 - Poor advertising and education about programs, so that levels of awareness amongst owners were low;
 - The level of financial support was too low to make any real difference;
 - The low level of business sophistication inherent in the industry;
 - Reluctance by owners to divulge their financial position in return for financial support;
 - Difficulties in finding adequate mechanisms for retaining the boarding house use after development concessions had been made;
 - Poor coordination between government departments, and between State and local governments; and
 - Inadequate information about boarding house stock and poor monitoring of the programs.

Policy responses that the research has showed will help overcome these shortcomings include:

- Help and support for owners and managers, possibly through supporting private sector consulting companies to help owners through application and compliance processes;
- Reviewing and modifying criteria for loans and support when experience shows the criteria are too onerous;
- Better and more targeted educational and information campaigns;
- Reviewing local town planning regulations – for example, addressing the problems inherent in boarding houses being a ‘non-conforming use’ when constructed before schemes came into force, and through the possibility of development approval concessions for new stock; and
- Recognition of the need to balance tenant’s rights against the ability of landlords to be able to evict high impact residents (and recognition of the need for non-housing support for such residents).

Three problem areas emerged through the research, however, that require special attention through new or revised program initiatives. The first was the set of problems associated with both public liability and building insurance. Insurance costs are escalating rapidly. Many owners are finding it almost impossible to get insurance. Governments need to consider ways of supporting current and future owners to obtain and maintain insurance. The analysis showed that direct support could be a cost-effective way of maintaining the housing stock, as insurance costs are now a critical component of the industry’s cost structure.

The second is the auditing and monitoring of boarding house stock. This issue has already been mentioned, but targeted information campaigns cannot succeed if no one knows where the targets are located; and without a reasonable overview of the shape of the boarding house industry it is impossible to develop and implement effective policy responses.

The third is the whole set of problems around the provision of new stock. This includes what appears to be a move away from the traditional boarding house design based on single rooms with most other facilities shared towards designs that include more private space (particularly kitchen and bathroom facilities). This change can have a direct impact on costs through increased local government rates and charges (eg in pedestal charges). It also includes the difficulties faced by developers seeking approval for new boarding houses, and the dilemmas of local governments who are prepared to grant concessions to encourage affordable housing provision but who need guarantees that once approved the accommodation will remain affordable. On-going management arrangements are clearly part of this dilemma. There is room for new kinds of partnerships in the on-going management of boarding houses, involving government in partnership with community sector or private sector.

6.1.3 What are the likely impacts and costs of intervention?

It was not possible to obtain full direct costs of the existing interventions. Thus, the true costs of intervention are not known. Experience in Queensland and NSW is that the direct costs of support programs can be less than the amounts budgeted because of low levels of up-take. The indirect costs of such support programs will then become higher as additional publicity and targeting, as well as advice and technical assistance, become necessary. Some of these costs are borne by local governments rather than State governments (such as with Brisbane City Council’s provision of free fire management plans for boarding house operators). The information obtained for this research showed that direct and indirect costs of intervention are not high; but that the

proportion spent in indirect costs (such as technical support, advice, administration, and publicity) are higher than were initially expected by program staff.

Queensland's Boarding House Program, which actually provides capital funding to purchase and build boarding house-type accommodation, has committed some \$63.514 million over the last ten years. Clearly the direct costs building or acquiring new stock is high. It would seem impossible for Governments to directly replace stock that is removed from the private market.

6.1.4 What are the costs of non-intervention?

The costs of non-intervention include the political and financial costs that flow from the highly visible loss of private-for-profit but affordable housing stock. Intervention in terms of enforcing minimum fire and safety standards is unavoidable. Intervention in terms of closure responses then becomes necessary as part of Government's social welfare obligations.

Non-intervention in terms of specific supply-side strategies will result in continued, and possibly accelerated, decline in the provision of a critical form of affordable housing. It needs to be emphasised that boarding houses also provide a wide range of non-shelter services, through the community housing component of the industry or through the actions of current owners and managers. Non-intervention is likely to lead to a substantial and continuing increase in the demand for public housing stock and for a range of non-housing services. In effect, non-intervention is an unattractive option.

