Submission No 11

INQUIRY INTO HOMELESSNESS AND LOW-COST RENTAL ACCOMMODATION

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nsw Federation of
Housing Associations inc

Submission to the Legislative Council Inquiry into homelessness and low-cost rental accommodation

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1. The NSW Federation of Housing Associations

The NSW Federation of Housing Associations (the Federation) is the industry peak body for housing associations in NSW.

Housing associations are not-for-profit community housing providers whose principal business is managing and developing long term housing for low and moderate income households.

Housing associations manage 90% of all community housing tenancies in NSW. The remainder of the homes in the sector are managed by housing co-operatives, which are self-managed by tenants, housing managed by or on behalf of church organisations, housing provided as an ancillary activity to a wider community service role, or short term and crisis homelessness services funded through what was the Supported Accommodation Assistance Program (SAAP).

Housing associations manage 18,100 properties, 83% of which have been funded through Housing NSW. This is currently 12.5% of social and affordable housing in NSW and is expected to rise to 18-20% over the next two years. By that time, housing associations are likely to be managing 28-30,000 properties.

There are 31 housing associations in NSW; all of which are members of the Federation. In addition we have 69 other, associate and affiliate, members providing housing related services or who are housing associations in other jurisdictions.

The Federation provides a range of services to support the development and performance of housing associations and the wider social housing system in six core areas:

- **Representation and sector co-ordination –** this is our fundamental role as the peak industry body for housing associations in NSW. We provide a voice for members, and enable them to work together as a mutually supportive sector and to articulate and pursue their common aspirations.

- **Research and sector development –** this supports the members' directions and aspirations with effective research and policy development on key issues affecting the development of the sector

- **Relationships and alliances –** this ensures that associations are promoted and well-known to all other stakeholders who might help our development, and to allow associations to play their part in the wider community sector

- **Training –** this is our most prominent direct service to members and others in the social housing sector. We are a Registered Training Organisation. Through our Centre for Training in Social Housing, our accredited vocational training and other short courses support and build the capacity of organisations and the careers of workers in the sector. In addition we deliver the training for Department of Housing trainees, in partnership with Swinburne University. We also provide social housing training in the ACT and housing management training for SAAP workers in NSW and recently in Tasmania. We broker access to high level courses for senior managers and association directors in partnership with bodies such as the UTS Graduate School of Management and the Australian Institute of Company Directors.

- **Supporting organisations –** the Federation directly supports individual members, their boards and management, in their work as housing providers. This ranges from free advice provided through our Housing Hotline, to consultancies on strategic planning, organisational reviews, tenant participation, through to intensive organisational change with organisations experiencing management difficulties.

- **Good practice resources** – through our Good Practice Unit, we also support our members and other providers by developing and continually updating resources on good practice social housing management. It includes the series of Housing Hints (produced in partnership with the Aboriginal Housing Office), Across the Board bulletins for directors of housing associations, comprehensive Good Practice Guides, and a good practice data base.

Particularly through our Centre for Training in Social Housing and Good Practice Unit, the Federation has become recognised as one of the leading experts in community housing management in country.

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2. The submission and its context

The Federation welcomes the Minister for Housing's reference to the Standing Committee on Social Issues.

The inquiry is particularly timely

The Inquiry comes at a time in which, for the first time in very many years, a number of policy settings could enable the growth of low cost rental housing models. The most important issue for the NSW Government is whether it will take advantage of these opportunities.

For the first time, the Federal Government has introduced measures specifically designed to attract new sources of investment into low cost rental housing at meaningful volumes. This is the National Rental Affordability Scheme (NRAS). If the first phase proves successful, this would result in 100,000 new low cost rental houses across Australia, over 30,000 of which should be provided in NSW. Similarly, there is now agreement from the Federal Government that Commonwealth Rent Assistance will provide a subsidy to tenants that would enable community housing rents to be increased without adversely affecting affordability. Taken together, this provides the bones of a national policy framework which for the first time would enable the expansion of the affordable rental market.

There is also a new National Affordable Housing Agreement (NAHA) which replaces the Commonwealth State Housing Agreement (CSHA) that has operated since the end of the second world war. The NAHA aims to bring together a wider range of policy instruments that affect housing affordability, and to take a broader view of affordable housing than had been the case by the end of the CSHA.

It also comes at a time when public policy in a number of jurisdictions has begun to signal a shift in emphasis from publicly managed rental housing to a greater reliance on the community housing sector. In this, it is following trends that began 30 years ago in many other countries.

