

INQUIRY INTO HOMELESSNESS AND LOW-COST RENTAL ACCOMMODATION

Organisation: Association to Resource Co-operative Housing
Name: Ms Karine Shellshear
Position: Executive Director
Telephone: 02 9361 6834
Date received: 13/03/2009



March 13, 2009

**The Hon. Ian West
Committee Chair
Standing Committee on Social Issues
Legislative Council
Parliament House
Macquarie Street
Sydney NSW 2000**

Dear Mr West,

Submission: Inquiry into Homelessness and Low-cost Rental Accommodation

The Association to Resource Co-operative Housing (ARCH) is a peak body for Housing Co-operatives in NSW, funded by Housing NSW Office of Community Housing since 1989.

- ◆ *ARCH welcomes the opportunity to submit to the Committee on Homelessness and low-cost Rental Accommodation and specifically to address the potential that co-operative housing offers in NSW.*
- ◆ *As such, this submission focuses on the unique advantage of one model - co-operative housing as a means of developing and sustaining an affordable housing solution that builds on communities, neighbourhoods and people as a primary focus of investment in a viable and affordable housing future*
- ◆ *We trust that this Inquiry will further NSW's capacity for new and innovative solutions with "people" at the centre of affordable housing outcomes.*

For further contact: 0293616834 ex 5 or karine@arch.asn.au

Thank you.

Yours sincerely,

KE Shellshear

Karine Shellshear
Executive Director of ARCH

Brief Context of Housing Affordability – and perspective on the relevance of the Co-operative Housing Model

In the current context of a housing affordability crisis in NSW, where we have inflationary market costs and poor supply of social and private rental stock, it needs to be recognised that the impact is affecting a broad spectrum of both low and moderate income earners.

This response to the Inquiry calls for diversifying the range of affordable housing solutions to a broad spectrum of those in housing need and it highlights Co-operative Housing as one of a range of viable options, founded on principles of co-operation aimed at sustainable communities, and the objectives of independence and autonomy.

The capacity for affordability has been severely impacted by the extensive loss of traditional low-cost housing stock (such as boarding houses, rooming houses, share housing and the like) together with high levels of competition for existing private rental and social housing stock. Such critical failure in the supply market has inflated costs and served to marginalise those who cannot afford, and/or are unable to compete, particularly in the Sydney Greater Metropolitan Region. This includes single people, low-income people, singles with children, youth, students and the aged, and especially people with the added disadvantage of a physical or mental disability, or a language and cultural barrier.

As a result, a broad spectrum of people are experiencing housing poverty (and poverty in general), being unable to access appropriate housing; living in a range of inappropriate circumstances; paying high proportions of their income in rent; or living in overcrowded conditions or places not intended as housing (laundries, garages cars etc), or in locations dislocated from mainstream infrastructure, or living in streets and parks in the case of homelessness.

The re-establishment of a supply of low –rental housing is not plausible without major subsidy from Government, and partnership with private and community sectors to help re-establish a new supply, embedded in protective policies that ensure a housing supply that is “affordable in perpetuity”.

ARCH is highly supportive of the Government’s new stimulus package and the objective to increase the supply of social housing and stimulate affordable supply in the market, particularly in areas where infrastructure is readily available.

ARCH advocates for the growth and development of new sustainable models of social and community housing, incorporating a social mix that will target low to moderate-income earners.

Government's re-orientation towards delivering services on a more integrated basis, one that recognises the value of working in partnership with communities, and which recognises the importance of individual and community capacity building in

redressing social exclusion, is warmly welcomed. This changing context presents both new challenges and new opportunities to Governments in supporting innovative solutions that will help address the current crisis and those who are directly impacted.

a) Elements of Success in the Co-operative Housing Model – a model of low cost rental housing

Co-operative housing is seen as an effective part of an overall strategy for increasing the mix of social and affordable housing supply for low to moderate income earners, including key workers.

