



Tenants contribution to Social Housing finance

Shelter NSW Seminar
November 2003

Hal Bisset
Swinburne Institute for Social Research

The contribution of tenants

- Rent payments
 - Direct financial contribution to the landlord
 - The focus of this paper
- Maintenance contribution
 - Voluntary in-kind contribution to maintaining their home which also reduces the cost to landlord
- Management contribution
 - Voluntary in-kind contribution to management through participation in resident advisory committees, co-operative structures etc
- Social capital
 - Voluntary in-kind contribution to the local community through participation in community organisations which contribute to the general well-being of the local area

Public housing rents

- In NSW as at June 2002:
 - 127,754 public housing dwellings
 - Estimated value of \$16.2B
 - Average value of \$127,000 each
- Rental income from public housing:
 - \$466M in 2001-2002
 - \$3,655 per dwelling
 - Average of \$70pw
- Direct expenditure on public housing (excluding any capital):
 - \$515M for 2001-2002
 - \$4,031 per dwelling
 - Average of \$77pw

Public housing subsidies

- The estimated market rent for public housing in NSW is:
 - \$962M per annum
 - \$7,530 per unit
 - \$144 per week
- The value of rental rebates to public housing tenants (not taking account of the cost of capital) is:
 - \$496M per annum
 - \$3,877 per unit
 - \$74 per week
- Rent paid as a proportion of market rent = 48%.
- Value of CRA entitlements for equivalent households in NSW = \$34 per week.

Methods for establishing rent levels

■ Market rents

- Based on the overall rate of return on investment to the landlord.
- Established through competition in the private rental market.
- Vacancy rates provide a measure of the level of competition: 3% is considered a balanced market.

■ Cost rents

- Based on the cost of providing and maintaining the property by owner.
- Employed in public and not-for-profit social housing providers in some countries.
- Includes a component for the cost of capital or the replacement of stock.

Approaches to setting affordable rents

■ Income related rents

- Rents set as a proportion of household income.
- Designed to ensure rent does not exceed a defined affordability benchmark.
- Requires subsidy related to income.

■ Market related rents

- Rents set as a proportion of market rent.
- Designed to ensure tenant receives a consistent discount on rental payments.
- Requires subsidy related to rent.

Income related rents

■ Advantages

- Tenant has adequate disposable income irrespective of location, amenity

■ Disadvantages

- Debate about appropriate benchmark
- Intrusive compliance requirements
- Disincentive to work
- Does not take account of locational factors
- Does not take account of amenity factors
- Inequitable benefits to tenants with same income

Market related rents

■ Advantages

- Tenant receives consistent discount irrespective of circumstances
- Provides incentive to work
- Incorporates locational and amenity factors
- Provides choice for tenants (assuming adequate supply)
- Doesn't require intrusive compliance
- Provides more equitable assistance to tenants
- Can be targeted to specific properties.

■ Disadvantages

- Doesn't guarantee rents meet a defined affordability benchmark

Forms of rental assistance

- Rental rebates
 - A discount on market/cost rent designed to achieve a particular affordability benchmark.
 - Approach taken by State Housing Authorities.
 - Have all the advantages and disadvantages of income related rents.
- Rental discounts
 - A discount on market rent designed to achieve relative affordability.
 - Approach taken by affordable housing projects incorporating private sector finance.
 - Have all the advantages of and disadvantages of market related rents.
- Rental subsidies
 - A direct cash payment to tenant based on income and rent paid.
 - Approach taken by Commonwealth for Rent Assistance payments.
 - Has few of the advantages and most of the disadvantages of both rental rebates and market related rents when employed on its own.
 - Can be extremely effective when employed with a rental discount.

Case Study 1

- Comparing like households:
 - Couple with two children with income of \$25,000pa
- In identical properties:
 - 3BR BV bungalow on standard lot
- in different locations
 - Rural: \$150K @ 6%
 - Metro: \$450K @ 4%

	Rural	Metro
Market rent	173 (36%)	346 (72%)
CRA	55	55
Effective rent	118 (24%)	291 (60%)
Rebated rent	120 (25%)	120 (25%)
Rebate	53	226
Affordable rent	173 (36%)	260 (54%)
Rent discount	0	86
CRA	37	55
Effective rent	50 (11%)	119 (25%)

Case Study 2

- Comparing like households
 - Single parent with one child with income of \$18,000pa
- In the same location
 - Outer metro location
- But different level of amenity:
 - Low value: \$200K @ 4%
 - High value: \$400K @ 4%

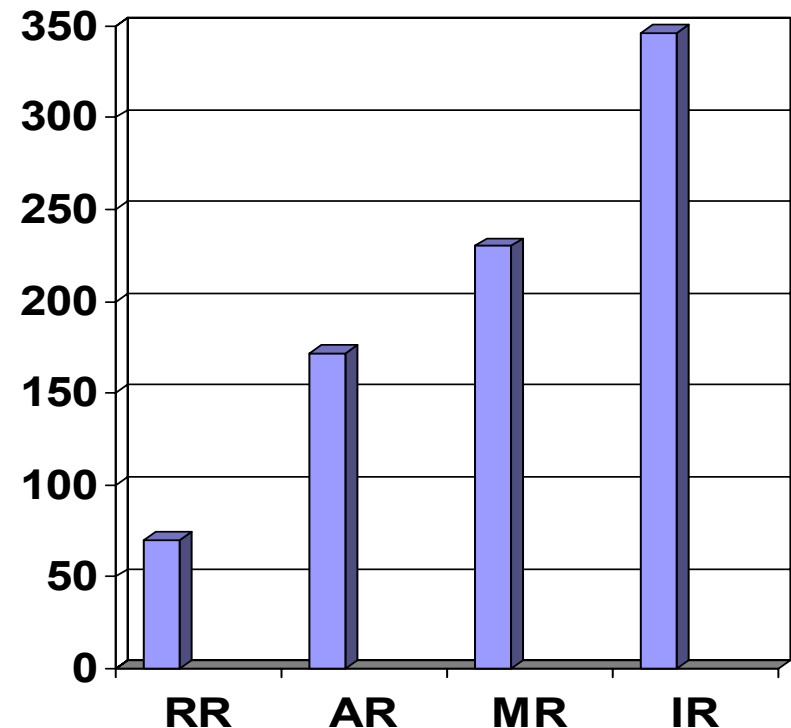
	Low value	High value
Market rent	154 (44%)	308 (89%)
CRA	55	55
Effective rent	99 (28%)	253 (73%)
Rebated rent	86 (25%)	86 (25%)
Rent rebate	68	222
Affordable rent	154	231
Rent discount	0	77
CRA	55	55
Effective rent	99	99

