

**Submission
No 16**

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

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**SUBMISSION TO THE NSW PARLIAMENTARY INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE
HOUSING**

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EXECUTIVE SUMMARY

1. This submission deals specifically with the following matters included in the terms of reference for the Inquiry:

1. (b): Data regarding the link between the lack of appropriate social, public and affordable housing in New South Wales and indicators of social disadvantage;

1. (g): Recommendations on State reform options, specifically: (iii) Social benefit bonds; and (iv) market mechanisms and incentives.

2. Given the legacy of localised socioeconomic disadvantage and inequality resulting from past housing policy in NSW, a focus of any future policy approach should be ameliorating these impacts. NSW Housing should use existing instruments, such as the 'Sale of Homes' policy to reintegrate existing public housing estates and mainstream housing. Furthermore, using the proceeds of sales, wait-listed households should be provided with housing units integrated into mainstream residential areas, so as not to perpetuate entrenched disadvantage.

3. The 'tightness' of major residential rental markets in NSW suggests that it may be difficult for Government to compete with private market participants. Therefore, acquisition strategies remain valid, however a commitment to integration (as above) is necessary.

4. Social Benefit Bonds (SBB) have been proposed as a potential mechanism for stimulating private sector investment in affordable housing. It is unclear that the models that have been discussed in the policy process to date will provide any benefit over existing mechanisms, such as the activities of housing cooperatives funded through existing programs, such as NRAS.

5. An alternative approach may be to expand the application of an existing but limited land tax exemption (LT-092), with amendments designed to encourage private sector investment in constrained and affected areas.

6. We have considered alternatives, such as housing vouchers. These are contingent on rental market conditions. We have concluded that markets constraints would render such approaches as impractical

7. There is a strong argument for ensuring consistency in urban planning policies between tiers of government to ensure supply of affordable housing in new residential development proposals.

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This submission deals specifically with the following matters included in the terms of reference for the Inquiry:

1. (b): Data regarding the link between the lack of appropriate social, public and affordable housing in New South Wales and indicators of social disadvantage;

1. (g): Recommendations on State reform options that may increase social, public and affordable housing supply, improve social service integration and encourage more effective management of existing stock including, but not limited to:
 - (iii) Social benefit bonds; and

 - (iv) market mechanisms and incentives.

Preliminary comments

Any discussion of government intervention requires an acknowledgement of the limited budgetary and other resources that constrain the range of feasible options available to government. This is particularly the case in a complex area such as that being examined by the Inquiry. Bearing this in mind, we recognise that some of the approaches discussed in this submission may be more difficult to implement than others. That notwithstanding, it is relevant to canvass a comprehensive range of ideas in order to more robustly validate the ultimate findings of the Inquiry.

The key principle underpinning this submission is that the Inquiry should carefully consider the development of regulatory solutions, so as to ensure that both immediate pressures and intergenerational equity are served. As this submission will convey, there have been mistakes in past

affordable¹ housing policy, the consequences of which continue to influence outcomes to the present, particularly in terms of socioeconomic inequality.

Data regarding the link between the lack of appropriate affordable housing in NSW and indicators of social disadvantage

To understand the 'link', it may first assist to consider what is 'appropriate' in terms of affordable housing. We note that the NSW Auditor General's Report (2013) addresses this matter, particularly in relation to the efficiency of public housing in terms of under-utilisation of existing stock. It is apparent that this issue may impact on other disadvantaged parties who have applied for housing assistance, as they may be deprived of suitably-sized housing.

A further aspect of appropriateness that we would raise is the consequences of past housing policies that have resulted in the concentration of public housing, leading to higher levels of disadvantage in certain areas. Vinson (1999, 2004) conducted research into disadvantaged communities in NSW and Victoria, and developed an index to 'band' all areas of each State by postcode. The nine most disadvantaged *urban* postcode areas from the 2004 study, and the proportion of public housing located in each derived from Australian Bureau of Statistics (ABS) 2011 Census data, are displayed in Table 1.

¹ For the purposes of brevity, this submission uses the term 'affordable housing' to include 'social, public and affordable' housing, except when referring specifically to publicly-provided housing.