This is partly due to the difficulties faced by the public housing sector – both financially and in terms of public confidence. For many years state housing authorities grew their stock using public sector borrowing, without considering their capacity to manage future asset liabilities. Later, policy decisions to freeze or reduce supply and to target this rationed supply to the lowest income tenants, reduced the income stream to unsustainable levels. Public housing became financially unsustainable. Theses decisions combined with the previous development of large, poorly located, estates led to concentrations of disadvantage in poorly serviced areas. The social consequences of this then undermined public confidence in the model.

Community housing models have come to be seen as a chance to take a new direction and make a new start in affordable housing provision – particularly as we look for solutions to the acute problems of housing affordability.

We will touch on these problems in the next section. However, it is important to stress here that we believe the structural trends in the supply of affordable housing have not altered significantly, despite the cyclical changes associated with the recent downturn and the credit crisis.

We have not yet seen a reversal of the long term trends that made Australia one of the least affordable housing markets in the world. During this time, the rental market became more important, but all of the substantial new supply that was produced went to the top end of the market, while rental housing affordable to low (and increasingly, to moderate) income households was steadily lost. The effect of the cyclical downturn has been to produce small reductions in the price of homeownership, and for construction of new rental housing to all but dry up. The impact of this has been to force up rents dramatically, even on lower cost housing. For the rental market, the problem has become even worse.

This poses a very significant crisis for those at risk of homelessness. But it also affects a wide range of low and moderate income households.

Previous Inquiries

This is the third significant inquiry into models and responses to the current failure of the housing market and public responses required to provide affordable rental housing where it is needed in NSW. The Federation has made substantial submission to the previous two inquiries:

- The Legislative Council Standing Committee on Social Issues, Inquiry Into Community Housing in 2002; and
- The Public Bodies Review Committee Inquiry into the Allocation of Social Housing in 2006

The Federation's submissions to both are available on our web-site at:
http://www.communityhousing.org.au/S4b_CH_Inquiry_2002.html
http://www.communityhousing.org.au/Publications/Submisions/Allocations%20Inquiry%20submission%2006.pdf

Many of the broad policy issues that underpin this Inquiry have been covered in those earlier submissions and we would encourage the committee to refer to them.

In particular, the analysis of the nature and scale of the affordable housing challenge and the suite of public policy responses needed is covered in some detail in the second of these. We have reproduced in an updated form some of the section describing the community housing system. We have not replicated the policy analysis and would refer the Committee to this earlier submission.

We should also note that there has been very little government action on the broader policy issues. And while current policy is consistent with six of the eight recommendations made in that submission, the two most crucial recommendation (R1 and R5) have not yet been acted on.

Most of the key recommendations of the first Inquiry have largely been implemented. These are largely reflected in the government strategy, *Planning for the Future*, which has the objective of growing the community housing sector from the 13,000 homes then under management to 30,000 homes by 2017. Given the current Federal Government economic stimulus package and other developments, it is clear that this target will be met very much earlier than proposed. It is also clear that the target was far too modest to meet the actual affordable housing challenge.

Given the changes that have occurred since the earlier 2002 Inquiry, many of the descriptive aspects of the Federation's submission to that Inquiry are no longer relevant. However, the Federation was also requested to make a supplementary submission in the following year. That brief submission reiterated the policy challenge, the main policy measure, the important contribution that could be made by community housing, and the pre-conditions for doing so effectively.

It is fair to say that we have seen early progress on a number of the policy measures outlined there and on accepting the role that can be played by community housing. However, there has been almost no progress on many of the preconditions we noted six years ago.

In this submission we will focus most on the first four terms of reference:

- Models of low cost rental housing including co-operative and community housing
- Methods of fast tracking the capacity of providers to deliver low cost housing in a short time frame
- Strategies to attract private sector investment into the provision of low cost rental accommodation
- Current barriers to growth of low cost rental housing

Summary of recommendations

R1 That the opportunity to develop the capacity to deliver substantial volumes of low cost rental not be inflexibly limited to a defined number of 'growth providers'.

R2 That government assist in meeting the development costs of appropriate business systems for new areas of business.

R3 That an industry development approach be agreed between government and the industry and that the Community Housing Division of Housing NSW identify, in partnership with the industry, priority areas for government funding

R4 That the government, as part of an industry development approach, work with the industry to address workforce issues identified as part of the workforce strategy.

R5 That a public policy objective of supporting the establishment of a sustainable low cost rental market be adopted and reflected in the State Plan.

R6 While the Federation believes that equity options should be explored, the debt option should remain at the core of private financing of affordable housing.

R7 That the NSW Government commit to providing matching NRAS subsidies for the expansion phase of the scheme

R8 That the NSW Government provide significant new investment through the Affordable Housing Innovations Fund

R9 That funding be provided as a pre-commitment of funds, rather than project by project funding applications

R10 That the pricing of risk be specifically addressed through the establishment of strong industry information and benchmarks, requiring a lower deposit ratio for loans made to registered affordable housing providers, and the establishment of a guarantee fund.

