

**Submission  
No 55**

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

**Organisation:** The Salvation Army

**Date received:** 26/02/2014

---



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

Submission by

**The Salvation Army**

**Australian Eastern Territory**

to the

**Legislative Council Select Committee on Social, Public and Affordable Housing**

## **1. Overview and introduction**

### **Overview of The Salvation Army and its history in dealing with homelessness**

The Salvation Army has a long standing role in the community as a provider of services to those in need. In particular, the provision of homelessness services has been one of our core services.

Historically, The Salvation Army provided this service through large complexes that focused on providing crisis accommodation and meeting the immediate physical and emotional needs of the clients. The Salvation Army within the Australia Eastern Territory<sup>1</sup> currently provides crisis accommodation services of up to 470 people at any one time. In addition, The Salvation Army also provides a range of other accommodation services, including supported housing, community (social) housing and affordable housing.

In 2010, The Salvation Army commenced a review of its homelessness services. Underlying this review was the presumption that it needed to shift its focus away from the intensive crisis accommodation to a community-based accommodation model, with services to assist former homeless clients to regain their independence and, in time, move into mainstream housing. In addition to providing exit points to the existing clients, The Salvation Army also recognises that there is a great need to prevent people from entering homelessness.

It is with this background, that The Salvation Army offers the following input into the enquiry.

### **Changes over the past 10-15 years**

The Salvation Army has seen firsthand the impact of increasing unaffordability. The additional financial stress on low income households is a catalyst for other problems and often results in a rapid decline in their ability to care for themselves. Additionally, there are those that are experiencing homelessness. The affordable housing gap is too large for many individuals and households to breach.

---

<sup>1</sup> Within Australia, The Salvation Army operates as two parallel organisations, each covering a defined geographical region of Australia. The organisations are the Australian Eastern Territory and the Australian Southern Territory. The Australian Eastern Territory covers the geographical regions of New South Wales, Queensland and the Australian Capital Territory. The Australian Southern Territory covers the other states and territories of Australia.

## 2. Projections of future social, public and affordable housing supply and demand to 2020

The lack of affordable housing is an issue of the lack of suitable housing supply, rather than being a demand driven issue.

The following figure illustrates the relationship between housing costs (both rents and purchase price) and household incomes. Following the rapid increase in house prices in the late 1990s and early 2000s, the ability of households to purchase a home was greatly reduced. They were therefore effectively locked into the rental market.



Figure 1 - Comparison of Household Incomes vs Cost of Housing<sup>2</sup>

Whilst households may be effectively locked out of home ownership, this does not in itself cause housing to be unaffordable. If the housing supply was adequate, then the rental market should still be able to provide an affordable housing supply. However with the demand increasing (both as a result of immigration and additional households entering the rental market) and supply remaining constant – the price of rental accommodation began to dramatically increase from mid-2000.

For those households that have been able to purchase a property; they have the advantage of being locked into the historical price at which they purchased. For example, a house purchased in 2000 may have cost \$150,000. Even though the market value may be in excess of \$300,000 – the house has still effectively only cost them \$150,000.

<sup>2</sup> Source: **Earnings (Australia wide)**: ABS 2012, Average weekly earnings, cat. No. 6302, ABS Canberra. **House prices (Australia wide)**: RP Data-Rismark hedonic house price index; 2012. **Rents (Australian capital cities)**: REIA March 2012, Quarterly median rents on three-bedroom houses.

Note: Each series indexed to third quarter of 1994. Earnings are for full-time workers

However, if a household is not able to purchase a property, then they are faced with having to accept whatever the market price is that year. For example, they may have rented a property in 2000 for \$250 per week, but this property may now cost them \$500 per week. Therefore for households that are not in a position to purchase (presumably lower income households) they are effectively punished by now having to pay double the price of higher income households.

Since 2007, the price of renting has increased at nearly twice the pace of household income.

## **Housing Demand**

There is little that can be done directly to influence housing demand. Any changes are generally only a temporary solution, only deferring the problem to a later stage.

