



**COMMUNITY HOUSING**  
Industry Association Victoria

Policy Paper

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# Defining affordable housing

What it is, who it's for and where it's needed

## Executive summary

Affordable housing has many definitions and applications in Australia. As a policy it is confusing and confused.

Victoria alone has four separate definitions in use, as defined in the Planning and Environment Act, the National Rental Affordability Scheme, the Australian Taxation Office ruling, and Homes Victoria's own affordable housing program. It can refer to homes sold at a discount to market, homes rented below market rent, homes sold or rented to key workers or homes that are rented at rates that reference median incomes.

Many initiatives in the Victorian Government's Housing Statement rely on undefined 'affordable housing' programs to deliver homes to low-income households on government land and across a range of programs.

The term 'affordable housing' is a woolly one. It is relative to incomes and locations, and like motherhood, is perceived as good by everyone. Across all of these definitions and initiatives, we do not have a clear understanding of what 'affordable housing' is, who it's for and what it's trying to achieve.

The best model of truly affordable housing is public and community housing, where rents are based on incomes. This ensures that for any given household, the rent will be no more than 30 per cent of their income, making sure there is enough left over to meet the other basic costs of living. However, due to decades of under investment, low-income households are languishing on long wait lists for public and community housing and the impacts are being felt right across the rental market.

While affordable housing does not replace the need for social housing, it can provide a solution for households who earn too much to be eligible for social housing, but are being squeezed into inappropriate housing situations due to the housing crisis.

Housing market processes, where desirable locations command higher rents, have resulted in lower income workers being pushed further from the city. Many of these workers – such as education aides, child carers, cleaners and hospitality workers - cannot do their jobs from home, and so face long commutes for low pay.

An affordable housing product that offers a discount to market rent in an expensive suburb does little to make the rent affordable to a low-income worker. Conversely, a discount to market rent in an outer suburb provides a subsidy where it is not needed.

A clear policy rationale is needed for new affordable housing that is created through government investment or planning requirements. This will make sure that these interventions are delivering homes to those who need them, in a way that supports a better housing system overall.

The principles that a new affordable housing product should be defined by are:

1. Affordable housing should be rental housing, not housing for sale. This retains the public benefit of these programs.
2. Affordable housing should be targeted to households in the moderate-income range. Social housing is the appropriate housing intervention for low and very low-income households.
3. Rents should be set at a fixed rate of 30 per cent of the lower limit of the moderate-income range. This would be relative to dwelling size, with differing rents in metro and regional Victoria.
4. Affordable housing should be owned by the community housing sector to support its permanent growth. Where ownership is not given, homes should be head leased to a community housing organisation to ensure that they are rented in a fair and transparent way.

## Introduction

The Victorian Government's Housing Statement and the Commonwealth Government's Housing Australia Future Fund are set to create thousands of new affordable housing properties across Victoria.

However, affordable housing is not consistently defined and Victoria alone has different legal and program-based applications, including:

- The Planning & Environment Act, which includes low-cost sales to eligible households and time-limited discounted rentals. There is no mechanism to track how much affordable housing has been generated, who this affordable housing has benefited and for how long the property remains available.
- The National Rental Affordability Scheme, which requires properties to be let at no more than 80 per cent of market rent.
- An Australian Taxation Office ruling which requires charities to rent property at no more than 74.9 per cent of market rent.
- The Homes Victoria affordable housing program, which caps rental properties at whichever is lower: market rent (90 per cent market rent in metropolitan areas) or 30 per cent of the median income.

Affordable housing policy in Australia is confused, and confusing. A clear policy rationale is needed for new affordable housing that is created through government investment or planning requirements. This will make sure that these interventions are delivering homes to those who need them, in a way that supports a better housing system overall, well into the future.

## A new affordable housing product

We desperately need much more social housing now and over the long-term to meet the critical shortage of housing for very-low and low income households. There are 146,000 Victorian households right now that are in need of social housing. They are either in housing stress and struggling to meet the other daily costs of living or experiencing homelessness. Building more affordable housing does not change this fact, and governments must continue to invest to meet their obligations to deliver social housing.

But with affordable housing there is an opportunity to design and create a new housing model that has a different policy objective, one that addresses other market failures. These failures push moderate income working households to the fringes of our cities and away from employment opportunities.

The term 'affordable housing' is a woolly one. In conversation it often means 'affordable to me'. While generally perceived as good by everyone this definition is relative – it depends on the income of the individual and the location where they are seeking housing. This makes it hard to understand exactly what 'affordable housing' is, or how to develop policy to create more of it.

The academic definition of 'affordable housing' is housing that costs no more than 30 per cent of income, for households in the lowest two income quintiles. This definition is set to ensure households do not fall into "after housing poverty" - that is, after paying the rent,

not being able to meet the other daily costs of living. In Victoria, these households are eligible for social housing.

However, there is recognition that the need for affordable housing now goes beyond just the two lowest income quintiles. In 2018 the Victorian government introduced a definition of affordable housing into the Planning and Environment Act (1987) which included very-low, low and moderate income households. This reflected the growing housing challenge facing moderate income households, which has only gotten worse since 2018.

For this reason, CHIA Vic is proposing a single model of affordable rental housing be used to clearly differentiate what should be delivered through government planning concessions and funding programs for affordable housing versus social housing.

In many ways, social housing is the ultimate affordable housing program. Rents are set at no more than 30 per cent of household income. This is so low-income households can secure shelter that does not push them into poverty and that the property remains affordable. Social housing is both a shelter and a poverty alleviation program. This requires a deep subsidy to cover the cost of construction (85 – 100 per cent of the construction cost, depending on the income of proposed renters), and an ongoing operational subsidy through the provision of Commonwealth Rent Assistance.

Affordable housing, as it currently operates, generally attracts a shallow subsidy and, as such, cannot be genuinely affordable to people on low and very-low incomes. It has a different role to play: creating functional local economies, and thriving, inclusive communities.

Recent studies show that in Melbourne and across Australia, our suburbs are increasingly becoming either concentrations of advantage or disadvantage.<sup>1</sup> This poor distribution of human capital is not only keeping low-income people away from their workplaces, it is also breaking up community ties. Younger generations can't afford to live near the family home and, as rents increase, lower income households are forced to move further away, disrupting their children's education by moving schools and breaking social ties to sporting clubs and community networks.

Without adequate affordable rental housing, hospitality staff, retail workers and child carers often can't afford to live in the community where they work. This isn't just an unfortunate fact of life for these workers; it means the whole community suffers. The people who can afford to live in these communities lose out on the goods and services that we all want and need in our daily lives.

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<sup>1</sup> Gilbert, C., Nasreen, Z., and Gurran, N. (2023) Tracking the housing situation, commuting patterns and affordability challenges of essential workers: a report prepared for HOPE Housing, Sydney: The University of Sydney and HOPE Housing, accessed at: <https://urbanism.sydney.edu.au/wp-content/uploads/2023/03/Gilbert-Nasreen-and-Gurran-w-HOPE-Housing-FINAL-March-2023.pdf>; and Sarkar, S., Shrivastava, R., Gurran, N. and Chapple, K. (2021) *Spatial segregation and neighbourhood change*, AHURI Final Report No. 414, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/414>, doi: 10.18408/ahuri7323601



Affordable housing programs should be a government intervention targeted at reversing this segregation that the private market is driving. It should be used to make local communities work for everybody.

Below we outline what that model should be, who it's for and where it's needed.

## 1. For who? Moderate income households, to fix market failures

Housing is becoming increasingly unaffordable for Victorians. In 2024 only 1.4 per cent of rentals were affordable for households on income support. For households earning the minimum wage only 21.6 per cent of rentals were affordable, down from 25.6 per cent in 2023.<sup>2</sup>

This trend is also seen in homeownership rates. Rising house prices are pushing moderate income households to the outer suburbs where they can afford to purchase a home.<sup>3</sup>

So, what can moderate income households actually afford?

Table 1 shows the income bands set out in the Victoria Government Gazette for 2023/24, and the weekly rental or purchase price that each income group can afford, based on 30 per cent of their income.

