



Affordable Housing Discussion Paper

How community housing can deliver solutions to the NSW's housing affordability challenges

The NSW Federation of Housing Associations (the Federation) welcomes the chance to provide feedback on behalf of its members to NSW Labor's discussion paper. The Federation is pleased to see an open and consultative approach by the Labor Party as we can achieve more through political consensus than division. Housing is a basic human right, a foundation for civil society and a way of promoting a successful economy that brings prosperity and opportunity to all.

What is Community Housing?

Not-for-profit community housing organisations have been providing high quality rental housing for people on very low to moderate incomes for over three decades.

Our NSW sector contains the largest, most accomplished, dynamic and professionally led organisations in Australia. With over 37,000 tenancies, our 27 leading organisations manage more homes than Victorian and Queensland providers combined.

The sector has low rent arrears, minimal vacancy rates, and high tenant satisfaction. In the latest AIHW survey, nearly twice as many community housing tenants (39%) were very satisfied with their landlord compared to public housing (22%).

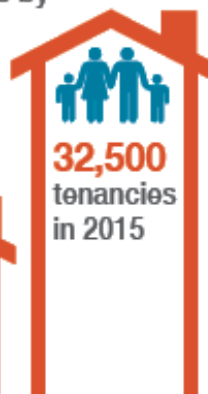
Community housing organisations are locally grounded in - and accountable to - their communities. They acknowledge that secure and affordable housing is a major factor in stabilising the lives of residents and this leads to better health, employment opportunities.

Community housing in NSW is growing every year.

In 2015, the 20 largest community housing providers:

► Increased the number of tenancies by

60%
over five years



► Provided good quality homes in

31 new council areas

LGAs:



► Tripled their profitability in three years *EBITA



1 Affordable Housing Targets

The Federation believe little can be achieved in transforming NSW’s dysfunctional housing market unless clear targets are set. These should encompass all parts of the housing system, though be flexible enough to encourage innovation and diversity.

The housing continuum

The infographic below shows the interconnected options across the wider housing system, ranging from crisis accommodation at one end to full home ownership at the other. Depending on personal circumstances and income, different people have different capacities and aspirations, and need varying entry and transition points along the continuum.

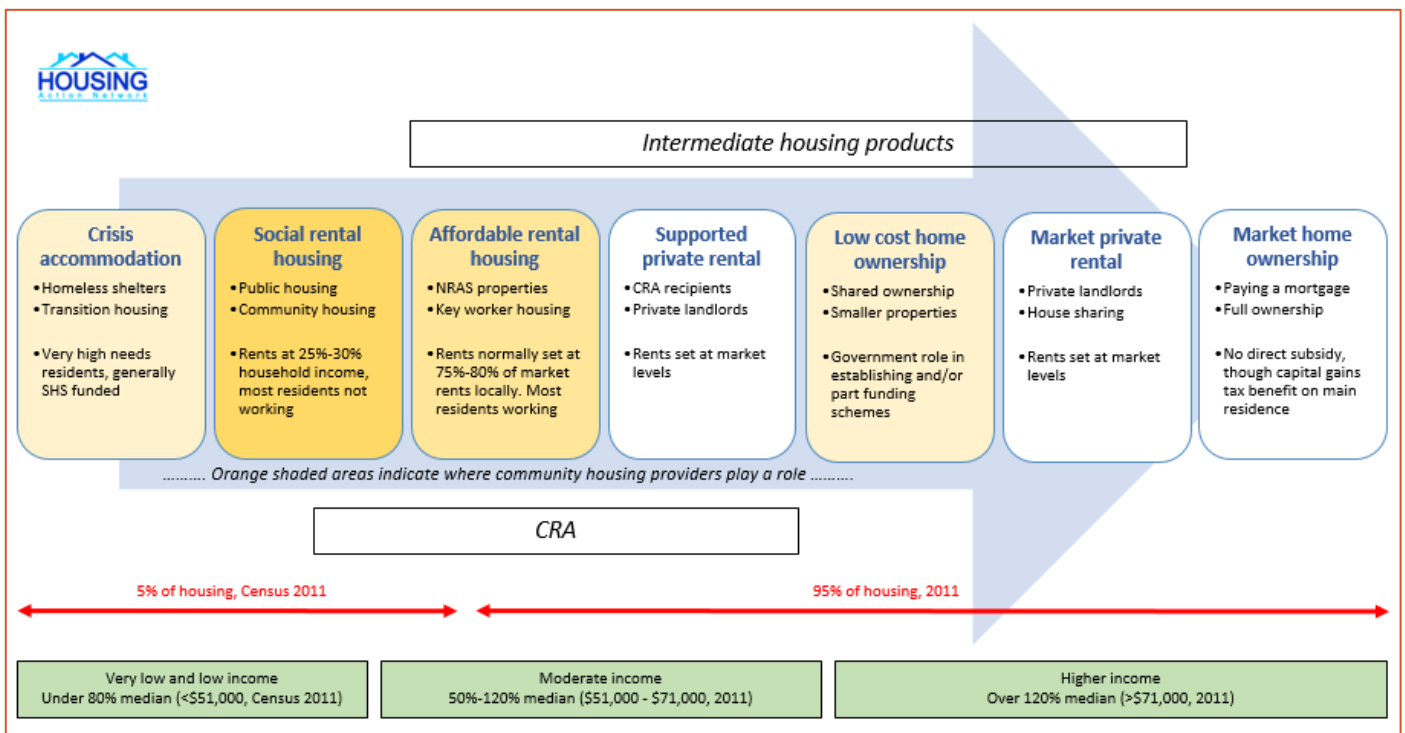
A well-functioning housing continuum needs sufficient property supply at all points to accommodate changing demand and smooth transition between housing options. At the same time, it should provide the right type of

