

**Submission  
No 199**

## **INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING**

**Organisation:** BlueCHIP

**Date received:** 28/02/2014

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# BlueCHP Limited submission to the NSW Legislative Council Select Committee on Social, Public and Affordable Housing

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## Preamble

BlueCHP Limited (BCL) acknowledges there is a need for the NSW State Government to bring together the Select Committee on social, public and affordable housing to report on the housing demand and shortage of affordable housing.

A report by the Australians for Affordable Housing, a collation of national housing, welfare and community sector organisations was conducted due to a need that all Australians should have access to safe, secure and affordable housing. It indicated the following main findings:

1. Housing for Australians were unaffordable for jobseekers in all of the 40 regions in Australia where they are most likely to find employment
2. The availability of affordable housing is likely to be a key factor in assisting jobseekers to gain employment<sup>1</sup>

## About BlueCHP Limited

BCL is a not for profit organisation that was established by five community housing organisations (members) – full listing of our members are in Appendix 1. Our role is to grow the supply of high quality affordable housing in Australia for those individuals experiencing housing stress.

BCL is not involved in tenancy management or day to day responsive repairs and maintenance. All properties within the BCL portfolio are head leased to members for

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<sup>1</sup> Australians for Affordable Housing ([www.housingstressed.org.au](http://www.housingstressed.org.au))

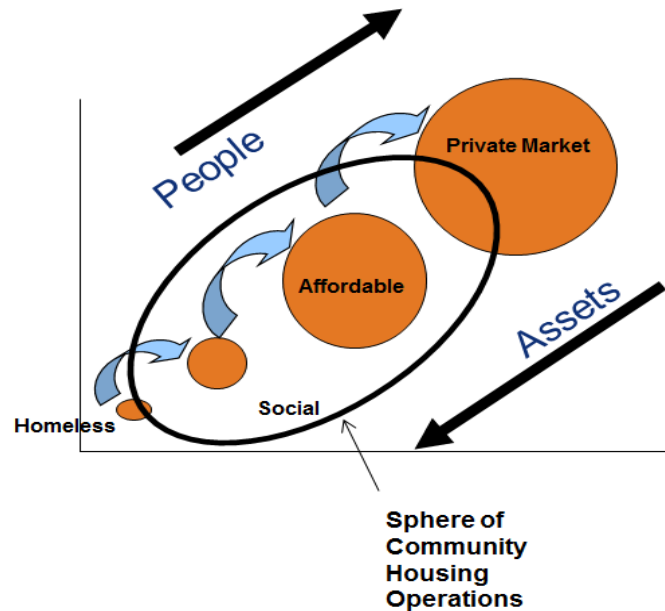
them to manage. BCL's day-to-day activities revolve around property development, procurement, and property management activities.

With assets up to \$200 million, commercial ownership of over 660 homes, and a professional skills based board and management with substantial international experience in both the development and the financial sector, BCL is recognised within the housing sector and external developers as a pre-eminent CHP development and asset manager.

### **Pathway from dependence to independence**

1. **First Stage:** Full dependency on external funding and support. It is estimated that in NSW there are currently 36,000 Australians homeless with an annual cost of \$108 million or \$3,000 per annum per person.
2. **Second Stage:** Social Housing: Housing provided to Australians on social income support (such as Centrelink income), limited to 25% of income. Social housing is generally provided by either State Government (public housing) or community housing providers (social housing). At this level a person may not have employment, but is provided social income support.
3. **Third Stage:** Housing supplied to low to moderate income workers. Housing is supplied at between 74.9% to 80% of market rent and generally capped at 30% of income. Persons at this stage are those who may have part-time or full-time low to moderate income employment. They may also receive some social income support to support their employment salary.
4. **Fourth Stage:** Housing supplied to persons at this stage is either in private rental (through real estate agents) or persons in part or full property ownership. There is no dependence on external funding and support required.

Community Housing operates within the realms of the stages as per the below chart.



