

**INQUIRY INTO HOMELESSNESS AND LOW-COST
RENTAL ACCOMMODATION**

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SUBMISSION TO THE STANDING COMMITTEE ON SOCIAL ISSUES INQUIRY INTO HOMELESSNESS AND LOW-COST RENTAL ACCOMMODATION

The Northern Rivers Social Development Council, March 2009

EXECUTIVE SUMMARY

There is a significant undersupply of affordable housing in the Northern Rivers region from highly subsidised and supported housing for people who are homeless through to subsidised private rental housing for low to moderate income working households. Levels of subsidy for these households vary depending upon proximity to the higher cost coastal locations within the region. To date, this region has not been able to secure a share of opportunities currently available to increase housing supply.

The Northern Rivers Social Development Council (NRSDC) is very concerned that, despite the huge need for low-cost rental accommodation, the Northern Rivers region of NSW will miss the boat in generating new affordable housing. Current housing initiatives primarily target the high need end of the housing need continuum and are also better suited to larger metropolitan centres given the scale of development being sought, the access to wide ranging expertise necessary for project development and the very tight funding timeframes.

NRSDC believes the new government funding is targeting absolute housing growth without the necessary resourcing of the development of a brand new industry. As this new "Affordable Housing Industry" is in its infancy, more attention is needed to ensure that it operates successfully in regional/rural settings such as the Northern Rivers. NRSDC therefore argues that investment into the process as well as the outcome will generate construction of new low-cost rental housing. Investment in the "process" includes;

- project developer access to capital
- tax incentives to attract private sector partners, and
- capacity building in regional high growth areas to draw opportunities into non metropolitan locations of similar need.

It is important not to underestimate the role of the non-profit-sector within the emergence of the Affordable Housing Industry. Organisations such as community housing providers are essential partners with for-profit companies in this new industry. A critical issue for regional NSW is how these two sectors, the not-for-profit and the for-profit, are brought together to deliver new housing projects. The current initiatives are designed to suit larger metropolitan centres given the scale of development being sought, the wide ranging expertise necessary for project development and the very tight funding timeframes.

NRSDC therefore advocates the need for regionally located "Affordable Housing Partnership Facilitators (AHPF). The AHPF would perform the following functions:

- Identify affordable housing projects
- Connect housing developers with not-for-profit housing providers
- Support smaller less resourced housing providers to build capacity
- Promote regional housing investment opportunities
- Seek opportunities to increase local employment and business opportunities through housing development

Is unrealistic to assume low cost housing will “just happen” in areas such as the Northern Rivers. Even though there is currently an unprecedented amount of resources (\$7billion over 5 years) currently being targeted to the growth of lower cost housing supply this level of public spending will not be adequate to address the current undersupply of affordable housing without corresponding private sector investment. The NSW Government can be proactive to ensure the regions don't miss out on new housing opportunities by setting mandatory affordable housing targets in both metropolitan and regional locations.

A matter which is very relevant to the increased levels of social housing currently being pursued is the need for concurrent growth in social and tenancy support services. Social housing will continue to target very low income households with high social support needs and tenancy support needs. No additional resources have been allocated to these essential elements of social housing provision.

RECOMMENDATIONS

1. Models of low cost rental outside mainstream public housing

- There is need for investment into regional capacity building to attract housing investors and to facilitate partnership development.
- NRSDC therefore advocates the need for regionally located “Affordable Housing Partnership Facilitators (AHPF). The AHPF would perform the following functions:
 - Identify affordable housing projects
 - Connect housing developers with not-for-profit housing providers
 - Promote regional housing investment opportunities
 - Seek opportunities to increase local employment and business opportunities through housing development
 - Support smaller less resourced housing providers to build capacity

2. Methods of fast tracking capacity of providers to deliver accommodation

- Some funding could be quarantined for the purchase of the intellectual property from those providers that have already developed successful models. This would enable potential replication in other locations
- Increasing the capacity of providers to deliver accommodation is necessary but work is also needed to develop the ‘infrastructure’ around this new industry. This includes advisory structures, monitoring and recording systems and shared industry-building objectives across federal, state and local government and the not for profit housing sector.

3. Strategies to attract private sector investment in the provision of low cost rental accommodation

- The attractiveness of low cost rental investment could also be increased through the provision of additional capital to housing projects in addition to tax incentives to investors. For example, the continuation of the NSW

Government's NRAS A model (tax incentive plus capital up to 40% of development costs) would improve the scheme's attractiveness to private investors

- Housing providers need to develop the necessary skills set to gain the confidence of the development and investment industries.
- The Commonwealth Government's Housing Affordability Fund can be used to directly reduce infrastructure costs to developers. The State government should also seek broader application of this scheme to NRAS developers as well as home purchasers

4. Current barriers to growth in low cost rental housing

- Introduce inclusionary zoning in NSW planning legislation (as in other states and overseas) to ensure a proportion of affordable housing is offered in new development sites and assists local government and housing providers to forge partnerships with the private sector. An alternative option would be to enable local government to charge an affordable housing levy which would enable local councils to create affordable housing funds to develop lower cost housing.