R11 That title to the government assets currently managed by housing associations be transferred to the associations

3. Models of low cost rental housing including co-operative and community housing

Low cost private rental falling

While there is a low cost end of the private rental market, it is an 'accidental' market made up of disparate small owners. The more deliberate low cost part of the rental market – mainly boarding houses – has been steadily declining in the face of gentrification.

Over the past 30 years, investment in rental housing, which continued to be strong until the recent economic downturn and credit crisis, has been almost exclusively directed into the top half of the market. The research by Professor Judy Yates clearly shows that there has been a steady loss of low cost private rental stock which is affordable to low income households.

At the same time, it has become clear that low to moderate income working households have also been unable to afford the rental housing that is available. In particular, essential workers in high cost areas are unable to live at reasonably accessible distances from their jobs. This forces them to trade off travel costs and travel time for more affordable housing. This has left them disadvantaged whichever way they choose to make the trade off. It also creates serious labour market rigidities that have economic costs for the state. It has become increasing hard to attract essential workers such as care workers and hospitality workers, council workers, as well as some 'key worker' groups like nurses.

Publicly managed housing not meeting the challenge

At one time it was assumed that public housing would meet the needs of low and moderate income families and provide a stepping stone for some into eventual home ownership. The public sector also took responsibility for accommodating and caring for those with higher needs. Both of these assumptions are no longer true.

Across the country, public housing has declined significantly. In NSW, while there has been a decision to maintain the level of stock, less of this is actually owned, and the supply is not increasing with population growth. Just as significantly, the process of 'de-institutionalisation' that has taken place over the past 25 years has been a loss of publicly funded accommodation for the most vulnerable in the community.

One of the more unfortunate consequences of these two trends is that the declining proportion of public housing has been explicitly refocused to meet the accommodation needs of those who have lost access to either very low cost private rental (mainly boarding houses) or institutional accommodation. The result is that low and moderate income households have been excluded from the public housing response that once met their needs, at precisely the time that the private rental market has become unaffordable.

Not for profit involvement

It is an inescapable conclusion that the only way to provide the supply of rental housing needed in the bottom half of the market is for there to be some form of public involvement. But there is also a strong argument to suggest that the management and ongoing development of this market segment requires a special kind of industry. That is one that is able to:

- work with government to invest and expand the market
- respond to the local social, as well as market, needs
- provide a style of management that responds to the most vulnerable or excluded and which provides a range of products and pathways for tenants to access secure housing while improving their life circumstances
- deliver a style of tenancy management that provides assurance to and protects the interests of partners

This is the not-for-profit housing sector, or community housing.

Currently this sector comprises only 3.3% of the rental market. In comparable countries it comprises more than half the rental market. While the current government strategy for the community housing sector proposes growing it to manage 30,000 homes, this would only be around 5% of the rental market. One of the most important outcomes of this Inquiry would be to set a broad residential housing policy objective to greatly expand the role of community housing providers in the low cost rental market.

3.1 The community housing model

Community housing is medium to long-term rental housing managed by non-government, not-for-profit organisation.

This is a very broad definition, reflecting, in part, the diversity of activities undertaken by community housing providers. There are a number of other characteristics that can be used to identify community housing. However, for each there will be exceptions, as providers innovate in response to local needs or to ensure their sustainability.

Characteristics

Some of the characteristics that broadly typify community housing providers are:

- Community housing is predominantly part of the social & affordable housing system, targeted to low and moderate income households. All community housing providers house a majority of tenants who are eligible for public housing, or specific affordable housing programs.

- Currently almost all community housing is rental housing. But in other countries such as the UK or the US, providers offer a range of products including shared equity and home ownership products for low income households.

- Currently in NSW community housing providers principally undertake tenancy and property management. In most other jurisdictions, providers also undertake procurement and often the development of new housing. This is now beginning to be the case for a larger number of provider in NSW too, as the new Commonwealth investment incentive, NRAS, has provided a means to support financing for development. Providers currently undertake some other activities, such as maintenance services, or administering the Tenancy Guarantee program.

- Community housing aims to have a strong local focus to its operations. In most cases, this means restricting their activities to a defined region. However, a small number of organisations are operating across a wider market. Even in these cases, a capacity to have local knowledge, local relationships and a strong capacity for local responses remains a central business objective.

- In NSW most community housing properties are either owned by the government, through the Land and Housing Corporation, or headleased from the private rental market (32%). A number of providers now also manage housing on behalf of other owners, such as land Councils. This is likely to increase significantly as properties developed by private sector interest under NRAS come on line.