assistance for those who slip back due to changed circumstances.

Public and community housing providers accommodate a range of residents along the housing continuum. For example, community housing providers operate in the shaded areas of the continuum, from crisis and transitional housing through to ‘intermediate housing products’ such as affordable rental housing and entry level home ownership via shared equity.

There are problems with NSW housing supply at all points along the continuum, and we need measures to increase the production of new homes. However, the housing supply needs to be targeted to households with varying levels of income, and should focus on delivering higher needs housing in areas with good links to transport, jobs and services.

NSW Government needs to consider carefully where the challenges exist in the housing continuum and set targets accordingly.



What is NSW housing demand?

State Government projects the number of households in NSW to be 3.815 million by 2036, up from an estimated 2.751 million in 2011. The annual increase is predicted to slow, from around 40,000 in the first 5 years from 2011 rising to a peak of just over 44,000 in the 5 years to 2021 and then falling to an annual increase of just below 40,000 by 2036.

In 2014-15 there were 139,500 households in social dwellings in NSW, representing 4.8% of the total number of the 2.9 million NSW households in NSW in 2014-15.

Preventing this (already low) share from declining over the next 20 years requires a total net addition of 50,000 new dwellings to the social housing portfolio from the 2011 base, implying a net increase of just over 2,000 dwellings each year for the next 25 years.

The need for affordable rental housing in addition to these projections is likely to arise from the severe affordability pressures faced by lower income households in the private rental market in NSW.

Based on ABS data, lower income private renter households in stress in 2013-14 represented 6.8% of NSW households in 2013-14. If social or affordable rental housing is to meet the additional needs of just this 6.8% per cent of the projected increase in the number of households through to 2036, a further 72,400 dwellings are needed (implying an additional 2,900 dwellings each year).

Based on this analysis for the Federation by Dr Judy Yates of the Sydney University, a total of 4,900 dwellings is needed each year, or some 100,000 dwellings over the next 20 years.

Recommendations

Our analysis shows there is consistent demand over the next 20 years for both social rental housing (set at a maximum % of household income) and affordable rental (based on a discount to market rent levels). Both housing types should be targeted, but targeted separately.

The Federation also promotes innovative ways to support moderate income households buying their own home. We have been major supporters of shared equity products, shown in our joint working with Regional Development Australia on an innovative 'doors to ownership' housing product.

To enable shared equity, the Federation is looking for a legislative change to make the First Home Buyers grant applicable to shared home equity schemes on new builds. This would particularly be targeted at people earning less than \$100,000.

Intermediate housing products including shared equity, rent-to-buy and lower cost homes (under consideration by Urban Growth NSW) need to have a separate target set. This will be a further way of helping make the NSW housing continuum work property.

Finally, we need geographical targeting. Building all our new housing at the outer limits of metropolitan Sydney is not the best way forward. As with overseas best practice, we should set housing targets at state, sub-regional and local level. For example, New England should have a separate set of targets to South-West Sydney as patterns of housing supply and demand differ.

2 Funding New Housing Supply

State Government is unlikely to be able to directly afford the cost of delivering 100,000 properties through direct grant subsidy. We therefore need to co-fund through:

- Using the planning system, which is described in more detail below.
- Raising private finance. Community housing providers have an excellent track record of obtaining bank loans that are used to build new social and affordable rental housing. As regulated entities with a social purpose, benefits from the borrowing are passed on to low income households - not shareholders.
- Cross-subsidising social housing from the selected sale of private market dwellings. Renewal schemes under both NSW political parties have seen estate renewal co-funded by sales: Bonnyrigg (Labor) and Communities Plus (Liberal).
- Establishing a new financial intermediary that will help attract institutional investment in long term social and affordable housing.