5. Strategies to avoid concentrations of disadvantage and grow cohesive communities

- Introduce benchmarks on housing mix (social/affordable) and tenure mix (social housing, low cost private rental, market rental, home ownership) would help to prevent concentrations of disadvantage and also prevent other areas missing out on much needed housing investment.
- Locational targets for development of social housing and affordable rental should be established to ensure opportunities extend to non metropolitan locations. This will assist high growth regional centres to be socially and economically diverse and productive, and reduce key worker commuting and the displacement of longer term residents.
- Strict limits should be set on the amount of low cost housing development permitted in lower cost locations that are not well serviced by transport or near service centres.
- Additional funding is required for the necessary growth in community based services to support the increased number of social housing tenancies.

THIS ORGANISATION

The Northern Rivers Social Development Council (NRSDC) is a community-based not-for-profit organisation that promotes fairness and social inclusion in the Northern Rivers region of NSW. NRSDC represents and strengthens communities and services by:

- Providing opportunities and services to alleviate disadvantage
- Engaging in advocacy and promotion
- Informing and educating people, organisations and government
- Encouraging partnerships
- Undertaking research and planning for future needs.

NRSDC has done considerable work in the area of housing and homelessness including working with local government to develop housing strategies, hosting information and consultation events to inform the community of housing initiatives, advocacy to highlight this region's critical housing supply and affordability conditions and identifying potential affordable housing project partnerships. It has also conducted financial modelling and planning provision workshops which have highlighted the elements of successful affordable housing models and the level of local government and professional supports required.

THIS REGION

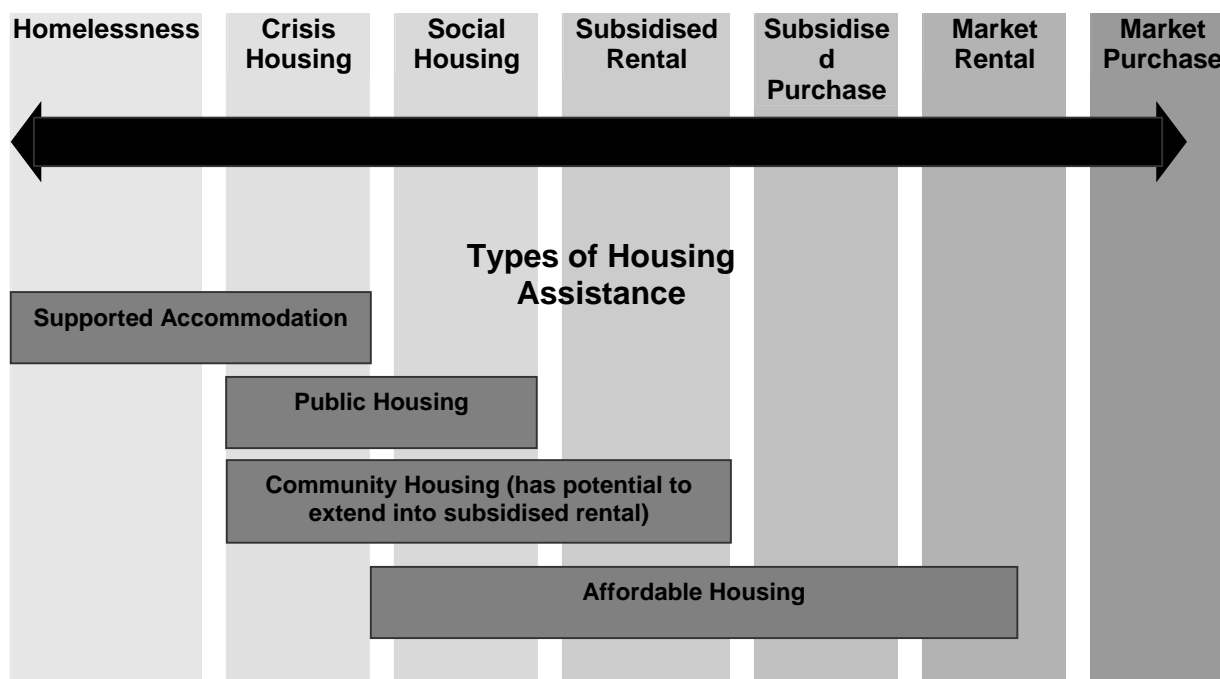
The Northern Rivers region has a projected growth rate of 38% to 2036 (Dept Planning, 2008) with almost 90% of this growth occurring through migration – as opposed to natural increase - and the proportion of the population over 65 almost doubling to 30% of the total population. This compares to State growth of 33%, 40% of growth occurring through migration and the proportion of the population over 65 increasing to a level of 21% of the total population. Net migration into the region is projected to be 2,500 per year. With building activity continuing to decline and house prices and rentals continuing to increase, the demand pressures will increasingly displace those people with lower incomes, especially those who are renting and in casual and part time employment. The unemployment rate amongst renters is about twice that of home owners and from this it is accepted that this group will be first and hardest hit as unemployment rises. Already there are examples of high cost areas unable to attract the lower paid workforce necessary for key local services, hospitality and retail provision.

