City of Sydney submission on the CFFR Affordable Housing Working Group Issues Paper

City of Sydney
Town Hall House
456 Kent Street
Sydney NSW 2000

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city of villages

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Introduction

The City of Sydney (the City) welcomes the initiative by the Council on Federal Financial Relations Affordable Housing Working Group ('the Working Group') to examine financing and structural reform models that have potential to enable increased supply of housing that is affordable to lower income earners in Australia.

These issues are of critical importance in inner Sydney, where the delivery of affordable housing is critical to meet the needs of lower income earners largely priced out of the housing market. Currently, 84% of lower income earners living in the city are in housing stress, including two thirds of renters in the moderate income bracket.[1]

Maintaining economic and social diversity in inner Sydney hinges on adequate supply of affordable housing. As such, we commend the Working Group's examination of innovative financial models successfully operating in other global cities to deliver diverse housing supply in a way that viably balances developer profit and public benefit.

The City's submission to the Issues Paper is made in a spirit of collaboration and provides a high level response on each of the four models set out in the paper. In addition, we discuss the following related structural and taxation mechanisms:

- The use of low income housing tax credits to incentivise private investment, and
- Assisted home purchasing models.

The City is currently preparing a draft Housing Policy and Action Plan, building on our Housing Issues Paper (April 2015).[2] The finalisation and implementation of this policy will create potential opportunities for the City to work with the Australian and NSW Governments, the private and community housing sectors to increase the supply of housing affordable to lower income earners in inner Sydney.

Context: housing affordability pressures in inner Sydney

The City of Sydney Council is the authority for the City of Sydney Local Government Area (LGA), NSW. The LGA comprises central Sydney (Sydney CBD), The Rocks, Barangaroo, Millers Point, Dawes Point, Ultimo, Pyrmont, Surry Hills, Woolloomooloo, Potts Point, Elizabeth Bay, Rushcutters Bay, Darlinghurst, Chippendale, Darlington, Camperdown, Forest Lodge, Glebe, Alexandria, Beaconsfield, Centennial Park, Erskineville, Newtown, Redfern, Rosebery, Waterloo and Zetland.

Around 200,000 residents currently live within the LGA with the population forecast to grow by 35 per cent to 270,000 by 2031, with significant implications for demand for affordable inner city housing – including for diverse households such as families with children, older people living alone, and group households sharing accommodation.

Barriers to lower incomes earners accessing the inner city housing market

Sydney's private housing market is currently impacted by an affordability crisis, with particular repercussions for low to moderate income earners. Many lower income earners and first home buyers are being priced out of home-ownership in the inner city.

[1] Housing NSW Online Housing Kit (based on ABS 2011 Census data on household income/ expenditure): http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/

[2] City of Sydney Housing Issues Paper (April 2015): http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0017/251153/City-of-Sydney-Housing-Issues-Paper-April-2015.pdf

During 2013-14, the rate of increase of dwelling prices in the LGA − 11.6% − was nine times average earnings growth.[3] Of the lower income earners living in the City of Sydney, the vast majority (84%) are in housing stress.

Access to the inner city private rental market also presents significant barriers for lower income earners. This includes key workers essential to Sydney's sustainable growth and productivity, including nurses, teachers, cleaners, bus drivers, and administrative, hospitality and tourism sector workers.[4]

Inner city residents are now paying much higher rents than across Greater Sydney, with the median weekly rental cost of $590 in the LGA, and $720 per week for a two-bedroom unit in June 2015.[5]

Acute rental affordability issues across the Sydney metropolitan area and surrounds are evidenced in an Anglicare study (2015).[6] This study found that for a couple with two young children on a minimum wage (with parenting payment and family tax benefits), only 3% of private rental properties listed were affordable, with none of these located in Sydney's inner ring.

The new generation boarding houses that have been developed under state affordable housing planning instruments and through the now-discontinued National Rental Affordability Scheme (NRAS) subsidies are typically targeted at those on moderate rather than low incomes and are not rent-controlled, therefore not necessarily 'affordable' – on the basis of true affordability being measured in terms of rents constituting no more than 30% of a household's gross income.

Limited non-market alternatives for inner city rental accommodation

There are currently only around 750 inner-city affordable community rental properties for key workers,[7] despite an estimated 47,000 essential public- and private sector employees working in the city in 2011.[8]

For those on very low incomes, social housing is now being allocated only to the most disadvantaged members of the community. There are an estimated 60,000 households on the waiting list across the state,[9] with a significant proportion requiring housing in inner Sydney to access essential social services and job opportunities.