- In NSW very few providers hold title to the properties they manage. In other jurisdiction, internationally, and under proposals currently before government, providers would own this stock. In these cases, the public interest is entirely protected by means of a government charge and through the registration and regulation of approved providers. In most other countries, and a number of other jurisdictions, community housing is partly financed by joint ventures or debt raised individually or through group structures by the sector. The fact that community housing providers in NSW do not have the assets they manage on their own balance sheet is one of the major impediments to growing the supply of affordable housing through debt finance or joint ventures, as well as to maximising the use and value of the asset under management.

- Community housing providers place a premium on tenant involvement. This ranges from facilitating active engagement in the life of the community of tenants, through advice on service delivery, to participation in the management or governance of the organisation. For housing co-operatives this is the centrepiece of the model, with tenants undertaking all the management and governance of the organisation. For many providers, tenants will be a large proportion of the membership of the organisation. Tenant participation plays three roles: it ensures the most responsive service delivery, it provides accountability to tenants, and it is a key strategy in building the skills and capacity of tenants to participate more widely in work and the community. A number of CEOs of housing associations began their association with the sector as tenants. Increasingly, community housing providers are undertaking wider community development and renewal activities. The first major involvement was the very successful involvement of Argyle Community Housing in resolving the serious problem in a precinct on the Claymore estate.

- A very significant part of the work of effective community housing organisations is undertaken in partnerships. The most obvious of these are with support providers. However, they frequently include partnerships with local government, which may have acquired housing through various planning powers that they manage through a local provider. The same is true of church and other welfare agencies. A number of associations work in partnership with public housing managers on predominantly public housing estates. More recently a number of partnerships with developers or other companies have been established. The most significant of these is the partnerships between St George Community Housing, Becton , Westpac and Spotless for the redevelopment of the Bonnyrigg housing estate.

Types of community housing providers

There are three broad types of community housing organisations:

- *Housing associations* – Housing associations are specialist not-for-profit housing management (and development) organisations. There are 32 housing associations in NSW, managing from 35 to over 2,750 properties[1]. In total, housing associations manage 18,100 properties. This is 90% of all community housing tenancies in NSW. Currently the sector provides 12.5% of social and affordable housing in NSW.

  The profile of the sector is changing rapidly. Over the past 3 years it has grown by 40%. The sector has consolidated with the number of providers falling from 42 only three and a half years ago to the current 31. This includes two new entrants to the sector – one is a Victorian association now operating in NSW and another is the major national charity, Mission Australia, which has established a separate housing association which will operate nationally. In addition, four providers have established a consortium to finance and develop new housing on their behalf.

  Most strikingly, the size of the organisations has increased markedly. The average size has grown from 300 tenancies to over 600, with 20% now managing over 1,000 tenancies and the largest, 2,750. Over the next two years, the sector is might be predicted to grow by a

[1] This number of associations includes two specialist organisations – City West Housing Company, which was established by government to manage affordable housing developed in part through developer contributions in the Pyrmont Ultimo precinct and recently Green Square.; and Churches Community Housing, which manages housing owned by a large number of church agencies.

further 60%, with perhaps half the associations managing over 1,000 homes and 10% managing between 2,500 and 4,000.

- *Housing co-operatives* – Housing co-operatives are tenant managed. For this reason they are usually smaller. There are 34 housing co-ops managing 352 properties or around 1.9% of all community housing. As noted above, these provide a very strong basis for enhancing the participation and social capital of groups with a community of interest.

- *Other non-housing specific housing managers* – There are at least a further 625 properties funded by government in previous periods[2] that are managed by 333 organisations for which housing is not their primary purpose. These include churches, service groups, local government and welfare agencies. Over the past few years, the management of many of the church run properties has been undertaken by an umbrella association, with the church agencies retaining responsibility for much of the tenant support. This organisation, Churches Community Housing, manages 335 of these properties.

As well as the ‘mainstream’ community housing organisations, there are over 6,000 Aboriginal controlled managed properties, administered through the Aboriginal Housing Office. A significant number of these are community managed. This submission does not cover this sector.

Standards and regulation

The community housing sector has a strong performance focus.

Registration – For more than 4 years all providers have been required to be registered with the then Office of Community Housing. Initially this was against an administratively-based regulatory code, but last year regulation became legislatively based with the Community Housing amendments to the Housing Act. The new, nationally consistent, Code is due to be gazetted. This regulatory regime provides detailed information on emerging risks to tenants, the organisation, government and other investors to ensure that they are addressed.

Accreditation – Eight years ago NSW introduced a voluntary quality assurance system of external assessment against a set of quality standards. Until last year, this was administered by the Accreditation Unit in the Office of Community Housing. The provision of accreditation reviews and decisions has now been taken over by a private company. The quality standards are the National Community Housing Standards, which are currently being updated for the third edition. 83% of NSW housing associations are accredited.

