
RESPONSE TO THE AFFORDABLE HOUSING WORKING GROUP ISSUES PAPER

COMMUNITY HOUSING INDUSTRY ASSOCIATION, MARCH 2016

Introduction

The Community Housing Industry Association of Australia (CHIA) welcomes the publication of the Australian Government's Affordable Housing Working Group¹ Issues Paper. Formed in 2015, CHIA is the national industry body for community housing providers (CHPs) in Australia. It has over 150 members nationwide.

CHIA hopes that the formation of the working group represents a genuine desire on the part of the Australian Government to retain and strengthen its role in facilitating the provision of affordable housing and particularly, affordable rental housing in Australia.

The community housing industry in Australia has a vital role in this debate. In simple terms, it is impossible to envisage a scenario whereby there is a significant increase in investment in the social and affordable housing system² without CHPs occupying a central role in that dynamic.

For over two decades, CHPS have been at the vanguard of innovative attempts to add to the country's social housing stock. This includes pioneering finance models in conjunction with institutional lenders. What is more, CHIA's members are, and have been for some time, consistent advocates for a comprehensive social housing reform agenda.

This paper has been prepared by CHIA in consultation with a working group of senior members. In addition, it draws upon policy work and thinking carried out by CHIA and its affiliates previously in respect of reform to the housing system.

CHIA acknowledges the scope of the working group, how this translates to the issues paper and the nature of the feedback that the working group is looking for. This submission has been framed accordingly. The structure of this paper front loads CHIA's core recommendations for the consideration of the Affordable Housing Working Group. It then provides more detailed policy rationale underpinning CHIA's recommendations. Finally, it addresses the questions raised by the issues paper.

¹ Henceforth to be referred to as the 'working group'

² The social and affordable housing system refers to the sum of all dwellings owned and managed by State housing authorities and community housing providers in Australia.



CHIA recommendations

Australian Affordable Housing Plan (AAHP)

The Community Housing Industry Association (CHIA) believes that 2016 is the time to instigate a suite of interdependent national reforms to cement the nation's social and affordable housing system as essential economic and social infrastructure. We need and advocate a new and comprehensive national plan.

Housing markets are a key ingredient in the operation of labour markets, business costs, public investments in health and education and the efficiencies in transport and other infrastructure. Housing contributes to overall economic stability and growth and a well-functioning housing system boosts competitiveness, productivity and well designed and safe communities.

Australian housing markets are under enormous strain from demographic, population and cost pressures. There are supply bottlenecks and demand pressures.

An AAHP can impact on a key segment of the overall market to relieve these pressures and re-invigorate investment. At the core of the AAHP is the need to reduce the "yield gap" between market return and return on affordable housing investments. The 5 pillars act in concert to address this central concern.

Community housing across Australia has grown and developed over recent decades as an effective and efficient response to a key market failure within the housing market. Housing is a classic "public good" that justifies appropriate and well-designed government intervention to ameliorate the externalities produced.

There are over 80,000 properties under ownership or management in the Community housing sector nationwide. Housing is provided on a needs basis and with strict eligibility criteria. It has long term security of tenure and provides a broad range of support for tenants; linking them to disability, education, health and employment opportunities and services where required.

However there are now significant supply side constraints related to public finance capacity across all jurisdictions. Price inflation and pressures across all markets from home ownership through to private rental and public housing are intensifying affordability issues, market entry and housing security for a wide range of consumers.

The complimentary initiatives comprising the Australian Affordable Housing Plan are designed to place affordable supply of new social and affordable housing at the centre of a strategy to address housing stress among low and fixed income Australians.

The Community Housing sector is adaptable, geographically diverse and flexible, experienced in housing management construction and development, and skilled in delivering quality and secure accommodation for a wide range of client groups.



Finally, the AAHP can support economic growth. Growing the social and affordable housing system will provide employment opportunities in the construction and related industries and create a powerful economic multiplier effect across communities.

Our 5 pillars of affordable housing are:

1. Establish an Australian Affordable Housing Finance Commission (AAHC)

- The AAHC would manage the financing and access to private capital with the preferred model being model one in the discussion paper.
- The AAHC would house expertise in procurement and financial instrument design and market liaison.
- The AAHC would also oversee and manage the allocation of finance to community housing providers managing criteria and tenders.
- It would act as a whole of loan intermediary with responsibility for financial performance and servicing obligations.

