

# Part Lot 9765 Town of Palmerston: Housing Affordability

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## Introduction

The rezoning application for Part Lot 9765 Town of Palmerston proposes that the SU zone allows the development of a new form of housing typology for Palmerston. Known as “small lot integrated housing” this housing product has been developed specifically to address the NT Government’s objective of delivering greater housing choice, diversity and affordability, particularly for moderate income first home buyers.

Small lot integrated housing will be delivered on lots between 250-399m<sup>2</sup>. It has been designed for Palmerston’s tropical climate and life-style and with environmental sustainability in mind. Up to 20% of the dwelling yield for this development is proposed as small lot integrated housing.

This paper uses Australian standard definitions of affordable housing to show what the price point need to be, in today’s dollars, for small lot integrated housing developed at Part Lot 9765 Town of Palmerston to be truly affordable for moderate income households.

## Housing affordability

**The most commonly accepted definition is that housing is affordable when less than 30% of a household’s income is spent on housing costs.** Note that this definition of affordability applies to both home purchasers and renters.

For home purchasers, housing costs are measured by the amount of mortgage payments. For renters, housing costs are the amount of rent paid.

## Household income

This is the total income for a household based on the salaries of all adults who work.

Household income is only measured accurately every 5 years at the Census, so the last numbers are from August 2006.

The Census uses ‘median’ household income figures. The median income figure is the mid-point income number where half the incomes are higher and half the incomes lower. Median income is normally similar in amount to average income.

It is best to work with income figures from a small area, rather than taking averages across a state or territory. The area that we have chosen is known by the ABS as ‘Palmerston-East Arm’. It covers the area shown on the map below – basically the Palmerston Council area plus the few people who live in East Arm between Palmerston and Darwin.



In August 2006 the median household income in Palmerston-East Arm was \$65,260.

Household incomes have risen since 2006 but it is not possible to get accurate numbers as they do not exist – we checked this by speaking to a number of agencies in the Northern Territory.

The most useful information is from taxation statistics produced by the Australian Bureau of Statistics. These show the average taxable income of individuals in Palmerston-East Arm increased by 6.3% in the year to June 2007 and 6.7% in the year to June 2008. This is the latest information available.

To estimate current household income in Palmerston-East Arm we have taken the annual rise in household incomes since 2006 to be 6.5% (this is based on the average of taxation figures for individuals in the last paragraph). We then work out the increase in the 4 years and 9 months since the last Census to be.

**We estimate the current median household income in Palmerston-East Arm is \$88,048.**

### Household income bands

It is common practice to think about housing affordability based on what lower and middle income households can afford to buy or rent. The most comprehensive set of definitions are used by NSW, and they categorise income bands as follows:

Very low income households	Earn less than 50% of median income
Low income households	Earn between 50% and 80% of median income
<b>Moderate income households</b>	<b>Earn between 80% and 120% of median income</b>

**Moderate income households are the key target market for the Affordable Housing Strategy at the proposed development of Part lot 9765.**

Applying these income bands to Palmerston-East Arm:

Very low income households	Earn less than \$44,024
Low income households	Earn between \$44,024 and \$70,439
<b>Moderate income households</b>	<b>Earn between \$70,439 and \$105,658</b>

## What can households afford to pay?

Based on our earlier definition of housing affordability, households should not pay more than 30% of their income on household costs. Therefore in Palmerston-East Arm, households can afford to pay the following on housing costs:

Very low income households	Pay less than \$13,207 pa
Low income households	Pay between \$13,207 pa and \$21,132 pa
<b>Moderate income households</b>	<b>Pay between \$21,132 pa and \$31,697 pa</b>

In terms of weekly rents, the most that can be afforded is:

Very low income households	Pay less than \$254 per week
Low income households	Pay between \$254 and \$406 per week
<b>Moderate income households</b>	<b>Pay between \$406 and \$610 per week</b>

## Mortgage payment calculations

With people who are borrowing money to buy a property, a more complicated calculation is needed.

**Based on earlier numbers, the maximum amount that can be paid monthly by moderate income households in mortgage costs to keep under the 30% affordability threshold is \$2,641 per month**

We can make an assumption that people are contributing a 10% deposit towards purchase costs of their house, and that they are borrowing on a 25 year mortgage.

The Commonwealth Bank's standard mortgage rate is 7.81%. Their 'mortgage calculator' is available at [www.commbank.com.au](http://www.commbank.com.au) and has been used to make the following calculation:

**Moderate income household can borrow up to \$347,833**

Taking into account a 10% cash deposit that purchasers will be expected to contribute:

**Moderate income households can purchase a property between \$257,702 and \$386,481**

## Conclusions

Very low and low income households probably do not earn enough income to buy a house at the proposed development of Part lot 9765.

Moderate income households – that is households earning between 80% and 120% of median incomes in Palmerston-East Arm – could afford to pay up to **\$386,000** to buy a house at the proposed development.

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