Youth community housing: Rental gap and viability issues

Ryan van den Nouwelant,
Fatemeh Aminpour &
Chris Martin

Report prepared
by City Futures Research Centre
for Melbourne City Mission

November 2024

Summary

The Home Time campaign aims to develop a national pool of 15,000 dedicated tenancies for young people, aged 16-24 years old.

Young people experiencing, or at risk of, homelessness are typically eligible for government income support payments, including Rent Assistance (RA), and a social housing tenancy – in fact, they may be eligible for a social housing tenancy on a priority basis. However, young people's income support payments are lower than other prospective tenants on social housing waitlists and, under current social rent models, community housing providers (CHPs) receive less rent from this cohort than other prospective tenants.

This presents a problem for CHPs. The lower rental revenue creates larger deficits in operating budgets, even when compared with other prospective tenants eligible for priority social housing allocation. This higher hurdle to cost recovery will reduce the supply of community housing tenancies dedicated to vulnerable young people. And it will make it more financially difficult for CHPs to allocate tenancies, which other priority groups are also eligible for, to vulnerable young people.

Further, in competitive tenders and grant applications to funders, such as Housing Australia, projects dedicated to alleviating homelessness among young people must seek more funds per tenancy to make up for the lower rental revenue. As a result, these applications can appear less competitive than those for projects accommodating other social housing priority groups. The risk is a lower success rate and, as a result, vulnerable young people not being able to access housing.

This paper enumerates the rental revenue gap between young tenants and other potential tenants in community housing. It then explores three potential policy responses for eliminating this 'financial penalty', the additional shortfall in operating revenue, that young tenants mean for CHPs compared with other prospective tenants eligible for priority allocation.

1. **Increase or supplement income support payments.**
   For example, a hypothetical 'unreasonable to live at home' supplement that is paid to young people, would align their assessable income, and therefore align the rent a CHP would receive, with that of other income support payment recipients.

2. **Calculate RA payments differently.**
   For example, making community housing tenants eligible for the maximum RA amount and the CHP able to set rent accordingly, irrespective of tenant income, would significantly reduce the 'loss of rent' that housing a young person translates to for a CHP.

3. **Account for tenant incomes when assessing competitiveness for availability payments.**
   For example, and specific to new developments, more transparent assessment of Housing Australia Future Fund Facility (HAFFF) applications, or specified allocation of HAFFF funds, for projects housing young people experiencing, or at risk of, homelessness.

All three are functionally equivalent in their intent, and that is to align the potential operating revenue for a CHP housing a young person with the revenue for housing other possible 'priority' tenants. While these modest adjustments will not overcome the shortfall in operating revenue that providing housing to an income support payment recipient likely means, it would remove the additional barriers facing CHPs addressing youth homelessness.

Priority allocations and potential community housing tenants

Across Australia, households with low incomes may be eligible for social housing. However, allocations of social housing are increasingly targeted to low-income households with complex needs. These 'priority' allocations are made by social housing landlords identifying applicants experiencing homelessness or at risk of homelessness (categorised as the 'greatest needs') and households with 'special needs',[i] the most common being:

- households with at least one member with disability
- households with at least one Indigenous member
- households with a main tenant aged under 25
- households with a main tenant aged 75 or over.

Each state and territory has its own social housing eligibility criteria, and its own housing allocation priority groups and policies. Although there are some minor differences between jurisdictions, the above-listed characteristics broadly demonstrate the households that are prioritised for social housing allocation across Australia, alongside young people experiencing homelessness. People in these priority categories are also likely eligible for income support payments from the Australian Government, and for RA, which is paid as a supplement to other income support payments where the individual pays rent (above certain minimum amounts) to a private landlord or CHP.

Figure 1 identifies four 'cohorts', based on four income support payment rates that 'priority allocations' for social housing would likely be eligible for. A young person experiencing, or at risk of, homelessness (or otherwise recognised that it is 'unreasonable to live at home') would typically receive the 'Youth Allowance (JobSeeker)'. This payment aligns with the more common 'Youth Allowance (student/apprentice)'. A person with a disability would likely be eligible for a Disability Support Pension, and a person over 75 years would likely be eligible for the Age Pension. As such, comparing differences between the incomes and rents across the four cohorts in **Figure 1** helps position young people experiencing homelessness within the overall priority allocation.