## Executive Summary

BCL has had the opportunity to review the terms of reference of the NSW State Government Select Committee on social, public and affordable housing. BCL's submission is based in providing 6 simple policy levers to help elevate the on-going affordable housing crisis in NSW:

1. Lobby Government on extra funds to deal with the current 44,080 shortfall in NSW affordable housing which could be eliminated in eight years. There are opportunities for the Federal/State government funding either by way of cash or payments made in kind of potentially up to \$50M for each Tier 1 community housing provider (CHP) with development frameworks in place (this would ensure better capitalisation to undertake a more rapid investment in affordable housing). Direct funding should be made available to CHPs, given their additional benefit of having significant not for profit tax advantages
2. There should be an increase access to land (private/government owned) for CHPs to leverage off including Government encouragement that all new Greenfield developments and Brownfields (redevelopments) to hold as a

requirement that 10% and 5% of total housing be developed as affordable housing

3. Transfer of long term management of social housing to CHP's to access commonwealth rent assistance (CRA) to improve maintenance outcomes & surpluses available for redevelopment supplemented with future of ongoing NRAS funding - A good base model is to consider the Logan Renewal Initiative (BCL currently in the final 2 tender consortiums) as a base template for growing social and affordable housing in NSW;
4. Provide a planning framework to encourage higher densities of affordable housing in areas of need such as over 55's senior's living developments given Australia's ageing population;
5. Long term regional strategy on housing to shift focus from small towns which may be uneconomical in the long-run to a more direct focus on larger regional town centres where there are employment opportunities;
6. Provide debt guarantees to sophisticated CHPs to access/create a rolling 10 year bond market.

Each point will be discussed individually in detail below.

### **1. Lobby Federal Government on extra funds to deal with the current 28,880 shortfall in NSW affordable housing**

It is wide-spread knowledge that currently Australia has a major under-supply of social, public and affordable housing in Australia. Australian Bureau of Statistics (ABS) Census reports that an estimated 105,000 people were homeless and a further approximately 28,190 people were sleeping rough on the night of the 2011 ABS Census (a total of 26.9% increase from 2006). It is estimated that in 2013 there was a shortfall in Affordable Housing of 28,880. It is estimated that by 2016, this shortfall rise to 43,700. In terms of social housing, there were 55,186 applicants on the NSW social housing list in 2012<sup>2</sup>.

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<sup>2</sup> Shelter NSW, NSW Housing factsheet: A quick guide to housing facts and figures

If we look at the top 10 CHPs in NSW it is anticipated that each CHP could develop an additional 4,400 dwellings in order to sustain this shortfall in affordable housing over an eight year period with adequate capitalisation

In 2012, Mission Australia undertook a cost base analysis of those who require assistance due to mental health or who were at risk of losing social housing tenancy due to diminished wellbeing or relapse of mental illness. Within this analysis it was recognised for every extra \$1 that the Government invest, they would in return save \$13.50 and up to \$19.50 to the greater Australian economy due to savings obtained through decrease costing in health, judicial and homeless services.

By having a holistic industry integrated approach by integrating the components into an overall combined state government strategy, it would benefit the housing market through lower financing costing, simpler planning processes, lower risks for delivery of stock and attract more private sector participants.

### *Subscription of \$50 million for Tier 1 Providers for potential development grants*

Traditional funding for housing initiatives has been in the form of schemes such as the National Rental Affordability Scheme (NRAS); National Affordable Housing Agreement (NAHA) and the National Building Economic Stimulus Plan (NBESP). It is clear from that there is still a wide gap in unmet society demand and a growing need for sustainable alternative investments over a period of time to wholly address the issue the Australian housing shortage<sup>3</sup>.

There is an opportunity to extend the traditional government funding stream to extend to provide large Tier 1 CHPs who have existing development frameworks & resources in place by subscribing either once-off or on-going development grants for the specific purpose of developing new or redevelop existing affordable and/or social housing stock. The best example is BCL based in Brisbane (Queensland).

The Council of Social Service of NSW (NCOSS) has responded to the ever increasing affordable housing crisis through a call to fund \$250 million over 4 years to develop up

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<sup>3</sup> Pawson, H et al, *Social Housing Strategies, financing mechanisms and outcomes: an internal review and update of key post-2007 policy developments*, December 2011, City Futures Research Centre, University of NSW, Sydney Australia.

to 3,000 additional Social and Aboriginal dwellings. CHPs will subsequently benefit from this level of funding and continue to grow as a player in the social housing system.

Unlike community housing providers in Europe and the United States, CHPs in Australia have had little or no involvement in property development (with some exception such as BCL), and have largely focused on general and specialist tenancy management. There were a number of barriers to the expansion of CHPs including limited policy framework and government investment in Australia, resistance to community housing by state and territory housing authorities<sup>4</sup>.