By understanding the housing continuum, scarce public funds can go further. High needs crisis and social housing are likely to need higher public subsidy, whereas affordable rentals and shared equity can rely on a greater involvement of the planning system and private debt and equity funding.

3 Using the Planning System

A planning framework that supports the delivery of a variety of dwelling types, sizes and price points, is crucial for the wellbeing of NSW residents and for the social and economic sustainability of the State

By regulating the use of land and the provision of infrastructure at a local, regional and state level, the planning system can work to encourage or constrain affordable housing supply and influence the cost of housing.

In doing so, the planning system has a very significant impact on the affordability of housing generally, as well as directly or indirectly influencing the capacity of community housing providers to deliver affordable housing

New residential developments

The ACT, Northern Territory and South Australia all have planning requirements that require new large residential schemes to reserve a portion of housing for affordable homes. Typically, 15% is set aside for social rental, affordable rental or affordable sales to first time buyers.

Private developers never welcome additional costs, though their biggest concern is lack of certainty in the planning system. In jurisdictions with these 'inclusionary zoning' schemes, developers soon understand and live with the new 'rules of the game'.

NSW has generally negotiated inclusionary zoning in a piecemeal way on larger development projects such as at Green Square and Barrangaroo. Often the affordable housing yield is extremely modest (3% or below) or does not materialise - as at Barrangaroo. The approach followed by both Labor and Liberal State Governments has been unambitious and created uncertainty for private developers.

Beyond financial benefits in using the planning system, inclusionary zoning has the ability to deliver mixed communities. Neighbourhoods benefit from a diversity of housing tenures, and people on different income levels.

Recommendations

The Federation recommends an affordable housing component should be mandatory on all new large residential development projects in metropolitan Sydney. A likely option would

be to set a 30% target comprising at least 10% social housing rentals and around 20% affordable rentals or sales to eligible moderate income purchasers.

A good way to proceed would be to encourage partnerships between private developers and community housing organisations. Communities Plus offers a potential model, though the approach could be used for developments on both private land and public land.

Community housing providers could co-contribute to the costs of delivering social and affordable housing in these types of schemes based on borrowing against future rental cashflow receipts.

However, we do not agree with the suggestion in the NSW Labor Discussion Paper that the contribution could be as high as 80%. If the sector is to house low income residents on social housing rents the cashflows will only support modest levels of borrowing.

4 Government Land

Land prices are particularly high in metropolitan Sydney. This is one of the reasons why housing affordability is a problem. On the positive side, high land values provide Governments with:

- Opportunities to maximise the use of their own surplus land. In Victoria, for example, use has been made of land along rail corridors.
- An ability to use planning gain by extracting additional social value from a development in exchange for a more favourable planning ruling.

It is no coincidence that the planning system has been used most effectively for affordable housing in cities with high land values - New York and London for example.

In NSW the government has already embarked on major urban transformation schemes on government land from the Central / Eveleigh area to North Parramatta. This provides an exceptional opportunity to set clear targets for social and affordable housing in these locations.

Value capture

'Value capture' has become prominent in recent discussions in Australia as a way of generating public benefit through 'capturing' the uplift in property values when new transport infrastructure is built. Given the need to renew and expand Sydney's transport network, more use can be made of value capture to support affordable housing.

However, value capture is just one part of a mix that can help support projects that have a social and community benefit. It is not a silver bullet. Furthermore, value can only be captured once - if a high speed train line is built it cannot pay for both the rail infrastructure and affordable housing.

Surplus public land

The NSW Labor Discussion Paper has proposed a state-wide audit of social housing and publicly held land. This would be a way of better understanding public land holdings and their availability for additional social and affordable housing.

Although the exercise would bring benefits, it may delay the delivery of new housing and would be costly. Considerable information is already held by State Government, agencies such as FACS/Housing NSW and local councils. Yet it is hard to access and interpret.

Recommendations

Adjustments will be needed to inclusionary planning requirements depending on whether land for residential development is owned

privately or by Government (including local government and state agencies).

If public land is contributed at no cost, the affordable housing target will need to be set higher than 30%. Alternatively, a higher proportion of long term social housing for low income households could be achieved.