Table 1: Disadvantage and concentration of public housing

Band (1 = most disadvantaged)	Postcode	Suburbs included in postcode area	Proportion of public housing to total housing stock
1	2306	Windale	64.2%
2	2559	Claymore, Blairmount, Woodbine	76.1%
2	2502	Warrawong, Cringila, Lake Heights	10.3%
3	2506	Berkeley	23%
3	2770	Mount Druitt, Bidwill, Blackett, Dharruk, Emerton, Hebersham, Lethbridge Park, Minchinbury, Shalvey, Tregear, Whalan	22.2%
3	2017	Waterloo, Beaconsfield, Zetland	26.8%
4	2294	Carrington	7%
4	2505	Port Kembla, Kemblawarra, North Point Kembla	8%
5	2304	Mayfield, Kooragang Island, Mayfield East, Mayfield North, Mayfield West, Sandgate, Warabrook	5.5%
NSW	-	-	4.4%

Data sources; Vinson (2004); ABS (2014).

Vinson (2004) reported strong correlations between the results of this study and the similarly-based 1999 study. Although this is a relatively short timeframe, it is indicative of the longer term trend with respect to sustained disadvantage in such communities. We argue that in terms of appropriate housing, 'estate-based' solutions, including the location in existing estates of new applicants entering public housing, or other approaches that concentrate large numbers of public housing units in areas, should be avoided. Furthermore, in order to address entrenched intergenerational disadvantage, it would be appropriate to maximise use of the State's 'Sale of Homes' policy to progressively re-integrate existing estates into the 'mainstream' of housing.

Although the difficulties associated with such a process are recognised in the policy, what Government must also recognise is that in many instances, estates are located in areas that may be otherwise considered as desirable, were public housing more integrated into private housing. The *Newcastle Herald* (11 January 2014) reported median house price changes in the Hunter Region for

the twelve months to December 2013. In that period, Windale, the most disadvantaged postcode area in NSW according to Vinson's (2004) research², recorded an increase in median price of 16.9 per cent. The neighbouring suburb of Gateshead³, which has a public housing concentration of 25.5 per cent, recorded the ninth-largest rate in price growth for the region (19.2%). These two suburbs are located close to the region's largest retail destination and other services including hospitals, are a relatively short distance to several beaches and Lake Macquarie, and have immediate access to transport infrastructure such as the Newcastle Inner City Bypass. In simple terms, they are well-located, even from the perspective of the broader market. In this exemplary instance, the market's behaviour indicates that strategies for releasing public housing properties for sale on the private market as they become available is feasible. Such an approach may gradually reduce the concentration of public housing and entrenched disadvantage in such areas. The proceeds of these sales should then be turned to acquiring properties that are integrated among mainstream housing for the placement of wait-listed households in such more amenable environs. Such a 'natural attrition' approach may also reduce social dislocation that may occur as a consequence of the relocation of households already resident in existing estates. It is noted that the sale policy provides for the proceeds of sales to be applied to construction of new stock and/or improvements to existing stock. However, if these actions retain housing on existing estates, existing and future levels of disadvantage may not be as effectively addressed.

A related issue with respect to affordable housing provided in such environments is that of the quality of housing. This is a matter referred to in in the Auditor General's Report (AGR). The burden of maintaining ageing public housing, particularly that in established estates, should also provide

² Windale also occupied the same ranking in the 1999 research. It is noted that when established, Windale was afforded its own postcode.