Over the past two decades the NSW Co-operative Housing Sector has demonstrated that it can:

- ❖ provide affordable housing with more than 65% low income tenants eligible for assistance under public housing criteria
- ❖ provide successful models of social mix, incorporating opportunities for key workers and part time workers
- ❖ deliver quality housing outcomes, measured by high levels of tenant satisfaction
- ❖ provide a range of additional social benefits to participants, and
- ❖ remain the least subsidised in its operations and administration and a most efficient arm of social housing in NSW (in that co-operatives receive no direct recurrent funding)

A number of key factors influence co-operatives' success and the ability of the co-operative housing sector to grow and deliver broad community benefits. These factors include:

- ❖ the opportunity to recruit socio-economically diverse tenant groups with a genuine desire to participate;
- ❖ adequate financial and organisational support;
- ❖ approaches which manage risk while recognising co-operative autonomy; and
- ❖ government structures that both support and acknowledge the distinct contribution of co-operative housing.

Redefining the role of Co-operative Housing in NSW

Community and Co-operative housing have been variously promoted as enabling greater non-government investment, creating transparency through separating housing provision from housing regulation, providing greater choice for tenants, addressing non-shelter support needs of tenants and facilitating greater community involvement in addressing social housing need.

Within this context:

- i there are new opportunities to redefine and re-articulate the role of Co-operative Housing in NSW, and
- ii it is possible to identify a range of areas where co-operatives can work with government to achieve governments objectives.

Role of Co-operatives in addressing Social Exclusion

- ❖ One of the key roles of Co-operatives is to address social exclusion and to facilitate improvement in the personal and social circumstances of tenants.
- ❖ Co-operative programs can be most effectively used in a way that combines broader housing affordability objectives with addressing the needs of potential public housing tenants.
- ❖ Co-operative housing can also play an important role in addressing the need for socially supportive housing amongst groups who wish to live together and who might otherwise be marginalised eg people with a disability, people from CALD backgrounds etc.
- ❖ Co-operatives work best where they encompass a mix of skills and (generally) incomes. They have been successful at enabling people who cannot afford to buy their own home to achieve some of the benefits of ownership.

This definition of the role of co-operatives in meeting social/public goals provides the basis for looking at the other dimensions of a possible partnership between the sector, private supporters and government.

Co-operatives and Social Mix

Compared with other forms of Commonwealth/State Housing Agreement funded organisations, housing co-operatives have a greater proportion of tenants in both the highest and lowest income categories (National Community Housing Forum, 1999: 77). The value of income mixing is currently recognised as an asset in the co-operative housing sector.

In order to play a vibrant, and viable role in future housing affordability, co-operatives will continue to serve a diverse mix of people including key workers on moderate incomes– those who fall into the group targeted by the NSW State Government's affordable housing strategy.

The capacity to develop mixed partnerships to pursue opportunities to develop sustainable affordable housing has been highly successful in other countries and should be supported and encouraged as a viable option in NSW – as it provides people with greater sense of control and ownership that underlies people's sense of security in housing.

This strategy of social mix has been highly successful within the co-operative housing sector, allowing for the creation of social capital, and neighbourliness and at the same time avoiding ghettos of dysfunction (e).

b. Methods of Fast-tracking Capacity to Deliver in a short-time frame

Within the Community Housing sector, there has been extensive discussion and strong evidence to support the transfer of title to providers including the co-operative housing sector as a single provider under one (common equity) umbrella.

Such transfer of title to the sector, allows for significant leveraging of assets to raise private funds, otherwise inaccessible by Community Housing providers. The combination of an asset base, with private borrowings and Government subsidies, significantly serves to maximise the capacity of the sector to make better use of private borrowings and government grants and subsidies to expand at a far more rapid rate than currently possible.

By transferring title to the Community the Government is able to act in partnership with the sector to achieve mutually desired goals of expanding supply and increasing the range of options available to diverse range of people in housing need.

In recent years, those co-ops that have accumulated surpluses through good management, and utilised surpluses to purchase land, have by virtue of holding equity, been highly successful in attracting both bank loans and Government grants (under the National Rental and Affordability Scheme in Round 1).