Fig 1. Cohorts and income support payments with recipient age ranges

Cohort	Payment	Age range
Youth Allowance rate	Youth Allowance (student/apprentice)[ii]	16-24 years
	Youth Allowance (JobSeeker)[iii]	16-21 years
	ABSTUDY[iv]	16-21 years
	Austudy[v]	25 years+
JobSeeker rate	JobSeeker[vi]	22 years+
	ABSTUDY[vii]	22-54 years*
DSP <21 rate	Disability Support Pension[viii]	16-20 years
Age/DSP ≥21 rate	Age Pension[ix]	67 years+
	Disability Support Pension[x]	21 years+

* There is a different ABSTUDY rate for 55 years+ in course-based studies, not included in this analysis

Income support payment amounts and potential tenant incomes

Income support payment amounts vary according to multiple factors, even within the priority categories. The payment amounts for young people are always smaller than for other recipients.

When social housing landlords determine a person's eligibility for social housing, and the amount of rent they will pay, they consider the person's 'assessable income'. Assessable income typically excludes payments for specific purposes, such pension supplements and mobility allowances, which are also lower for younger people. Assessable income does, however, typically include both the energy supplement and RA. **Figure 2** shows the assessable income for each cohort, assuming they receive income support payments and no other income.

Fig 2. Assessable fortnightly income support payment breakdown*

Cohort	Basic income support payment	Energy supplement	RA (social housing)	Assessable income
Youth Allowance rate	$639.00	$7.00	$11.54	$657.54
JobSeeker rate	$778.00	$8.80	$44.03	$830.83
DSP <21 rate	$792.50	$9.10	$47.45	$849.05
Age/DSP ≥21 rate	$1,047.10	$14.10	$107.35	$1,168.55

* Rates from Oct 2024, for independent person living alone

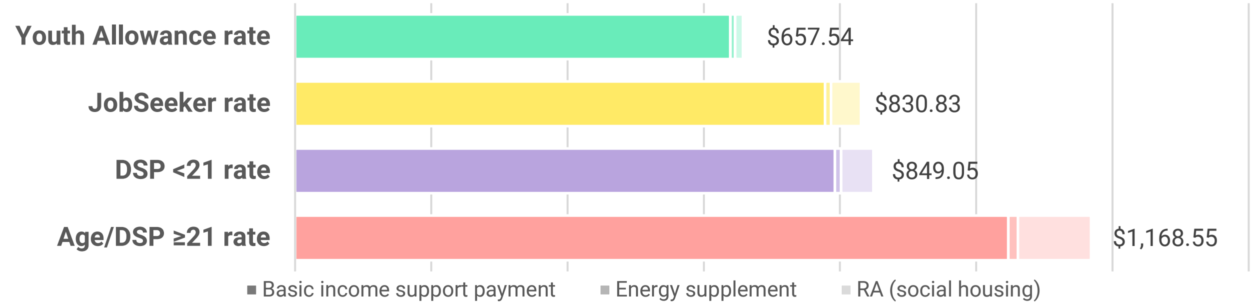
For the purposes of this comparison, all rates shown are for single tenants, who are independent with no children or sharing of costs. As a result, the analysis does not compare all rates or payments (e.g. carer payment).

The amount of RA depends on the rent paid by the recipient, capped at certain maximum amounts set by the government. Most recipients (73%) receive the maximum amount of RA.[xi] This is because most recipients rent privately, and rents in most parts of the country are well above the caps. For example, the median rent for a one-bedroom apartment in metropolitan Melbourne is $450 per week[xii] – twice the amount at which RA is 'maxxed out' for single person living alone ($215.30 per week).

In community housing, the amount of rent paid depends on the person's assessable income – so there is a circular relationship between RA, assessable income and rent paid. CHPs calculate rents based on the tenant's assessable income. However, this means that the amount of RA received by community housing tenants is less than the maximum amount set by the government. The RA amounts shown above are the typical amounts based on CHP rent setting.

