

# **DEMAND SUBSIDIES FOR PRIVATE RENTERS: A COMPARATIVE REVIEW**

**Kath Hulse**

Institute for Social Research  
Swinburne University of Technology  
16 Wakefield St  
Hawthorn  
Victoria 3122  
[khulse@swin.edu.au](mailto:khulse@swin.edu.au)

Kath Hulse is a Research Fellow at the Institute for Social Research, Swinburne University of Technology, Melbourne. She worked previously at senior level with two state housing authorities and as an academic, and is a director of a community housing organisation.

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In 1997, after several years of heated policy debate, plans to integrate Commonwealth Rent Assistance with assistance under the Commonwealth-State Housing Agreement (CSHA) were withdrawn. Since then, governments have made separate micro-level reforms to rent assistance and CSHA programs. This paper aims to contribute to a renewed debate about future directions for rent assistance, which has become the most significant element of housing assistance in Australia.

This is a preliminary report of the first stage of an AHURI funded research project. It compares the Australian rent assistance model with similar types of assistance in Canada, the US and New Zealand. As the research is at such an early stage, the purpose of the paper is to explore some of the similarities and differences between rent assistance in Australia and these three countries. The paper raises issues that will be explored in more detail during the research project.

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## WHAT ARE DEMAND SUBSIDIES?

Public policy debate often distinguishes between supply subsidies and demand subsidies. Governments provide *supply subsidies* to financiers, developers or producers of housing to reduce the cost of producing housing units. These can be made to a variety of 'for profit' and 'non-profit' housing providers. In contrast, governments pay *demand subsidies* to, or on behalf of, individual households to reduce their housing costs<sup>1</sup> (Haffner and Oxley 1999: 146-7). Both supply and demand subsidies may be made either directly, accounted for as government expenditure, or indirectly, mainly through the tax system (Kemp 2000: 44). They may be paid once only or be ongoing subsidies. Table 1 gives some examples of these various subsidy types.

At one time or another in Australia we have had experience of most of the types of supply and demand subsidies given as examples in Table 1 but, by the mid-1990s, the debate had largely narrowed to two subsidy types, rent assistance and capital funding to public and community housing, widely regarded as opposing approaches. Rent assistance in Australia is a direct, demand subsidy paid to households on an ongoing basis. Such subsidies are usually termed housing allowances (Kemp 1997: 15) and this term will be used in the rest of the paper.

There has been a general move in most western countries, as in Australia, away from direct supply subsidies for housing, particularly public housing, and towards housing allowances such as rent assistance. Such subsidies are to be found in the US, Canada, the UK, New

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<sup>1</sup> Some types of subsidies are hybrids. For example, rent rebates in public housing are based on household income but they are technically an internally funded supply subsidy as they are attached to a housing unit and only available to a household whilst living in that unit.

Zealand and in many European countries such as Belgium, Sweden, the Netherlands, Germany and France (Kemp 1997).

**Table 1 Types of supply and demand subsidies**

	<b>Supply Subsidies</b>	<b>Demand Subsidies</b>
Paid to:	Financiers, developers, builders, landlords	Consumers – purchasers and renters
Objective:	To lower the cost of producing housing units	To improve the consumer’s capacity to pay for housing
Portability:	Subsidy attached to housing units	Subsidy attached to household
Direct subsidies – once only (examples):	Capital grants to public or community housing	Home purchase grant Payment of initial costs associated with rental (bond/relocation)
Direct subsidies – ongoing (examples):	Low interest loans to public and community housing developers or private owners/developers  Operational subsidies to enable housing producers to charge ‘below market’ rents	Rental subsidy payments e.g. <i>rent assistance</i>  Mortgage relief schemes
Indirect subsidies – once only (examples):	Once-only depreciation allowances	Capital gains tax exemption on owner occupied housing  Stamp duty concessions
Indirect subsidies – ongoing (examples):	Tax measures such as negative gearing, tax credits	Tax relief on mortgage interest  Tax credits for renters

There are few cross-national studies of housing allowances, with Eardley et al. (1996) and Kemp (1997) being the major recent studies. This work and the author’s research suggest that housing allowances vary considerably across countries. The rest of the paper compares different types of housing allowances in Australia, New Zealand, Canada and the US. The UK has not been included in the research at this stage. Unless otherwise cited, the information is drawn from the author’s PhD thesis on the politics of housing allowances in Australia, Canada and the US.