Code of Practice – The industry itself developed and administers a voluntary Code of Practice for housing associations. This was introduced to drive quality and performance some years before the introduction of accreditation. The Code is administered by the NSW Federation of Housing Associations and provides a basis for complaints against Code signatories to be investigated.

[2] Largely funded through now defunct programs like the Local Government and Community Housing Program

We have drawn attention to the quality assurance and regulatory focus of the sector for two reasons.

- In the UK the regulatory arrangements have been particularly important in bringing private investment into the sector. In the UK, the regulatory system was calculated to have been worth 100 basis points off the costs of funds. In the past 30 years, the ability to make timely regulatory interventions, has meant that no financial deal has ever fallen over.
- The very strong regulatory arrangements in this industry should provide assurance to government that publicly funded assets and public interests will be protected, and that the capacity of organisations in the sector to do so is closely monitored and that timely action can be taken if necessary. We would stress that the same cannot be said of the history of the public housing system. The strength of the regulatory system is clearly not well understood by members of the Government who have reservations about the capacity of the sector to take on a wider role and manage public assets.

Relationship to homelessness services

Community housing is usually distinguished from crisis accommodation (such as refuges) managed by organisations funded through the Supported Accommodation Assistance Program (SAAP)[3] until the recently negotiated National Affordable Housing Agreement (NAHA) superseded the previous program. A significant part of homelessness services in NSW are intended combine support and accommodation for people who are homeless or at immediate risk of homelessness.

In NSW there are 1,529 units of crisis accommodation, compared to 19,130 units of long term accommodation managed by community housing providers. However, the boundaries between these two systems blur (as they should to provide better service linkages for clients), as community housing providers have taken on some management of previously CAP funded transitional housing with homelessness services providing support. These arrangements are usually the subject of formal agreements between the two organisations.

So there is a clear distinction between crisis accommodation and medium to long term tenancy management provided by community housing providers. However, many community housing providers do target a significant proportion of their housing to special needs groups. These too may require specific support partnerships with mental health services, family support services and the like.

[3] The properties managed by these organisations have been funded through a linked program, the Crisis Accommodation Program (CAP)

4. Methods of fast tracking the capacity of providers to deliver low cost housing in a short space of time

Most community housing providers in NSW predominantly provide tenancy and property management services. Very few have developed or financed low cost housing.

However this is changing as the State Affordable Housing Innovations Fund and the Commonwealth National Rental Affordability Scheme have provided investment and subsidies to enable providers to procure and finance new affordable housing.

As suggested by this term of reference, governments are increasingly concerned about the capacity of the sector to expand this new role. While it is true that new expertise will have to be bought in to associations undertaking such work, and new systems will need to be put in place, the concern about whether this will happen quickly and that the risks associated with it will be appropriately managed are, in our view, misplaced.

In other jurisdictions, such as Victoria, this capability has been developed within the sector in response to the growing opportunities. This is true of most industries. That being said, there are still important ways in which Government can work with the sector to facilitate the expanded capabilities.

Growth providers

In NSW and in a number of other jurisdictions 'growth providers' have been identified. Most opportunities have been targeted to these providers to enable them to rapidly establish capabilities and the scale of operations that will provide the cash flows necessary to take buy in the new systems and expertise.

While there is some sense in not spreading limited resources too thinly, there are serious limitations to this approach.

- Picking a limited number of winners is almost certain to misdirect some resources and, more important, to miss a number of opportunities. If such an approach has any value, it is only for a limited period of time.
- The approach is unable to easily cope with new entrants that may have very significant capabilities. The establishment of NRAS has attracted significant established organisations into the affordable housing area.
- Rapid growth of genuine affordable housing market will require the market to be established across the state. Targeting a small number of growth providers will exclude a number of local and regional markets. In NSW, there are a number of very important regions with strong regional providers which are excluded from the 'growth provider' model. These include New England, Central Tablelands, the Illawarra, the South Coast, the North Shore, and the Central Coast.

R1 That the opportunity to develop the capacity to deliver substantial volumes of low cost rental not be inflexibly limited to a defined number of 'growth providers'.

Ability to plan

The most effective way for organisations to develop capabilities is to have a pipeline of projects that will justify the investment in expertise and systems and will allow capabilities to be steadily developed.

The current stop start flow of public investment and project by project funding decisions seriously inhibits the development of capacity. This should be replaced by a clear program of investment and pre-commitment of funds, subject to project sign-off.

Business systems

While expertise can be bought in, enhanced capabilities require the business systems that will meet industry standards. Business management systems, project management systems, tools to undertake feasibilities and project management to an industry standard are all required.

However, industry standard systems are not available at a price point that can be afforded by the sector until it grows larger. This will take two or three more years; and in the meanwhile the industry is confronted with a catch 22. There is an important role for government to assist in the sharing the cost of such systems.