2. Establish an Affordable Housing Partnership Agreement

- The AHP would enshrine the operation of the national system from a public policy and program perspective.
- The partnership could improve the efficiency of asset management, stock transfers and maintenance.
- It could negotiate incentives and conditions between the commonwealth and the states and territories for ongoing reform.

3. Reform Taxation and Transfer Payments to support Affordable Housing Supply

- This initiative would examine and reform the transfer payment system and housing income support to ensure that the commonwealth maximised its fiscal impact on the sustainable operation of the AAHC.
- This initiative would address the mechanism for addressing the remaining “yield gap” for private finance.
- A key consideration would be the negative gearing and capital gains tax settings.
- Further agendas would include options for government guarantees and specific housing benefits

4. Establish a National Uniform Regulatory System for Affordable Housing Providers

- Abolish state based regimes and unify nationally covering all providers with scope to include public housing.
- Design new streamlined and transparent regulatory framework in close co-operation with the CHP sector.



- Have regard for and implement where appropriate the Harper Review recommendations in relation to the provision of social and affordable housing.
- Establish performance benchmarking monitoring and public reporting of the operations of the CHP sector.
- Initiate and publish regular data and information on the sector.
- Provide annual reports to federal parliament

5. Convene a National Affordable Housing Council

- Establish a new cross sectoral advisory and policy development council to support government in the overall implementation and design of the AAHP
- Membership to be drawn from government, CHP, finance, legal, academic and property sectors.
- Report to federal treasurer.
- Provide annual public reporting on progress of overall AAHP.

Policy Rationale and Discussion

The policy and rationale section of this submission provides a comprehensive analysis of the key policy areas affecting the growth of the social and affordable housing system. It also provides the policy rationale for the recommendations contained in this submission.

The importance of housing

CHIA notes the brief discussion in the issues paper in relation to the importance of housing and agrees with the sentiments expressed. It is almost impossible to overestimate the importance of the housing system in the fabric of our society and economy.

Australia is among a group of western countries that have adopted a broadly neoliberal approach to housing provision during the last twenty years. The associated policy decisions have had some notable effects in relation to housing affordability:

- Home ownership rates in Australia are high by international standards although in recent years those rates have fallen among younger age cohorts. In addition, high house prices have translated to high levels of mortgage debt leaving new entrants to the market in particular vulnerable to future interest rate shocks and/or macroeconomic shocks to the real economy. In fact, Australian households are among the most indebted in the world with the majority of that debt being mortgage debt.³
- The private rental market has performed reasonably well in terms of providing housing at that part of the housing continuum. However, there is ample evidence to suggest that, due at least in part to current taxation settings in relation to negative gearing and capital gains concessions, housing investors are crowding out aspiring owner occupiers as well as contributing to an undesirable level of speculative investment based on anticipated capital growth rather than rental yield. This creates the very real potential for speculative bubbles as well as redirecting investment away from more productive uses of capital, particularly when that investment flows to existing housing stock rather than new supply.
- The broadly laissez-faire approach to housing policy has produced a growing phenomenon of key workers being priced out of urban centres. Australian cities are not alone in grappling with this problem and housing affordability problems more broadly. In London, in 2015, Lord Mayor, Boris Johnson responded to the problem by “initiating the biggest expansion of local power since the mayoralty was established in 2000. He has taken control over housing policy and spending, adding it to transport, the mayor’s original primary area of responsibility.”⁴

³ <http://www.digitalfinanceanalytics.com/blog/australian-household-debt-reaches-record-highs-at-245000/>

⁴ <http://www.ft.com/intl/cms/s/2/8ef50668-63b3-11e5-9846-de406ccb37f2.html#axzz41clzDgPU>



Housing affordability has risen sharply on the political agenda in other major American and European cities including New York, San Francisco and Dublin. CHIA believes that there is an increasing recognition among politicians and policy makers of all political hues that dysfunctional housing markets are a threat to both the social wellbeing and economic competitiveness of major cities in particular. As a country whose population is concentrated in a handful of major urban centres, Australia should take note.

Social housing is a necessity not a luxury

Addressing inequities and inefficiencies in the behaviour of the housing market proper ought to be a priority for the Australian Government. However, it should be clearly understood that improving the efficiency of the market proper does not obviate the need to grow and develop our nation's social housing system. The private housing market cannot ensure universal provision, nor is it designed to.

