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May 14, 2009

Glenda Baker
Senior Council Officer
Standing Committee on Social Issues
Legislative Council
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Ms Baker,

**Additional Questions: Inquiry into Homelessness and Low-cost
Rental Accommodation**

Please find attached the response to the Additional Questions requested of ARCH on notice. I apologise for the delay in ARCH receiving your additional correspondence. Many thanks to your consideration of extra timing.

Thank you!

Yours sincerely,

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Extra Questions Taken on Notice 7 April 2009 – Association to Resource Co-operative Housing

1. Eligibility Criteria

Generally, the selection of tenants is determined by the co-operative in line with the NSW Operational Guidelines, based on local need as well as the compatibility requirements and matching dwelling size.

Those on public housing waiting lists have the opportunity to apply. Organisations must ensure that the selection of tenants is fair, equitable, open to the public and consistent with the Guidelines, registration requirements, and the organisation's nominated target group.

The program is targeted to low and moderate income earners with at least 65% of tenants Housing NSW eligible. Prior to establishing a tenancy, all households must have a demonstrable housing need. (NSW Operational Guidelines November 1998)

2. Barriers to

a) Growth of low-cost rental accommodation

The cost of supply means that the level of subsidy from Government needs to be high; the rate at which that additional supply can be provided is also an issue given – slow development approval processes and the time for general housing production delivery.

b) Speed of Delivery

Infrastructure and capacity needs to be in place in order to be able to deliver fast. That is currently not in place.

c) How can these be addressed?

i. Title Transfers

Title is required in order to leverage private finance and ensure future viability

ii. Diversity of models

There needs to be a diversity of models to achieve responsiveness to community needs and opportunity for the creation of innovative modelling particularly as concerns scope for land trusts; shared equity and mixed equity proposals. Generally

the scope of modelling needs to open up, particularly given the nature of markets in NSW, to allow financial modelling to be inclusive of moderate, to low, to very low income earners impacted by housing stress. Income and social mixing because of the diversity it brings (and de-stigmatises) is seen as a valuable attribute that allows for greater financial flexibility and blending. In terms of sustainability – there needs to be sufficient surpluses to manage risk and re-invest.

III. Capacity Building

Greater investment in infrastructure and capacity building of the community housing sector to – plan at a sophisticated financial level and access or bridge private finance; access appropriate expertise for project management and monitoring - access to building technicians, architects and builders that will ensure project feasibility in terms of quality and cost effective outcomes; building capacity in risk management. The capacity for greater scale depends on the range and level of expertise.

IV. Policy Certainty

There is a need for clear policy certainty from Government in order to support investment decisions by providers and private financiers. A clear policy framework is required to strengthen the community and co-operative housing sector's skills, capacity and positioning, allow for sufficient growth and scale to maximise benefits of an alternative housing delivery system, invest in capacity building and give confidence to the private sector for engaging in partnership – thereby achieving greater independence of the sector and opportunity for mobilising for improved outcomes.

V. Accessing Funding

Grants; support services; programs; that support a broad range of options across social and traditional private housing provision – therefore creating a new not for profit market area of affordable housing that sits between traditional public and private markets

VI. Improvement to Planning Approvals

Departments of Planning and Housing are well placed to be able to address housing affordability. A whole of Government approach that allows for a collaborative system to overcoming long delays, mounting construction costs, loss of critical investment time, is urgently needed to allow and facilitate affordable housing to be and remain 'affordable'. This submission recognises that key changes have recently occurred in the Planning system to speed up the delivery of housing.

3. Co-ops Receive No Re-current Funding

Once co-operatives are allocated housing they receive no recurrent Government funding. They become totally self-managing and financially self-sufficient, admittedly, on the basis that there is no recovery of the capital costs of the dwelling. The Rental Income is held by the Co-operative and the Co-operative becomes responsible for all outgoing Administrative Costs including: rates – land and water; common electricity; office costs including common phone, fax, postage, and other running costs; importantly Responsive Maintenance and Cyclical Maintenance are undertaken by the co-op, Structural Maintenance is the only area that remains the responsibility of Housing NSW – this is not a recurrent fund. There are no workers employed to run

co-operative housing – tenants manage the co-ops. ARCH which is funded by the State Government, supports co-ops to manage in line with Regulatory requirements, our services include direct provision of financial management services but also extensive education training services to improve self-management and ensure quality delivery of services. Please note: most co-ops have performed extremely well under performance based registration.