R2 That government assist in meeting the development costs of appropriate business systems for new areas of business.

Industry development

The primary role in industry development sits with the industry itself, through its industry association. However, there is a key role for government to work in partnership with the sector to:

- Agree on industry development priorities
- To identify where government funding can most effectively be used to support an agreed industry development approach

R3 That an industry development approach be agreed between government and the industry and that the Community Housing Division of Housing NSW identify, in partnership with the industry, priority areas for government funding

Risk management & governance

Perhaps the most important capability needed to fast track the development of the sector is an ability to undertake robust risk assessment, to effectively manage the risk and to have governance with both a strategic and risk management focus.

The Federation has made this area a priority over the past five years. Today there is robust training for directors, often utilising the Institute of Company Directors, and good practice guides and resources on risk management.

The Federation is now focusing on expanding this sector support to specifically focus on best practice approaches and to develop the next generation of tools.

Workforce

A key part of developing sector capacity is to ensure that the workforce, with the appropriate range of skills and in the numbers needed to support an expanding industry, will be available.

For this reason, the Federation is currently developing a workforce strategy to ensure that the future workforce needs are planned for. This will need to address some key challenges, such as the current salaries paid within the sector, the barriers to mobility between public and community housing sectors, and the ongoing skills development needs of the workforce.

R4 That the government, as part of an industry development approach, work with the industry to address workforce issues identified as part of the workforce strategy.

5. Strategies to attract private sector investment into the provision of low cost rental accommodation & barriers to the growth of low cost rental housing

The two options for private investment are debt or equity. In most international and domestic examples, affordable housing is debt financed. Recently in Australia there has been considerable interest in attracting equity investment driven by a desire to tap the very considerable superannuation investment pool and by an interest in replicating the Public Private Partnership approach that has been increasingly used to fund other forms of investment.

Subsidies

Whichever form of investment is favoured, private investment will require government subsidies if it is to be made affordable. In the UK subsidies are provided in two ways.

- Direct government investment – this means that a smaller proportion of the development cost is debt financed and the ongoing finance costs are therefore lower.
- Rental subsidies to tenants to ensure that a rent can be charged that covers the operating and finance costs and generates a surplus for further reinvestment – in the UK this is the Housing Benefit, which, unlike Rent Assistance in Australia, is not capped.

In the US, subsidies are provided in a variety of ways:

- The centrepiece is the Low Income Housing Tax Credit. This provides a tax credit that can be on-sold to investors.
- However, it is important to note that most projects then require a wide range of funding from other sources and programs to be parcelled up, local authority land, community renewal funding and the like.
- An important input has been the growing regime of inclusionary zoning which has required the provision of low cost housing.
- In many developments the development is mixed tenure, with some of the product being sold into the market, some being moderate income rental, and some targeted to those on very low incomes.

Elements of both of these approaches have been adopted in Australia.

- In Victoria, the State Government has provided a number of tranches of some hundreds of millions of dollars of investment to housing associations to leverage with debt finance and their own equity or local authority contributions such as land. NSW has provided a very small amount of funds (around $50 million) to leverage in the same way. This fund has now been fully utilised.

- The most significant initiative has been the Federal Government's National Rental Affordability Scheme (NRAS), which provides a refundable tax credit, mixed with a further state contribution, to subsidise investment, initially in 50,000 new dwellings, and if successful, another 50,000. However, while NSW has committed to the implementation phase, it has made no commitment to continue to provide its share of contributions. Moreover, the high cost of land in NSW has meant that the tax subsidy alone is very constrained in many locations. This can be overcome if the State mixes the subsidy with additional investment, but again the State has refused to provide this additional investment to support the use of NRAS to attract private investment.
- NSW has also introduced some very limited forms of inclusionary zoning – the most developed example being in Pyrmont Ultimo and Green Square – which (with initial Building Better Cities funding) have delivered over 500 units in these locations. It is hoped that the forthcoming Affordable Housing SEPP will make inclusionary zoning more widely available and will trigger the involvement of local government.

The significance of the NRAS initiative cannot be overstated. It provides, for the first time, not a limited pool of program funds, but a measure to stimulate the creation of a new market – the affordable rental market.

Only if affordable rental comes to be seen as a normal and recognised part of the market – and a recognised asset class for investors – will we ever see a sustainable approach to the provision of low cost rental. It is vital that this be reflected in a major shift in public policy. While affordable housing is a priority in the current NSW State Plan, it is so narrowly described, that it provides no basis for such a public policy objective.

R5 That a public policy objective of supporting the establishment of a sustainable low cost rental market be adopted and reflected in the State Plan.

Debt or equity?