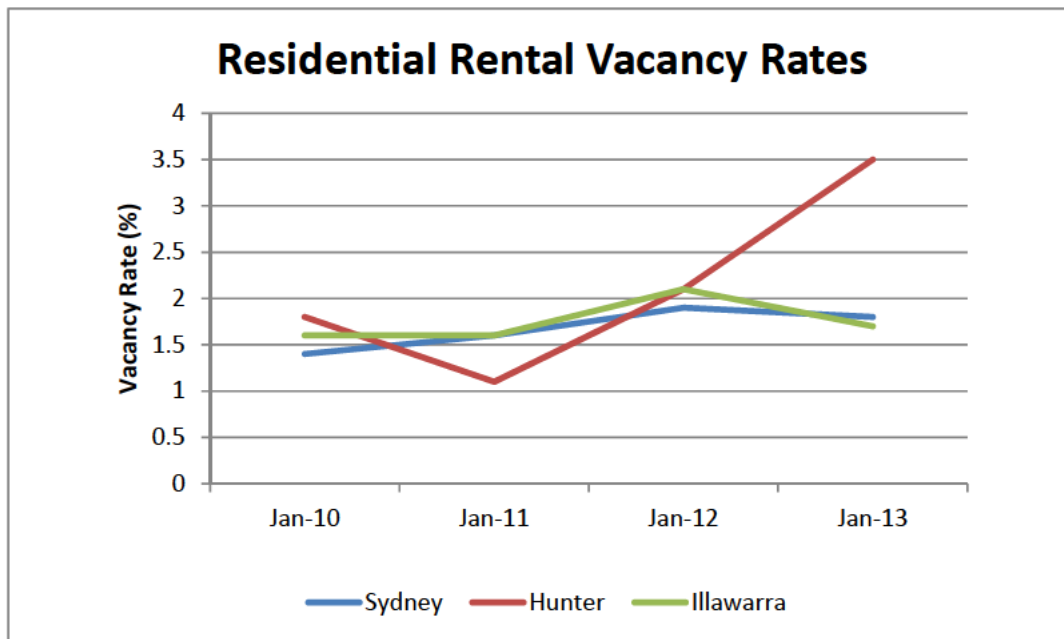
³ Gateshead lies within a larger postcode area (2290) and thus does not feature in the most disadvantaged bands.

impetus for exercising policy that relieves this call on public resources, by gradually reducing this ageing stock.

Based on the range of qualitative and quantitative data we have considered, it is apparent that there is little debate over the existence of a link between *appropriate* affordable housing and disadvantage. However, it would appear that the more pressing issue is one of access to *sufficient* affordable housing. It is evident from the AGR that an imbalance between supply and demand for affordable housing is the root cause of much of the difficulty, with only 44 per cent of need met (AGR, 2013).

Resort to the private rental market to resolve the backlog of wait-listed applicants is problematic in the relatively tight rental markets prevailing in NSW. Figure 1 demonstrates the persistently low vacancy rates (inversely, high occupancy rates) in major NSW markets. With the exception of some volatility in the Hunter, which is likely to be related to changes in mining-related employment, the availability of properties for which Housing NSW or its wait-listed tenants can compete is likely to be limited.

Figure 1



Data source: Real Estate Institute of NSW 2011-2014.

As a consequence, Housing NSW should consider alternative approaches to addressing inadequate supply, inappropriate housing and the related hardship and disadvantage that the combination of these factors contribute to. Clearly, an acquisition strategy that simultaneously begins to break down localised disadvantage in areas is an option.

Social Benefit Bonds (SBBs)

We note the discussion of SBBs (or Social Impact Bonds/SIBs) in NSW Parliamentary e-brief 17/2011. The document discusses certain limitations of SBBs that we believe may reduce uptake of the bonds to any meaningful (i.e. financially significant) extent. Among these issues is the apportionment of risk and return (chiefly to the investor as proposed), its association with effective performance management of the delivering provider and the time required to establish and deliver a return on investment. Despite the presence of a level of commerciality in the SBB concept, there is also a level of philanthropy, which when combined with the factors identified above, may discourage some investors.

It appears that the main feature of SBBs driving interest in their use is the availability of funds 'up front' for public investment in affordable housing. The model as outlined in the e-brief does not provide any information on what indicative rate of return might be expected on such an investment (although this would notionally vary over time). Although sophisticated investors may accept the previously mentioned apportionment of risk, there is little clarity on what their return on investment might be, and whether it adequately compensates them for the opportunity cost associated with the investment over a timeframe that is necessarily longer than may be the case for other investments. Apart from access to funds 'up front', we believe some questions remain as to why SBBs are considered likely to be more effective and efficient than current initiatives such as the activities of housing cooperatives under the Building Better Cities (BBC) and National Rental Affordability Scheme (NRAS) programs.