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<sup>2</sup> <https://www.anglicarevic.org.au/news/affordable-housing-needle-in-a-haystack-stuff-for-the-states-most-vulnerable-new-report/>. Full details available in the report: <https://www.anglicarevic.org.au/research/victorian-rental-affordability-snapshot-2024/>

<sup>3</sup> Gilbert, C., Nasreen, Z. and Gurran, N. (2021) Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities, AHURI Final Report No. 355, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/355>, doi: 10.18408/ahuri7323901



**Table 1: Affordable rent and purchase prices for Melbourne compared with market prices, Affordable housing income bands (2023)**

|                          |                      | 30% of weekly income <sup>4</sup> | Average Melbourne rent <sup>5</sup> | Maximum purchase price <sup>6</sup> | Average Melbourne purchase price |
|--------------------------|----------------------|-----------------------------------|-------------------------------------|-------------------------------------|----------------------------------|
| <i>Single households</i> |                      |                                   | <i>1 bedroom unit</i>               |                                     | <i>1 bedroom unit</i>            |
| Very low                 | \$0 - \$29,770       | \$171.75                          | \$490/wk                            | \$135,441                           | \$375,000                        |
| Low                      | \$29,771 - \$47,630  | \$274.79                          |                                     | \$196,460                           |                                  |
| Moderate                 | \$47,631 - \$71,450  | \$412.21                          |                                     | \$328,937                           |                                  |
| <i>Couple households</i> |                      |                                   | <i>2 bedroom unit</i>               |                                     | <i>2 bedroom unit</i>            |
| Very low                 | \$0 - \$47,650       | \$274.90                          | \$600/wk                            | \$218,138                           | \$602,000                        |
| Low                      | \$44,651 - \$71,450  | \$412.21                          |                                     | \$328,937                           |                                  |
| Moderate                 | \$71,451 - \$107,170 | \$618.29                          |                                     | \$494,332                           |                                  |

The only moderate income households that would be able to afford Melbourne’s average market rent are:

- a dual income household at the top of the moderate income band in a 2 bedroom apartment (who would need at least a combined income of \$104,000/a), or
- a moderate income couple renting a one bedroom apartment.

All other households on very low, low and moderate incomes are unable to afford the average rent in Melbourne. Equally, even assuming they could save up a 20 per cent deposit, moderate income households would still be unable to afford to purchase a home.

Figure 1 below shows average annual earnings for a range of occupations. Those that fall into the moderate income range include:

- education aides
- child carers
- cleaners
- hospitality workers

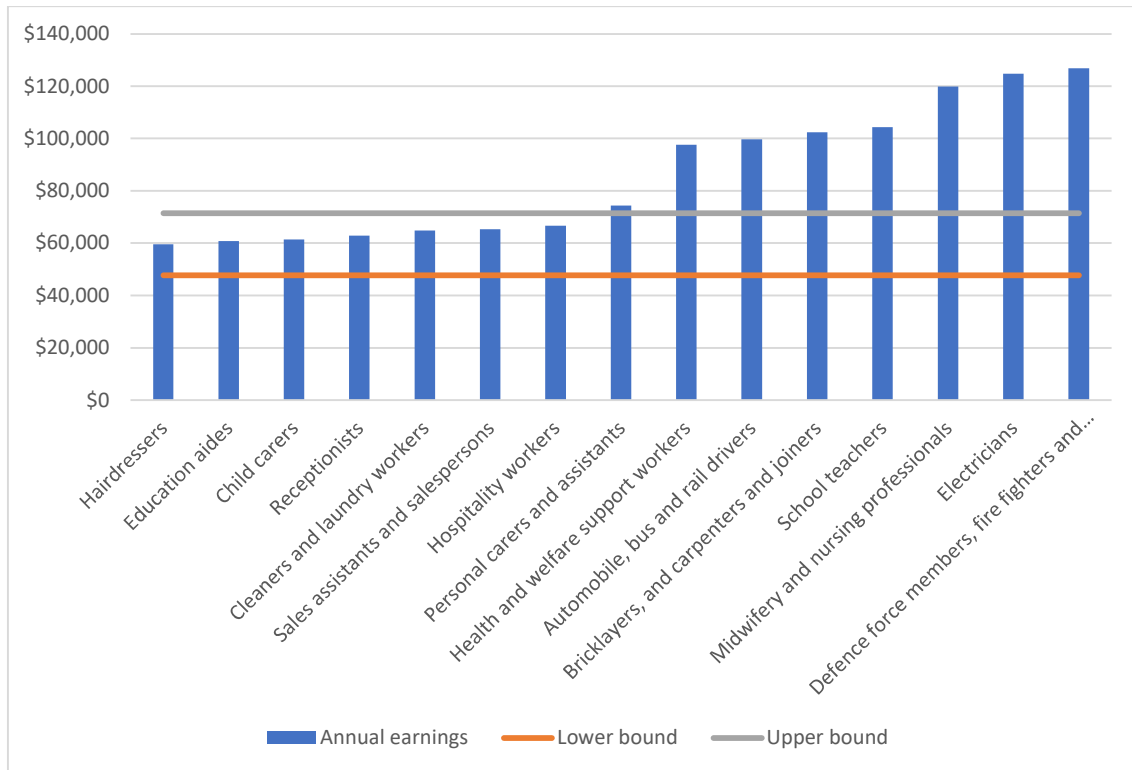
<sup>4</sup> Calculated as 30% of the upper limit for each income band.

<sup>5</sup> Market rents taken from March 2024 DFFH Rental Report, average unit purchase prices taken from [Q2 2024 REIV market insights](#)

<sup>6</sup> Maximum purchase price assumes a 20% deposit with a 25 year loan at 6.5% interest, with mortgage repayments made at 30% of income (calculated using MoneySmart [Mortgage Calculator](#))



**Figure 1: Annual average earnings by occupation, relative to lower and upper bounds of moderate income range (single adults, metropolitan Melbourne)**



Source: ABS data; Victoria Government Gazette

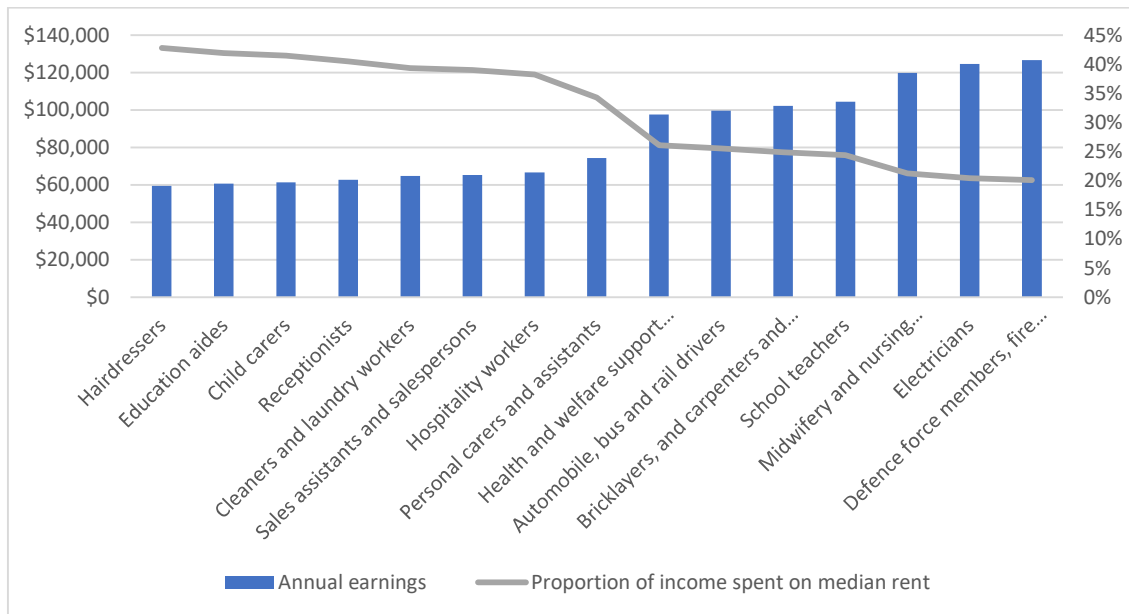
These workers are vital to making local communities function: they do in-person work that provides essential services to the rest of society, which not only improves everyone's quality of life but also lifts overall productivity. Due to earning moderate incomes, however, they often cannot afford to live near their places of work in higher cost areas.