In summary, income levels in the region are approximately two thirds those of the Sydney Statistical Division yet housing costs and rental vacancy rates are similar. Public housing levels are well below overall levels for the State as are emergency and short term accommodation options for people who are homeless or at risk of homelessness.

Northern Rivers Social Development Council

NORTHERN RIVERS, NSW				
Income (ABS) and housing cost comparisons (Dept. Housing Rent & Sales Report Dec 08 quarter)				
	Median household Income \$p.a. (\$/wk)	% households earning <\$500 pw (\$23,600pa)	Median Weekly rent (3 b/room sep house)	Med. Rent as % Med. h/hold income
Regional LGAs				
Ballina	40,400 (777)	24.1	350	45
Byron	38,700 (744)	25.1	385	54
Clarence Vly	32,900 (633)	30.8	260	40
Kyogle	31,200 (600)	34.4	225	42
Lismore	39,500 (759)	25.7	280	37
Richmond Vly	33,500 (645)	29.8	260	39
Tweed	35,300 (679)	27.9	360	52
Sydney Stat Div	60,000 (1153)	16.7	350	33
NSW (inc Syd)	53,800 (1035)	20.1	290	30
Rest of NSW	42,400 (816)	19.4	245	30

WHAT IS LOW COST HOUSING?



Low cost housing ('affordable housing') is not only public and community rental housing. It includes below market private rental that may be deeply or only marginally subsidised as well as subsidised home purchase. Affordable housing is linked on a housing continuum ranging from homelessness through to market price home purchase. Changes to housing supply or affordability at one point will influence conditions along the continuum.

TERMS OF REFERENCE

1. Models of low cost rental outside mainstream public housing

With the introduction firstly of the NSW Government's Affordable Housing Innovations Fund and the subsequent Commonwealth National Rental Affordability Scheme (NRAS), a number of new models of affordable rental housing are being developed by the community housing sector.

To date, no NRAS housing has been developed in the Northern Rivers region of NSW and local government interest has been very limited. **There is need for investment into regional capacity building to attract housing investors and to facilitate partnership development.** The federal government has made some capacity building funding available through the peak community housing agency and for those projects successful in securing NRAS funding but this is only available to registered housing providers. Locations without local housing providers (or without providers seeking to expand their business to include the private sector) are therefore not able to access these opportunities to assist them in attracting private sector housing investment.

Those housing providers who have achieved success to date have received significant additional capital investment by State and/or Local Government and they stress that for housing to be affordable in high demand-low supply locations subsidy is necessary; the market can't deliver it. The level of subsidy needed depends on development costs, management cost, the cost and level of finance required and the level of rental income. It seems that even where land is provided, models reliant on income-tied rental returns are not self supporting and require additional capital, partial sell off or cross subsidization (from projects receiving near market rents).

Low cost rental housing is an evolving industry incorporating complex financial modelling, sound social engineering (to achieve tenure and social mix) and professional project and ongoing management. Apart from the social imperatives, economically viable models require mixed income and mixed tenures. The housing providers and partners involved in this new industry are investing heavily in the development of models that will provide the necessary investment return and understandably will not simply hand over this valuable intellectual property.

Those involved in new affordable housing development models have advised that project models generally cannot be successfully imported from one location to another without financial adjustment to individual project conditions. The one model likely to work equally well in various high demand areas is a simple 'headleasing model' whereby a developer attracts NRAS incentives to build then sell to investors with 10 year headleases to a community housing provider attached to the contract. Another generic but slow model is where housing providers build, sell a proportion then build again using the proceeds of the sales. This latter approach requires significant start up capital.