## **HOUSING ALLOWANCES IN AUSTRALIA, NEW ZEALAND, CANADA AND THE US**

Housing allowances are effectively a hybrid between housing assistance and income security (Fallis 1993). They aim at improving purchasing power, but the increases in income are tied in some way to housing costs. As a result, housing allowances are commonly found within both income security and housing programs (Steele 1998). For example, in the US, shelter allowances are included in state social assistance programs but there is also a housing voucher program funded by the federal government and administered by local housing agencies, with no policy and little administrative coordination between the two types of program (Newman and Schnare 1988, 1994). Table 2 indicates the direct demand subsidy schemes located within income security and housing programs in the four countries.

**Table 2 Housing allowances in income security and housing programs in Australia, New Zealand, Canada and the US**

	<b>Australia</b>	<b>New Zealand</b>	<b>Canada</b>	<b>US</b>
Housing allowances within income security programs	Rent assistance	Accommodation supplement	Shelter assistance component of provincial social assistance programs	Shelter allowances in state social assistance programs
Housing allowances in housing programs	Private rental assistance program (CSHA) – some components		Specific shelter allowance programs (some provinces)	Housing vouchers (Section 8)

In Australia, this ambivalence about housing allowances is reflected in administrative arrangements. The Commonwealth Department of Family and Community Services (DFaCS) is responsible for policy on rent assistance as part of its responsibility for housing support, a responsibility that also includes other housing and homelessness programs. Rent assistance is, however, administered through Centrelink as part of the nation’s income security system, and is affected by the legal and administrative requirements of that system. There is no direct link with other types of subsidies for private renters administered by the states through CSHA arrangements.

This paper proceeds in two ways. Firstly, it compares rent assistance with similar programs within income security systems in New Zealand, Canada and the US and identifies some key similarities and differences. Secondly, it compares rent assistance as a type of housing assistance with the two other national programs that are also an explicit part of housing policy: the accommodation supplement in New Zealand and housing vouchers in the US.

### **HOUSING ALLOWANCES WITHIN INCOME SECURITY PROGRAMS**

The income security systems of the four countries all include provision for housing allowances, as shown in Table 2. The Canadian and US systems differ from those of Australia and New Zealand in that they have two tiers: federal systems of social insurance, particularly for the aged, and state /provincial systems of social assistance for those not covered by federal insurance, such as lone parents or job seekers without entitlement to insurance. Upper tier programs have more generous payment levels that are intended to cover all costs including housing. State/provincial social assistance programs pay at significantly lower levels and include housing allowances to make specific additional provision for housing costs (Myles 1996, 1998).

Perhaps not surprisingly, the Australian income security system has most in common with that of New Zealand. Both are single tier systems run by federal/national governments, funded from taxation, selective and means-tested. Income security payments in Australia and New Zealand are expected to cover all costs, including some provision for housing costs. In addition, housing allowances are provided to some households who are considered to have particularly high costs. In Australia, rent assistance is intended to compensate only private renters for these additional costs. In New Zealand, housing allowances are provided to income security recipients who pay more than a set percentage of their income on housing costs (rental or purchase).

Some issues that have become apparent when examining housing allowances within income security systems are as follows:

1. *Expenditure on housing allowances within income security programs is substantial.*  
In Canada, the shelter assistance component of social assistance programs was estimated at C\$5.2 billion or 35% of total expenditure of provincial social assistance programs in 1993 (Pomeroy 1995). More recent estimates put the figure as high as 50% (FCM 2000). In the US, it was estimated that about 30% of expenditure on state social assistance programs went on shelter payments (Newman and Schnare 1994) or about US\$6.5 billion in 1997 (Dreier 2000). In Australia, expenditure on rent assistance was A\$1.54 billion in 1999-2000 (DFaCS Annual Report 1999-2000: 93) and on the accommodation supplement in New Zealand NZ\$0.83 billion in 1998-99 (MSP 2000: Table 70).
2. *Expenditure on housing allowances within income security programs often exceeds expenditure on housing programs.*  
In Canada, the shelter component of social assistance at C\$5.2 billion was greater than expenditure by federal and provincial governments on all housing assistance programs (C\$4.1 billion) in the mid-1990s prior to substantial devolution of housing assistance programs (Pomeroy 1995). Expenditure on rent assistance within the Australian income security system is currently running at A\$1.54 billion a year, exceeding total gross expenditures of \$1.28 billion<sup>2</sup> by all levels of government (federal, state and territory) on housing programs funded under the CSHA, including public and community housing (DFaCS, Annual Report 1999-2000: 93, DFaCS, Housing Assistance Act 1996, Annual Report 1998-99: Table A2).
3. *More households receive assistance with their housing via housing allowances within income security programs than through specific housing assistance programs (supply subsidies) in Australia, New Zealand and Canada.*  
The author's research suggests that about 700,000 or just under 9.5% of Australian households were in receipt of rent assistance and renting private housing in 1999, significantly more than the 6% of households living in social housing. In New Zealand it appears that the percentage of households in receipt of the accommodation supplement is even higher than in Australia, whilst the percentage in social housing is much the same (Thorns 2000). In Canada, an estimated 1 million (8.6%) of households were eligible for housing allowances through provincial social assistance programs in 1999, compared to approximately 650,000 (6%) in social housing. The US differs in that social assistance programs are more residual than in the other countries, with an estimated 1.6 million households in receipt of shelter allowances within state social assistance programs in 2000 (1.5% of all households), compared to 4.6 million, assisted under housing programs (4.4%). The latter includes 1.6 million households assisted with housing vouchers outside of the income security system.

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<sup>2</sup> Note that this is a gross figure and does not deduct repayments made by the states and territories to the federal government on loans made under previous CSHAs nor the effect of states using CSHA grants to offset State Fiscal Contributions to the federal government's deficit reduction program (about \$69 million in 1998-99).

4. *Australia is unusual in restricting housing allowances within income security to private renters.*

In New Zealand, about 15% of accommodation supplement recipients in 1999 (before the recent changes) were purchasers, including a small number with Housing Corporation of New Zealand mortgagors (MSP 2000: Table 72). In Canada, 7% of social assistance recipients were owners/purchasers and could get assistance with housing costs (NCW 1998: Graph O).

5. *Countries differ in the extent of segregation of housing allowances within income security systems from housing assistance programs.*

In Australia (from 1982) and New Zealand (from December 2000), housing allowances have not been available to tenants of public housing who are instead eligible for income-related rents. In contrast, in both Canada and the US, households can receive shelter allowances from state social assistance programs and rent social housing in some circumstances. For example, in Canada, about 7% of households on social assistance lived in social housing in 1997 (NCW 1998). In the US, it is estimated that about a quarter of social assistance recipients also receive federal housing assistance, including social housing (Sard and Daskal 1998). Where this applies, there are special administrative arrangements between agencies about treatment of housing allowances and rent levels.

6. *Housing allowances within income security systems are not set according to an affordability benchmark in any of the countries.*

In Canada and the US, payment rates are notionally based on actual housing costs up to a maximum but, in both cases, maximum payments in provincial/state schemes have been capped at levels that bear little relation to market rents (Steele 2001). In Australia and New Zealand, housing allowances pay a proportion of the gap between a specified minimum and a maximum payment, as outlined in the next section.

7. *Australia is the only country where maximum rates of housing allowances within the income security system do not vary by geographic area according to differences in housing markets.*

In New Zealand, payments are capped according to household type/size, and different levels apply across three regions. In Canada, payments are capped in most provinces according to household type/size and the size of community, but bear little relationship to actual housing costs (Prince 1998). In the US, shelter allowances also vary considerably by area.

8. *Information on housing allowances within income security systems is generally inferior to that on housing assistance programs.*

Generally, housing allowances are regarded as one of a number of possible allowances attached to major payment types with reporting against these payment types, rather than by type of household or geographic area. There is often little basic information on the number and type of housing allowance recipients and expenditure, and none on their housing outcomes. This makes it difficult to compare trends over time, or the effectiveness of housing allowances relative to various types of housing assistance.

9. *As housing allowances are supplementary to major types of income security payments, they are effectively demand driven, unlike housing assistance programs.*

The numbers of recipients and costs are affected in part by factors outside the direct control of government, such as the rate of unemployment and private market housing costs. In Australia, the cost of rent assistance increased markedly from the mid-1980s to the mid-1990s due to extensions in eligibility and changes to the payment formula, but also because of increased unemployment. In New Zealand, the costs of the accommodation supplement grew rapidly in the 1990s due to the inclusion of public tenants in 1993 and a change in the formula in 1997 (MSP 2000: 77). In both Canada and the US, the number of households in receipt of social assistance and the housing allowances within them peaked in 1993-94 at the height of the recession of the early 1990s.