The driver of housing policy for decades now has been to encourage home ownership. However, despite the fact that successive State and Federal governments have "spent a total of \$22.5bn (in 2010-11 dollar values) on cash grants to first home buyers between 1964 and 2011"⁵ the home ownership rate in Australia has barely budged in over 40 years and, in fact, during the last decade home ownership rates among younger people have fallen. (Approximately 67% of Australians live in homes that are owned outright, or owned with a mortgage)

That means that, due principally to their status as low income households, Australia, just like every other developed country, is home to a constituency of people who will never own their own home and, within this cohort, are a group who struggle to find and maintain even affordable, appropriate housing in the private rental market.

Housing stress among low income renters is getting worse. A common measure of rental stress is to look at the proportion of lower income households paying more than 30% of their income on housing costs. According to this measure, in 2013–14, 50% of lower income renter households were in rental stress.⁶ That represents an increase from 40.2% in 2007-08.⁷

⁵ <https://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

⁶ <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4130.0~2013-14~Main%20Features~Housing%20Costs%20and%20Affordability~5>

⁷ Ibid



Globally, social housing systems are a Government response to housing need among low income households who are unable to obtain safe, secure and affordable accommodation in the private housing market and who would be at risk of homelessness without market intervention. In Australia, decades of investment of capital and current expenditure on social housing provision by the State and Federal Governments attest to a belief on the part of successive Governments that the provision of housing is part of its role. Despite this, we have one of the smallest social housing systems in the world and one that simply must grow to meet demand. To achieve this, reforming the public housing system and harnessing the ability of the community housing sector to become an engine for growth is paramount.

Reforming the public housing system

The working paper is only the latest major Government (State and Federal) publication to identify the inadequacy of the nation's public housing system as being a major obstacle to the growth and development of the social housing system overall.

The working paper correctly identifies the core problem: a structural operating deficit that means housing authorities can scarcely maintain current levels of public housing stock, let alone preside over the net increase in dwellings that is required as the population grows and ages.

CHIA believes that the current 'state of play' in relation to the public housing system ought not to be beyond the scope of the working group. In fact, postulating how changes to how the nation's public housing system is funded and managed can deliver additional housing is of fundamental importance.

Of specific relevance is how the pool of housing assets in the public housing system can be harnessed to deliver growth. This forms an important part of the broader conversation in relation to attracting private sector and institutional investment.

The tenant profile of public housing tenants is also relevant. The aforementioned structural operating deficit arises from public housing system being a 'house of last resort' for the nation's poorest people. This goes against international best practice. In the UK, where social housing supplies approximately 16% of total housing supply, more varied household income profiles are found in social housing, permitting a more comprehensive rent setting regime, closer to market values. This, in turn, provides for a mixed-income, mixed-tenure model where internal cross subsidisation can occur to support low income subsidized rental tenures. Insofar as 'cross subsidization' of this nature exists in the Australian housing system it occurs within the community housing sector exclusively. It also serves to break up concentrations of disadvantage.

The role and importance of community housing

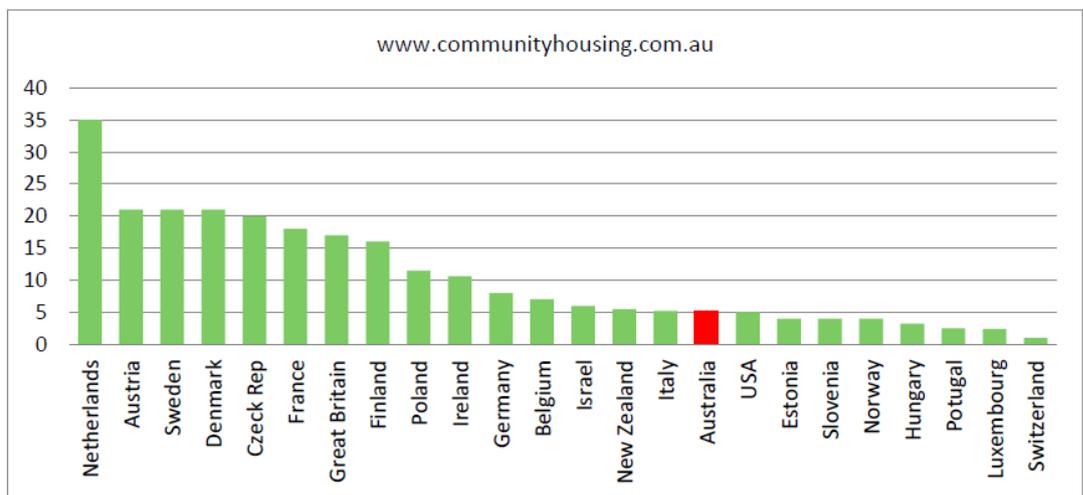
CHIA notes the working group's discussion of community housing on page five of the issues paper. CHIA agrees that current regulatory arrangements in respect of community housing are sub-optimal. The National Regulatory System for Community Housing System (NRSCH) has the potential to provide for a far superior regulatory system particularly in respect of addressing potential investors concerns