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[3] Housing NSW Rent and Sales Reports: http://www.housing.nsw.gov.au/About+Us/Reports+Plans+and+Papers/Rent+and+Sales+Reports/; Australian Bureau of Statistics, Average Weekly Earnings, Australia, November 2014 (catalogue 6302): http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0

[4] Berry, M, 2006, Housing affordability and the economy: A review of labour market impacts and policy issues; AHURI National Research Venture 3: Housing Affordability for Lower Income Australians, Research Paper 5

[5] Housing NSW Rent and Sales Reports: http://www.housing.nsw.gov.au/About+Us/Reports+Plans+and+Papers/Rent+and+Sales+Reports/

[6] Rental Affordability Snapshot 2015 – Greater Sydney and the Illawarra, Anglicare: https://www.anglicare.org.au/sites/default/files/public/RAS%202015%20report%20.pdf

[7] City of Sydney Housing Audit - June 2015: http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0006/246858/Research-Housing-Audit-June-2015.pdf

[8] City of Sydney estimates based on ABS Census occupation data, 2011

[9] Family and Community Services, NSW Government, February 2016, Future Directions for Social Housing in NSW: http://www.facs.nsw.gov.au/reforms/social-housing/future-directions

The City's response to the Issues Paper

In response to the Working Group's Issues Paper, the City has provided high level feedback on selected discussion questions under:

- **Model 1**: Housing loan/ bond aggregators
- **Model 2**: Housing trust models
- **Model 4**: Impact investing models including social impact bonds.

In addition, we have provided a statement of support for further investigation of ways to increase the viability and potential scalability of **Model 3**: **Co-operative Housing** in the Australian urban context.

Under other models for consideration, we propose that the Working Group addresses:

- The use of low income housing tax credits to incentivise private investment, and
- Assisted home purchasing models.

Broad-based discussion questions

What are the key policy, funding, regulatory or legislative changes that government(s) should consider to implement new financing models for affordable housing in Australia?

There is a significant and growing need for supply of below-market priced affordable rental housing in Australia's cities, including across the Sydney metropolitan area.

In Sydney, the delivery of non-market affordable rental housing by community housing providers (CHP) is critical to enabling lower income earners to live in the city – given current house prices and rental rates.

Policy, funding and legislative reform at federal and state level is essential to enable the growth and development of the community housing sector to deliver affordable rental housing at the scale currently required to meet community needs. This includes reforms that will enable the CHP sector to attract institutional investors and financiers, which will be essential to enable substantial growth in supply.

Federal and state governments have an important role in resolving risks and barriers to private investment; collaborating on new models to encourage private lending and institutional investment; and providing stable, consistent policy frameworks, regulatory reform and support for innovation in financing models.

Essential to the success of such models, greater government subsidies and measures are needed in the short to medium term to enable the growth of the community housing sector to a scale that will attract investors. This includes through subsidies, levies, divestment of property, guarantees and other mechanisms.

A consistent national regulatory environment for community housing providers will also enable organisations to operate nationally more easily, and across state borders. This, in turn, will support the upscaling and consolidation of the sector and its attractiveness to financiers and institutional investors. As a step in this direction, we support the introduction of the national registration system for CHPs.

The City is committed to supporting the community housing sector's growth and ability to access development opportunities to deliver affordable inner-city rental housing, through access to land and supportive planning policies. As a local government, the City's ability to apply these mechanisms is primarily reliant on state government support and consent.

Recommendation: It is recommended that federal and state governments address the challenges and barriers associated with attracting institutional investors and financiers to the community housing sector, including through:

- Greater subsidies and support to enable the community housing sector to grow and become self-sustaining in the longer term;

- Consistent national regulation to create a more attractive national investment and lending environment;
- Government and the private sector working proactively with community housing providers to resolve other barriers to securing debt finance and institutional scale equity investment associated with sector fragmentation/ scale, risk management, quality of income streams and other issues, and
- Harnessing the potential of large scale urban renewal projects to pilot models that may attract institutional investors, financiers and developers, including through joint ventures and public/ private partnerships.

What would governments need to do to ensure that assets targeted to low income tenants, for example social housing, are not lost to higher income earners?

In relation to the transfer of social (public) housing assets to community housing providers, regulated requirements in NSW for these assets to be retained as social housing for the lowest income earners – rather than rented as affordable housing to moderate income earners – goes some way to addressing this issue.

Additionally, adequate subsidies need to be provided to ensure that CHPs can viably retain and manage social housing stock over the longer term.

Commonwealth Rent Assistance is a fundamental federal government subsidy in this regard, and it is essential that the level of CRA provided continues to be indexed appropriately to maintain viability for CHPs over time.