Other successful models have involved the provision of land either gifted or as part of shared equity arrangements. This is particularly suited to local government seeking to develop assets and or wanting to influence the housing market to increase housing affordability for key workers in their jurisdiction.

In late 2007 the Northern Rivers Social Development Council hosted a housing investment modelling workshop with developers and industry representatives. Hal Bisset (Bisset Ward Consulting) facilitated this workshop and assisted the group to

identify the key issues to be addressed in affordable housing model development and the components of a successful affordable housing project.

Critical success factors:

- Access to land at reduced cost
- Agency with capacity to manage development risk
- Support of local government through planning process/concessions
- Strong connections and support of local community
- Ownership vehicle with appropriate tax status
- Highly competent manager
- Incorporation of debt finance based on net income stream
- Broader income range in target group
- Flexibility in affordability, rent setting

NRSDC believes the new Commonwealth government funding for housing is targeting absolute housing growth without the necessary resourcing of the development of a brand new industry. As this new “Affordable Housing Industry” is in its infancy, more attention is needed to ensure that it operates successfully in regional/rural settings such as the Northern Rivers. **NRSDC therefore argues that investment into the process as well as the outcome will generate construction of new low-cost rental housing. Investment in the “process” includes;**

- **project developer access to capital**
- **tax incentives to attract private sector partners, and**
- **capacity building in regional high growth areas to draw opportunities into non metropolitan locations of similar need.**

2. Methods of fast tracking capacity of providers to deliver accommodation

It is argued that encouraging competition between housing providers will improve their efficiency but to do this before providers have acquired the necessary skills and built their overall capacity to take on the growth targets set for their sector could lead to a monopoly by one or two larger providers. This would also reduce the growth potential of the local not-for-profit housing providers and local economic development opportunities that are particularly critical to regional growth areas.

Some funding could be quarantined for the purchase of the intellectual property from those providers that have already developed successful models. This could save time and duplication of effort in that the model framework could then be tested and adjusted to fit local conditions rather than built from scratch. This may also help to broaden the appeal of working in the not for profit housing sector and help the sector to build the necessary skills base required.

While haste is required to deliver urgently needed housing and to meet the expenditure deadlines set by government, it is important that this massive investment is used in a way that maximises leverage to achieve broader social objectives and longer term outcomes. **Increasing the capacity of providers to deliver accommodation is necessary but work is also needed to develop the ‘infrastructure’ around this new industry. This includes advisory structures, monitoring and recording systems and shared industry-building objectives**

across federal, state and local government and the not for profit housing sector.

3. Strategies to attract private sector investment in the provision of low cost rental accommodation

Housing supply funding from the Commonwealth Government over the next five years will total \$7b and is expected to result in an additional 72,000 homes. With housing undersupply growing at a rate of more than 30,000 houses per annum, this enormous investment will not be adequate. Private investment in affordable housing development is therefore critical.

NRAS modifications – One very early criticism of NRAS has been the lengthy application to allocation process and the financing details required at the initial application stage. This is at odds with the private sector mode of doing business. Developers typically make pre-sales to limit finance required for development. **The attractiveness of low cost rental investment could also be increased through the provision of additional capital to housing projects in addition to tax incentives to investors.** The NSW's NRAS A model (or 'debt-equity' model) available in Round 1 of NRAS for example provided the NRAS tax incentive and in addition, offered up to 40% of capital costs enabling the housing provider to take on a manageable debt to cover the remaining investment capital required.

Housing Affordability Fund - An issue continually raised by industry spokespeople which serves as a barrier to growth in low cost rental housing are local government charges and costs incurred by lengthy approval processes. The Housing Affordability Fund is designed to assist local government to streamline these processes but it targets home ownership and not rental housing development and it is only available to state and local government. **Broadening eligibility and tenure targets would improve the take up and level of innovation achieved through this fund.**

Industry Confidence - **Housing providers need to develop the necessary skills set to gain the confidence of the development and investment industries.** The not for profit sector is driven by social goals but it must fully understand investment requirements to establish workable partnerships with this sector. This is very new territory for community housing providers. Sharing knowledge and attracting expertise to the sector will assist to remove this barrier. (See 2.above)

There are various housing supply mechanisms receiving increased attention such as land trusts, 99 year land leases; shared-equity models but these measures need vigorous promotion to achieve broader acceptance and carry less perceived investment risk.

4. Current barriers to growth in low cost rental housing (also see 2. and 3. above)

Scale and delivery targets - The very short timeframe and large scale of growth through transfers from Housing NSW and community housing growth targets may exceed the capacity of smaller housing providers leading to an uneven spread of resources and excluding some locations of high housing need. It would also lead to addressing only the housing needs of highly disadvantaged, social housing eligible households without a parallel growth in less subsidised housing. Mixed incomes are essential to achieve the rental returns necessary for viable models of affordable

housing investment. To limit rental returns to an affordable proportion of very low and low incomes will not enable housing providers to grow housing stock and will require recurrent government subsidy.