10. *Changes to income security systems in the four countries have impacted on housing allowances within these systems.*

Governments in the four countries have made significant changes to the concept of income security for people of workforce age. For example, in Australia, existing income security payments for such people have been reconceptualised as ‘participation support payments’ (Reference Group on Welfare Reform 2000: 55). Governments have introduced various mutual obligation requirements to encourage people of workforce age to move from income security and into paid work. It is beyond the scope of this paper to detail these changes except to note that, together with the ending of the recession of the early 1990s, they have led to reductions of 31% in households on social assistance in Canada and 56% in the US between 1994 and 2000. The number of households in receipt of housing allowances within income security systems in Australia and New Zealand has levelled out. These changes raise issues about current policy reliance on housing allowances within income security, which will be raised in the next section.

## **HOUSING ALLOWANCES AND HOUSING POLICY**

Rent assistance in Australia and the accommodation supplement in New Zealand, whilst administered within income security systems, have also been promoted by their respective governments as types of housing assistance within the ambit of national housing policy. The voucher program in the US is also regarded very much as a housing assistance program. Some of the preliminary issues that arise from comparison of these three national schemes are:

1. *Housing allowances are largely restricted to income security recipients in Australia and New Zealand, in contrast to the US voucher program.*

In Australia, rent assistance is available to households in receipt of major income security payments and to working families with dependent children if they receive more than the minimum amount of family payment, with about 7% of recipients in the latter category. It is not available to singles and couples without children who are in receipt of low wages. This is similar to New Zealand where, in June 1999 (before the recent changes), 7% of recipients were low income working families in receipt of supplementary assistance (MSP 2000: Table 73). There are significant issues about take-up rates for low income working households where housing allowances are located within income security systems and concerns about housing affordability problems of low income working households without children, particularly singles. In

contrast, low income working households are eligible for housing vouchers in the US, but these are not an entitlement and there are often long lists for vouchers or lists may be closed if there are no funds (Maney and Crowley 1999).

2. *Housing allowances in Australia and New Zealand are aimed at improving housing affordability for households, unlike the US where housing vouchers are also used to meet a variety of urban and social policy objectives.*

Housing allowances in Australia and New Zealand are regarded primarily as a specific type of income supplement. The US voucher program, in contrast, aims at changing housing consumption patterns, including relocating people from public housing and subsidised private housing, requiring or encouraging people to relocate to lower poverty or less racially concentrated areas, and facilitating a transition from 'welfare to work'. In Australia and New Zealand, housing allowances are an entitlement subject to meeting income and eligibility criteria. In contrast, the US housing voucher program is not an entitlement, federal funding is rationed and often tied to specific federal objectives, and local housing agencies may also set their own preferences for selecting voucher holders (Feins et al. 1997).

3. *The choice of housing available to housing allowance recipients varies.*

In the Australian and New Zealand schemes, households are able to select a dwelling of any price, standard or location. There is little information on the trade-offs that they make in terms of housing choice or on the extent to which housing allowance recipients are concentrated in areas of low cost housing (Wulff and Evans 1999). The housing allowance is a cash transfer and no other support is provided, although a recent report on welfare reform in Australia recognised that additional support might be required for some households (Reference Group on Welfare Reform 2000). The US voucher program, in contrast, aims at improving housing outcomes in terms of quality, appropriateness and location as well. For example, before subsidy arrangements are approved, the property must be inspected and meet federal minimum quality standards. The administration fee received by local housing agencies for administering the program is supposed to cover counselling on the housing search process. In practical terms, households are often given a list of property managers willing to accept voucher holders (Maney and Crowley 1999).

4. *Only in Australia are housing allowances restricted to private renters.*

As indicated in the previous section, in New Zealand, home purchasers are able to use the accommodation supplement to assist with their housing costs. In the US, from 1999, a percentage of housing vouchers can also be used for home purchase.

