

Topic 4

Housing Affordability

Course name:

Principles of Housing and Land Development

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Affordable Housing

There are several means of defining and measuring affordable housing.

In some contexts, affordable housing may only mean **subsidized or public housing** whereas in other cases it may include housing that is "affordable" by **different income levels** (High-income households are usually excluded from this concept).

Affordable housing is housing that is affordable to people with a **household income equal to or lower than the median income.**

In Australia, the National Affordable Housing Summit Group developed their definition of affordable housing as... “housing that is reasonably **adequate in standard and location** for lower or middle-income households, and does not cost so much that a household is unable to meet **other basic needs** on a **sustainable basis.**”

When is Housing Affordable?

A general standard is considered all over the world that,

A household should not spend **more than 30%** of its total income on housing costs, including mortgage costs, rent payments, and utilities.

- **More than 30%:** housing cost burdened
- **More than 50%:** severely housing cost burdened



Measuring Housing Affordability

- **The median multiple** (Median house price to income ratio), measures affordability of housing by dividing the **median house price** by the **gross median household income**.
- In a perfectly balanced housing market, the households **above median income**, usually **can afford the median housing**, while those poorer than the median income can not afford the median home. In this case, the affordability is 50%.
- 50% affordability for the **median home** indicates a **balanced market**.

Housing Affordability Index (HAI)

Affordability index: measures median household income relative to the **income needed to purchase a median-priced house**.

$$\text{HAI} = (\text{Median Family Income} / \text{Qualifying Income}) * 100$$

100 = households with median income can purchase the median-priced home.

A **higher HAI ratio** indicates relatively **more affordability**.

When the ratio falls **below 100**, it indicates that a typical household has less income than necessary to purchase the typical house.

Policies for Affordable Housing

Although housing policies are extremely variable across time and space, the policy approaches can broadly be divided into four categories:

- **The Statist approach**
- **Social Market approach**
- **Enabling approach**
- **Collaborative approach.**



Statist Approach

The principle of this model is that housing is a **property of the state**, which is distributed by the municipal authorities or government, based on set rules. Tenants have no choice in the housing they are offered.

Social Market Housing Policy

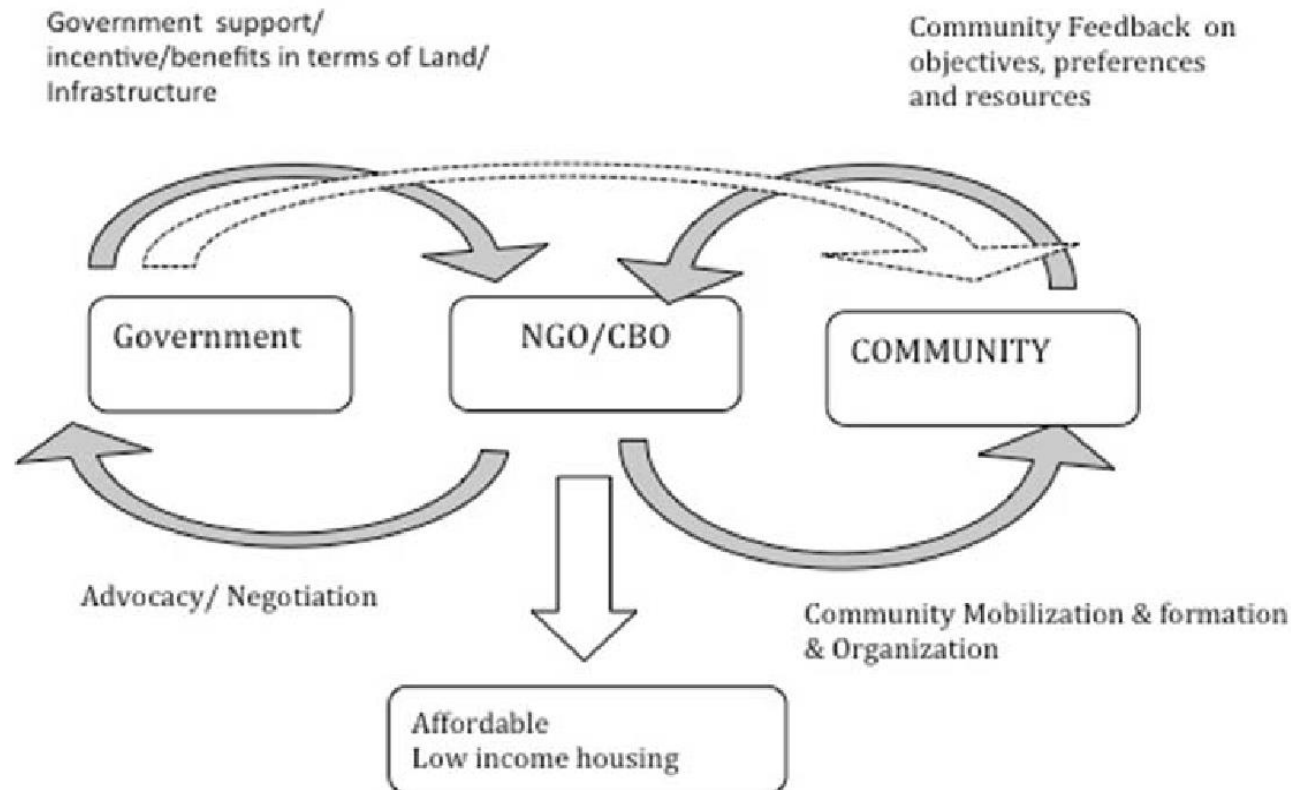
- This approach is a combination of **market mechanisms** with social objectives.
- In this method, housing is provided by developers, but the government intervenes in the process. The developers are provided **incentives or tax benefits** to provide affordable housing and meet specific requirements for housing (location, type, size, costs), etc.

Enabling Approach

- The enabling approach is the latest trend in housing supply, which **changes the role of the government** from being the sole provider to the **enabler of the housing market**.
- In this method, the government creates a favorable environment so that the housing market works effectively. The government ensures the **availability of the components of the housing supply**, such as land, infrastructure, labor, building material suppliers, and service providers.
- The government reforms the **regulatory framework** and enables several **housing finance mechanisms**.

Collaborative Approach

- In this approach, the government encourages the engagement of **non-government organizations (NGOs)** and **community-based organizations (CBOs)** in the process of providing affordable housing. These organizations act as a bridge between the government and the community.





THANK YOU!



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