The average child carer would have to spend over 40 per cent of their income on rent for a median one-bedroom unit in metropolitan Melbourne. Sales assistants, cleaners and hospitality workers don't fare much better at just under 40 per cent each (see Figure 2).





**Figure 2: Annual average earnings by occupation, and proportion of income required to pay annual median rents (single adults, one-bedroom units in metropolitan Melbourne)**



Source: ABS data and Homes Victoria rental report.

Note: median rent for one-bedroom unit in Melbourne at the time of publication was \$490 per week.

This is particularly problematic where workers have jobs that require them to be physically present, sometimes referred to as key or essential workers. Recent AHURI research explored the degree to which essential workers could afford to rent or buy at an LGA level. It found that in Melbourne, key workers have been pushed to outer suburbs and satellite regions, and most would struggle to find a home in inner and middle ring suburbs. Over 37,000 key workers commute 30kms or more in Melbourne, and over 10,000 commute 50kms or more. Others live in overcrowded homes, sacrificing suitable housing so that they can live closer to work.<sup>7</sup>

All of this results in a reduction in the number of lower-paid workers available to take on jobs in inner-Melbourne. Indeed, the proportion of essential workers living in inner-Melbourne, relative to how many work there, is very low.<sup>8</sup> Whilst 37 per cent of essential workers work in Melbourne's three inner subregions, well under half of these same people live in the area where they work.<sup>9</sup> Between 2016 and 2021 this proportion of essential workers both working and living in inner-Melbourne declined by 11% in the Inner East, and 9% in Inner Melbourne.<sup>10</sup> Lack of affordable housing directly contributes to the poor distribution of human capital.

<sup>7</sup> Gilbert, C. et al (2021), 4

<sup>8</sup> Ibid, 42.

<sup>9</sup> Gilbert, C. et al (2023), 47-8.

<sup>10</sup> Ibid, 45.



There is a clear need to ensure our cities have not just more social housing but also enough affordable housing to meet the housing needs of low and moderate-income working households. Without this, we risk not having the workers we need to deliver essential services, and ultimately losing the liveability we cherish about our cities.

Targeting affordable housing at the moderate income range would:

- provide homes for lower-paid workers who can't find or can't afford homes near their work.
- provide stability for younger workers while they gain steady employment and can move into the private rental market.
- give security to young families and allow them to save for a house deposit more quickly than they would be able to in the overheated private rental market.

And it should be delivered with the security of tenure renters need to do all this – something that is not guaranteed in the private rental market.

## 2. What tenure? Rentals vs homeownership

When households looking to purchase a house can't afford to buy, they can turn to the rental market. But when affordable rentals aren't there, it leads to overcrowding, insecure housing, and even homelessness. And the longer that households spend paying high rents, the longer it will take them to save up for a house deposit. This restricts home ownership and puts further pressure on the already strained rental market.

Across Victoria rents have risen by almost 60 per cent over the last 10 years, from a median weekly rent of \$340 at the end of 2013, to \$540 at March 2024.<sup>11</sup>

There is a severe shortage of rental properties, with vacancy rates in both Melbourne and regional Victoria sitting below the 'market clearing' rate of 3 per cent since 2016 (with the exception of a short increase above this in Melbourne as a result of COVID from early-2020 to mid-2022).<sup>12</sup>

The evidence is clear – many moderate income Victorians are now struggling to find an affordable rental.

Although a sustainable housing system requires both affordable rental homes as well as pathways to affordable homeownership, there are already existing government homeownership schemes. These include the Victorian shared equity Homebuyer Fund,<sup>13</sup> and the proposed Commonwealth Help to Buy scheme.<sup>14</sup> Both programs are open to moderate households, with eligibility capped at:

- \$90,000 for single households (Help to Buy) or \$135,155 (Victorian Homebuyer)

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<sup>11</sup> Homes Victoria rental report data, <https://www.dffh.vic.gov.au/homes-victoria-rental-report-march-quarter-2024-word>

<sup>12</sup> Homes Victoria rental report timeseries data, <https://www.dffh.vic.gov.au/tables-rental-report-march-quarter-2024-excel>

<sup>13</sup> <https://www.sro.vic.gov.au/homebuyer>

<sup>14</sup> [https://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/bd/bd2324a/24bd41](https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd2324a/24bd41)



- \$120,000 for couple households (Help to Buy) or \$216,245 for couple and single parents (Victorian Homebuyer)

Both schemes require that eligible households have saved up a minimum deposit - 2 per cent for the federal Help to Buy scheme and 5 per cent for Victorian Homebuyer. Further, households must be able to qualify for a standard mortgage.

Government can and should expand these programs to ensure that moderate income households can purchase homes close to the areas they work.

This includes prioritising funding for Aboriginal Victorians to become homeowners. Only 45 per cent of Aboriginal Victorians own a home outright or with a mortgage.<sup>15</sup> This is compared to 68 per cent of the overall Victorian population. The Victorian Aboriginal Housing and Homelessness Framework, [Mana-na woorn-tyeen maar-takoort \(Every Aboriginal Person Has A Home\)](#) makes a number of recommendations on the importance of growing Aboriginal homeownership. Government must expand home ownership programs, and work in partnership with the Aboriginal community to ensure that they are appropriate and respond to the unique needs of the community.

However, CHIA Vic is proposing that where government intervention creates submarket affordable housing, that they make this rental housing.

This is for several reasons:

- In a rising rental market more and more moderate income households will struggle to save up a deposit of any kind, making it impossible for them to access homeownership programs.
- It retains the value of government's contribution over multiple households throughout the life of the dwelling. Affordable home sales (where the market price is discounted) benefit a single household, with any wider community benefit lost once that house is on-sold.

Given the scale of need for affordable housing it is imperative that government ensure ongoing investment in a safety net of affordable rental housing first. Only then should it turn its attention to expanding homeownership opportunities for moderate income households.

This should also include a clear target of affordable rental housing for Aboriginal Victorians, in line with Mana-na worn-tyeen maar-takoort, and in consultation with Aboriginal communities.

### 3. What is the model? Income-based rents or discount to market?

There are a range of different ways that housing programs create 'affordable' rents. They fall into two approaches:

- offering a discount to market rent, or
- setting rent at a percentage of household income.

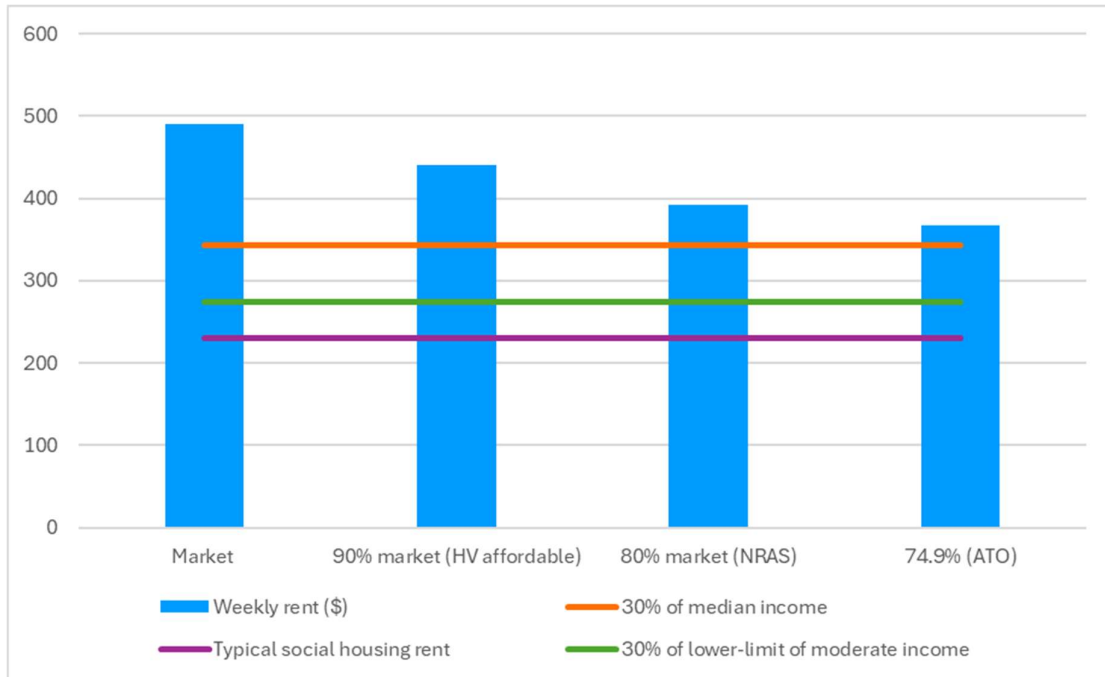
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<sup>15</sup> 2021 Census, Victoria 2021 Census Aboriginal and/or Torres Strait Islander people QuickStats, accessed at: <https://www.abs.gov.au/census/find-census-data/quickstats/2021/IQS2>



Figure 3 shows the spread of rent for a one bedroom apartment in Melbourne under the different affordable housing programs compared to market rent.