Without adequate ongoing subsidies, appropriately indexed, social housing will be increasingly challenging for CHPs to manage as part of their overall social and affordable housing portfolios.

Recommendation: It is recommended that CRA or similar subsidies continue to be provided to the CHP sector, appropriately indexed over time, to enable CHPs to continue to deliver social housing to low income earners as part of their housing portfolios.

What role can the community housing sector play in implementation of new financing models to increase the supply of affordable housing?

The long-term sustainability of Australia's social and affordable rental housing system rests heavily with the community housing sector's capacity to deliver.

The input of this sector into the development of new financing models will therefore be critical from the outset, ensuring CHPs have the capacity and resources to fully utilise and deploy these models effectively, and are primed and supported to do so.

This includes strengthening relationships between the community housing sector and the finance sector to create an improved understanding of their respective business models – essential to enabling investment.

The community housing sector, along with other partners, can also play a key role in the process for evaluating and refining financial models. This could include feedback on models that are designed to deal with the complexities of delivering affordable housing in the inner city.

Recommendation: It is recommended that the community housing sector is supported to:

- Develop and promote new financing models;
- Provide input into the development and refinement of new financing models by the private finance and investment sectors;
- Build its resources and capacity to operate effectively as active partners in this process, including through strengthening relationships and acquiring a clearer understanding of the finance sector's criteria for lending into the CHP sector.

A note on the applicability of 'one-size fits all' financial feasibility models in the inner city

It is noted that when considering the state-wide or national application of structural and financial mechanisms to support increased supply of affordable housing – as are explored in the Issues Paper – there are critical market differentiation issues arising from:

- Differential land prices;
- Local market rent, relative income and property prices;
- Differential prospective capital gains growth, and
- Employment and transport access.

So a blanket approach is not appropriate in determining the amount of 'subsidy' required to meet the gap between the 'market' and 'affordable' development across different locations and sub-markets of housing.

For example, the application of the National Rental Affordability Scheme (NRAS) national criteria was generally not sufficient (with a few exceptions) to provide the subsidy required for the scheme to be effective in attracting affordable housing into the inner-city housing markets of the metropolitan areas of Sydney and Melbourne, where supply of such accommodation was most needed. However, it worked successfully in regional cities and smaller metropolitan areas such as Hobart and Adelaide. Therefore, the NRAS almost perversely allocated funds not into areas of most need, but to areas where housing affordability in relative terms was already greatest.

It is therefore important to recognise the implications of this diversity of sub-markets within the Australian housing sector, and the differential appropriateness and potential effectiveness of housing finance models in different sub-markets. Constraints, critical feasibility parameters and even drivers can differ between such local sub-markets.

Recommendation: It is recommended that the feasibility of each financial model to be examined by the CFFR's Affordable Housing Working Group is considered in respect of its applicability to critical sub-markets as well as in the context of its broad national/state application.

Model 1: Housing loan/bond aggregators

The City supports the government's examination of the potential role of a housing loan aggregator to help finance housing that is affordable to people on low incomes.

This aggregator model could take the form of either a housing trust or a housing finance corporation, with reference to the Housing Finance Corporation in the UK, which is outlined in the Working Group's Issues Paper.

The key role of the aggregator (as a single entity) is to act as a centralised 'collator' of the individual borrowing requirements of a number of CHPs. This enables the finance sector to:

- Focus on a single cumulative borrowing requirement of sufficient scale;
- Avoid dealing with a multitude of CHPs in different, individualised transactions, and
- Reduce the cost of borrowing to individual entities through this centralised approach.

Discussion questions

What policies, funding and regulatory settings would be required for a housing bond to be implemented in Australia?

Policy settings

Where the loan aggregator is a federal or state government entity, they also have the ability to provide additional financial security through acting as a guarantor, thereby accepting the risk of the transaction. This enhances the quality of the securities thereby lowering the cost of debt and returns required on equity. As a result, CHPs would be able to significantly increase their financial viability.

Funding settings

A funding setting would need to assess the scale of borrowings for CHPs nationwide. The government would need to determine the level of funding that it is prepared to support with a guarantee. It is noted that the UK Government has provided a guarantee on CHP loans, which improved the cost of borrowing for CHPs substantially by eliminating default risks.

Regulatory settings

The federal government has the potential to provide a uniform lending environment across states and territories. This would require a solution to differences between policies and regulations covering financial instruments insolvency law, for example, across neighbouring states and territories.