Instead of a full audit of all public held land, we suggest:

- More existing land data should be publicly available, and presented in an accessible form. Many North American and European cities have GIS based approaches delivered via the web.
- FACS/Housing NSW has made more information available on waiting list by district available. However, this is by allocation area, is historic, and only shows certain information. While personal data must be protected, more information could be made public.
- Government owned land holdings could be surveyed progressively. For example, a start could be made by particular agencies - such as Roads and Maritime - or in areas where there is acute demand for social and affordable housing.

The loss of the National Housing Supply Council is regrettable. One option would be to establish a similar body but just for NSW. If housing targets are to be set, better data collection will be needed. Ideally the data collection and analysis would be at arm's length from Government, for example undertaken by a university.

We recommend a central data collection and analysis entity is established, rather than relying on individual Departments and agencies to publish their own information.

5 Housing Ministers

Both the Commonwealth and States play significant roles in housing markets. It is therefore logical that both levels of Government should have a dedicated Minister. Ideally this would be an individual that did not cover many other portfolios.

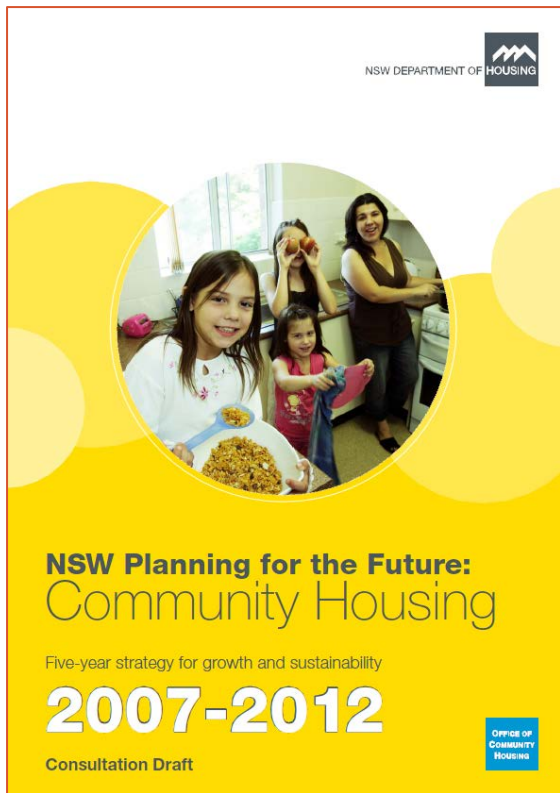
Some States have Ministers for Housing, NSW and others have a Minister for Social Housing. Ideally NSW should have a Minister for Housing. However, beyond the title, the remit needs to fully cover responsibility across all parts of the housing continuum.

To ensure the Minister's role is effective, their remit should be set by a comprehensive housing policy. The NSW *Future Directions* strategy has made a start at addressing some aspects of private rental market failure, but is most focused on regeneration of public housing rather than addressing affordable housing shortages. This policy should be revised and be comprehensive across housing markets.

Successful Housing Ministers need to be closely aligned with both the Treasury and Planning Ministries, and to a lesser extent Transport and Local Government. Coordinated action can only be achieved when these Departments are linked through the shared objective of achieving delivery of the state's housing strategy.

6 Incentives

Market failures in housing supply require Government intervention to support social and affordable housing delivery. There are a number of incentives currently provided, though many are through the tax, benefits and planning systems. Often these systems are not set with housing as a priority.



NSW Labor's 2007 community housing strategy laid the foundations for the sector's subsequent growth.

Successful delivery of the affordable housing targets we have suggested will need to be supported by a variety of approaches mentioned in the NSW Labor discussion paper such as density bonuses and smoother transitions of complying developments.

The Federation supports the principles of the current Government's Social and Affordable Housing Fund but it is limited in scope. It requires ongoing funding injections through for example stamp duty receipts and other property related taxes as is suggested in your paper. We have undertaken some initial modelling on resources required to construct 100K new homes as part of developing the proposition for a Financial Intermediary - see below. Assumptions around (for example) the mix of affordable and social housing components, development locations, the social outcomes required and contributions from other measures such as capture will

influence the figure. We are happy to share further thoughts on this.

Steps could also be taken to encourage institutional investment into the Fund.

Planning incentives

The NSW planning system is complicated, based on a set of historic legislation, and hard to reform without community and/or political opposition. Any changes that introduce inclusionary zoning need to be accompanied by a variety of other amendments.

While councils need to have a degree of flexibility to allow for local differences, there should be more standardisation around supporting affordable housing development, including 'new generation' boarding houses. Currently some councils adopt policies that effectively prevent affordable housing.