For example, if we were to look at how demand may be reduced, then in broad terms there are three ways that this can happen;

- Reduce overall population - This is not a viable option.
- Reduce household demand by changing household composition – This has already occurred naturally to a significant degree (eg. Young couples staying with parents longer since they can't afford to live elsewhere). The ageing population is tending to result in smaller households – and as a result increasing the demand for housing.
- Shift the demand to another region – This is another strategy that is possible – although it also results in shifting the problem elsewhere. Many regional centres are experiencing the same shortage of housing, which is also leading to an increase in the price of housing.

Consequently, none of the above options really offer a long term solution to housing affordability.

## **Housing Assistance Packages**

As a subset to the demand issues, housing assistance packages (such as rent assistance) offer a necessary boost to low income households. They are of vital importance to assist households to meet their housing needs in the short term. However, they also have the effect of causing a further inflationary effect on the price of housing – as they don't directly assist in the increase in the housing supply.

Whilst they are necessary to assist in the short term, they do not offer a solution for the long term.

## Housing Supply

The solution to housing affordability lies in the increase in housing supply. The market has failed in keeping supply in line with demand – and as a consequence, low to middle income households are bearing the burden of this.

Our solution needs to look at

- Increasing the supply of housing
- Ensuring that a reasonable proportion of this housing is targeted at low to moderate income households
- Ensuring that affordable housing stays in the housing system for the long term

In addition, barriers to developing new housing (particularly affordable housing) need to be addressed.

Ultimately, the issue of housing unaffordability is the imbalance between housing demand and housing supply.

If we examine the sectors that may contribute to the supply of affordable housing, we can make the following general observations;

- **Government** – Traditionally the source of low cost housing supply, however with the pressure on budgets and the large quantity of housing required, it appears that statutory authorities will be limited in their ability to directly respond.
- **Community Housing organisations** – The typical community housing organisation is unable to respond in a significant means. The lack of adequate capital is the main limiting factor. The need to acquire land significantly limits the ability of these organisations to create new housing supply, and they must therefore rely on significant government assistance to generate new supply.
- **Private sector** – The private sector is unlikely to respond without significant incentives (or dis-incentives for failing to do so). The motive will always be profit driven (and usually profit in the short term). Programs such as the National Rental Affordability Scheme have assisted in bringing the private sector into providing affordable housing, although this is primarily profit-focused – with the likely result that the housing will not remain as ‘affordable’ housing after the mandated period.
- **Church sector** – The church sector offers significant potential to deliver affordable housing, yet is largely untapped. The provision of affordable housing fits in with its social mission and in many cases has land in key locations. One of the main barriers that prevent churches is the lack of financial assistance available to make projects viable.

### 3. Link between lack of appropriate social, public and affordable housing and indicators of social disadvantage

The following case studies illustrate the actual disadvantage experienced by people that have come into contact with The Salvation Army. They provide an alternate view to the statistical data that is available and instead provide an insight into the issues that experienced.

#### Case Study 1

*Mr. B initially presented at one of The Salvation Army's inner city crisis centres. After being homeless for 6 months, he sought to break the cycle and began a support program with The Salvation Army. Initially he was living in crisis accommodation and was then found a place in the transitional housing.*

*Mr. B is ready to move into his own accommodation, however has been unable to source any public housing and the private market is unaffordable. He has been actively searching for the last nine months for any suitable accommodation and the continual rejections are increasing his issues with depression.*

*Mr. B is on a disability support pension, and the lack of long term housing is compounding his mental health issues.*

#### Case Study 2

*Mr. L receives a disability pension and was renting privately while waiting for priority housing for the last 18 years. He rented a 3 bedroom dwelling, initially with friends who had since moved on. He occupied the house on his own because he could not find anyone he could relate to. His rent was not subsidised as it fell outside the parameters for Housing NSW policies.*

*The rent increases over time, reached the point where he owed his landlord approximately \$150 each fortnight, as he could not afford this on his pension. In addition, Mr. L's mental health issues increased and he developed a hoarding problem which further deteriorated the relationship with the landlord. The substantial rent arrears and need for repairs became the reasons for his termination.*

*Mr. L did receive an offer from Housing NSW more than five years ago. Unfortunately, there was no one who would lend him the \$300 + moving cost. He was trapped in a house he could not afford. Mr. L relied on food vouchers. Financial counsellors could not assist because he was living beyond his income. It will take him approximately 13 months to repay the rent arrears. The process of becoming homeless threatens the semblance of normality that took him years to get together.*