Recommendation: It is recommended that the government investigate the potential benefits of supporting the growth of affordable housing delivery by the CHP sector through:

- Acting as guarantor to provide additional financial security by eliminating default risks for CHPs, and
- Serving as a central coordinator to deliver a uniform lending environment across states for banking and institutional finance sector.

Model 2: Housing trusts

The City supports the establishment of a housing trust, particularly at a national level.

If the model involves a trust that is holding land (or financial) assets, the model offers the potential for land or grants and concessional loan funds to be distributed to CHPs for the development of affordable housing.

It is critical that the trust is not set up to compete directly with CHPs through its land holdings, in the role of developer, as this would create additional obstacles for the community housing sector to overcome in an already challenging market.

Discussion questions

What policies, funding and regulatory settings would be required to implement a housing trust in Australia?

Policies and regulatory settings need to be tailored for the establishment of an independent, specialist, not-for-profit organisation that makes loans to regulated CHPs that provide affordable housing. In the Australian context, this entity could be effectively set up either as a housing trust or as a corporation.

As a point of reference, the Housing Finance Corporation (THFC) in the UK, which is highlighted in the Issues Paper, provides an excellent model from which to draw. THFC funds itself through the issue of bonds to private investors and by borrowing from banks.

To what extent could a housing trust model advance the objective of providing sustainable, large-scale finance for social and affordable rental housing for people on low incomes?

Trust models have great potential to achieve scale and efficiency. They can provide a mechanism by which the borrowing requirements of individual CHPs nationwide are consolidated (ie 'aggregated') to a scale that can attract the interest of private financiers and institutional investment.

This could be in the form of debt funding or equity investment (in the case of institutions), which provides greater flexibility in financing CHPs' business operations.

As an alternative to a large scale trust model, the Clean Energy Finance Corporation (CEFC) provides an effective national model to consider expanding and/or replicating for the provision of low income housing through the distribution of grant funds. The City commends the recent announcement for the CEFC to provide funding to organisations to provide affordable housing that is energy efficient.

Recommendation: It is recommended that:

- If a housing trust is established (either as a part of, or separate to an aggregator role (see Model 1), its primary role is to be a recipient of land contributed by governments for distribution to the community housing providers for the development of affordable housing, and
- Delivery of affordable housing is further funded through the Clean Energy Finance Corporation, and/or through the establishment of a dedicated affordable housing finance corporation – noting that it is preferable and more efficient for governments to channel all assistance through a single central agency, rather than through several separate initiatives.

Model 3: Housing cooperatives

The housing co-operative model has potential to deliver social and economic benefits to its members, although it is not a model considered to have wide applicability and scalability in an inner city context.

One housing co-operative structure, whereby tenant members of the cooperative share ownership of the land on which their housing is provided, can provide for long term security of tenure for members along with shared housing and community-based outcomes.

Cooperative models can also be structured to provide for households to move through the housing continuum, for example, from renting through to shared or full equity in their home.

There may be some value in examining how this model could be made more financially viable and attractive for equity investment, to contribute to the diversity in the range of housing options available for people on lower incomes in Australia.

However it is noted that land-based housing co-operative schemes face particular challenges to viability and scalability in the inner city context, where highly competitive land and housing markets are a fundamental barrier to their establishment. This model is therefore likely to achieve maximum benefit in a non-urban context.

It is also noted that cooperatives, by nature of their structure, do not provide widespread community benefits over time. Instead, they provide discrete benefits for selected members of the cooperative community, who will often remain in the cooperative over the long term, rather than transition out into the wider market.

Model 4: Impact investing models including social impact bonds

Discussion questions

What areas of social or affordable housing could benefit from the introduction of impact investment models, including to augment or operate alongside other models in Australia?

The City supports the Working Group's exploration of the potential of social impact bonds. This form of financing can be used to support the development of a diverse range of supported housing, social housing and affordable rental housing and for the delivery of related housing and social support services.

Social impact investment in the homelessness sector

Social impact investment[10] also has good potential applicability in the delivery of supported housing schemes for people experiencing or at risk of homelessness. This can include schemes based on:

- The 'Housing First' model, which can provide secure long-term rental tenancies with integrated social support services, and
- The 'Youth Foyer' model, which provides learning and accommodation centres for young people who are homeless or at risk of becoming homeless.

The City's review of evidence indicates that several factors make these particular housing schemes and programs suitable for social impact investment,[11] including:

- A defined target population;
- A strong intervention model;
- Ability to scale, with service providers that have a track record of success;
- Quantifiable outcomes and an effective measurement framework, and
- Quantifiable economic benefits.