in relation to current regulatory arrangements. However, efforts to deliver a single, harmonised regulatory code have, to date, been unsuccessful. CHIA believes that the Australian Government must provide leadership in this area to ensure that all States and territories sign up to a nationally consistent regulatory code.

Notwithstanding the relative youth of the community housing sector in Australia and the attendant challenges that this poses (some of which are described in the issues paper), the fact remains that Governments that have worked with the community housing industry have been rewarded handsomely in terms of new dwellings in the system. Transferring public housing properties to community housing providers has worked for Governments, for tenants, for communities and for the overall social and affordable housing system. There are ‘at scale’ community housing providers in most States with the potential to grow more under the right conditions and with the right support from State and Federal Governments. There are also providers who are capable of making the step up with the right supports.

The further stock transfer of public housing stock, particularly asset transfer, needs to be part of the broader solution as it is the simplest most cost effective way of increasing the capacity of the community housing sector to add more supply to the social and affordable housing system.

Figure 1: Social housing as a percentage of overall housing stock, selected countries and Australia.



As the issues paper suggests, larger growth orientated community housing organisations have the potential to become substantive players in the provision of large scale affordable housing solutions.

⁸ Source: OECD. OECD Economic Surveys Luxembourg 2012 http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-luxembourg-2012_eco_surveys-lux-2012-en#page1, OECD Publishing, 2012, p.87. Data available: http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-luxembourg-2012/share-of-social-housing-across-oecd-countries-2009_eco_surveys-lux-2012-graph52-en#page1.



CHIA contends that the evolution of the sector in this manner, in line with similar developments in the social housing system of other OECD countries, is, effectively, a precondition for any meaningful net growth in Australia's social and affordable housing system.

Getting stock transfer of public housing to community housing providers right

The need for further significant stock transfer of public housing assets to community housing providers is a central advocacy theme in this submission. It's worth spending some time explaining the optimal settings under which further stock transfers ought to take place:

1. Further stock transfers are critical to boost the balance sheets and cash flow of leading Australian CHPs which will have a fundamental bearing on those CHPs ability to take advantage of any new private investment models. Specifically, the strength of CHPs balance sheets and cash flow will determine the quantum of debt financed development they are capable of in carrying out the renewal of public housing estates and, ultimately, build more homes for the people who need them.
2. Transferring public housing dwellings with management rights alone will achieve little other than reduce operational deficits without addressing the long-term maintenance and renewal of stock. Even with the additional revenue that would flow to CHPs by capturing Commonwealth Rent Assistance (CRA), in many cases it would still be impossible to realise operational surpluses. Losses will be compounded by the ageing nature of much of the housing stock and consequent maintenance liabilities.
3. This means that significant tranches of public housing transfers must come with title. This will allow CHPs to raise project finance and redevelop those dwellings and the sites they occupy. In many cases, public housing dwellings are located in high value locations offering redevelopment potential that will deliver extra supply and robust surpluses for CHPs to reinvest in the broad renewal of public housing.
4. In making stock transfers to CHPs, Governments must support CHPs plans to redevelop them into mixed tenure models that will increase cash flow to the CHPs and debt servicing ability and improve the overall sustainability of communities in which public housing is located.
5. Stock transfers policy must be cognisant of the need to support specialist CHPs. These CHPS do vital work for specific groups e.g. people with disabilities and women escaping from domestic violence. Ensuring that these organisations have the opportunity to grow and develop is essential to ensure that the overall social and affordable housing system meets specific community requirements.



Don't forget Mum and Dad Investors

If a conversation about attracting large scale investment into the social and affordable housing system needs to include ways to reform the public housing system, it must also include the role of 'Mum and Dad' investors.

The private rental market as currently constituted is dominated by so-called "Mum and Dad" investors on the supply side. It has been this way for decades and is unlikely to change anytime soon. A key policy objective, therefore, is to create a mechanism to attract some of that investment in bricks and mortar into the social and affordable housing system.