**Figure 3: Rent under different rent models, one-bedroom unit, metropolitan Melbourne**



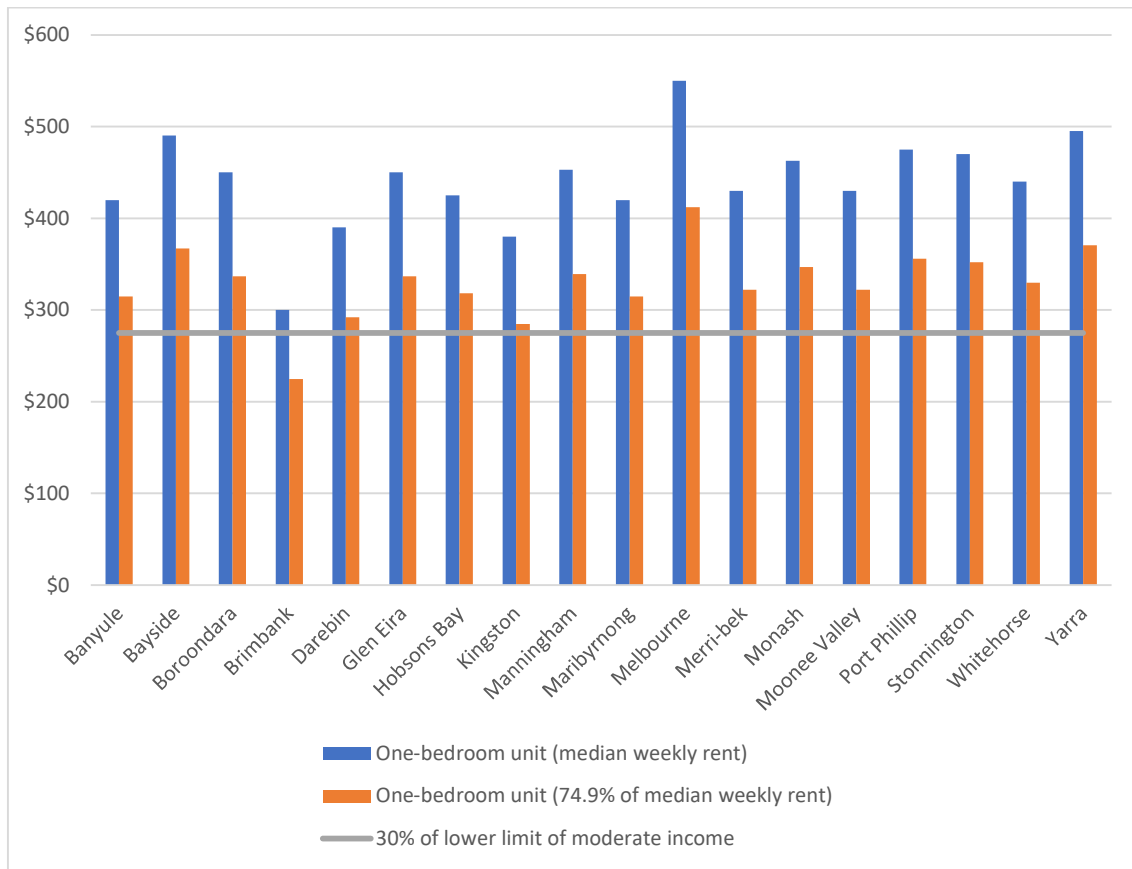
Social Housing rents are set as a percentage of income to guarantee that they remain affordable. This is a critical element of social housing to ensure it is meeting its objectives of poverty alleviation, and to make sure that low and very-low income households can meet their daily costs of living after paying rent. However, this model can become complex and confusing where households are earning a variable income through casual or shift work or where there is a change in household composition.

Currently, affordable housing programs set rent at a discount to market rent, which has the drawback of providing housing that is not genuinely affordable in some locations, and sets rents lower than social housing in others.



Figure 4 shows that in many inner and middle-Melbourne local government areas (LGAs) a 25 per cent reduction to median market rents remains well over 30 per cent of income for households in the lower end of the moderate income range.<sup>16</sup>

**Figure 4: median and discounted weekly rents compared to 30 per cent of moderate household income, inner- and middle-Melbourne LGAs**

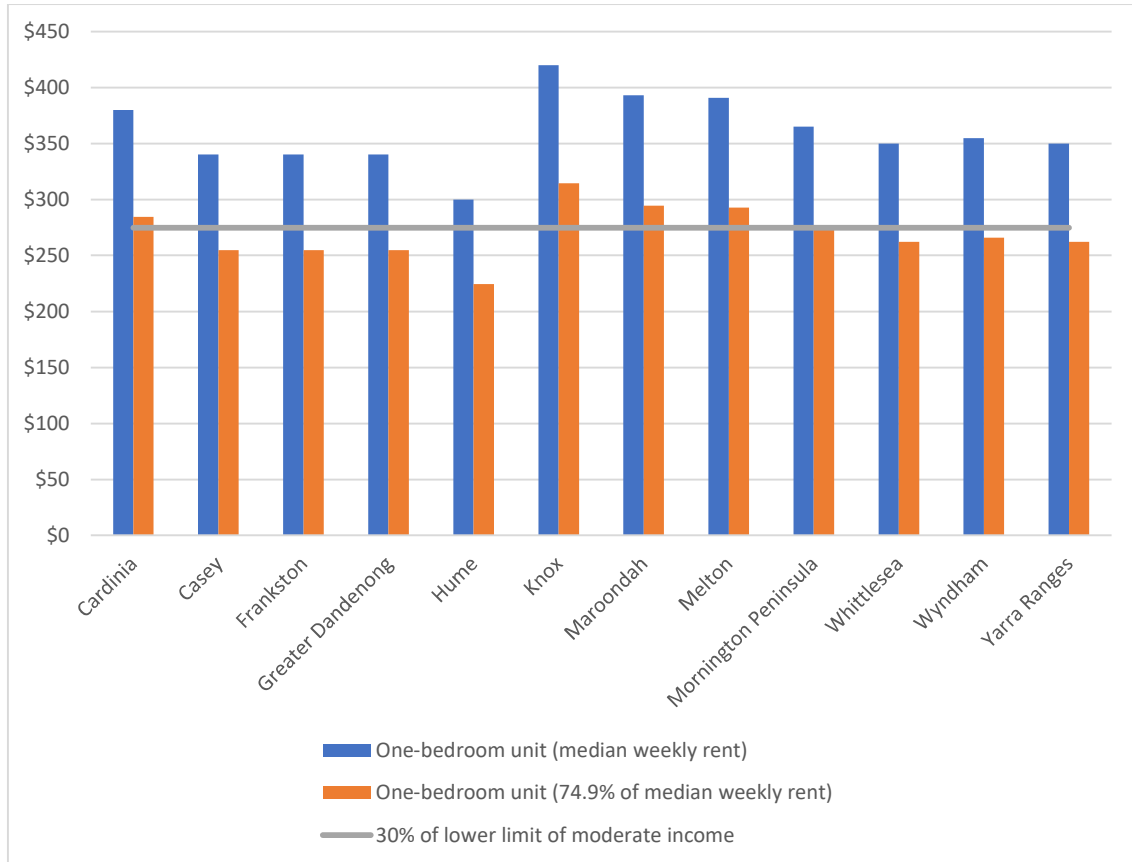


<sup>16</sup> Figures 4 through 6 all take data from Homes Victoria Rental Report March 2024 quarter, <https://www.dffh.vic.gov.au/quarterly-median-rent-local-government-area-march-quarter-2024-excel>. Note that data isn't available for every LGA.