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APPENDIX ONE: BOARDING HOUSE STYLES (PRIVATELY OWNED)

<p style="text-align: center;">Boarding House Tasmania</p> 	<p style="text-align: center;">Boarding House Tasmania</p> 
<p style="text-align: center;">Boarding House Brisbane</p> 	<p style="text-align: center;">Boarding House Brisbane</p> 
<p style="text-align: center;">Boarding House Brisbane</p> 	<p style="text-align: center;">Boarding House Brisbane</p> 
<p style="text-align: center;">Boarding House Sydney</p> 	<p style="text-align: center;">Boarding House Sydney</p> 

APPENDIX TWO: LIST OF INTERVIEWS

Queensland

Queensland State Government

Ms Elizabeth Fraser, Executive Director, Social Policy, Policy Division, Department of the Premier and Cabinet. 17/04/03

Ms Rachel Healey, Policy Division, Department of the Premier and Cabinet. 17/04/03

Ms Jane West, Department of Housing. 7/06/03

Ms Natalie Wilde, Community Engagement Officer, Department of Housing. 26/06/03

Ms Rebecca Foote, Manager, Accreditation Office, Office of Fair Trading, Department of Tourism, Racing and Fair Trading. 01/07/03

Mr Damian Azzopardi, Senior Accreditation Officer, Office of Fair Trading. 1/07/03

Local Government

Councillor David Hinchliffe, Chairperson of BCC Community Policy Committee, 25/07/03

Helen Wallace, Senior Program Officer Community Development Policy, 25/07/03

Councillor Helen Abrahams, Chairperson BCC Urban Planning Committee. 09/07/03

Ms Stephanie Wyeth, Senior Program Officer Social Diversity and Housing, BCC 16/04/3 & 24/05/03

Ms Antonya Brown, Program Officer Environmental Health, BCC. 16/04/3 & 24/5/3.

Mr Ryan Huelin, Program Officer City Planning, BCC. 25/05/03

Community Organisations

Ms Janice Mc Donald, Coordinator Tenancy Advice and Advocacy Service. 15/05/03

Ms Michele Hollywood, Boarding House Worker. 15/05/03

Ms Judith Hemingway, Tenants Union Queensland. 15/05/03

Mr David Cant, Chief Executive Officer, Brisbane Housing Company. 27/06/03

Mr Norm Nancarrow, Development Officer, BHC. 08/07/03

Mr Jeremy Hill, Shelter. 06/03

Ms Marilyn Brown, Boarding House Project. 9/04/03

Mr John Nelson, Brisbane Boarders Association. 17/04/03 & 21/07/03

Private Sector

Mr Graham Jones, Queensland Manager, Insurance Council of Australia, 17/07/03

Mr Victor Feros, Town Planning Consultants. 24/06/03

Mr John Gaskill, Buckley Vann Town Planning Consultants. 24/06/03

Real Estate Agent, Inner City North 16/09/02

Real Estate Principle, Inner City South 17/04/03

Real Estate Agent, Inner City East. 4/04/3

Affordable Housing Developer 10/07/03

Affordable Housing Developer, 29/07/03

Boarding House Owners/Operators

3 Owners and Operators

2 Industry representatives

New South Wales

State Government

Ms Phillipa Davis, NSW Department of Housing 11/02/03

Allison Wanin, NSW Department of Housing 11/02/03

Department of Housing.

Local Government

Mr Nathan Ryan, Health Inspector, City of Sydney Council 3/06/03

Private

13 Boarding House Owners/Operators representing 33 premises.

Tasmania

Government

Ms Vickie Wills, Department of Consumer Affairs 3/07/03

Ms Skye Fraser, Housing Tasmania

Community Sector

Ms Pattie Chugg, Shelter 26/02/03

Ms Sandra Kent Tenant's Union 27/02/03

Boarding House Owners/Operators

3 Boarding House Owners/Operators

APPENDIX THREE: INTERVIEW SCHEDULE FOR BOARDING HOUSE OPERATORS

Overview of Facility and Ownership Structure

Location of facility

- Inner city
- Middle suburbs

Age of facility

Status of respondent

- Manager
- Owner
- Owner/manager

How long have they been in the industry?