As **Figure 3** shows, at $657.54/fortnight, the assessable income for an independent Youth Allowance recipient living alone in social housing would be $500/fortnight (or 44%) lower than an Age Pension recipient receiving $1,168.55. Similarly, at $849.05/fortnight, the assessable income of a 20-year-old Disability Support Pension recipient is $320/fortnight (or 27%) lower than a 22-year-old Disability Support Pension recipient receiving $1,168.55.

Fig 3. Assessable fortnightly income support payments

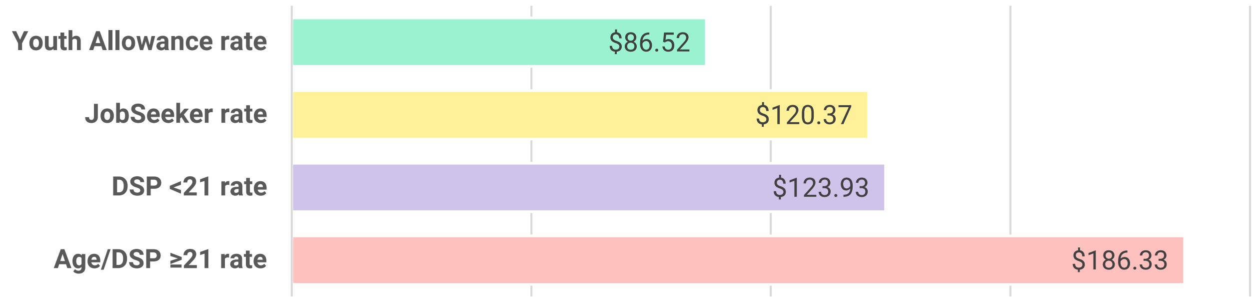


Community housing rent setting and potential rent payments

The difference in the amount received in income support payments by the different cohorts translates to a difference in rent paid to a CHP. CHPs typically set rent to between 25% and 30% of the tenant's assessable income (including RA), plus the balance of the RA payment. For income support payment recipients, rents typically will not exceed 25% of assessable income.

On this basis, **Figure 4** shows the weekly rent payments for each cohort. If a CHP houses a young person with priority on the social housing register instead of an aged person with the same priority, the CHP will suffer a reduction in rental revenue of $100 (54%) per week. That is the difference between a weekly rent of $86.52 (based on Youth Allowance) and $186.33 (based on the Age Pension). Even housing a 20-year-old Disability Support Pension recipient ($123.93/week), compared with a 22-year-old Disability Support Pension recipient, equates to a $62 (or 33%) reduction in weekly rental revenue.

Fig 4. Weekly rent payments under typical social rent setting policies



Operating cost recovery and availability payment needed

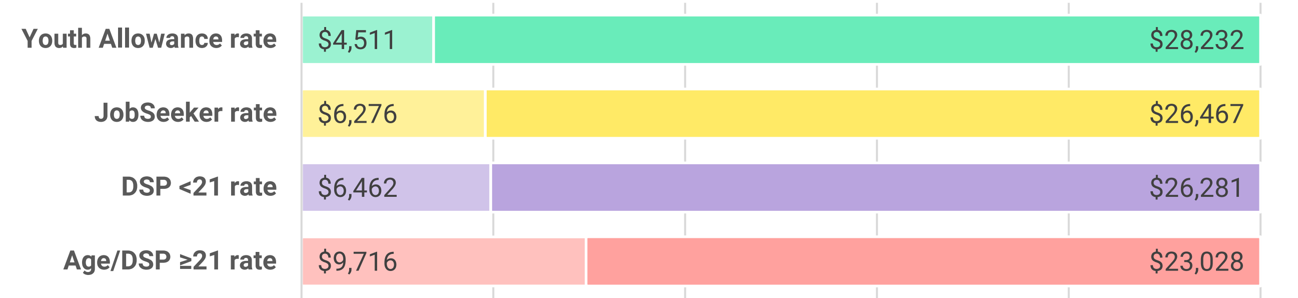
Rents set by reference to the assessable incomes of income support recipients typically do not cover the operating costs associated with the rental dwelling. The shortfall is even greater if the landlord is servicing debt or equity investors in the housing development.[xiii] As such, community housing typically requires an operating subsidy, or availability payment, in addition to tenants' rent payments.