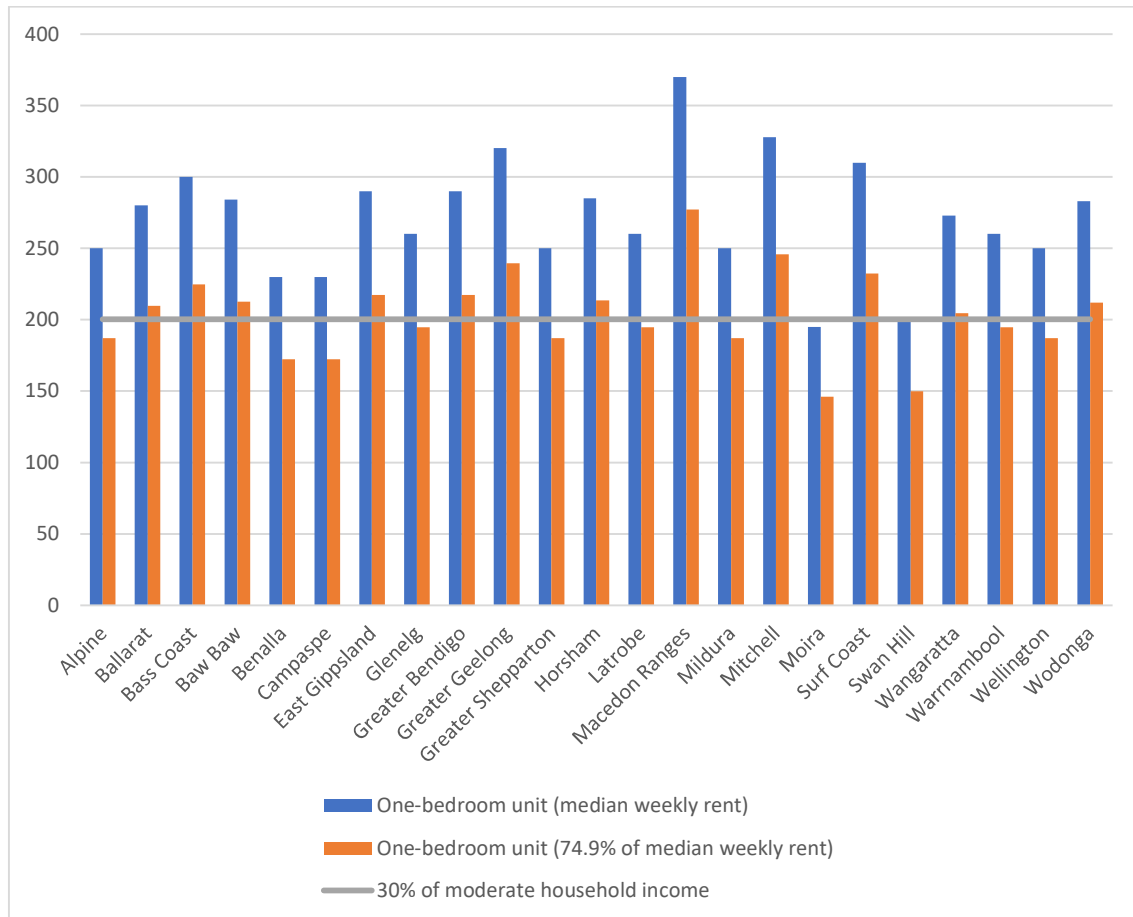
On the other hand, Figure 5 shows how in outer-Melbourne LGAs, that same 25 per cent discount is more often a deeper subsidy than is required to be affordable.

**Figure 5: median and discounted weekly rents compared to 30 per cent of moderate household income, outer-Melbourne LGAs**



Across regional LGAs the story is a mix of over- and under-subsidisation (Figure 6). In larger regional centres and more affluent areas like the Surf Coast and the Macedon Ranges, rents remain unaffordable even at 74.9 per cent of market. However, in smaller communities such as Swan Hill and Moira, market rents are already affordable. The appendix contains a more detailed analysis of locational differences by looking at median rents by suburb/town rather than by LGA.

**Figure 6: median and discounted weekly rents compared to 30 per cent of moderate household income, regional LGAs**



As the analysis here shows, setting affordable housing rents at a discount to market rent is ineffective and inefficient. Since discounts to market rent do not assess incomes, they can provide excessive or inadequate subsidies relative to the needs of moderate income households.

So what is the solution?

Affordable housing programs should set rents which are linked to average wages, but in a simpler product than social housing, with its individualised rents. The Homes Victoria



affordable housing program goes some way towards achieving this. But, as we will argue below, a lower level of rent is likely to:

- better support the policy aims of reducing spatial segregation
- better target households with greater housing needs and
- improve moderate income households' access to jobs and homes

#### 4. Where? Affordable homes where they are needed

Where do we need affordable housing? The analysis in the previous section suggests that affordable housing is needed in high-cost areas of the city and regions where moderate income workers cannot afford to rent. On a case-by-case basis, affordable housing may also be needed in lower-cost areas such as the middle and outer suburbs.

However, this does not take into account availability. If the rents are affordable is there enough supply? Is there the right types of housing? Are moderate-income workers able to access these homes?

For example, while existing one-bedroom rents look affordable in Swan Hill and Moira, these LGAs only had eight and 18 one-bedroom units listed over the March 2024 quarter respectively.<sup>17</sup> The local rental market may be 'affordable', but there is a gap in supply which means moderate income households may be paying the higher rents for three-bedroom properties because that is all that is available. Government affordable housing investments can help boost the supply of missing housing types.

Figure 7 shows the desperately low supply of one- and two-bedroom units in regional Victoria. In areas like Swan Hill, which we already saw have affordable rents for one bedroom properties, there are in reality very few one and two bedroom properties available. This suggests that in these locations, affordable housing programs should be focussed on generating new housing supply of types that do not readily exist in the market.

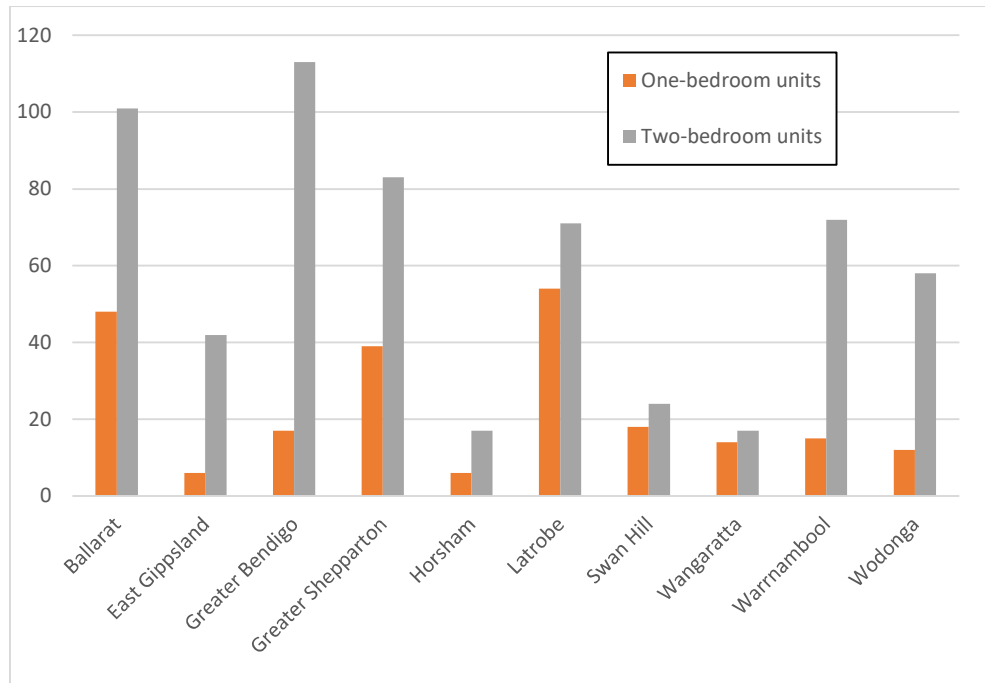
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<sup>17</sup> Homes Victoria rental report data, <https://www.dffh.vic.gov.au/quarterly-median-rent-local-government-area-march-quarter-2024-excel>





**Figure 7: number of lettings in regional LGAs<sup>18</sup>**



In Swan Hill just 15 per cent of rental lettings are one bedroom properties. In many suburbs across metropolitan Melbourne this percentage is over 30 per cent.