How many other boarding house properties to you lease or own?

Length of ownership/management current dwelling(s)?

Are the premises leased or owned?

What is the status of the ownership structure?

- Private company
- Partnership
- Sole trader
- No formal company structure
- Not for profit organisation

Rationale for Entering/Exiting the Industry

Why did you enter the boarding house industry or why are you exiting?

- Capital gain
- Low cost housing
- Inherited property
- By accident
- Other

What are your future plans for the building?

- Sell
- Maintain
- Extend
- Renovate
- Change use (backpackers/student)
- Close down
- Don't know

What is the rationale behind these future plans?

Client Information

What are the primary grouping of clients that you accommodate

- Age
- Single or mixed gender
- Range of disabilities

Do you target a particular type of clientele?

Has this client group changed over time?

What do you think are the reasons for these changes?

Have there been changes to your occupancy rates over time? Why do you think this is the case?

Have there been changes to the length of time that your clients stay in your facility? Why do you think this is the case?

Regulations and Economic Information

What is the current value of the land?

How has this changed in the past 5 years?

What are major factors affecting the running of your business (eg insurance, regulations, maintenance, high needs complex)?

How has this changed over time (eg insurance premiums)?

What regulations currently impact on your business?

Are you aware of any government policies or programs to assist boarding house operators?

If there were an increase in regulations (relating to fire safety, dwelling standards) in Tasmania – what effect would this have on your business?

Would you be able to meet the costs of these upgrades?

Would you move out of the industry or increased your standards in line with new regulations?

What would be the impact of closure of this facility on your residents?

What mechanisms, do you believe, government should put in place to reduce boarding house decline?

What form of assistance do you require to help our business to run more efficiently?

APPENDIX FOUR: BOARDING HOUSE DISCOUNTED CASH FLOW ANALYSIS

This report is based on an analysis of four boarding house scenarios using a discounted cash flow (DCF) approach. Three boarding houses (types A, B and C) were located in Brisbane, with type D located in Sydney. Each DCF was based on a 10 year time frame, with the income variables supplied by industry as well as the majority of the expenses. The balance of the variables, including the discount rate and transfer costs, were estimated from market knowledge. This type of approach is a proven technique for assessing the value of a cash flow or business, being the main goal of a boarding house establishment or any property where income production is the primary goal. However, any prediction into the future may be subject to change, and variations in the marketplace, such as interest rates changes or tax concessions, will affect the variables and hence the assessment. Accordingly this cash flow projection is subject to change, although based on the variables and estimates available at this point in time.

The forecast expenditure is based the Consumer Price Index (CPI) and is sourced from 2 sources: (a) the historical CPI as recorded by the Australian Bureau of Statistics (ABS) and forecasts made by the Economist Intelligence Unit (EIU) for Australia. It relates to anticipated increases in goods and services on a broad bases, and it would be unreasonable to expect that these prices would remain unchanged for the foreseeable future. The assumption for the rent is based on the likelihood of a small increase, as opposed to large increases or negative increases. It follows trends in housing demand in recent years and considers the risk associated with a boarding house.

Following the construction of a model of each of the four boarding house types, a sensitivity analysis was then conducted. Although the income variables are market driven and therefore fixed, attention was placed on expenses that reduced the cash flow. The two main expenses that were considered were *Land Tax* and *Insurance Premium*. Accordingly, three individual models were assessed based on each boarding house type, with the exception of type D where *Land Tax* was already zero and only two models were used.

The purpose of this assessment is to measure the cash flows against the owner's estimate, as summarised in Table 1. Unless a complete valuation is undertaken, including a thorough internal inspection, the owner is the only party who is familiar with the property. However, caution should be exercised when relying on the owner's estimate as it can be biased upwards – usually an owner of a property will consider the value of the property is higher than it is, rather than lower.