4. Separating Provision from Regulation:

May not have been accurately stated in our original report.

In Victoria, housing co-operatives are integral to a central holding company. Individually, they are not expected to undergo registration. Instead the Holding Company Registers on behalf of the whole Co-operative Housing sector, whilst itself ensuring operating systems, qualitative and quantitative outcomes are as consistent as possible throughout the sector. The advantage of this is that the sector operates as a cohesive system and is less open to idiosyncratic malfunction. Management bodies throughout the Victorian Co-op sector are facilitated to operate as a consistent and cohesive program, rather than independently and in an ad hoc way. In this way services to tenants are fair and consistent within a program and ideologically driven value system of service to members, therefore less open to individual interpretation and dysfunction.

In NSW, the last performance based registration, saw co-ops rallying to ensure best practice by using established centralised proforma (on policies and operations) and exchanging with other co-ops on 'best practice'. In future, such best practice could be developed around providers collective identification of the drivers and elements of good co-operative housing provision, that at the same time meets Government requirements. Should the sector be in agreement with the current proposal for a central holding company, then that company would become the Registered body on behalf of the sector, rather than individual co-operative housing providers. This approach should maximise benefits to tenants by virtue of having clear agreed to operational procedures imputed by the members of the holding company.

This would then allow providers in the co-operative housing sector (who are also tenants) to focus more on qualitative outcomes and areas that build social co-hesion.

Government would then focus on one central body for regulation – which is more cost effective and takes pressure off small providers and tenants in unrealistic expectations to perform.

5. Accessibility to Key Workers

At least two thirds of Co-ops would be open to taking on key workers. Those that are not are specifically targeted to aged or culturally and linguistically diverse (CALD) groups. However, it should be noted that given co-operative housing has always allowed for 35% of its allocation to allow for income mix ie non social housing eligible, all co-ops can accommodate key workers. This however is not practicable for co-ops

with predominantly aged members. Within co-operative housing that 35% mostly consists of key workers, shift workers and part-time workers – though no accurate in depth analysis has taken place.

- a) Access to key workers is appropriate – as affordability is impacting significantly on those unable to access the rental market due to affordability, who are ineligible for public housing and who need to be in close proximity to the central infrastructure where jobs are available.
- b) Financial Sustainability of co-operative housing is key issue. Mostly, up to 35 % social mix is ideal and appropriate. However, in a very small housing co-operative (less than 10) even 35% may not adequately cover the capacity for ongoing financial sustainability. In such circumstances, operational policies need to be flexible to be able to meet a range of objectives, particularly the ongoing sustainability of the housing and the ability to cover costs. Hard and fast policies need to be more flexible to allow for common sense negotiations that will ensure ongoing success.
- c) Two thirds of the co-operative housing sector is in the Sydney Metropolitan Area – with about 20 in the central Sydney and western Sydney region.

6. Necessary elements for creating and Maintaining Cohesive Communities

Co-hesive Communities are based more predominantly around quality of life and life satisfaction indicators, rather than other indicators.

In housing co-operatives, several factors come into play:

- ❖ How members came together
- ❖ how they maintain group cohesion
- ❖ how they perceive and value the relationships within their close community, and
- ❖ what such relationships mean to them in terms of added value to their housing.
- ❖ Long terms secure and affordable housing is also a key contributing factor

In many co-operative housing communities, strong networks of social cohesion come from the level of commitment members have to one another. Often such commitment is based on common values and perceptions, language and cultural ties, where social capital is engendered and strengthened by the co-operative housing structure.