How, then, do we target affordable housing investment and delivery? The analysis above suggests a set of questions that should be examined to determine where dedicated affordable housing is needed.

1. Is the market rent in the LGA or region affordable for moderate income households – that is, is it sitting at around 30 per cent of average household incomes for the bottom of the moderate income band? If no, there is a need for affordable housing.
2. Is market rent affordable but there is insufficient housing to meet the local need? Vacancy rates and the mix of housing types available in the area can inform this assessment. If yes, there is a need for more affordable housing in specific housing types.
3. Is there evidence of labour market disfunction, or spatial segregation? If yes, there is a need for affordable housing.

Local governments are already assessing the need for affordable housing as part of their housing need assessments. Plan Victoria is also setting local housing targets to guide growth over the next 30 years, and could incorporate specific affordable housing targets as well. This would provide the detail about what types of affordable housing are required and where, to inform delivery.

<sup>18</sup> Ibid.



## 5. How much? Setting rent so that it's truly affordable and consistent

The previous sections have highlighted the inappropriateness of discounting market rents for creating genuinely affordable housing. Separately to that we have argued against replicating the social housing model, to ensure that the policy goals for each program are clear.

This leads us to unpacking what rents for affordable housing in Victoria should actually look like.

Rents should be set based on the moderate income band gazetted annually by the Minister for Planning. Unlike social housing rents, it would not fluctuate when household income changes. This means that households with part time or casual workers may be paying more or less than 30 per cent of their income at any given time.

Rents should be set at 30 per cent of income for the lower limit of the moderate income band. This ensures that the housing will remain affordable to *everyone* in the moderate income range. It also prevents a sharp jump in rent paid as you move from being eligible for social housing (low income band) into becoming eligible for affordable housing (moderate income band). This could help reduce disincentives for social housing renters to increase their incomes, and support moves from social into affordable housing.

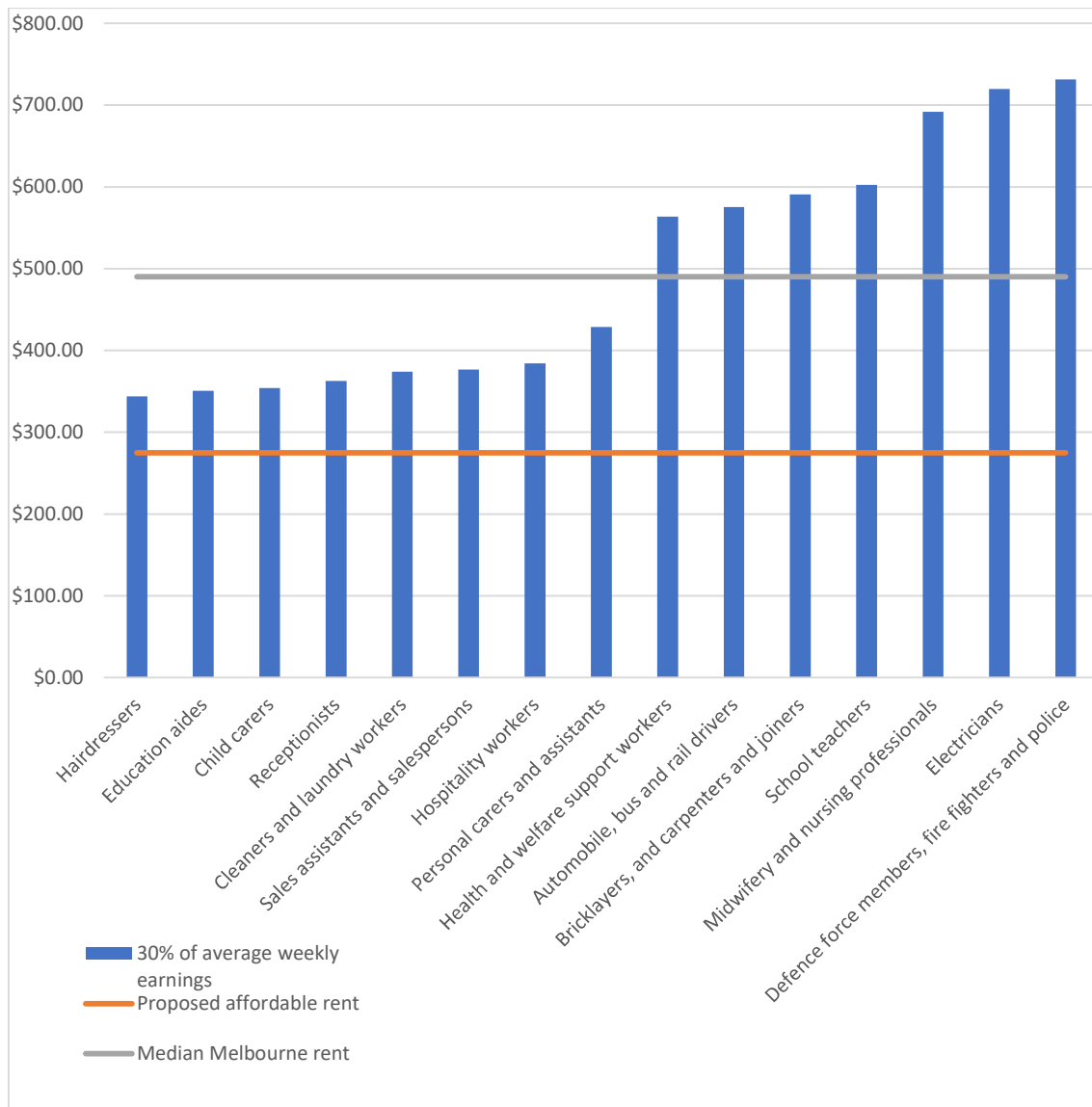
The alternative rent setting option would be to set them at 30 per cent of the midpoint of the moderate income range, as is the case in Homes Victoria's affordable housing program. This increases the rent (and thus rental revenue), which would reduce the subsidy required to deliver affordable housing. However, it creates a jump in rents from social housing to affordable housing, as noted above. It also means that households on the lower end of the moderate income band could be paying up to 38% of their income in rent, reducing the affordability for those workers.

There are arguments in favour of both options, but CHIA Vic is proposing that rents be set at the lower level. Improving affordability for all moderate income households will increase their access to housing in all areas, and thus their access to employment opportunities. Ultimately, this will allow an affordable housing program to make a much greater contribution to creating functional local economies, and thriving, inclusive communities.

Figure 8 on the following page demonstrates how setting rents at CHIA Vic's preferred 30 per cent of the lower limit of the moderate income band would affect the same selection of workers as shown in Figures 1 and 2.



**Figure 8: Market and affordable weekly rents for select occupations, 1 bedroom units, metropolitan Melbourne**



Source: ABS data; Homes Victoria rental report March 2024 quarter

To create consistency and transparency, rents should be the same for equivalent units within the metropolitan area, and the same (but lower) for Regional Vic. This reflects the different income bands of the Planning and Environment Act for Greater Melbourne and the rest of Victoria.

Setting rents in this way would mean that the rent for a one-bedroom unit would be the same across metropolitan Melbourne, instead of rising as you get closer to the CBD. This would help essential workers get homes near their employment whether they work in Ringwood or Richmond.



Table 2 outlines these rents across Melbourne and the rest of Victoria for the different household types as given in the Planning and Environment Act.

**Table 2: Incomes and affordable rents for moderate-income band<sup>19</sup>**

| Location and household composition |                                     | Lower-limit of moderate income range (annual) | Lower-limit of moderate income range (weekly) | <b>Affordable rent (set as 30 per cent of the weekly lower-limit of moderate income range)</b> |
|------------------------------------|-------------------------------------|---|---|--|
| Melbourne                          | Single-income / <i>one bedroom</i>  | \$47,631                                      | \$916   | <b>\$275</b>   |
|                                    | Dual-income / <i>two bedroom</i>    | \$71,451                                      | \$1,374                                       | <b>\$412</b>   |
|                                    | Small family / <i>three bedroom</i> | \$100,031                                     | \$1,924                                       | <b>\$577</b>   |
| Rest of Victoria                   | Single-income / <i>one bedroom</i>  | \$34,731                                      | \$668   | <b>\$200</b>   |
|                                    | Dual-income / <i>two bedroom</i>    | \$52,091                                      | \$1,002                                       | <b>\$301</b>   |
|                                    | Small family / <i>three bedroom</i> | \$72,931                                      | \$1,403                                       | <b>\$421</b>   |

Setting a fixed rent also avoids discounting existing rental markets that are already affordable. This can help government and industry plan where affordable housing should be built.