As the development arm of an existing consortium of five CHPs, BCL in the past five years has built assets up to \$200 million with commercial ownership of over 660 affordable and social dwellings. It is recognised in both the public and private housing sector as well as external developers as pre-eminent CHP development and asset management. CHPs such as BCL have the potential of further decreasing housing shortages through being both a developer and a registered CHP and utilising the tax status that applies to this business.

## **2. Increase access to land (private/government owned) for CHPs to leverage off**

With 150,000 dwellings, NSW has the largest social housing portfolio of any state in Australia. The Land and Housing Corporation (LAHC) own about 134,000 of these dwellings of which the majority is public housing for which Housing NSW (HNSW) provides tenancy management services.<sup>5</sup> This is comparative to CHPs who provide over 29,000 households across NSW.<sup>6</sup>

There is a need to promote new sources of affordable housing options including greater access to private and government owned lands in order for CHPs to leverage development of new and redevelopment of existing affordable and social housing stock.

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<sup>4</sup> Pawson, H et al, *Social Housing Strategies, financing mechanisms and outcomes: an internal review and update of key post-2007 policy developments*, December 2011, City Futures Research Centre, University of

<sup>5</sup> Housing NSW and NSW Land and Housing Corporation, *NSW Auditor General's Report Performance Audit – Making the best use of public housing*

<sup>6</sup> NSW Federation of Housing Associations, *What is Community Housing: Community Housing in NSW* ([http://www.communityhousing.org.au/C1\\_CH\\_in\\_NSW.html](http://www.communityhousing.org.au/C1_CH_in_NSW.html))

Opportunities can be made through a more targeted NSW planning system approach and may include ensuring a land and planning policy. Key overall planning objectives to promote and encourage affordable housing applications contribute to closing the Australian housing shortage gap within key low housing affordability areas<sup>7</sup>.

Local governments should also facilitate the greater supply of appropriately zoned residential land, to avoid false supply constraints that may affect the cost of housing by identifying potential land opportunities for both social and affordable housing in areas where land is currently un-utilised or under-utilised, areas in need of urban renewal or providing opportunities to develop on previous vacant sites in public ownership. Land in these cases may be required by government to be rezoned for residential development or development for higher density if required<sup>8</sup>.

### *Increase in affordable housing through new Greenfield and existing Brownfield developments*

It is estimated that currently the NSW Land and Housing Corporation (LAHC) provides housing which only meets 44% of social housing need in NSW. The current planning constraints in the NSW property portfolio and existing funding arrangements do not enable HNSW and LAHC to meet the changing public housing need<sup>9</sup>.

Over recent years, there has been widespread interest in utilising planning measures to facilitate future development opportunities for affordable and community housing. There is an opportunity for Governments to assist in the introduction of new development planning measures to ensure that at least 10% of all new Greenfield developments and at least 5% of all existing Brownfield developments is allocated specifically to the increase in affordable and social housing stock.

It is vital that we apply an effective land and planning policy in NSW in order to rectify the housing shortage. Land is a crucial element in meeting affordable housing provision

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<sup>7</sup> NSW Family & Community Services – Housing NSW, *Planning Mechanisms for Affordable Housing*, last updated 12<sup>th</sup> March 2013.

<sup>8</sup> NSW Family & Community Services – Housing NSW, *Planning Mechanisms for Affordable Housing*, last updated 12<sup>th</sup> March 2013.

<sup>9</sup> Ibid.



shortages and a fundamentally sound land supply policy is important to ensure that affordable housing development opportunities continue to be readily available<sup>10</sup>

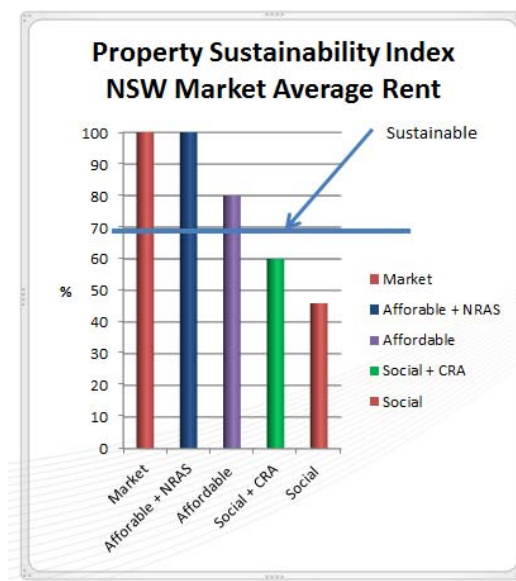
### 3. Lobbying of government to transfer long term management contracts to access Commonwealth Rent Assistance (CRA) and NRAS funding