5. *The Australian and New Zealand schemes differ from the US voucher scheme in the percentage of recipients who are boarders rather than renting independently.*

In New Zealand, before the recent changes, 22% of all recipients were boarders (MSP 2000: Table 72). There is a similar figure in Australia (Wulff and Rees 1999). In the US, there is one voucher per unit of accommodation, which in theory does not allow for boarding arrangements. There is little information on the housing and other circumstances of boarders because they do not impact directly on the housing market. It is unclear to what extent boarding represents a lifestyle choice or whether housing allowances do not enable up to a quarter of recipients to rent independently.

6. *Housing allowance programs in part target households who are not assisted in social housing.*

More than half of rent assistance recipients in Australia are single income units with no partner or dependents (SCRCSSP 2000: 1442), which may in part explain the high rate of boarding. In the US, two-thirds of voucher holders are families with children, mainly lone parents, a significantly higher percentage of families than in other types of housing assistance programs that are increasingly concentrating on households without children (HUD 2001).
7. *The payment formulae for housing allowances in all three countries are complex.*

Appendix 1 shows the different payment formulae in the three countries. Key points of difference are that rent assistance in Australia cuts in above *minimum rent thresholds* that are not derived from an affordability benchmark, as in New Zealand and the US, varying only by household type and size. The US scheme differs from the other two in that it pays 100% of the amount above this minimum threshold, whilst rent assistance and the accommodation supplements pay 75% and 70% respectively, requiring co-payments by households. All three schemes have effective *maximum payment levels*, but only in Australia is there no consideration of local or regional rent levels in setting this maximum.
8. *Housing allowances in Australia and New Zealand are not accompanied by significant policies to increase the supply of low rental accommodation, unlike the US.*

Rent assistance and the accommodation supplement have developed in the absence of specific policies to increase the supply of low rent accommodation. US housing policy differs in this respect in that housing vouchers have grown in the context of policies to increase the supply of such accommodation, notably the Low Income Housing Tax Credit scheme. Despite relatively robust private rental markets in the three countries in aggregate terms, various writers have pointed to the lack of investment in low rental housing (e.g. Daskal 1998; Yates and Wulff 2000).
9. *Only housing vouchers in the US are specifically tied to a supply program.*

Recent changes (2000) to the housing voucher program in the US mean that up to 20% of vouchers can now be tied to specific housing units, specifically those funded under the Low Income Housing Tax Credit scheme (Sard 2001).
10. *There has been little substantive research on the interaction between housing allowances and private rental markets.*

This is an important issue that requires further research in view of the percentage of the private rental market in the two countries affected by these payments. In Australia, about a third of all renter households and more than 40% of private renter households are estimated to be in receipt of rent assistance. In the US, where the market share of housing voucher holders is much lower (4.5% of all renter households), the issues appear different, although there is concern that housing vouchers do impact on a specific submarket of property managers who are willing to participate in the voucher program (Maney and Crowley 1999).

## SUMMARY

Housing allowances can be found within both income security and housing assistance programs. In Australia and New Zealand, they are administered within income security programs but have also been seen as a type of housing assistance and a part of national housing policy. With the exception of the US, housing allowances within income security programs cost more and affect more households than social housing programs. Some types of households are excluded from these types of housing allowances if they are not seen as income security clients, particularly low income working households. As governments seek to move households from income security and into paid work through 'welfare reform', there may be a need to rethink the current strategy of relying on housing allowances within income security systems.

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**Appendix 1 Comparison of national housing allowance programs in Australia, New Zealand and the US**

<b>Payment</b>	<b>Australia (rent assistance)</b>	<b>New Zealand (accommodation supplement)</b>	<b>US (housing vouchers)</b>
Affordability benchmark	No	Implied by minimum thresholds	Yes – 30% of household income
Subsidy formula	75% of difference between a minimum threshold and the rent (subject to a maximum payment)	70% of difference between 25% of income for renters (30% of income for purchasers) and the rent/mortgage (subject to a maximum payment)	100% of gap between 30% of income and the rent or payment standard for the accommodation
Minimum threshold	Dollar amounts set according to household type/size	Rent more than 25% of income (renters) or more than 30% of income (purchasers)	Housing costs more than 30% of income
Maximum payment	Set according to household type/size  No variation in maximum payments by local housing market	Set according to household type/size and region	Capped by a payment standard based on 90-110% of the fair market rent for size of accommodation based on the lowest 40% of rentals in an area, and also subject to a 'rent reasonableness' test
Subsidy paid to:	Household	Household	Landlord
Restriction on rent paid by household	None	None	Must not pay more than 40% of income on rent