To make sure that affordability is maintained over time, rents should increase in line with the moderate income band, rather than increasing with volatile private market rents.

## 6. How is it monitored? The case for community housing

Affordable housing is below market housing, and thus is only generated through government intervention, be that investment, incentive or planning requirement. Because that intervention generates public value, affordable housing should be overseen and regulated to guarantee value for the public. It should be monitored to ensure the objectives of the program and broader policy goals are met.

The simplest and most effective way this can be achieved is to require that affordable housing is managed by the community housing sector. The existing regulatory system for community housing provides transparency and oversight to government about services delivered to renters and use of government funds. Although the community housing regulatory system in Victoria does not currently monitor affordable housing programs, the regulatory infrastructure to do so is already in place. Government simply needs to ‘flick

<sup>19</sup> Income bands taken from the Governor in Council Order that applied from 1 July 2023, to align incomes with the latest available Homes Victoria rental report for the March 2024 quarter. These income bands are adjusted annually, and rents for affordable housing would be adjusted accordingly.



the switch' to extend rigorous government regulation to its affordable housing programs. This would also ensure that ongoing eligibility for affordable housing could be managed within the Residential Tenancies Act. Currently affordable housing programs that are not government funded have no mechanism to ensure continued eligibility with the Act.

Having the community housing sector manage affordable housing will also have systemic benefits. It will guarantee that any rental revenue remains in the social and affordable housing system, to help it grow and become more sustainable. As not-for-profit organisations, CHOs must reinvest these revenues back into delivering the core mission of providing affordable and stable housing for Victorians who can't afford homes in the private rental market.

The properties would also be kept as rentals in the long-term, though there should be mechanisms that allow CHOs to dispose of or recycle the assets in line with changing need and strategic asset management decisions. This would include relevant safeguards to protect renters' rights, and to ensure that this asset management is only done for the benefit of the overall social and affordable housing system.

Wherever possible, the housing stock should also be owned by the community housing sector. Allowing the subsidies or publicly created value contributed to affordable housing programs to accrue to private, for-profit organisations amounts to a transfer of public funds to private entities. Directing these instead through the not-for-profit community housing sector will lead to ongoing social benefits from that public investment. This includes the ability of the sector to use these new assets to leverage for further growth and delivery of social housing for low and very-low income households. This creates a virtuous cycle of growth begetting more growth, multiplying the impact of government contributions.

As below-market housing, a new program of affordable housing will be reliant on subsidies created through government investment or value-creation. To ensure that this government contribution is retained for societal benefits in perpetuity, it must be delivered through the non-profit, regulated community housing sector.



## Conclusion

Affordable housing lacks a consistent definition that can give clarity to hopeful renters, the housing industry and the general public. We have outlined a clear set of principles that would define an affordable housing program that delivers public good and addresses market failures that are worsening the housing crisis.

These principles are:

1. All affordable housing should be rental housing so it generates an ongoing benefit. Ten per cent of it should be dedicated to housing for Aboriginal Victorians.
2. It should be targeted at moderate income households, as defined in the annual Government Gazette.
3. Rent should be set at a fixed level based on household size and the location of the dwelling, whether in metropolitan Melbourne or regional Victoria. Fixing rents at 30 per cent of the lower-limit of moderate household incomes guarantees their affordability to this whole target group, and avoids poorly targeted subsidies depending on local housing market conditions.
4. The homes should be owned by CHOs, creating permanent growth in the affordable housing supply in Victoria. Where homes cannot be owned by CHOs, then they should be managed by CHOs and required to be rented as affordable housing.

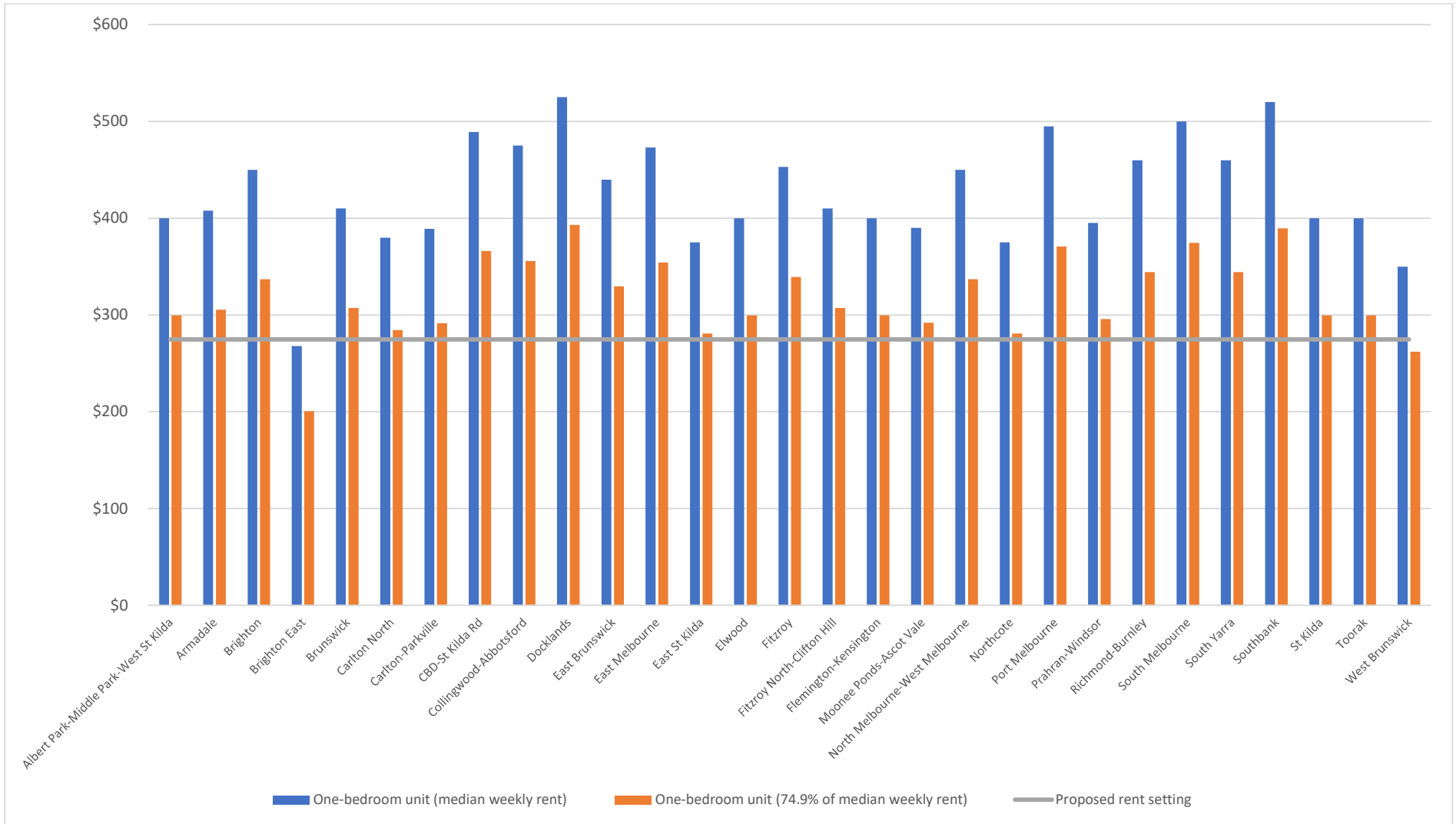
Finally, we must reiterate that establishing an ongoing affordable rental housing program does not and should not replace investment in a sustainable social housing system. Nor does it fully solve the issue of creating affordable housing options for moderate income households.

Government must commit to ongoing and reliable investment in social housing to ensure that low and very-low income households do not find themselves without a roof over their head. It must also retain and in future expand pathways to affordable homeownership for moderate income households and Aboriginal Victorians.