The last Labor Government's Affordable Rental Housing SEPP introduced many useful changes supporting affordable rental housing, well designed boarding houses and 'granny flats'. Such approaches could be strengthened, developed further and form the basis of more comprehensive planning reform.

As with value capture, discussed above, planning reform is not a silver bullet. However, it is an important component of transforming delivery of affordable housing - particularly when carefully coordinated with other levers and innovations.

7 Final Thoughts

Bipartisan Approaches

Addressing housing unaffordability requires a long term commitment. Jurisdictions with bipartisan support for housing strategies therefore achieve better outcomes. The US tax credit scheme developed by President Reagan in the 1980s - but supported by both

parties since - is a good example: 2.78 million affordable rental homes have been delivered between 1987 and 2014.

The NSW housing crisis is of such an order of magnitude that we need to judiciously combine the best policies of Labor, the Liberals and Greens. After all, recent social housing reforms took shape during and after the 2015 Social and Affordable Housing Forum hosted in Sydney by two former NSW Premiers: Morris Iemma and Nick Greiner.

Release the community housing sector's potential

Community housing has been widely supported in Australia - as overseas - by parties of the left and right. This is because it simultaneously helps deliver both social and economic public policy outcomes. The two main NSW parties have both supported the sector's growth since the mid-1990s.

While the community housing sector has grown its full potential has yet to be realised. In Future Directions the current NSW government has signalled that it intends to transfer up to 35 percent of public housing to the sector's management – around another 20,000 homes. The Federation believes much more could be done and fully endorses the NSW Labor leader's suggestion made in his 2015 response to the NSW budget.

'As a first step, 20,000 existing public housing dwellings should be transferred from the government to community housing associations. The associations are already there—keen to do more. Let's give them the chance to succeed. Existing tenants, the users of social housing, will benefit because the associations are closer to them and avoid the characteristics of old style monolithic bureaucracies.'

This is an area of public policy where I believe the not-for-profit sector will do better than the state.

Over time all of the state's public housing should be transferred to not-for-profit community housing associations. They are more responsive and they are best placed to lift the quality and quantity of social housing stock. The provision of social housing is central to government's responsibility to its community.'

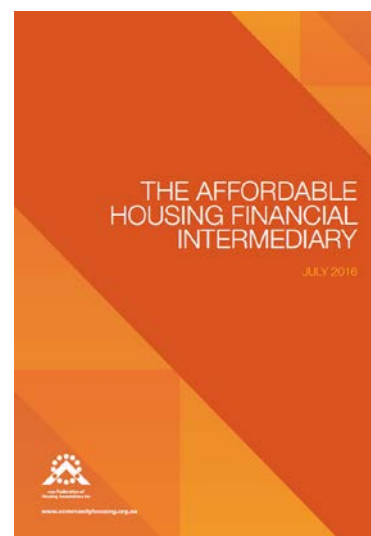
http://www.lukefoley.com.au/budget_reply_2015

Industry Led Initiatives

The Federation and its members have initiated two projects which we believe will encourage the development of social and affordable housing either by reducing the costs of supply or by providing convincing evidence of the wider economic benefits that will accrue from such investment.

Affordable Housing Intermediary

We have just published our proposition to establish an affordable housing finance intermediary which will create a new avenue for the community housing sector to access efficient, lower cost and stable institutional funding.



The proposition is attached and we would encourage the Labor party to publically support the initiative. In the UK, the equivalent organisation the Housing Finance Corporation (THFC) has demonstrated its value by contributing to the UK sector's growth since its inception in 1980. Only this week THFC issued £50m tranche of average life 20 year funding for one of their HA customers at 1.53% identical to UK Government bond rates.

Australian Social Value Bank

The Housing Alliance (Homes North, Housing Plus and North Coast Community Housing and the NSW Federation of Housing Associations are working together to bring to Australia its own version of the UK Social Value Bank. This will help put a well-researched economic value on the services and programs provided by community housing providers. The "bank" will provide access to financial proxies for a wide range of well-being values that can be used to:

- conduct a basic assessment of social impact of the use of resources for socially directed initiatives
- provide evidence of value for money for Board reports or Government grant applications
- compare the impact and return of investment of different programs or to optimise the value for money in program design
- Values can be used within a full Social Return on Investment assessment or cost benefit analysis.

The Federation and its members are also about to embark on an initiative to examine how commissioning practice could be developed to optimise the delivery of social and affordable housing. We anticipate the report will be available later this year.

Further Information

We hope that the views expressed in this submission will be useful and look forward to working closely with you as this process develops.

To further discuss this submission or other related matters please contact Wendy Hayhurst, CEO NSW Federation of Housing Associations on 0421 046 832.