

**Submission  
No 150**

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

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**Submission to NSW Legislative Council Select Committee  
on Social, Public and Affordable Housing -  
Inquiry into Social, Public and Affordable Housing**

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## Focus of submission

This submission addresses specific Terms of Reference of the NSW Legislative Council's Committee on Social, Public and Affordable Housing's Inquiry into Social, Public and Affordable Housing, being:

- 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:
  - i. **POLICY INITIATIVES** and legislative change
  - iv. **MARKET MECHANISMS AND INCENTIVES**(partial excerpt of Terms of Reference, emphasis added.)

This submission is a summary of a submission made to the Senate of Australia's inquiry into Affordable Housing made February 25, 2014. Due to Commonwealth Parliamentary Privilege, a summary is provided here and the authors commend the full submission to the NSW Legislative Council's attention.

This submission further refers the NSW Legislative Council to a more thorough forthcoming report to be published 15 April 2014 by the Australian Housing and Urban Research Institute (AHURI), entitled "Enhancing Affordable Rental Housing Investment via an Intermediary and Guarantee."

That imminent paper represents the most timely and specific recommendations to Australian state and commonwealth governments on the subject of increasing of affordable **housing supply** via **policy initiatives** and likewise **market mechanisms and incentives**. (as noted above in the Legislative Council's Terms of Reference.) That AHURI research and proposal falls within the Select Committee on Social, Public and Affordable Housing's term of reporting to the NSW's Legislative Council by 9 September 2014.

Please see [www.ahuri.edu.au](http://www.ahuri.edu.au) for that up-to-the-minute input to the Committee.

## Summary of Submission

Australia is facing a developing housing affordability crisis. Falling home ownership rates and a declining public housing sector are resulting in rising demand for private rented housing. However, existing market failure in the private rented sector means that increasing numbers of lower income and otherwise disadvantaged households are struggling to access housing suitable to their needs and resources. There is developing a structural shortage of low rent dwellings in Australia's cities and regions. This has adverse implications for the living standards of affected households, and broader negative impacts on the productivity and competitiveness of the Australian economy.

This situation has evolved over decades in which the fruits of economic growth have been increasingly unequally distributed; housing markets have reflected and reinforced these inequalities of income and wealth. Current and past policy settings have ameliorated to a degree the full force of rising inequalities but ruling government taxation, spending, planning, infrastructure and environmental policies have collectively failed to adequately reverse existing housing market failure. To the extent that governments have intervened it has generally been to pump up demand-side measures – e.g. first home owners grants – or use housing as a macroeconomic tool to boost aggregate economic activity – e.g. during the global financial crisis. Efforts to date to stimulate the growth of a robust, perpetual non-profit housing association sector based on attracting large, continuing flows of private investment have had only modest success. This, in our view, stems from an inadequate understanding of the type of recurrent policy support that is needed to bridge the gap between what professional and institutional investors require by way of risk-adjusted returns and the capacity of well-managed and regulated non-profit housing associations to fund sustainable affordable rental provision, while ensuring that rents charged are affordable by those currently priced out of the market.

In this submission we:

- (a) Outline the current context in which housing affordability has deteriorated in Australia;
- (b) Describe existing policies aimed at dealing with the resulting problems – and their inadequacy;
- (c) Outline the many successful approaches implemented in other advanced countries to improve affordability outcomes;
- (d) Explore the significant interest of and potential for Australia's superannuation funds to invest in a suitable security designed to expand the supply of housing available at sub-market rents to eligible households in need;
- (e) Outline two models for such a security – i.e. housing bond – drawing on the best features of models that have been successful elsewhere in the developed world.

In order to successfully bridge the gap between institutional investors and affordable housing providers it is necessary to create a new debt class that provides low risk returns to the former and a low interest or coupon rate to the latter. This requires creation of an institutional structure that delivers a regular pipeline of AAA-rated bonds to investors. A central component of this structure is provided by a carefully crafted, capped government guarantee that operates as a “last call” or backstop reassuring investors that they will receive all entitlements. However, in order to minimise the likelihood that the guarantee will be called upon, a series of “first-call” reserve mechanisms must be put in place to protect the taxpayer.

These elements are described in the preferred model presented in the final section of our submission, based on schemes now operating successfully in the UK and Switzerland. This approach requires the creation of an independent, non-profit financial intermediary – the **Affordable Housing Finance Corporation (AHFC)** – governed by a professional board to which directors are appointed, drawn from the financial and legal sectors, government and the non-profit housing sector. This body would report regularly to Parliament to ensure that the taxpayers’ interests are protected.

IN SUMMARY, It *is* possible to design and implement a new policy regime and institutional mechanism able to substantially boost private (notably, institutional) investment in expanding the supply of affordable housing in contemporary Australia. However, strong, strategic state and commonwealth government leadership is required. International experience over decades has demonstrated this fact. Government can get “more bang for its buck” in this field by sensibly leveraging its strong credit rating in the way the AHFC approach entails but it must also ensure that the growing non-profit housing sector is able to make use of the low-cost debt provided through this mechanism by way of matching capital and revenue support, as outlined in the preferred model.

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Please refer to the Senate of Australia or the authors for the full submission, “A proposal to increase appropriate long term investment in affordable rental housing in Australia”.

Thank you very much.

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