Could impact investment models assist in improving the social and economic wellbeing of social housing tenants and assist in the movement of households up the housing continuum?

These models have the potential to be successful where transitioning between housing and tenure types is made easier for residents.

This includes mixed tenure developments, which provide tenants with opportunities to transition along the continuum from social housing to affordable rental housing, to private market housing for example, while remaining within the same geographic community.

The NSW Government's new 10-year social housing strategy – *Future Directions for Social Housing in NSW* – proposes the development of integrated social, affordable and private housing precincts with a range of tenant support services. This model brings opportunities for social impact investment, with regard to the clear goals of achieving social and economic outcomes for tenants and financial returns that can be measured.

The City supports this approach as we recognise the linkages between stable housing and broader social and economic outcomes for individuals and communities.

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[10] NSW Department of Premier and Cabinet (2016) *Social Impact Investment* [online], Available at http://www.dpc.nsw.gov.au/ (Last accessed: 15/02/16)

[11] MaRS Centre for Impact Investing and Social Finance (2014) *Housing First Social Impact Bond Feasibility Study*, Toronto, Canada.

Recommendation: It is recommended that social impact investment be considered a priority for mixed tenure housing developments on urban renewal sites – including public housing estates – given their potential to provide an environment that enables progression along the housing continuum and associated social and economic outcomes for tenants.

Recommendation: It is recommended that training and support is provided, potentially through peak bodies, to build the capacity of the community housing and wider not-for-profit sector to understand and fully utilise social impact investment models effectively.

Other financial models to consider

The use of low income housing tax credits to incentivise private investment

Fiscal mechanisms that encourage private sector investment in social and affordable rental housing are recognised as critical to increasing supply of this important infrastructure. In this context, it is useful to consider the Low Income Housing Tax Credit (LIHTC) system operating in the United States since 1986 as an effective mechanism.

In the US, this system has encouraged private investment in housing for low and moderate income tenants by enabling a housing developer to sell earned tax credits to corporations with a tax liability. It has generated over three million affordable housing units in the US, which is the largest market with private investment in permanent low income housing supply (around 100,000 dwellings per annum), ahead of Canada.

This mechanism is applicable in the Australian context: it has the potential to increase affordable housing supply and private sector investment in this sector.

While the scheme may not be providing homes for the lowest income-earners in the US, it represents a valuable contribution to affordable housing supply for moderate income earners, and one which has potential to leverage private sector investment and encourage innovation.

Currently, private equity investment in the Australian affordable housing market is very limited, compared with the US – a scenario which is in part attributable to the lack of tax benefit mechanisms available to make investment worthwhile.[12]

It is considered that the establishment of the Affordable Housing Working Group, along with potential reforms to the Australian tax system following the publication of the Tax Discussion Paper in March 2015, present important opportunities to investigate the introduction of this mechanism to boost affordable housing production and increase private investment in this sector in Australia today.

Recommendation: It is recommended that the potential to establish a low income housing tax credits scheme in Australia be investigated by the Working Group.

[12] Whitzman reported in Easton, S. 2016 (18 Jan), 'The cross-border taskforce reviving housing policy,' in *The Mandarin*, accessed at http://www.themandarin.com.au/59072-pressure-affordable-housing-taskforce-must-work-fast/

Assisted shared home-ownership options in NSW

Shared ownership models, which allow a home buyer to take out a loan on a proportion (typically 70 per cent or more) of the cost of a property, while the equity partner − for example, government or a community housing provider − provides the rest of the capital, have potential to contribute to greater housing tenure diversity in Australia.

They are a means of enabling households to transition into full home ownershuip, while providing greater tenure security than pure private rental in the interim.

They also bring benefits in terms of tenure flexibility, by enabling a household to choose to acquire more equity in their home if and when they can afford it. At the time of sale (or refinancing), the partner recoups their stake plus a share of capital gains.

This model has particular benefits in helping to bridge the 'deposit gap' for first home buyers, who are required to fund less than the typical deposit upfront.

Government-backed shared- equity arrangements that could serve as models for consideration by the Working Group are operating in Western Australia (Keystart),[1] South Australia (HomeStart)[2] and Tasmania.

Recommendation: It is recommended that the Working Group examines the potential introduction of shared home-ownership across Australia, including potential mechanisms to support this at state and federal levels. This could involve models delivered in partnership with institutions such as community housing providers.

[1] Keystart's Shared Ownership Home Loan Schemes: http://www.keystart.com.au/home-loans/shared/

[2] HomeStart's home ownership schemes: http://www.homestart.com.au/about-homestart/media-releases/fast- facts