Table 1. Summary of DCF Analysis

Boarding house type	Status	No. of Rooms	Net income Yr 1	Net Present Value	Estimated Value	Difference
A1 (Bne.)	Complete	25	\$ 29,636	\$ 480,494	\$ 820,000	59%
A2 (Bne.)	Half Insurance		\$ 39,636	\$ 547,822	\$ 820,000	67%
A3 (Bne.)	Half Insurance & half land tax		\$ 46,386	\$ 593,267	\$ 820,000	72%
B1 (Bne.)	Complete	13	\$ 15,943	\$ 262,480	\$ 690,000	38%
B2 (Bne.)	Half Insurance		\$ 24,943	\$ 323,075	\$ 690,000	47%
B3 (Bne.)	Half Insurance & half land tax		\$ 30,193	\$ 358,421	\$ 690,000	52%
C1 (Bne.)	Complete	15	\$ 23,990	\$ 336,815	\$ 625,000	54%
C2 (Bne.)	Half Insurance		\$ 33,490	\$ 400,775	\$ 625,000	64%
C3 (Bne.)	Half Insurance & half land tax		\$ 38,665	\$ 435,617	\$ 625,000	70%
D1 (Syd.)	Complete	20	\$ 78,500	\$ 809,481	Not supplied	
D2 (Syd.)	Half Insurance		\$ 86,000	\$ 859,977	Not supplied	

As shown in Table 1, the first three boarding houses returned an owner's market value estimate that exceeded any of the DCF models that were based on income. After factoring in a premium for an owner's special value, the cash flow analysis indicated that a boarding house, solely as an investment vehicle, was not a viable product. The boarding house (type D) located in Sydney with 20 rooms, in comparison to type A in Brisbane with 25 rooms, produced a substantially higher income and hence higher Net Present Value. Considering the comparatively higher cost of living in Sydney, a substantially higher income for Year 1 was also observed.

If placed on the open market for sale, it appears that a boarding house would not compete in its present form in Brisbane, and as such is not operating at its highest and best use. This conclusion was reached after analysing relatively basic income and expense variables, although all were considered fair and reasonable in the overall market context. It was difficult to make a comparison in Sydney without an owner's estimate of value.

The Type A boarding house contained 25 rooms, with an owner's estimate of \$820,000. In its current state with existing expenses, there is a difference of over 40per cent between the existing owner's estimate and the DCF value (A1). Even after allowing for a 10-15per cent premium by the owner, there remains a substantial variation between these values. If concessions, such as lower insurance and land tax are applicable, the DCFs shown in A2 and A3 apply. Both of these DCFs are closer to the estimated value, with A3 being only 20per cent lower than the owner's estimate (after deducting a premium for special value).

The Type B boarding house, being the smallest with only 13 rooms, does not equate as a viable cashflow operation. In its present operating form (B1) the cashflow of this boarding house is valued at nearly one-third of its estimated owner's value. Even after allowing for concessions (B2 and B3), there remains a substantial difference between the perceived market value.

The third boarding house (type C) with 15 rooms returned a similar return on outlay as (A). The first DCF (C1) was 46per cent below the owner's estimate, although after concessions (C2 and C3) this was reduced to 30per cent. After allowing for a 10-15per cent premium by the owner, this was reduced significantly to a difference of between 10-15per cent between the owner's estimate and the C3 model (after allowing concessions).

Summary

This analysis has considered the income earning potential of four boarding houses located in Brisbane and Sydney, based on income and expense variables although only the Brisbane boarding houses included an owner's estimate of value. The income variables are driven by the market and are relatively fixed. Thus, attention must then be focussed on the expenses, where the income for each standard model was adversely affected by high expenses.

In conclusion, further attention needs to be placed on these expense variables and their role in diminishing the value of a boarding house. At this point it is suggested that concessions for such expenses be strongly considered, especially with regards to *Land Tax*, as well as a concession for *Insurance*. In Sydney, this concession would primarily apply to the *Insurance* variable.

With this scenario, the viability of a boarding house can be retained and fostered. Without these concessions, it appears that the viability of a boarding house, and importantly its ability to compete in the open property market, is severely limited. Its longevity in its present land use appears to be severely threatened.

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Phone +61 3 9660 2300 Fax +61 3 9663 5488

Email information@ahuri.edu.au Web www.ahuri.edu.au