CHIA refers to the recently scrapped National Rental Affordable Housing Scheme. The scheme achieved sub-optimal results in terms of attracting institutional investment. It did, however, attract significant numbers of 'Mum and Dad' investors with the scheme providing homes for thousands of low income renters throughout the country. The community housing sector was a major participant in the scheme and CHIA believes the decision to discontinue the scheme was the wrong one.

CHIA contends that exploring to create another vehicle to attract 'Mum and Dad' investors into the provision of affordable rental properties ought to be a priority for the working group.

Response to 'broad based' discussion questions

- 1. What are the key policies, funding, regulatory or legislative changes that government(s) should consider to implement new financing models for affordable housing?**

This submission will deal with this question under the headings policy, funding and regulatory changes.

Policy

CHIA advocates for the development of an Australian Affordable Housing Plan agreed upon by State and Federal Governments. Conditions in the housing market proper do impact on the social and affordable housing system (particularly on the demand side) but as mentioned elsewhere in the submission, even a well-functioning private housing market cannot ensure universal provision. As such that plan, needs to create a dichotomy between policy prescriptions for the market proper and the social and affordable housing system.

The plan needs to address the supply side inefficiencies in the market proper referred to in the issues paper. Equally, expensive demand side policy interventions, such as first home owners' grants, do not arguably; represent the best use of those monies and should be reviewed. Finally, the evidence is now irrefutable that taxation arrangements in respect of housing, particularly 'negative gearing' need to be reformed given the distortionary effect they have on housing markets and the attendant loss in revenue to the Federal government.

The second part of the plan needs to relate exclusively to the social housing system from the starting point that right now it is simply too small. There are not enough dwellings in the system to cater for demand right now and, without remedial action, the problem will worsen considerably as the population grows and ages. The Australian Affordable Housing Plan needs to set clear objectives regarding expanding the social and affordable housing system in terms of net dwellings and as a percentage of the nation's overall dwelling stock. Inescapably, that must major on transfers of public housing stock to community housing providers.

A third aspect is the application of the Harper Review of Competition Policy (2015) to the non-market supply of housing. The review argues for productivity enhancing reforms which:

- make markets work in the long-term interests of consumers;
- foster diversity, choice and responsiveness in government services;
- encourage innovation, entrepreneurship and the entry of new players;
- promote efficient investment in and use of infrastructure and natural resources;
- establish competition laws and regulations that are clear, predictable and reliable; and
- secure necessary standards of access and equity.

This is an appropriate base for action. In relation to human services it proposes:

- User choice should be placed at the heart of service delivery.
- Governments should retain a stewardship function, separating the interests of policy (including funding), regulation and service delivery.
- Governments commissioning human services should do so carefully, with a clear focus on outcomes.
- A diversity of providers should be encouraged, while taking care not to crowd out community and volunteer services.
- Innovation in service provision should be stimulated, while ensuring minimum standards of quality and access in human services.

Funding

We need to do more with what we already have, namely the nation's stock of public housing dwellings.

The fundamental deficiency of the social and affordable housing system as currently constituted is the fact that it is not growing despite significant Federal government investment. In fact, it's shrinking. A logical response to this from a Commonwealth government perspective is to link funding to growth.

The National Affordable Housing Specific payment of \$1.28 billion per annum should be transformed into a growth fund. That is to say, the Commonwealth, States and Territories must agree to use that money in a way that produces an increase in the net amount of housing stock in the system. Any



diminution in Commonwealth contributions as part of the NAHA should only be countenanced if it is the result of an increase in CRA payments arising from the stock transfer of public housing dwellings to the community housing sector.

Australian governments should agree to set a target that at least 50% of the public housing system in Australia is under management by the not-for-profit community housing sector by 2022. Community housing providers will be in a position to run surpluses on those properties and, where required, redevelop the housing stock.

This will lead to an increase in the 'CRA bill' to be picked up by the Federal Government as public housing tenants migrate to the community housing sector. However, it can be recouped by reducing NAHA and similar payments currently made to State Housing Authorities correspondingly. As mentioned, reductions in NAHA should only arise as a result of an increased CRA outlay resulting from the transfer of public housing dwellings to the community housing sector.

Increasing the CRA spend in this way will represent a far better investment than the status quo. In addition, it will be far easier to ascertain how much 'bang for its buck' the Federal Government is getting through reporting requirements with individual CHPs.