In a housing co-operative, once residents need for shelter has been met, people experience greater control over their housing, without residualisation or stigma, in fact, quite the contrary.

Findings suggests that:

- ❖ Members draw on their connections to other members of their community to share common values, or cultural traditions but also to achieve economic and social goals as well as goals of personal commitment to community building.
- ❖ Members of co-ops identify strongly with a 'sense of place', the co-operative is their home and they express a strong sense of connection with their local environment.
- ❖ Often the co-operative is seen as providing a sense of community, a familiar, secure, safe and culturally supportive community, "community" being critical to a sense of place. Members consistently say that they feel 'at home', and in control of their housing, despite lack of ownership, which remains a strong aspiration.
- ❖ The neighbourhood may also be perceived as the public realm of home where relationships can be formed.
- ❖ In housing co-operatives members often see themselves as active and influential decision makers in running and maintaining their housing environment.
- ❖ Meaningful relationships are maintained – in that members may socialise with each other, visit each other, trust other members, celebrate together and work together towards common goals, even though they may experience differences of opinion
- ❖ Affordable, self-managed housing not only devolves power but also stabilises the community, counteracts social exclusion and allows for opportunities
- ❖ Members may experience improved quality of life largely as a result of affordability and security but also resulting from access to key local resources, social and support networks. These help reinforce the community and its integration of values with new opportunities

People provide anecdotal reports on developing greater skills and confidence in their capacity to respond to other communities in need and there is clear evidence of reciprocated altruism, exemplified by the concerted effort to help others (refer to Paul Van Reyk – Terriers and Sanctuaries 2008)

In recent research, members perceive the co-op model as sustainable in the long term, offering a structure that members are committed to, precisely because it responds to their common values and household requirements, in terms of size, safety and access to open space, a quality community environment and a means of counter-acting social exclusion and the impacts of poverty.

In order to sponsor greater social co-hesion, the following factors could be considered:

- a) Greater opportunities for co-operative housing development both on estates and as an option for new housing (ARCH has previously undertaken Research by Craig Johnston and Jenn Lumsden to investigate Tenant Managed Co-operatives on Housing-estates. The study looked favourably at this outcome)
- b) Greater opportunities for social housing members to have increased participation - greater control over decisions concerning their housing, such as: design, location, orientation, environmental factors and accessibility, as well as general decisions in the running of that housing and its up-keep.

- c) Greater Income Mix to stabilise the social dislocation that is currently prevalent on some housing estates.

7. Income and Social Mix

The policy of mix, targeted to moderate income and key workers allows for healthier more 'normal' and more functional communities in contrast to heavily residualised neighbourhoods where individuals feel isolated and with no one to turn to.

Within co-operative housing generally speaking, it is often the case that those on moderate incomes contribute strongly to the community and provide excellent role models for the community. They provide leadership in direction and community initiative and an excellent role model for engagement in the community, in work and in volunteering activities.

Whilst there is criticism of short supply being allocated to those in less than the highest need, the positive outcomes would seem to far outweigh the disadvantages. Our experience in co-operative housing is that social mix:

- ❖ Allows for better integration and less stigmatisation of communities
- ❖ Provides positive role models
- ❖ Brings skilled people into the community
- ❖ Stabilises the financial capacity of the co-operative community as it allows for cross subsidy
- ❖ Offers balance and stability as well as reaching out to other communities of engagement.

8. Co-operative Housing Market

Government Policy to date has not been open to Co-operative housing growth or funding of new co-ops using previously identified CSHA funding. As such there has been no funding of co-operative housing by the state over the last 5 years.

Only recently, under new policies introduced by the Centre for Affordable Housing and the Federal NRAS funding, have we (ARCH and the sector) been able to expand two existing co-ops to produce 26 units of accommodation.

There is a constant demand for co-operative housing, more frequently by refugee groups in the Western Sydney Region than elsewhere. There has also been an increasing demand by people with moderate incomes, looking to opportunities for shared equity housing. Sadly, over the last five years, there has been no state funding program available to co-operatives for expansion of the sector. The program is therefore not promoted and people are often turned away.