To compare the additional availability payments needed for a community housing tenancy to be cost-neutral, a typical community housing development is modelled below. The model is for a new development, and follows comparable assumptions to the 'Affordable Housing Assessment Tool'.[xiv] Costs modelled relate to a hypothetical single bedroom apartment in Melbourne (50m^2, including balcony), with no parking. The hypothetical site is 'gifted' (e.g. government land) and construction is debt financed. Full details are outlined in the appendix.

Average annual operating costs, including management, utilities, maintenance and debt repayments, are just under $33,000/year. Construction and operating costs will vary by project and, given recent inflation, modelling based on existing cost estimates could underestimate costs of upcoming projects. And, conversely, existing tenancies would likely have lower operating costs. However, holding these assumptions constant in this analysis reveals the difference that tenant income alone can have on project feasibility.

Figure 5 shows that, in the case of government payment recipients, income from tenant rent covers between 15% and 30% of these operating costs. All else being equal, covering the costs of housing a young person experiencing homelessness would require an availability payment of $28,200/year, $5,200 (23%) more per year compared with the payment of $23,000/year required to recover the costs of housing an aged person experiencing homelessness.

Fig 5. Annual rental revenue (l) and resulting availability payment needed (r)



Policy responses to overcome the young tenant financial 'penalty'

Although committed to charitable purposes, CHPs operate under constrained financial conditions. Housing young people is more financially difficult for CHPs than housing other priority cohorts.

Three policy responses, to offset the financial 'penalty' for housing a young person in social housing, are outlined below. Financially, they are potentially equivalent (depending on parameters) as they all increase the operational income for a CHP. Alternative policies to support youth-targeted social housing – such as: capital funding to reduce debt (and so operating costs); smaller dwellings, or buildings with more communal facilities to reduce costs; planning bonus yields; or cross subsidising through with market housing – are not explored here.

It should also be stressed that, while overcoming the financial penalty for housing young people, relative to other priority cohorts, these policy options do not overcome the operating cost shortfall resulting from housing income support payment recipients generally.

1. Increase or supplement income support payments

There has been a long and concerted call to 'raise the rate' of income support payments to ensure recipients can achieve a minimum standard of living. The current analysis shows that an income support payment cannot cover typical rental housing operating costs, even on a cost-recovering, not-for-profit basis.

Making matters worse is the implicit expectation that young people's housing costs are half that of older people. This defies lived experience and creates barriers to CHPs responding to homelessness among young people. Removing or reducing the difference in 'assessable income' between young people and other priority cohorts would overcome this barrier. The assessable income difference could be addressed by aligning income support payment rates. Alternatively, it could be addressed by making an additional payment available to young people in community housing tenancies.

Figure 6 shows that a supplementary support payment – a hypothetical 'unreasonable to live at home payment' – of $408.10/fortnight would align the assessable income of a Youth Allowance recipient to that of an Age Pension or Disability Support Pension recipient. Similarly, a supplement of $139/fortnight would align the Youth Allowance rate (which includes JobSeeker recipients under 22 years) with the JobSeeker rate. And a supplement of $254.60/fortnight would align a Disability Support Pension recipient under 20 years with older Disability Support Pension recipients.

Fig 6. Supplementary support payment to align assessable income*

Cohort	to align with JobSeeker rate	to align with DSP <21 rate	to align with Age/DSP ≥21 rate
Youth Allowance rate	$139.00	$153.50	$408.10
JobSeeker rate	$0.00	$14.50	$269.10
DSP <21 rate	--	$0.00	$254.60
Age/DSP ≥21 rate	--	--	$0.00

* Rates from Oct 2024, for independent person living alone

The figures are shown for the cohorts examined in this analysis – namely, an independent person living alone. It serves to demonstrate how a supplement could align income support payments across cohorts, to avoid perverse outcomes of any differences. It does not align energy or other supplement rates, which are typically lower for young people. An equivalent supplement to align income support payments of other cohorts (such as couples, carers, single parents, and so on) would differ but could similarly be calculated.