### Case Study 3

*Mrs. S is a public housing tenant and a sole parent with two children. She has struggled to have basic repairs completed and consequently has taken her landlord to the CTTT (now NCAT) a number of times to have these addressed.*

*Extensive mould covered her home's walls and ceilings. Her personal effects were irreparably covered as well. Housing NSW has approved her transfer for some time however there is no suitable property available for her to move into. Moving into the private market is out of her means. She and her children suffer from skin irritation, headaches, coughs and bleeding noses throughout the years and these symptoms are getting worse. Seeking medical attention is now a frequent reality as she continues to wait for suitable property.*

### Case Study 4

*Mr. J is renting a 2 bedroom unit privately. He shares the unit with his dialysis machine that he spent thousands of dollars to have in the other room. Due to financial issues, his landlord has to sell the rental property. His landlord has given him the option to purchase the property, however this is beyond his means. Mr. J cannot find another property to move into.*

### Case Study 5

*Miss M lost her employment and slipped into rent arrears. She entered into a repayment plan that she could not afford to keep. As a result her tenancy is terminated and is now 'black listed' on a tenant database. This has prevented her from getting any other tenancy.*

*She moved in with a sibling who is also renting. However, this tenancy is now at risk of termination as there are more occupants than the number allowed in the tenancy agreement.*

### Case Study Summary

Real cases outlined above illustrate the psychological, physical and economic reality for some tenants.

Unfortunately, these cases are not unique and nor are they the worst cases that arise. Rather they are typical situations that The Salvation Army finds itself trying to help people with.

The disadvantages suffered by tenants multiply in complexity when they become entrenched in unemployment and social isolation typified in public and social tenancies.



## **4. Social Service Integration and Housing Design approaches**

In addition to providing direct housing, the solution also needs to consider the physiological, social and spiritual needs of those in the community. Our housing needs to be more orientated towards creating a community, rather than simply creating a place for someone to reside.

The Salvation Army is seeking to assist people to find freedom; freedom through community, freedom through action and freedom through faith. A practical approach to how The Salvation Army is seeking to implement this is through our hubs. The Salvation Army hubs seek to provide an integrated approach to how the community can interact with The Salvation Army.

An extension of the 'hubs' concept could also see other services and facilities included to assist in the development of the community. Provision of key social services such as medical centres, churches, childcare, playground, shops, cafes, garden, library, fitness centres and information referral centres would all be key factors for consideration in the development of a community. In addition to the sense of community that is developed, it would also provide employment opportunities (if they are staffed by local residents) and foster a sense of ownership and security.

## 5. Maintenance and capital improvement costs and delivery requirements

A long term view for the provision of affordable housing is required. Current programs (such as the National Rental Affordability Scheme) are targeted at the next 10 years only. From a private market perspective, this has created a short-term mentality, whereby the housing will not be in the affordable housing system after 10 years. Aside from an increase in the supply of housing and a temporary provision of affordable housing – ultimately the benefits of this are limited.

In general, the mission of the churches includes the helping of those in need. As such, the housing will remain in the affordable housing system for the long term.

The Salvation Army has modelled the true costs of the housing (for the long term) and believe that with a little assistance, housing may remain in the affordable housing for the long term.

The following scenarios illustrate the difference that churches may provide, with a little bit of assistance.

The analysis is based on the following scenarios

- 10 unit development
- Market is \$430 per week – Discounted rent (75%) = \$322.50 per week
- Target is for long term affordable housing (ie. 30 years +)
- Development cost = \$250,000 per unit
- Land value = \$1,000,000
- Debt funding @ 6.5% p.a.