Most recently, however, that is over the last 15 months, the Director General of Housing, has encouraged important research investigation for the Co-operative Housing Sector in NSW, to ensure the development of a model, similar to Victoria, that will position the sector, under a single holding company, to become a growth provider for the sector. This proposal is still under consideration by the members of the sector and is still being refined

by the Community Housing Division of Housing NSW. However, should such model come to fruition it will significantly allow the sector to expand.

9. Models in the UK

NSW has been moving towards a similar model to that of the UK (which has more complex attributes for geographic location and use of median rent), subsidising a market rent value within the affordable and community housing sector by taking advantage of, or maximising Commonwealth Rent Assistance, then where there is still a difference, NSW Government subsidies make up the rest. This NSW subsidy does not apply to housing co-operatives as they are all situated in Government owned stock. Whilst the change to market rent increases economic benefit, a key question remains and that is whether the social housing system should be emulating the inflationary patterns of the market system or whether it should aim to an upper cap of 75% of market rent (as applied to the Co-operative housing sector in Victoria) so as to ensure incentives and security for a diversity of residents. There is little incentive if it simply emulates the private market. In either instance the main objective is to ensure that:

- ❖ housing remains affordable
- ❖ tenants do not pay greater than 25-30% of income,
- ❖ that there are sufficient subsidy streams to ensure tenants are not economically disadvantaged, and
- ❖ that the housing generates sufficient income to uphold the level of maintenance and other quality housing outcomes that are needed to ensure long term sustainability.

10. A Place for Shared Equity Home Ownership within the Co-operative Housing Sector

Shared Equity offers an option for people currently unable to access home ownership, nor the security and stability that gives greater independence of living.

For many, accessing home ownership is financially prohibitive in that a growing proportion of the population are unable to service the debt required.

Low cost home ownership schemes require significant subsidy (land or grant) to be affordable and accessible and in this way they can have significant impact in addressing housing affordability for individuals benefiting directly from the schemes.

Shelter NSW on '*Shared-equity home-ownership: welfare and consumer protection issues*' *Shelter Brief 33*, July 2007 very thoroughly covers the advantages and disadvantages (p29). Similarly, a Study by Dr. Louise Crabtree entitled '*Models of Perpetually Affordable Homeownership*' 2008 delivers pertinent information on Models in the USA. These are excellent sources for better academic understanding of the key factors involved in both the choice of models and nature of financing.

In Australia, the closest comparative model, is that of the Multiple Occupancy Model that developed across NSW in the 1970's and 80's in regional country areas.

In this model, members pooled resources to purchase large blocks of land, used to develop communities of housing with some common facilities and separate private dwellings. This housing form at that time, allowed for people with relatively modest incomes to purchase land and gradually and collectively to build (self-build) low cost housing. For a long time, it was an excellent source of affordable accommodation for those with the ideological drive to work together and build together an 'ideal' community. Today, land costs and planning restrictions are so inhibitory that they no longer allow for such innovative solutions.

Other options in shared equity have included purchase of disused industrial warehouse stock and conversion into units of 10 or less in inner city areas that were once light industrial. Whilst affordability through these means was still accessible in the 1970's and 80's it became less so as costs increased and opportunities for affordability of this nature diminished, or became inflated in price due to demand and locational advantage.

As such, a key question in the provision of affordable housing is in preserving affordability and convincing those who 'buy-in' to equity schemes to exempt themselves from inflationary market profits, reducing their purchase power elsewhere in the market. Depending on perspective this could be viewed as an advantage or a disadvantage.

In recent times, John Davies visited Australia to introduce the notion of Land Trusts and various other forms of shared equity co-operatives that have become very popular forms of Affordable housing in the USA. Key to the models introduced by Davies is the concept of them being not for profit and remaining affordable in perpetuity. Another key factor is the capacity for such housing to disengage from inflationary market forces, thus remaining protected from the volatility of the market.