2. Calculate rent assistance payments differently

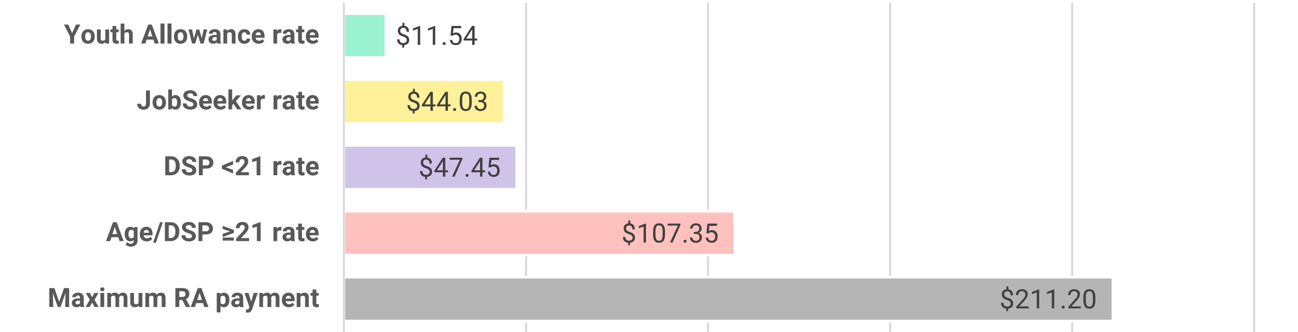
Aligning the 'assessable income' across the cohorts, as described above, would also mean the RA payments align. It would also have the (perhaps desirable) effect of increasing the after-rent income of Youth Allowance recipients. If the intent of any policy change were to instead solely be increasing the revenue of CHPs housing young people, an additional payment could be channelled through an increase in (or alternative to) RA and, so, a corresponding increase in rent.

RA is an important component of community housing rental revenues. However, it should be acknowledged that RA was not designed for social housing. Public housing tenants are not eligible for RA. And recent increases to the RA 'maximum payment' have entailed increases in the minimum amounts of rent above which RA is paid. This has resulted in reduced rents to community housing providers (and reduced payments those few private renters who do not receive the maximum RA payment).

Figure 7 shows two things. First, that the $95/fortnight difference in RA payment across the cohorts explored in this analysis is significant. If a Youth Allowance recipient experiencing homelessness received as much RA as an Age Pension recipient, the difference in weekly rent payable to a CHP would increase from $86.52 (as shown in **Figure 4**) to $134.43. While still less than the rent an Age Pension recipient would pay (at $186.33, also shown in **Figure 4**), the 'loss of rent' for a CHP housing a young person would be almost halved. However, for other cohorts (such as couples, carers, single parents, and so on), the difference would vary, complicating methods for aligning RA payments.

Second, however, **Figure 7** also shows the difference in RA payment that the cohorts analysed here receive if living in community housing, in comparison to the maximum payment that the same tenants would almost certainly receive from the Australian Government if living in the private rental sector. For a Youth Allowance recipient, the difference is an even more significant $200/fortnight.

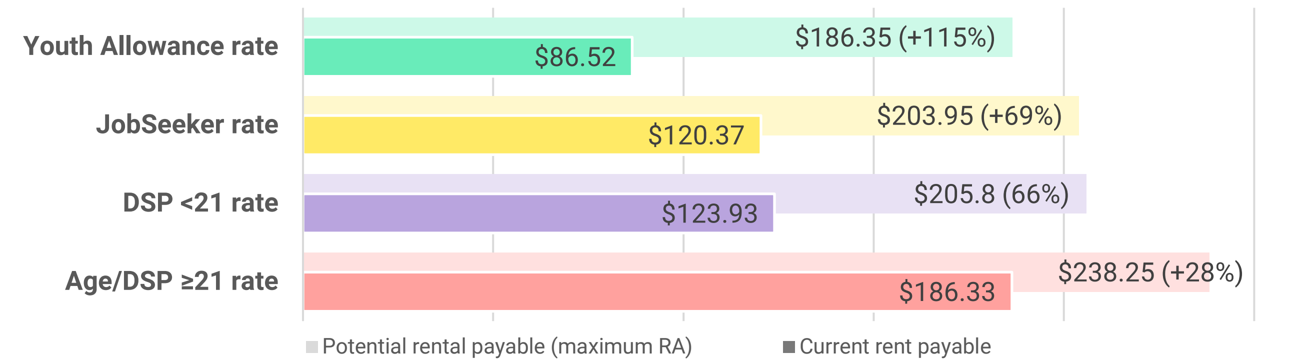
Fig 7. Fortnightly RA payments compared with rent >$215/week



Rather than align RA payments to other income support payment recipients, one administratively simple approach to aligning RA payments of those experiencing homelessness would be to entitle community housing tenants to the maximum RA payment. If RA-eligible community housing tenants received the maximum RA payment, and paid a commensurate increase in rent, the prospective rents a CHP receives from different cohorts would be much closer. **Figure 8** shows how the maximum RA payment would reduce the difference in potential rent payment for the Youth Allowance cohort, compared with Age /Disability Support Pension cohort.