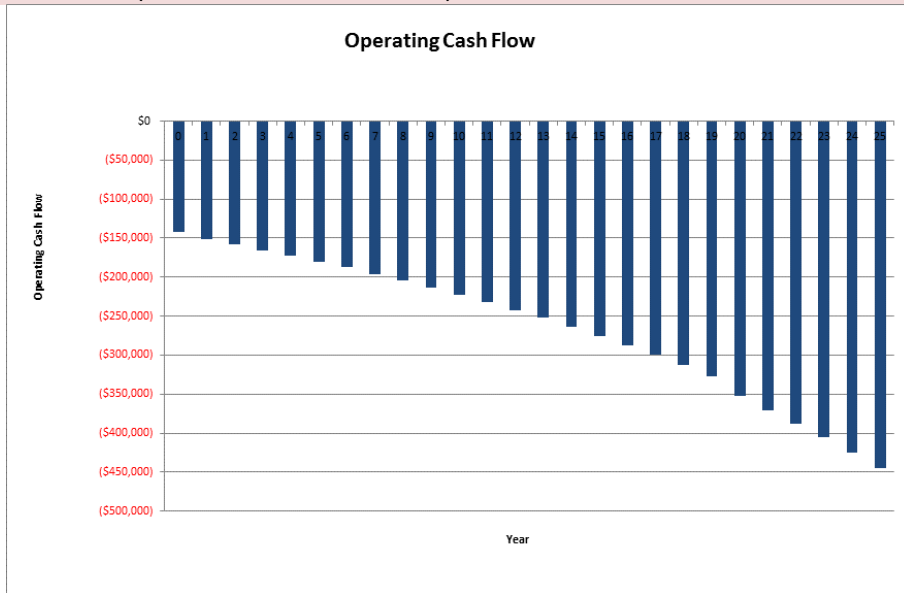
The following scenarios are considered.

	No financial assistance	Financial assistance provided (similar to NRAS)
Land is to be purchased	Scenario 1	Scenario 2
Land is owned by church and provided for the project	Scenario 3	Scenario 4

## Scenario 1

No financial assistance

Need to purchase land (assumed cost = \$1million)

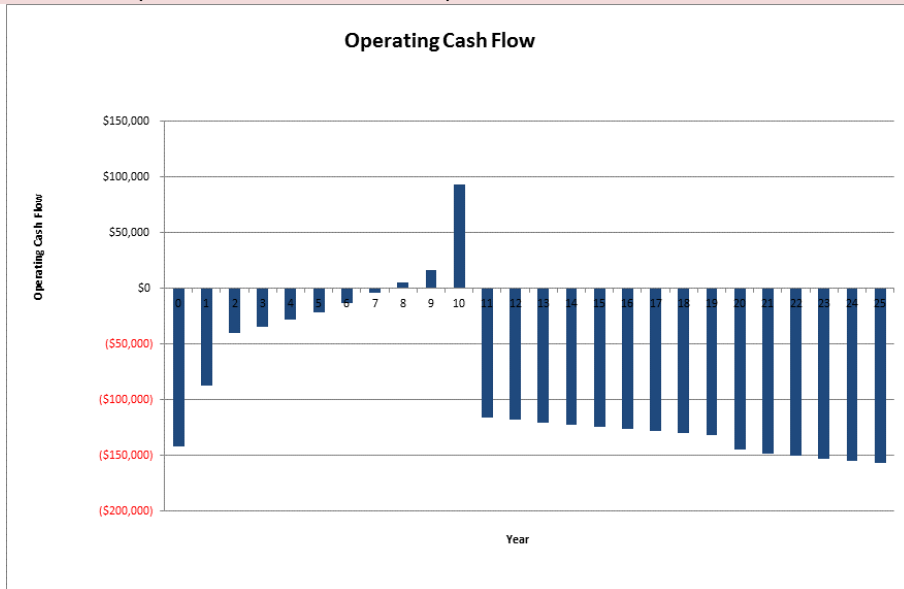


The above chart shows the long term operating cash flow – which is clearly unsustainable. The funding costs required make the development completely unsustainable.