In the long run, debt finance is likely to be the simplest, least risky, cheapest and most sustainable option. Equity investment, with the exception of highly complex build own and operate PPPs, will generally rely on the capture of a capital gain in the medium term. This means that the supply of low cost rental housing will be continually lost, or at best churned if government continues to reinvest.

R6 While the Federation believes that equity options should be explored, the debt option should remain at the core of private financing of affordable housing.

Debt models

The two main options for attracting debt finance are:

- A bond such as that proposed by Berry & Hall for the National Affordable Housing Research Consortium.

- Mortgage lending.

The use of an affordable housing bond issued by government would be the most cost-effective way of financing affordable housing programs. However, there are two major limitations. The first is that governments have proved reluctant to borrow. Second, such government borrowing could provide funding for a program, but government programs are particularly subject to policy risk, and fail the test of creating a sustainable market.

Mortgage lending, is the approach used in the UK. It should be stressed that the effectiveness of this approach depends on creating a distinct market for such finance, quite distinct from retail lending by high street banks for home ownership. In the UK such a market was produced through very clear government policy, a strong regulatory system, and the incentive of requiring a lower deposit ratio to reflect the lower risk of lending into this sector. Over the past 30 years, over £30 billion has been lent into the sector.

In Australia, we are beginning to see a more distinct mortgage market for affordable housing develop, particularly prompted by the introduction of NRAS. Some smaller banks such as the Bendigo franchise, Community Sector Banking (CSB)[4], and non-bank lenders like MECU, have begun to specialise in lending to housing associations. Other major banks like Westpac, NAB, and Bank of Queensland have begun to lend and are coming to understand this market.

We should note that in NSW a fundamental issue has been the lack of security against which to borrow. Since associations do not hold title to the properties they manage, they can only secure loans against the new assets and the income streams they produce. Larger scale portfolio lending is precluded. Recently, the NSW government proposed to pilot the creation of a number of long-term leases with housing associations over some of the stock owned by the NSW Land and Housing Corporation, the income streams of which could then be securitised as a basis for lending for new construction. This model was calculated to produce negligible new supply. It does not provide a basis for any expansion of low cost rental.

A crucial issue that is yet to be addressed is the cost of funds. This depends on a better understanding of the risk and income streams associated with affordable housing. In the UK, the existence of a regulatory system that, in effect, provided assurance that the government would protect the homes run by associations through robust regulatory oversight and, where necessary, intervention, with the result that financial obligations would continue to be met.

As noted earlier, NSW has operated an administratively based regulatory system for the past few years. This has provided far clearer assurance of the level of performance of providers and has in part been responsible for the consolidation of the sector into a smaller number of larger, robust, organisations. The new legislatively based system will continue this, within a stronger public policy framework, and in a nationally consistent form.

Equity models

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[4] We should note that the Federation is a shareholder in C21, a community sector company that holds a 50% interest in CSB.

Equity models are more complex.

The objective of any new investment model is to provide sustainable and growing investment in a new asset class. In general then it must replace the current, largely accidental, retail investment in residential properties.

Broadly there are three options:

- Headleasing to parcel up retail investment in residential property
- ‘Rental property trusts’
- Partnerships or joint ventures

Headleasing

It is important to note that for 25 years NSW housing associations have built their business on headleasing private rental properties and renting them to social housing tenants. This still represents 32% of their portfolio, although this is rapidly declining. The tenants rents are then subsidised by government and the operating costs of the associations is also paid for. This approach, in effect captures existing investment and redirects it to the low cost end of the market. It’s limitations, however, are that it is far more expensive that direct investment and that it does not provide any incentive to increase investment in low cost housing.

Nonetheless, it has been the basis for building a system of specialist low cost housing providers in each region across the state as well as creating access for low income households to existing supply.

Managed investment and related structures

Rental property trust (or managed investment schemes), are the main option for attracting investment – particularly institutional investment – into residential property. There are currently a number of such vehicles that have been developed to take advantage of the NRAS subsidies or the earlier interest in affordable housing. Their main characteristics are generally that they provide greater liquidity, and can attract volume investment. The source of the investment may vary from institutional investors, such as superannuation funds, to retail investors. They may also include some debt finance in the funding of the housing. In all cases, the scheme will need to realise the assets after a determined period of time to provide the return to investors. Most would seek to partner with housing associations for the management of the properties.

Other structures have been proposed which do not invest in the assets, but rather provide a structure which can work with developers to raise development finance and to arrange pre-sales to retail investors supported by NRAS subsidies (brokered by the structure), and access to an affordable housing tenancy manager.

Joint ventures

There are also a range of models of joint ventures and partnerships which attract development finance and development expertise into a joint venture arrangement with either government or a community housing provider. In most cases, the social partner will bring some asset – particularly land, which will allow sufficiently high enough yields to return a proportion of the yield to the social partner for affordable housing.