Regulatory

As referred to earlier in this submission, the current state of play in relation to the National Regulation System for Community Housing (NRSCH) is sub-optimal. Although the NRSCH, a multi-state system with mirrored legislation in all states except Victoria and Western Australia, does allow for national entities operating in multiple jurisdictions, the practices of state policy and funding agencies are not similarly uniform. The practical issues arising from some states not being in the system and the lack of uniformity in the approaches of state funding and policy, underpin barriers of entry, increase costs and heighten risks for CHPs and consequently potential institutional lenders.

Several of the proposed financial models will require legislative enactment to enable government to adopt the roles that are associated with the model and, for example, issue bonds or provide an intermediary role either directly or by the creation of arm's length institutions.

2. How can governments ensure sustainable improvements in the housing outcomes of current affordable housing tenants within the current fiscal environment.

CHIA is in favour of initiatives that would allow tenants within the social and affordable housing system, according to their ability, to transition through the housing continuum to secure tenure in the mainstream housing system. This could include linking tenants up to support services designed to allow tenants the opportunity to enter or return to the workforce. Housing choices are, after all, predominately a function of income.

However, we should be wary of a social housing discourse that focusses unduly on how to transition people out of social housing. For many households, social housing represents the best and most viable form of housing tenure for them and their potential to exit social housing is limited by factors such as old age or disability.



There is more. Although there is room for improvement, particularly in relation to public housing, tenant satisfaction levels in social housing are positive. “As at 30 June 2014, tenants in community housing were consistently more satisfied with their housing provider (80%) compared to other social housing providers (73% for public rental housing and 58% for SOMIH)”⁹

In sum, the housing outcomes of current affordable housing tenants is an important issue and will remain so. However, in terms of priorities, it is dwarfed by the need to add supply to the social and affordable housing system to cater for current and future demand as the population grows and ages.

3. How can the cost base of new affordable housing assets be minimised? How can the return generated from affordable housing assets be maximised?

The housing market does not and cannot ensure universal provision. Government intervention in the form of a Government subsidy is essential if we are to prevent primary and tertiary homelessness and chronic housing stress among very low and fixed income Australians.

As such, the overarching objective for Government(s) should be to ensure that that subsidy is used as efficiently as possible to house as many people as possible. At present, that is certainly not the case given the inherent flaws in the public housing delivery model discussed elsewhere in this submission.

In the community housing sector there is considerable attention paid to the maximization of returns from the housing asset. With the limited income derived from rent levels and CRA subsidy, every effort is made to minimize tenancy and asset management costs. Strategies employed include:

- Effective use of IT systems to manage tenancies and assets.
- Effective debt and arrears management and recovery
- Effective delivery of planned and responsive maintenance to protect stock value
- Effective tenancy support to reduce tenant turnover, void rates, and deliberate stock damage
- Lean management and staffing structures to promote efficiency of human resources

Most community housing providers aim to and succeed in running profits or surpluses on their housing portfolio. That is to say, revenue received from rents exceeds operational expenditure. This, in turn, has allowed those providers to leverage those revenues and build more dwellings for the people who need them. The issue paper makes reference to the growth of the community housing sector during the last decade as a result of transfers from the public housing system but meaningful organic growth has also been achieved through a variety of initiatives including property, development, asset re-development, partnerships with industry and local Government, Philanthropy – amongst a range of other initiatives.

⁹ <http://www.aihw.gov.au/housing-assistance/haa/2015/social-housing-tenants/>

4. 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 tenants?

At present, income and asset eligibility limits for social and affordable housing mean that only very low income households can secure housing within the system. This effectively prohibits a situation where someone in greater need loses out to someone in less need (based on income) in terms of property allocations.

However, as mentioned elsewhere in this paper, there needs to be scope to allow for a social housing system that has a greater tenant mix than is currently the case. This would facilitate greater scope for ‘cross subsidisation’ models for community housing providers as well as provide scope for mixed, tenure, mixed income housing developments in line with international best practice to avoid creating concentrations of poverty and disadvantage.

In the short run, this might involve accepting a loss in the net number of properties within the social housing system available exclusively for households on the lowest incomes. In the medium to longer term this policy would lay the foundations for growth in all housing tenures.