Tax benefits - Another barrier to low cost housing development is a continuing appeal of investment at the higher end of the market. Many commentators stress the importance of the Henry Inquiry into the Taxation System and its potential impact on the housing system and the over consumption of housing. Australia has the highest percentage of second home ownership in the world and while the era of the McMansion is said to have passed, housing size continues to dwarf household size and need. The current tax system encourages this over consumption of housing through measures such as negative gearing and capital gains tax exemption on place of residence. It is also acknowledged that to adjust these mechanisms would be extremely contentious.

Planning legislation - In many jurisdictions, within Australia and overseas, inclusionary zoning is firmly entrenched in planning legislation and the provision of affordable housing lots in all new developments is a given. **Inclusionary zoning requires that a proportion of development is made available for sale or rent at below market rates. An alternative approach is to charge an affordable housing levy to developers which is then used by local government to create an Affordable Housing Fund** The fact that this may raise the cost of market priced housing in those locations is accepted. (The introduction of NRAS now allows compensation and dispenses with this argument). Where this is in place, affordable housing providers are approached by developers to assist them in meeting the requirements of this provision. Housing providers in New South Wales do not have this tool. Inclusionary zoning has the added benefit of introducing a proportion of housing designed to meet actual household size and need rather than housing that maximises future profit. Where these measures are in place, housing and planning portfolios are aligned and work very closely with local government.

5. Strategies to avoid concentrations of disadvantage and grow cohesive communities

There is concern that much of the housing developed through the current funding stimulus could be situated in lower cost (lower demand) locations. To maximise the social benefits of new investment, new social and lower cost rental housing should be located close to low and moderately paid work opportunities, and enable low income households to remain in locations close to existing networks and services, particular transport infrastructure.

Another significant concern is that the most immediately achievable development will be the growth of social housing – housing for very low income/high need households that meet current public housing eligibility requirements. If this growth is pursued without the concurrent investment in housing for low to moderate income households (not eligible for social housing), there will be very significant economic implications as lower paid workforce shortages deepen in high growth areas.

The introduction of benchmarks on housing mix (social/affordable), tenure mix and locational targets would help to prevent concentrations of disadvantage and also prevent other areas missing out on much needed housing investment. Professor Julian Disney, Chair of the National Affordable Housing Summit proposes a four year growth plan for affordable housing programs including benchmarks for the profile of the overall growth government seeks to achieve rather than relying on

separate targets for each funding stream currently available. These should include social mix, rent level and tenure mix targets as well as the desired geographic spread of investment – for example, inner city, non-metropolitan targets.

The issue of whether government wants private sector investment and take-up of incentives to be spread across the State into non urban areas of high growth as well as large urban centres is of particular importance to regions such as the Northern Rivers. **If high growth regional centres are to be socially and economically diverse and productive, and key worker commuting and the displacement of longer term residents minimised, then locational benchmarks will be required and some capacity building resources made available to regions in order to market opportunities and facilitate partnerships.**

A matter that doesn't easily fit the Terms of Reference but which is highly relevant to increased levels of social housing is the need for concurrent growth in tenancy support services. **Social housing will continue to target very low income households with high social support needs and tenancy support needs. No additional resources have been allocated to these essential elements of social housing provision.** Many of these tenancies will fail without adequate support.

Homelessness

This inquiry refers to homelessness but the Terms of Reference do not specifically address it. While a proportion of homelessness is due to an inadequate supply of lower cost housing and insufficient income to meet rising market housing costs, actual bricks and mortar responses miss the mark. They do not address the cause of homelessness or the non-shelter needs of people who are homeless and they do not strengthen the capacity of the non profit sector to provide critical support services to people who are homeless and at risk of homelessness.

The NSW government (through the NSW Strategic Homelessness Framework) and the Commonwealth Government (through 'The road home: a national approach to ending homelessness) have set out policy directions to address homelessness and the necessary commitments from all levels of government is detailed in the National Partnership Agreement on Homelessness. The NSW Government will be submitting its implementation plan for the white paper to the federal government by the end of March. A Homelessness Alliance comprising various peak and service agencies has been formed in NSW and is working with the NSW government to develop policy in regard to homelessness and homelessness prevention.

Representatives of this region are contributing to the work of the Homelessness Alliance to ensure non urban conditions and levels of homelessness are understood and factored into State level responses.

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