Should the Government seek to pursue an SBB approach, an alternative source of funding may be through 'ethical investment'-focused superannuation funds. Although commercial imperatives remain, such funds may offer an opportunity for longer-run investment in a situation where contributors accept that part of their investment strategy may be the achievement of socially, as well as financially, productive outcomes.

The e-brief raises the issue of transaction costs relating to SBBs. It is unclear how these might compare to such costs for alternative approaches. In this respect some of the approaches discussed in this document would also need to be assessed for effectiveness and efficiency in terms of administrative burdens and the related public costs.

Market mechanisms and incentives

As discussed previously, there is a sustainable argument that in order to meet current demand (which, according to the AGR, implies a period of ten years, based on current wait-lists), Government should consider a gradual reduction in the number of publicly-owned housing units in estate areas, and replace these with housing integrated in communities more generally. This approach might also provide an opportunity to address some of the mismatch between public housing unit sizes (e.g. a previously under-occupied 3-bedroom house could be sold to a private buyer, and the proceeds applied to the purchase or rental of more than one smaller unit). Given the nature of many existing housing estates, it is also likely that this approach would play a role in moving another low/medium income household (i.e. the private purchaser) into home ownership. The apparent difficulty in such an approach is likely to be discrepancies between the price realised for disposal, and that required for 'replacement' in a competitive private market. Although we have not had the opportunity to research this issue further in the preparation of this submission, we recognise that this may be an impediment to adoption of such an approach, but perhaps not one that invalidates its use in all markets across the state.

The return on investment aspect of SBBs has been discussed previously, in terms of incentives for private investment in affordable housing. Another approach with respect to incentives may be an extension of the provisions of Revenue Ruling No. LT 092 – *Exemption – Land Used and Occupied Primarily for Low Cost Accommodation*.

Presently, this land tax exemption only applies to eligible accommodation within a 5-kilometre radius of the Sydney CBD, subject to conditions/Guidelines approved by the Treasurer. In order to stimulate supply of affordable accommodation, consideration might be given to extending this

exemption to other highly-constrained areas across the State, assuming the same thresholds. An additional condition should be that the housing provided under such a provision should be newly-constructed (so as to augment, not reduce, overall stock/supply). Furthermore, consistent with BBC and NRAS programs, rent on these properties should be set as a minimum of 20 per cent below the market rate. In consideration of this reduction in achievable rental, and to stimulate uptake, provision (3) (i) (d) of the Guidelines, requiring the owner of the property to pass on the benefit of the exemption to the tenant, could be relaxed where applicable. This provision could be structured in terms of its duration to ensure both a competitive payback period and restoration of longer-run tax flows. In terms of reducing administrative burden, such an approach could apply to established housing cooperatives that are already engaged in government-funded programs.

We have also considered some research on the use of housing vouchers in lieu of provision of 'bricks and mortar' housing units (e.g. Leung, Sarpaça & Yilmaz, 2012). However, the likelihood of success of such an approach is largely contingent on rental markets that are less constrained than those in NSW (refer to Figure 1). Furthermore, given previous and existing approaches to housing policy and the level of public investment in physical affordable housing, vouchers were considered as an unlikely solution.

Another area on which we have accumulated only limited information, but which we consider to be relevant, is the role of planning authorities in ensuring a continuous flow of new stock. For example, Gurrán and Whitehead (2011, p.1210) observed the importance of housing and urban policy that considers;

'... synchronising housing and urban policy to support affordable housing considerations when land is allocated and projects assessed, including the need for central and local government policies to

align, enabling local authorities to undertake proactive roles in securing affordable housing in their communities’.

Integrated (and less contested) urban planning policies may go some way toward providing a future stock of affordable, and in terms of socioeconomic equality, sustainable affordable housing.

Once again, we acknowledge that in the preparation of this submission, we have not extended our analysis to relativities between transaction costs for the approaches discussed. Clearly this factor will impact on the ultimate implementation of any policy approach.

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