There is direct correlation that an increase in affordable housing supply whereby increased access to land or the transfer of long term management contracts will result in an increase in CRA available for affordable and social housing tenants.

There are cost savings in an increase in CRA availability due to costing associated with being a CHP as well as a lowering of tax benefits in leveraging the supply of transferred properties to build or purchase additional properties with private finance.

The transfer of long term management contracts to CHPs through schemes such as NBESP, will directly enhance the leverage capacity of provide capital which leads to an increase capacity to obtaining private finance.

It can be seen in the below graph, that without an additional security such as NRAS and CRA the average NSW market rent is far less sustainable than if NRAS and CRA continued to provide funding for the affordable and social housing sector.



<sup>10</sup> Ibid.

### *Maintain NRAS funding into providing funding over future rounds*

Similar to CRA, NRAS provides on-going funding over a 10 year period for approved participants providing they remain eligible within the 10 year tenure.

In order to address the shortage of social and affordable housing in both NSW and that of Australia as a whole, NRAS has provided much needed housing to Australians on low and moderate incomes. Upon each round of release between 2008 to present, there is a consistency in the program of being over-subscribed by investors and renters. It is noted in an article published by the Australians for Affordable Housing that the scheme has been “a huge success story for this Government, providing new homes for pensioners, people with disability, low income workers and a high number of sole parents”<sup>11</sup>.

There is continued speculation that the current government has not confirmed the future of NRAS in light of two rounds of NRAS incentives being released within a 2 month period in 2013 (‘Shovel Ready’ round and ‘Round 5’) although commitment post Round 5 has not been conclusive on the definite future of NRAS<sup>12</sup>.

The focus of NRAS going to CHPs results in a higher level of long term retention of affordable housing versus the private sector.

### *BCL Case Study: Logan Renewal Initiative (LRI)*

A good base template to model ways in which housing shortages can be alleviated is the LRI tender which BCL and Compass Housing Services Co Ltd (CHL) are currently one of two remaining consortiums competing in the final tender application stages as a partnership formed within a consolidated joint venture under a separate special purpose vehicle entity.

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<sup>11</sup> [www.Housing Stressed.org.au](http://www.Housing Stressed.org.au), Final allocation of NRAS incentives announced, no plans for the future <http://housingstressed.org.au/2013/05/07/final-allocation-of-nras-incentives-announced-no-plans-for-the-future/>

<sup>12</sup> [www.Housing Stressed.org.au](http://www.Housing Stressed.org.au), Final allocation of NRAS incentives announced, no plans for the future <http://housingstressed.org.au/2013/05/07/final-allocation-of-nras-incentives-announced-no-plans-for-the-future/>

It is proposed that CHL and BCL will establish a special purpose vehicle to bid for the project (Logan Renewal Initiative RFP3) with the Queensland Government for the development, maintenance and provision of affordable housing in Logan City, Queensland.

The LRI is a 20 year lease tenancy management contract of approximately 4,667 dwellings and at net uplift of 1,500 homes, (a 32% increase in stock).

#### **4. Provide a planning framework to encourage higher densities of affordable housing in areas such as over 55's senior's living developments given Australia's ageing population;**

It is a well-versed concept that Australia is moving towards an increasingly aged population. Part of providing a sustainable social and affordable housing strategy to meeting growing population demands is for Local and the NSW government to provide changes in the council re-zoning laws in order to encourage higher densities for affordable housing to areas of greater need areas such as over 55's senior living developments.

There are also potential opportunities for certain local councils to specifically permit the conversion or adaptation of appropriate existing dwellings for use in alternative forms such as supported aged housing. The adaption of existing dwellings to enable cohabitation, particularly by seniors can also contribute to the supply of affordable housing choice within a given area<sup>13</sup>.