## Scenario 2

Financial Assistance provided (based on current NRAS scheme)

Need to purchase land (assumed cost = \$1million)



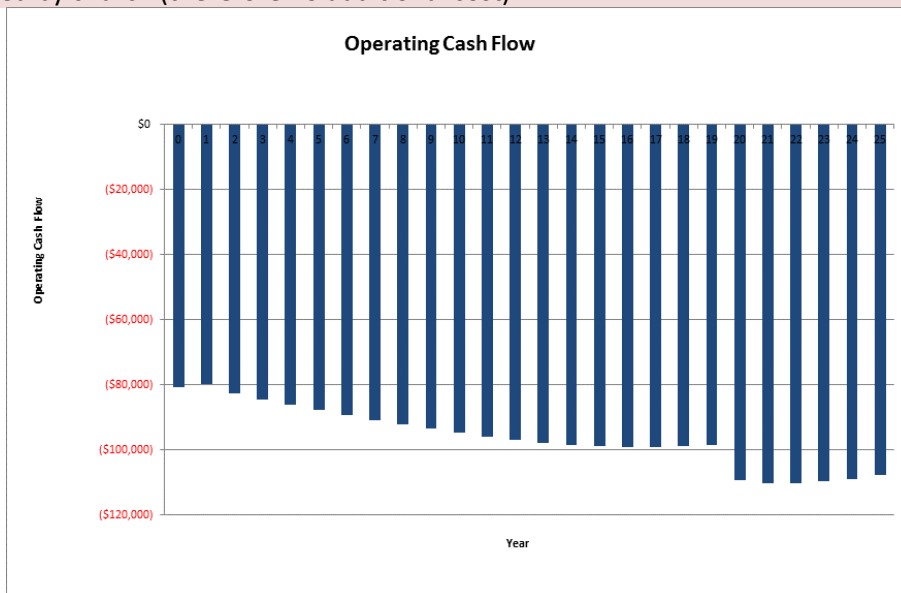
The above scenario illustrates the impact of NRAS funding on the development.

Whilst it does improve the viability over time – the ceasing of the NRAS funding in Year 10 means that the development is then unsustainable (and presumably would result in the property exiting the affordable housing system)

### Scenario 3

No Financial Assistance provided

Land provided by church (therefore no additional cost)

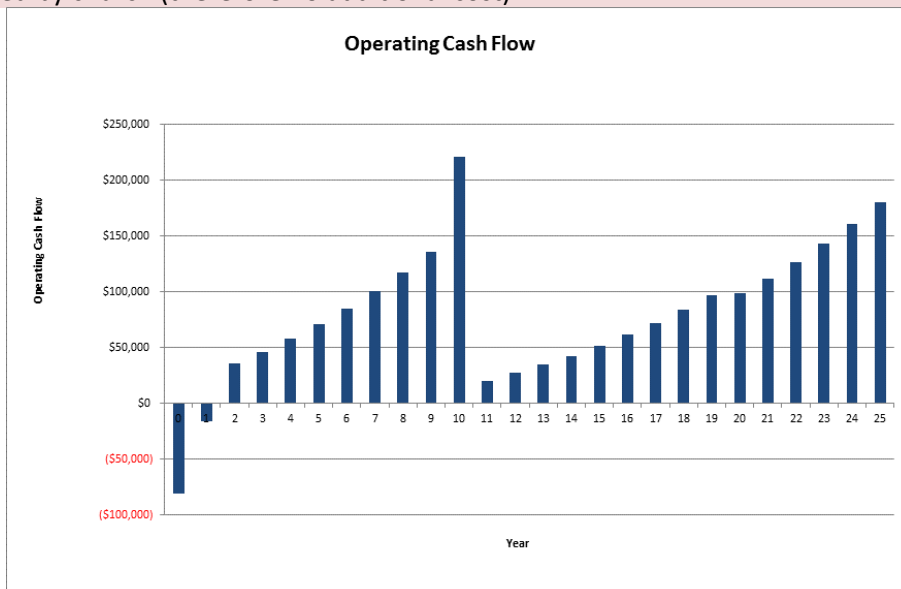


This scenario is still equally unviable – although not to the same extent as for Scenario 1. The supply of land by the church has reduced the need for external funding and has therefore reduced the funding costs.

### Scenario 4

Financial Assistance provided (based on current NRAS scheme)

Land provided by church (therefore no additional cost)



The provision of land by the church and funding based on a scheme similar to NRAS yields a long term sustainable model.

The above scenarios illustrate that with a little assistance, a model utilising church land is able to generate a long term sustainable model and retain housing in the affordable housing system.

## **6. Criteria for selecting and prioritising residential areas for affordable and social housing development**

The need for access to services, employment and a local community are all key factors that need to be considered.

Where possible, this can be more easily achieved using an in-fill development.