CHIA is also concerned about ‘sell downs’ by State housing authorities of land and housing assets. The WA State Government, for example, through the Housing Authority, plans to divest approximately \$2billion worth of land and housing inventory over this and the next three financial years as part of the State’s Affordable Housing Strategy. This will result in the creation of housing opportunities for people at other parts of the housing continuum, particularly affordable home ownership. However, the State Government has given no assurances that the initiative will lead to a net increase in the quantum of stock in the public housing system once the divestment episode has been completed.¹⁰ The opportunity cost of the initiative is, manifestly, to use those assets in a way that would provide for a meaningful expansion of the social and affordable housing system in that State.

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

International best practice models of social and affordable housing demonstrate clearly that the growth of the community or not-for-profit housing system both in real terms and as a percentage of the overall system (public housing + not-for-profit) go hand in hand. The United Kingdom provides the best example of housing associations (community housing providers) building and developing social and affordable housing stock as a result of wholesale transfer of council housing (public

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<http://www.parliament.wa.gov.au/parliament/pquest.nsf/Parliament/pquest.nsf/SrchQON/74DE0D24DF8CBD3F48257EE4001FE6EB?opendocument>



housing) to those organisations beginning, in earnest, in the 1980s.

The models explored in the issues paper have all been developed in a similar not-for-profit environment and demonstrate the capacity of the community sector to provide the pattern of services and management of housing that can underpin both governmental and private institutional investment. Large “Tier 1” community housing providers are already leveraging private finance to fund their development activities and as they grow in scale and sophistication will have the ability to work with more complex financing models.

State and Federal governments retain a key role in supporting that development. Addressing the sub-optimal nature of current regulatory arrangements is a priority. In addition, further capacity building stock transfers to Tier 1 providers and other providers with skills and capacity to achieve higher levels of organic growth.

Response to discussion questions regarding the models.

Model One: Housing loan/Bond aggregators

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

CHIA supports the establishment of an entity similar to the Housing Finance Corporation (THFC). It refers to the recommendations section of this submission and the call for this entity to be called the Australian Affordable Housing Finance Commission (AAHC).

In order to be successful the AAHC would have to be appropriately staffed and funded. Specifically, it would have to have the resources to attract appropriately qualified staff and board members to do its work. That work would be grounded in having expert knowledge in creating and marketing bonds to raise funds on the wholesale markets and expert knowledge of the nature and capacity of the community housing industry in Australia. This is particularly true given the unfamiliarity the market is likely to have with the product being sold and the relatively immature position of the community housing industry in Australia.

Of immediate importance (even before the AAHC is established) is gaining a greater understanding of the sector’s appetite for and ability to service and repay levels of debt greater than what they are currently accustomed to taking on. Currently, CHPs who engage in debt financing are bounded by their cash flow based on their total property holdings. Naturally, the more debt CHPs can assume the larger their capacity for development activities. As such, capacity building stock transfer of public housing assets will remain vital if CHPs are going to be able to debt finance to a degree that would allow for significant growth in the overall social and affordable housing system.

A second issue that needs to be understood in greater detail is how CHPs would make good on loan servicing costs and their final repayments. Essentially, there is virtually no scope for CHPs to repay by solely developing social housing due to the low returns. This means that CHPs will be required to adopt diversified investment models on a larger scale than is currently the case. This diversification



would likely involve mixed tenure housing developments but it may also involve investments in other, commercial activities. CHIA believes that the community housing industry in Australia can be successful in this regard but it should be clearly understood that not all monies invested will result in new social and affordable dwellings available to households on the very lowest incomes.

Addressing the sub-optimal nature of the current regulatory environment in respect of community housing providers is critical. The AAHC itself needs to be appropriately regulated as a financial institution. Equally, like the THFC, the AAHC would be obliged to only do business with community housing providers registered under a more complete regulatory regime than we have now. In both cases, the requirement for excellent regulatory structures ought to be considered a pre-requisite for engendering investor confidence in the bonds being offered to wholesale markets.

CHIA notes that the New South Wales Federation of Housing Associations was recently awarded funding by the New South Wales Government to develop a business case for an industry-led affordable housing finance intermediary. This is a very encouraging development and the work of the Federation in respect of this project will, CHIA believes, prove relevant and useful in terms of developing the Australian Affordable Housing Finance Commission (AAHC).

2. What is the specific role(s) that government(s) may need to play, over time, to meet investor requirements around the establishment of a housing bond?