Examples of current local councils within the Sydney metro area encouraging higher multi-unit dwellings include Waverly Council allowing shop top or mixed commercial/residential developments through flexible floor space incentives<sup>14</sup>.

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<sup>13</sup> NSW Family & Community Services – Housing NSW, *Planning Mechanisms for Affordable Housing*, last updated 12<sup>th</sup> March 2013.

<sup>14</sup> Ibid.

## **5. Long term regional strategy on housing to shift focus from small towns which may be uneconomical in the long-run to a more direct focus on larger regional town centres**

The long term focus for regional Australia in terms of housing traditionally was seen to argue that in order for the housing shortage to decrease, there must be an increase supply in affordable housing in regional areas of Australia including the focus on developing in small rural townships<sup>15</sup>.

However, there is often another side of this picture, in which there is often a lack of recognition of the complexity of developing in regional areas and a growing focus on “dying” rural towns. Small townships are often more susceptible to economic shocks caused by economic downturns due to being perhaps a one industry driven town. It also has a longer term effect of collapsing due to state economies such as NSW to be dominated by their capital cities (in this case Sydney) both in population growth and economic factors. Invariably it drives increasing differences within rural townships and capital cities in a wide range of social and economic indicators, environmental pressures and higher unemployment rates comparatively to larger regional town centres which are growing rapidly<sup>16</sup>.

Regional development trends must take into account the limited or declining population growth of many small towns, where persistently there are higher unemployment rates versus the growth in more coastal locations, largely related to an increase in activity associated with retirement and tourism. There has also been a steady growth in major regional centres which are increasingly absorbing government and private sector services, often at the expense of surrounding small towns<sup>17</sup>.

Small towns have been hit by two related developments which have favoured larger regional centres. As the population has declined services have also declined. At the same time, improved transport and mobility have encouraged inhabitants of smaller centres to look to regional cities for employment and services. Both government services and

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<sup>15</sup> Collits P, *Small Town Decline and Survival: Trends, Success Factors and Policy Issues*, The Regional Institute Ltd, June 2000 - <http://www.regional.org.au/au/countrytowns/global/collits.htm>

<sup>16</sup> Collits P, *Small Town Decline and Survival: Trends, Success Factors and Policy Issues*, The Regional Institute Ltd, June 2000 - <http://www.regional.org.au/au/countrytowns/global/collits.htm>

<sup>17</sup> Ibid.

private sector services such as banking have relocated to larger centres of population which can be readily justify providing those services<sup>18</sup>.

Therefore NSW affordable housing should be targeted to those areas, perhaps even giving existing housing in small rural towns to tenants – this shifts the responsibility for maintenance to the tenants.

## **6. Provide debt guarantees to access/create a rolling 10 year bond market**

There is a further continuation by CHPs since the start, to go from direct publicly funded supply-side support for housing, towards increased reliance on private debt arrangements such as that of debt facilities, hedging arrangements, debt guarantees and the access and/or creation of a rolling 10 year bond market. Rather than relying on public loans and grants, CHPs in recent years are becoming more self-sufficient on alternative revenue streams. The continuing instabilities caused by the 2008 Global Financial Crisis (GFC) implies that affordable and social housing have also become more vulnerable to the instability of domestic and international financial markets and are often exposed to severe cutbacks in both state and federal government support.<sup>19</sup>

The new financial realm in alternative revenue streams used by more sophisticated CHPs require further merit and investigation by both levels of Governments. Although as a sector, lowering financial costs within the community housing sector would ultimately enhance the ability to leverage its existing housing portfolio, this kind of debt alone is unlikely to make an expanded supply of affordable housing due to the very limited rental income generated by NSW housing stock. Accordingly, there is a need for a substitute form of government funding such as a zero-interest housing bond or NRAS funding in order for Australia to meet the demands to address its housing shortage issues.