While developers normally would seek to take their profit as soon as the development is completed, subsidies such as NRAS may make it possible for them to hold the assets for the life of the NRAS subsidy (ten years). This may be particularly attractive if the market is depressed and sales of new developments are slow.

These models can be quite significant. The Bonnyrigg Public Private Partnership is an example. They also have the advantage of bringing substantial development expertise into the partnership, and of bringing the development finance into the arrangement. However, the large volumes of investment required to create a distinct affordable housing market, is unlikely to be attracted by a patchwork of such joint ventures.

In our view, replicable investment vehicles attracting large tranches of investment, or a well established mortgage market financing developments undertaken and managed by housing associations, are the only firm bases for an affordable housing market.

Barriers and Measures

The barriers to private investment are reasonably well known. They will be similar for both debt and equity investment – with the important proviso that equity investors are more likely than lenders to place a high price on risk – particularly where there is no established asset class.

- Returns
- Scale
- Liquidity
- Perception/ pricing of risk
- Industry information
- Asset backing

Returns

As noted earlier, returns from rents affordable to low and moderate income households will not provide sufficient income meet funding costs without government subsidies. The NRAS provides a unique opportunity to make such subsidies available. It is crucial that the NSW Government support and participate in this scheme.

R7 That the NSW Government commit to providing matching NRAS subsidies for the expansion phase of the scheme

The most direct way to expand affordable rental housing is for housing associations to undertake development and management. This will require debt finance, which can only be supported on affordable rents if it is leveraged off initial government investment. This is also true of the ability to make NRAS sustainable for lower income households, over longer periods of time that the 10 years required, or in higher cost areas such as Sydney.

R8 That the NSW Government provide significant new investment through the Affordable Housing Innovations Fund

Scale

Private investment will only become well established if there is the opportunity to invest at scale. This means that support for the expansion of the sector must be predictable and sufficiently large, whatever forms of subsidy or support are provided. Importantly, government investment should not be provided on a stop start basis or project by project. Pre-commitments of funds will be required to allow providers to explore project opportunities and to parcel up finance in larger tranches.

R9 Funding should be provided as a pre-commitment of funds, rather than project by project funding applications

It also means that vehicles to parcel up investment should be encouraged. These might be vehicles for equity investment such as property trusts, or they might be vehicles created by providers to parcel up development and finance opportunities. A number of consortia are currently emerging. In NSW, Blue CHP has emerged to raise finance and development or acquisition for its four member associations.

Risk

The pricing of risk – particularly by equity investors – will pose a serious problem for at least the early phase of private financing. There are a number of measures to manage this.

- Strong industry information base should be developed – perhaps in partnership with the industry associations and lenders – to provide financiers with industry benchmarks on key performance measures such as vacancies, arrears and overheads. This should be associated with ongoing familiarisation of financiers with the industry.
- The Federal Government could follow the UK model of reducing the required deposit ratio for loans made to registered community housing providers to reflect the lower risk of such lending. The risk is lower for three reasons:
  - the regulatory oversight which provides early identification of business risks and ensures intervention to support the asset and tenancies
  - the more proactive and holistic management of tenancies and of assets by community housing providers, linked to assured demand
  - the final assurance that government will not allow any social tenancies to be put at risk

- The establishment of a guarantee fund. In the very large Dutch housing association sector, the sector itself has established a guarantee fund. This might be possible when the sector is larger. Similarly, some risks might be insurable (although very real care must be taken to ensure that that the benefits in terms of cost of funds or required returns outweigh the insurance costs). But the most effective option is the establishment of a government guarantee fund, shared between the Commonwealth and the States.

R10 That the pricing of risk be specifically addressed through the establishment of strong industry information and benchmarks, requiring a lower deposit ratio for loans made to registered affordable housing providers, and the establishment of a guarantee fund.

Asset backing

One of the most significant barriers to the growth of the affordable housing sector is the lack of sufficient assets on the balance sheets of housing associations. This has two effects on access to finance. The first, mentioned above, is that it makes it impossible to borrow against the portfolio. Just as important, it makes it extremely difficult to enter into partnerships, since without a strong balance sheet, housing associations are unable to take on their share of the risks in the partnership. This has put at risk the financing of large scale proposals in the past.

The lack of control over the assets under management has the other effect that it is impossible to actively manage the asset to ensure it is appropriate to its use and that the value of the asset is actively maintained.

While the government interest in any assets financed in part by government should be protected, this can be done most effectively as it is in the UK, through a charge (most simply through a statutory charge) and through the strength of the regulatory oversight.

R11 That title to the government assets currently managed by housing associations be transferred to the associations