The experience within our sector shows that in order to attract private sector investment, the organisation is advantaged by having:

- ❖ *Equity in land, a healthy bank balance and a healthy cashflow;*
- ❖ *A solid capacity to meet mortgage repayments and other outgoings*
- ❖ *Substantial Government subsidies for loan repayments (currently \$6,000 per property per annum for 10 years from NRAS A on top of Commonwealth Rent Assistance) and State grants (40% a minimum in assisting new development)*
- ❖ *An excellent track record – virtually no arrears;*
- ❖ *A proposal that includes sub-division*

Another strategy for fast tracking supply is through the specific funding of small scale joint ventures between the private sector and Community/Co-operative Housing proposals, where the sector can readily manage the end product.

C. Strategies to Attract Private Funds

1. Capital grants

Grants or non-repayable government loans will be required to substantially fund affordable housing options, including co-operative development.

To overcome the low return/high risk perceived by private investors, the Government could provide cash outlays in order to fund the gap between the return on normal

residential mortgages and the return on low-income housing mortgages. Additionally, it could provide some income and/or tax subsidies.

2. Transfer of title and Equity

States should be encouraged to transfer stock to Community or Co-operative housing umbrella bodies, where assets are secured by debentures or other forms of security, so that loans can be secured and levered against existing properties (originally funded under Commonwealth tied programs).

3. Rent Supplements

The availability of income supplements for low income households is critical to maintaining affordability and manageability of any repayments to private lenders.

Overseas and Australian studies on funding low-cost housing support the use of a mixture of public funds and private funds to raise finance. Accessing private funds will alleviate the cost burden on government. However, it would be extremely difficult to rely only on private funding as a key source of funds due to the lower returns that investments in low-income housing mortgages generate compared to the returns on other forms of housing investment.

Different models for attracting private investment in community and affordable housing have been canvassed in a range of papers, most recently, the substantial report released by the Australian Housing and Urban Research Institute.

There are several avenues through which private funds can be raised to purchase dwellings:

1. Retail loans from financial institutions

Government funds may be required to supplement the mortgage payments provided by housing co-operatives. Government guarantees over mortgage payments may also be required.

2. Debt securitisation

Private funds can be raised through the issue of mortgage backed bonds. Bond issues were used previously in the late 1980s to finance low-income ownership of homes.

Additionally investors are using mortgage-backed bonds as an alternative to investing in fixed interest government bonds. The number of government bonds issues has been declining as governments move to achieve budget surpluses. As with retail loans the marketability of these mortgage backed bonds may require a government guarantee and a need for interest payments to be subsidised by the government.

3. Leasing arrangements

Dwellings can be purchased or constructed and then leased to the housing co-operative for a period that recognises the long-term tenancy requirements of a housing co-operative, say 99 years. The lessor could be the government

or a group of private investors who have purchased the dwellings and are leasing them back to the housing co-operative.

There are several types of private investors who have the potential to be attracted to financing affordable housing, including co-operatives:

- i. Superannuation funds** - They regard a stable fixed income stream as an attractive investment in their portfolio.
- ii. Ethical Investors** - They invest in order to earn an acceptable return as well achieve several desirable goals. These goals are in terms of improving some social or environmental factor in the economy. Consequently, they are willing accept a return that is lower than the normal risk adjusted rate of return. There has been considerable growth in the USA of investors branching out into ethical investments. Investor interest has also increased in Australia with several Australian mutual and pension funds including ethical investments, such as equity in environmentally friendly companies, in their portfolios. Affordable housing has the potential to be developed as an attractive ethical investment.
- 1. iii. Banks with Equity Products** – such as Wespac, Bendigo and MECU

Conclusions

In the current drive for Affordable Housing outcomes, solutions have focussed on very large-scale players: key growth providers, investors and developers.

This paper looks to the establishment of a systematic approach to developing new models of low cost rental housing supply that can support and allow for the expansion of community based initiatives, such as co-operative housing, developed over several decades.

The broad-based umbrellas that harbour such initiatives offer consistency in approach and reliable outcomes for people as well as supply solutions. An affordable housing future should capitalise on this experience and expertise.