The Australian Housing and Urban Research Institute (AHURI) has provided extensive research in the exploration of utilising bond finance as a means of expanding affordable

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<sup>18</sup> Collits P, *Small Town Decline and Survival: Trends, Success Factors and Policy Issues*, The Regional Institute Ltd, June 2000 - <http://www.regional.org.au/au/countrytowns/global/collits.htm>

<sup>19</sup> Pawson, H et al, *Social Housing Strategies, financing mechanisms and outcomes: an internal review and update of key post-2007 policy developments*, City Futures Research Centre, University of NSW, Sydney Australia

housing in Australia based on the Austrian model of the *Housing Construction Convertible bonds*. The Austrian model was seen to be popular amongst risk adverse investors and provided a scheme that captured long-term savings, modest tax incentive and was still cost effective to the investor.<sup>20</sup>

AHURI introduced the idea of an Australian equivalent – *the Australian Housing Supply Bond* (HSBs) that would be issued by specialised financial intermediaries to raise funds for the purpose of channelling capital through affordable housing.

HSBs are specially designed to reduce the cost of funding available for CHPs then what would be otherwise available in the private sector, thereby further enhancing their capacity to increase the supply of social and affordable housing. The HSB proposal incorporates a combination of public funding (providing direct subsidy) and private bond finance (indirectly subsidised through tax incentives and government guarantees). HSBs are not intended as a replacement for existing forms of housing assistance for affordable rental housing<sup>21</sup>.

#### *Utilisation of credit guarantees for private investors*

Quite often, private and institutional investors (both domestic and international investors) identify affordable housing investments (often attach to schemes such as NRAS) that are partnered with one or more CHPs as having a higher risk.

Financial institutions should partner with community housing providers, government and the LAHC in order to lower the risk profile of these kinds of investments so as to provide a government credit guarantee and to minimise risks given the robustness of the community housing sector.

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<sup>20</sup> Amann, Lawson et al, *Housing Supply Bonds – a suitable instrument to channel investment towards affordable housing in Australia?*, AHURI Position Report May 2012

<sup>21</sup> Ibid.

## Conclusion

BCL is providing six simple policy levers to enable a rapid response on a growing intractable problem to policy paralysis. The CHP sector can provide leadership and delivery in solving the affordable housing crisis. However it will require a 10 year bi-partisan consistent policy approach due to the nature of the asset classes, and the requirement of substantial sums of finance (both government and non-government) to achieve these outcomes.

The housing shortages in NSW are high due a continuous growing gap between demand and supply in housing stock in NSW. This is due to strong population growth, strong investor activity and a low interest rate environment. These factors impact on a market suffering a shortage of housing stock and land due to high infrastructure costing and local and state planning constraints.<sup>22</sup>

The Mission Australia research and other studies support the reduction to the ‘whole of government’ costs by the implementation of a housing policy that caters for the disadvantaged in society, the CHP sector is poised to deliver beneficial housing outcomes through being a more innovative, adaptive industry participant in the housing market.

BCL policy prescriptions are borne from experience not just theory.

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<sup>22</sup> Albin S, *The Affordable Housing Challenge: A development industry perspective*, UDIA, February 2014.

## Appendix A

BCL was founded in 2008 as the development arm of five community housing member organisations:

- **Southern Cross Community Housing Ltd (Southern Cross)**
  - 1,092 dwellings
  - Covering: *Snowy River, Monaro, Bombala, Eurobodalla, Shoalhaven and Ulladulla*
- **Hume Community Housing Association Company Ltd (Hume)**
  - 1,705 dwellings
  - Covering: *Fairfield, Bankstown, Holroyd, Parramatta, Liverpool, Campbelltown*
- **Argyle Community Housing Ltd (Argyle)**
  - 2,385 dwellings
  - NSW - Covering: *Griffith, Leeton, Wagga Wagga, Albury, Young, Harden, Tumut, Booroowa, Yass, Goulburn, Mulwaree, Wollongong, Upper Lachlan, Bowral, Wollondilly, Camden, Campbelltown, Queanbeyan*
  - ACT – Covering: *Ainslie and Conder*
- **Wentworth Community Housing Ltd (Wentworth)**
  - 1,983 dwellings
  - Covering: *Hawkesbury, Blacktown, Penrith and Blue Mountains*
- **Women’s Housing Company (Women’s)**
  - 745 dwellings
  - Covering: *Hornsby, Blacktown, Parramatta, Penrith, Holroyd, Fairfield, Bankstown, Liverpool, Canterbury, Hurstville, Kogarah, Sutherland, Rockdale, Botany, Randwick, Waverly, Marrickville, Ashfield, Leichhardt, Burwood, Strathfield, Canada Bay, Ryde, Warringah, Manly, North Sydney, City of Sydney, Woollahra*