As already outlined, the revenue from housing a young person, rather than an aged person, is 54% lower ($86.52 vs $186.33). **Figure 8** shows that, if the CHP received the maximum RA payment as part of the tenant rent, revenue would only be 22% lower ($186.35 vs $238.25). The difference is similarly reduced between other income support payments.

Fig 8. Rent payable, compared with maximum RA payment



The difference between RA under social rent setting and market rents is not unique to young people. **Figure 8** also shows that the CHP rental revenue would increase for all income support payment recipients, placing CHPs in a stronger financial position. For the Youth Allowance cohort this is most pronounced, with potential rental revenue increasing by 115%.

It should be noted that such a change would require an amendment to the *Social Security Act 1991* (Cth) providing for the maximum rate of RA to be paid to community housing tenants even though the rent they pay is less than the usual maximum amount. In practice, a system paralleling RA for community housing tenancies, which is more fit for purpose for that tenure, would be worth exploring.

3. Account for tenant income when assessing availability payments

As outlined above, rental revenue from income support payment recipients rarely covers operating costs for CHPs, meaning an operating subsidy is needed to supplement operating revenues. This is true of existing tenancies as much as new developments. However, the response described here primarily relates to existing availability payments that CHPs can apply for to support new developments and increase supply of social housing.

CHPs accommodating vulnerable young people often compete with other CHPs for the same pool of funds. A higher operating shortfall can count against a project in competitive funding contexts. Funding agencies can (and do) consider factors other than the 'subsidy per dwelling' sought when comparing competitive bids for limited funds. For example, the assessment criteria for applications to the HAFFF require Housing Australia to consider:

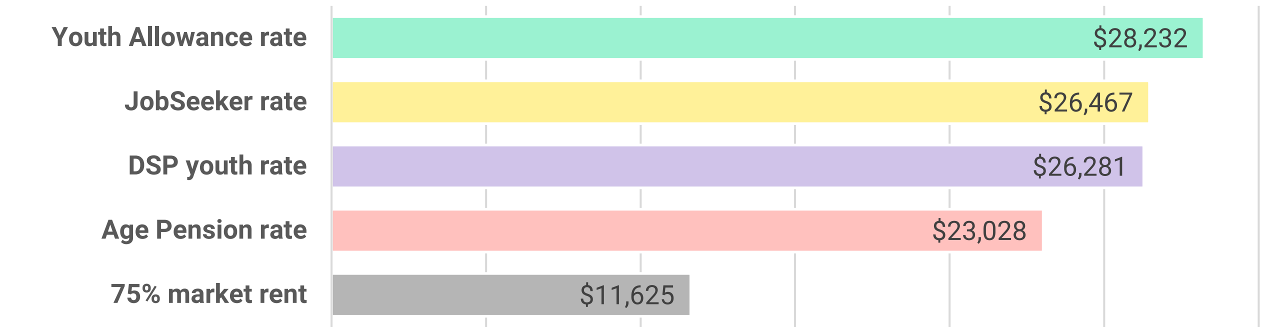
> *the extent to which the financing decision would increase one or more of the following on an equitable, as needs basis across Australia (including in regional, rural and remote areas):*
>
> *(i) social housing;*
> *(ii) affordable housing;*
> *(iii) housing that addresses an acute housing need.*[xv]

However, it is difficult to discount the perception that a project targeting young people is less efficient in its operations, development and financing arrangements. Take two projects of the same size, on the same street, in the same property market, built to the same development standards, both promising to house priority applicants on the social housing register – but one is asking for 25% more money. Conversely, there could be a perception that limited funds can spread further – more homes can be financially supported – if young people are not accommodated.