Market rents

- Overall return to investor achieved through
 - Rental yield
 - Capital gain on sale of property
 - Tax effectiveness of investment
- Retail investors expect an after tax return of 6-8%
 - This requires a rent yield of 5-7% when real capital growth is in the range 2-3%
 - In some rural/regional areas where capital gains are nil or negative yields will be in the range 15-25%
 - Currently, with very high capital growth and high vacancy rates, investors are settling for yields less than 4%
- Wholesale investors expect an after tax return of 8-10%
 - The difference in expectations explains why institutional investors are not investing in rental housing
 - The lack of large scale highly professional ownership and management vehicles is a further deterrent

Rent subsidies required for private equity financed rental housing

- Based on property with market value of \$300,000.
- Market rent based on 4% yield = \$230pw.
- Affordable rent @ 75% MR = \$172pw.
- Rent subsidy required = \$58pw (\$3,016pa).
- Investor rent based on 6% yield = \$346pw.
- Rent subsidy required = \$174pw (\$9,048pa).
- Affordable to household on \$29,800pa @ 30% benchmark.
- Average rebated rent in NSW = \$70pw.



Cost rents

- Assumption is that the social housing provider is the owner of the housing stock.
- Rent set to cover the cost of all outgoings:
 - Rates and taxes
 - Insurance
 - Responsive and planned maintenance
 - Vacancy costs and bad debts
 - Administration
- Rent must also cover the cost of borrowings or depreciation – capital costs.
- Example: large scale inner urban apartment building.

Rates and taxes

- State housing authorities and community housing providers are generally exempt from most taxes
- CHP's, if they are registered ITEC's can also trade as GST free supply
- Rates are generally in the vicinity of 0.25% of property value = \$750 for a \$300K unit

Insurance

- State Housing Authorities are large enough to self-insure
- Self-insurance involves meeting the costs of loss/damage to property from general revenue (rent) rather than paying an insurance premium (from rent)
- Community housing providers would be too small to cover the risk through self-insurance
- Either way both providers would need to budget for loss/damage
- For a large scale operation (500 properties or more) a reasonable allowance would be for 0.1% of the value of improvements
- Assuming the improvements are valued at \$200K then the premium would be \$200pa

Maintenance costs

■ **Responsive maintenance**

- For locks, leaks and lights
- Assume 4 call outs per unit per annum
- Allow \$250pa

■ **Planned internal maintenance**

- Based on a planned maintenance schedule
- Contains assumptions on the average life of paintwork, floor coverings, fixtures and fittings
- Estimated at \$50,000 over 50 years per unit
- Allow \$1000pa

■ **Facilities management cost within a body corporate**

- Assume unit is in a medium scale apartment building (approx. 200 units)
- Facilities management relates to building maintenance and common areas
- Includes cleaning, grounds, life cycle replacement, maintenance and repairs, pest control, utilities and waste management
- Estimated FM component of BC fee \$1600pa
- Includes a staff component of \$460pa

Rental costs

■ Vacancy cost

- Assume 2% vacancy, ie 1 week per year
- Average cost per unit = \$225pa

■ Bad debts

- Assume 2% bad debt written off per year, ie 1 week per unit
- Average cost per unit \$225

Administration

- Covers tenancy, property (apart from FM) and asset management
- Includes
 - Staff costs
 - Office costs
 - Legal and accounting support
 - Compliance costs
 - I.T.
- Needs to be costed on a site by site basis however some benchmarks exist:
 - Rental management fee in private sector = 7% rent plus letting fee and disbursements
 - Average administration fee across all DOH stock = \$X
 - Allowance for Housing Associations under CRS program = \$Y
- For this exercise we allow admin fee = \$1200 per unit per annum



Income sources

■ Rental income

- Assumed to be 75% of the market rent.
- \$225 per week
- \$11,700 per annum

Financial performance

Expenditure		Income	
Rates	750	Rent	11700
Insurance	200		
Maint-responsive	250	Total	\$11700
Maint-planned	1000		
Facilities mgt	1600	Surplus	\$6250
Vac/bad debts	450		
Administration	1200		
Total	\$5450		

Cost of capital

- In addition to operating expenses affordable housing projects must contribute to the cost of capital.
- If they are to be financially sustainable over the long term they must also have the capacity to replace the stock after it is worn out.
- There are two ways to address this:
 - Include the opportunity cost of the capital investment
 - Include a depreciation cost
- An alternative way to approach this is to structure the project so that an up front capital subsidy ensures viability at an affordable rent.
- An affordable rent set at 75% of market rent can deliver good affordability outcomes in conjunction with CRA.
- The amount that can be borrowed will thus depend on the difference between income and operational costs.
- The forecast surplus will sustain approximately \$90,000 in loan funding.