As with housing co-operatives, members ascribe to ideological principles of co-operation and work collaboratively to achieve a common set of housing goals.

Entry into the system is heavily screened and relies strongly on an assessment of capacity to afford repayments, although these remain far more competitive than other alternatives. The sector, according to Davies, has not been affected in the same way as the sub-prime market collapse elsewhere in the USA. Once sizable scale is attained there is far greater scope for leveraging and expanding. Housing costs consist of both a mortgage on the cost of the building and a rental on the lease of the land. As such it can never be fully owned.

The greatest advantage is that it allows homeownership aspirants on more moderate incomes to access secure long term housing that was previously inaccessible, therefore becoming part owners – or equity holders at an affordable level, with all the security of 'home'.

Questions that arise are around equity of access to both low and moderate income earners which could only be equalised by way of significant subsidy assistance to those in greater need.

11. What do you think can/should be done to encourage effective private sector investment in the provision of low-cost accommodation to both low and moderate income earners?

A fundamental problem is that the range of subsidies for home ownership far outweigh the assistance given for affordable housing.

For every \$1 given to public housing and Commonwealth Rent Assistance, the Commonwealth Government subsidises investment in the family home by something over \$10. And this is only by not charging capital gains tax or imputed rent tax on investments in the family home. It does not include the additional benefits that come from leaving the family home out of the assets test, being able to leave it tax free to your dependents and, in most States, exempting it from land tax. Pensioners also get reduced rates, while the level of local government rates generally are low compared to comparative countries, thereby reducing the running costs and increasing the capital value.

By contrast, only \$2 is given to private landlords through negative gearing, although, it is this assistance that receives most of the criticism when people raise the excessive demand for housing caused by the tax system.

Negative gearing is not the problem. The massive subsidies to homeowners have caused the price of housing to be way out kilter with all other types of assets. By a range of measures, Australia has some of the highest house prices in the world.

The issue is that either the subsidies to home ownership are reduced or subsidies are provided to encourage private investment into a market heavily distorted by those subsidies. The recent attempts by the Commonwealth to subsidise private and community investment into affordable housing is commendable. It remains to be seen whether it is successful and sustainable.

12. What role do you think local government should play in the provision of low-cost accommodation? What could the NSW Government do to assist local governments in working with providers and managers of low-cost rental accommodation?

Local governments may have a role to facilitate and encourage investors, with other levels of government and community organizations/groups, so as to develop and run innovative affordable housing that is suitable for their local areas. The State in its planning capacity

could play a more proactive role in encouraging LG to look at more innovative ways of developing affordable housing ventures.

The attempts to actually build affordable housing units has been disappointing despite a number of local government housing officers being employed to do this over the years.

LG could play a greater role in land use and planning functions for affordable housing. The use of developer incentives to attract private investors could also be initiated at a LG level. A development levy for Affordable housing purposes could provide a legitimate funding source to meet the affordability gap. However there also need to be trade offs or planning incentives that will encourage developers.

State Planning could also take a much stronger role (for example with SEPP 10) in restricting the loss of existing affordable housing stock, such as boarding houses and flats or looking at more effective means of compensating loss.

Today there are a sufficient number of registered community housing providers, including housing co-operatives, to be able to form legitimate partnerships with Local, State and Federal Government to achieve innovative housing outcomes through collaborative means.

13. Explain what you think is required to ensure that investment in affordable rental properties becomes an acceptable form of investment, resulting in a sustainable approach to the provision of low-cost rental housing

The answer to question 11 set out why there is a dearth of affordable housing in most places in Australia. Those with access to funds can outbid renters and low income would-be home-buyers for available stock. As a consequence, the well-off over-consume housing space.

The recent report by the Commonwealth Housing Supply Council noted that nearly one third of the three and four bedroom houses were occupied by one person. This demonstrates how distorted both the demand and supply sides of the housing market are.

As stated above, in the absence of the political courage to wind back the levels of subsidy to home owners and purchasers, the answer can only be further, hopefully efficiently directed subsidies.

Karine Shellshear
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