Figure 9 shows that the $23,200-$28,000 annual availability payment for income support payment recipients is well above the availability payment needed if the same dwelling was rented at 75% of market rent. This discount-to-market rent is typical of affordable rental housing projects, and is the maximum rent that a CHP can charge for a dwelling consistent with its charitable status.

Assuming a newly built apartment would rent on the market for 20% above the metropolitan Melbourne median for a one-bedroom apartment ($540/week), then 75% of market rent ($405/week) would require an availability payment of $11.6k per year, roughly half the payment required for a dwelling rented to an Age Pension recipient. It is important that any competitive funding, such as the HAFFF, incorporates transparency about cohorts being accommodated. More than this, funds should be allocated proportionately to the cohorts identified as in need of housing support.

Fig 9. Availability payment needed to cover costs



Appendix – hypothetical development cost assumptions

Development cost assumptions (per dwelling)

The hypothetical development was based on an 80-studio building in metropolitan Melbourne (1,000m^2 site, 60% site coverage and requisite landscaping and site works, 50m^2 studios including balconies, 7 storey building height and so requisite lift and plant). The figures assume escalations follow inflation.

Land	$0	*Assumed gifted*
Construction (incl. demolition, landscaping)	$250,963	*Derived from 'Riders Digest 2024'*[xvi]
Parking area	$0	*No parking included*
Design/engineering	$20,077	*8% of construction costs*
Legal/conveyancing	$533	*1.5% of land value***
Planning approval/infrastructure fees	$3,263	*1.3% construction and design*
Debt accrued	$25,471	*6% apr, 3-year construction period*
Total	**$300,326**	

** Residual land value (share per dwelling) estimate was $36,888

Operating cost assumptions (annual)

Maintenance/repairs/replacement	$3,023	*1.1% replacement costs*
Utilities/rates	$1,489	*0.3% replacement plus 2% land value*
Building management	$600	*2% total revenue**
Tenancy management	$1,000	*3.3% total revenue**
Insurances	$770	*0.28% replacement costs*
Vacancy/unpaid rent	$1,244	*3.8% total revenue**
Debt servicing	$24,617	*6% apr, 25-year paydown period*
Total	**$32,743**	

* Typically calculated as a proportion of rental revenue, these have been held constant across cohorts (and so rents received)

---

[i] "Entries, exists & transfers: Priority groups", in **Housing assistance in Australia 2024**. Australian Institute of Health & Welfare (retrieved Oct 2024)

[ii] **Youth Allowance for students: Payment rates**. Services Australia (retrieved Oct 2024)

[iii] **Youth Allowance for job seekers: Payment rates**. Services Australia (retrieved Oct 2024)

[iv] **ABSTUDY: Maximum rates**. Services Australia (retrieved Oct 2024)

[v] **Austudy: Basic rates**. Services Australia (retrieved Oct 2024)

[vi] **JobSeeker Payment: Payment rates**. Services Australia (retrieved Oct 2024)

[vii] **ABSTUDY: Maximum rates**. Services Australia (retrieved Oct 2024)

[viii] **Disability Support Pension: Payment rates**. Services Australia (retrieved Oct 2024)

[ix] **Age Pension: Normal rates**. Services Australia (retrieved Oct 2024)

[x] **Disability Support Pension: Payment rates**. Services Australia (retrieved Oct 2024)

[xi] "Commonwealth Rent Assistance by primary payment type", in **DSS benefit & payment recipient demographics June 2024**. Department of Social Services (retrieved Oct 2024)

[xii] **Victorian Insights: Metropolitan Melbourne (Jun 2024).** Real Estate Institute of Victoria (retrieved Oct 2024)

[xiii] **Costing a youth housing program**. Dr Laurence Troy, University of Sydney (retrieved Oct 2024)

[xiv] **Costing social and affordable housing delivery across Australia**. Laurence Troy & Ryan van den Nouwelant, UNSW Sydney & University of Sydney (retrieved Nov 2024)

[xv] "Matters to be considered when making financing decisions" (cl 28J), of **Housing Australia Investment Mandate Direction 2018** (Cth)

[xvi] **Riders Digest 2024: Melbourne, Australia**. Rider Levett Bucknall (retrieved Oct 2024)