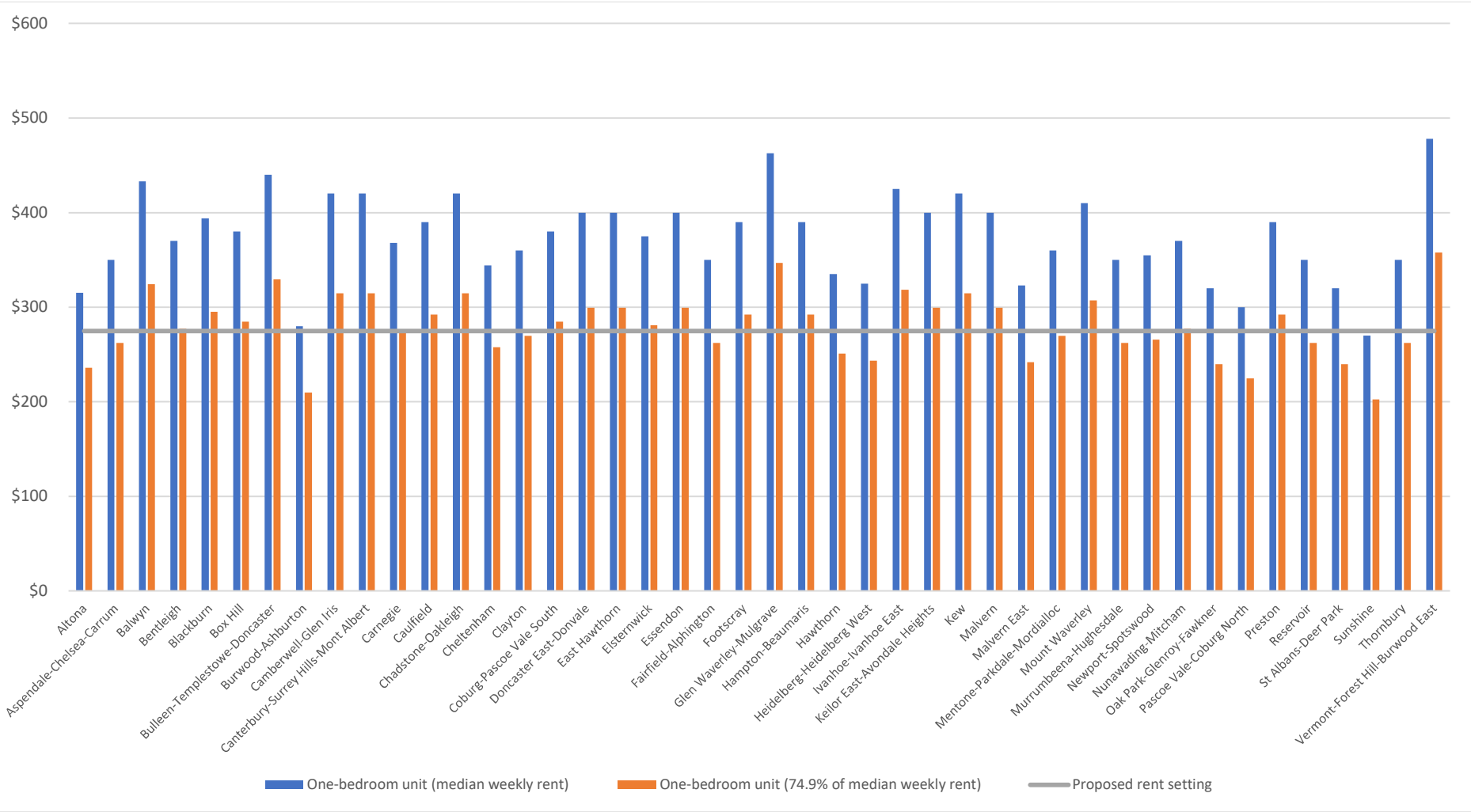


## Appendix: Market and discounted rents compared to 30% of moderate household incomes, by suburbs/towns

Figure A1: inner-Melbourne suburbs, median and discounted weekly rents compared to 30% of moderate household income

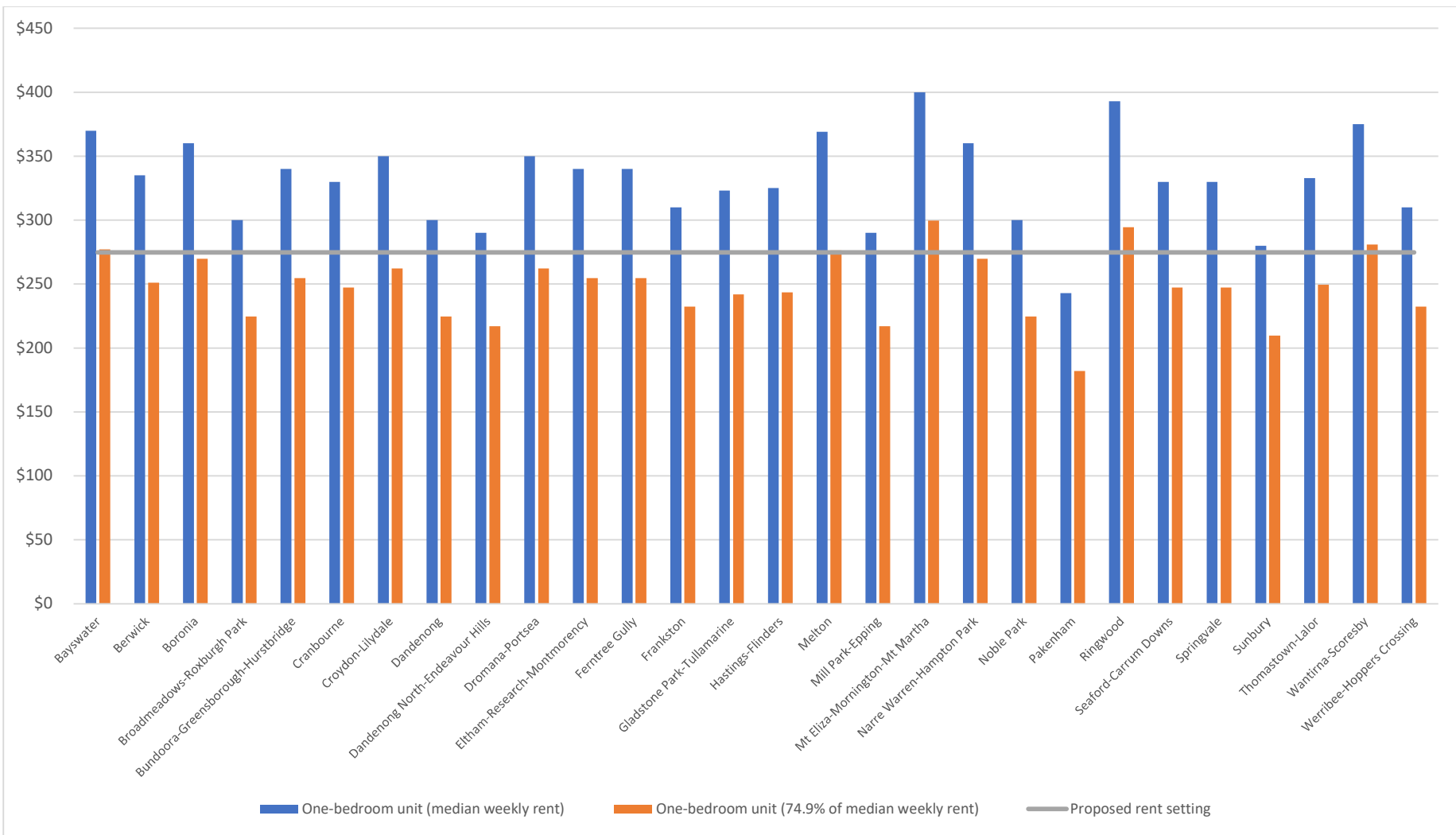


**Figure A2: Middle-ring Melbourne suburbs, median and discounted weekly rents compared to 30% of moderate household income**





**Figure A3: Outer-ring Melbourne suburbs, median and discounted weekly rents compared to 30% of moderate household income**



**Figure A4: Regional Victoria, median and discounted weekly rents compared to 30% of moderate household income**