In many cases, churches will have land in locations that already have existing infrastructure and services. Where churches have under-utilised land, then this may become a prime opportunity to address housing affordability in areas of key need.

## **7. The role of residential parks**

The Salvation Army does not have any specific background in the role of residential parks, aside from the observation that residential parks are indicative of a market failure rather than being a possible solution.

The lack of suitable and affordable housing has resulted in many lower income households being forced out of more traditional permanent accommodation into a temporary and often substandard form of accommodation.

## 8. Recommendations

The Salvation Army's 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 include;

### i) Policy Initiatives and legislative change

---

#### Recommendation #1

Recommendation:	Targeted partnerships with the church sector to develop social, community and affordable housing.
Suggested implementation:	Provide targeted financial support to church based projects that will provide social, community and affordable housing – utilising the land resources of the church.
Benefit:	The supply of social, community and affordable housing is increased for a small financial investment. The increased housing will remain in the affordable housing system for the long term.

---

#### Recommendation #2

Recommendation:	New residential developments require a component of affordable housing to be included in the development.
Suggested implementation:	New developments in excess of a minimum number of dwellings (say 10) include a requirement for component of affordable housing to be supplied (say between 15 & 25% of new units). Affordable housing units are to remain in the affordable housing system for a substantial period (say 25 years) and to be managed by a registered community housing provider.
Benefit:	In addition to increasing the supply of the general housing supply, there is a dedicated increase to the supply of affordable housing.

---

### Recommendation #3

Recommendation:	All new developments require a contribution towards the development of affordable housing.
Suggested implementation:	All developments would include a levy (similar to the contribution currently collected by the City of Sydney). The accumulated funds could then be distributed to registered housing providers for the provision of new affordable housing.
Benefit:	Capital funds are raised to assist in the development costs of affordable housing. The supply of affordable housing is increased and the cost is spread amongst new developments.

---

### Recommendation #4

Recommendation:	Programs/Policies providing affordable housing are required to provide a longer term commitment to affordable housing.
Suggested implementation:	Where funds / planning concessions are provided for affordable housing, a long term commitment (say 20 – 25 years) is required towards the affordable housing system.
Benefit:	Housing is maintained in the affordable housing system for a longer period, rather than reverting to market priced housing after 10 years.

## ii) Planning law changes and reform

---

### Recommendation #5

Recommendation:	Tenders, Unsolicited proposals, etc. recognise the social value that is provided in addition to the direct monetary value.
Suggested implementation:	A dollar value is attributed to tenders and proposals based on the social contribution that is provided. The attributed dollar value is added to the direct monetary value for comparison purposes.
Benefit:	Provides true recognition of the actual social contribution made for a tender / proposal. Provides an additional incentive to provide low income housing, with additional wrap around services supporting the household.

---

**Recommendation #6**

Recommendation: Planning concessions provided for the provision of affordable housing.

Suggested implementation: Review the existing Affordable Housing SEPP and consider the barriers that exist to providing additional affordable housing. Consider extending the period that housing is to remain in the affordable housing system in return for removing potential barriers to the system.

Benefit: Additional affordable housing is introduced to the housing market for the long term.

---

**Recommendation #7**

Recommendation: Streamlining of the application process for affordable housing

Suggested implementation: Provide a fast track path for development applications that meet affordable housing guidelines

Benefit: Provides an encouragement for developers to provide affordable housing, in return for a fast track process.

---

### iii) Social Benefit Bonds

---

**Recommendation #8**

Recommendation: Support the introduction of social benefit bonds for social housing

Suggested implementation: Focus for social benefit bonds should be targeted to areas of high need (e.g. crisis and supported housing) where direct intervention can provide long term cost savings to the government.

Benefit: Additional supply of crisis and supported housing funded utilising Social Benefit Bonds.

---

### iv) Market Mechanisms and incentives

**Refer to recommendation #2** - New residential developments require a component of affordable housing to be included in the development.



## **v) Ongoing funding partnerships with the Federal Government such as the National Affordable Housing Agreement**

**Refer to recommendation #1** - Targeted partnerships with the church sector to develop social, community and affordable housing.

**Refer to recommendation #7** - Streamlining of the application process for affordable housing.