Specific roles include:

- The Australian Government has a special responsibility for establishing a housing bond model which has the best chance, as a new product, of gaining market interest. This means ensuring it is appropriately funded and resourced and operates in accordance with a best practice regulatory model.
- State and Federal Governments need to ensure that the currently sub-optimal regulatory arrangements regarding regulation of the community housing sector in Australia is remediated to engender investor confidence.
- CHIA's preference is for the AAHC to be a not-for-profit organisation like the THFC in the UK. This will create a natural synergy with the not for -profit community housing industry. However, the best design will be the one that has the best chance of attracting investors. Ensuring that the design process is cognisant of investor requirements is a key consideration.
- Independence from Government is important to allow the organisation the flexibility and autonomy to do its work without real or perceived outside interference.

Model 2: Housing Trusts

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

It is unlikely that the model would require policy, funding or regulatory change. The approach in the US was developed from within the not-for-profit sector by an umbrella body representing the major organisations within the sector. As such, it was outside government and an arrangement between the lenders and the trust. As discussed, greater confidence would be given to institutional lenders if a strong and stable policy environment and regulatory system was evident.

2. 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?

The 'housing trust' model has three principle disadvantages:

- The model will be hampered by the fact that much of the housing that can be pooled in the proposed housing trust, held by State housing authorities and community housing providers is already making sub-market returns. The aggregation of these into bigger entities will not take away the submarket characteristics of their financial performance.
- The relatively small number of 'at scale' housing providers in Australia will limit the size of the trust and therefore its attractiveness to private investors. The US model assembled a far greater number of large providers than CHIA believes would be feasible in an Australian context. It is also the case that despite the national level of operation in the US, the achievements of the fund remain modest with some 700 units to date and if the second phase achieves proportionally it will secure only circa 1500 affordable homes.
- Establishing a housing trust from the current State and Federal housing arrangements would be administratively and politically difficult to achieve given the level of cooperation required.

3. How might the composition of social and affordable housing stock and income streams impact on the trust? How would regional variations in asset values and rental streams (e.g. Hobart versus Sydney rents and house prices) affect distributions from the trust?

Again, the fact that when many of the properties aggregated will be delivering sub-market returns will have a material impact on the performance of any housing trust. There will be some variance but probably not enough for CHIA to have confidence in the model. It is likely that where housing purchase costs and land costs are higher e.g. Sydney the performance of the trust will be lower than in areas with lower purchase costs.

4. Are there any potential benefits for investors in affordable housing that could be achieved from splitting the income and capital returns of a housing trust?

CHIA does not have a view on this matter based on the evidence available.

Model 3: Housing Cooperatives

1. To what extent could a housing cooperative model advance the objective of providing sustainable large-scale finance for social and affordable rental housing in Australia?

Cooperative housing forms a small part of the overall social and affordable housing system in Australia. In some States, co-operative housing organisations are considered part of the overall community housing sector.

Common Equity Housing Limited in Victoria is the exception rather than the rule in terms of the scale of cooperative housing models in Australia with most being much smaller, with less sophisticated operating models. However, CHIA believes that cooperative housing models add great value to the social and affordable housing system.

There is real merit in promoting other forms of tenure such as cooperatives or sale of leases such as in current retirement village legislation or community land trusts. Under these forms of tenure, a long term lease of dwelling is sold to the occupier rather than a free hold title. These options can result in drastically reduced entry costs and offer an attractive alternative to short term residential tenancy leases.

The trade-off is that consumers of this product are not offered the potential for capital gains associated with home (land) ownership. Nevertheless, many consumers would prefer a cheaper secure long term lease in a location of their choosing at a reduced cost and are willing to forgo any speculative opportunity for windfall gains through capital appreciation.

There is also scope to offer shared equity arrangements under these models where occupiers effectively purchase a proportion of the value of the building and then rent the remainder from the site owner.

CHIA considers option 3 more as a delivery mechanism for affordable housing rather than a financing option and suggests it remains part of the broader agenda. CHIA supports promoting alternative tenure types as a way of engendering product diversity in the affordable housing space.

2. What are the policy, funding and regulatory settings required to support any expansion of housing cooperatives?

Current legislation already permits these options but promotion among planning authorities, finance lenders and potential owners of sites such as community housing providers or private developers promoting lifestyle projects is required.

Model 4: Impact investing models including social impact bonds

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

CHIA supports the use of social impact bonds and recognises their ability to make be successful. However, there is no evidence to suggest that, as a model, it can exist as anything more than a complimentary initiative to a larger, more ambitious model. There are currently no international examples of the approach being developed to provide large-scale affordable housing provision at the national level. Scaling up what has to date been primarily a project funding approach presents some major questions, specifically around the interest that mainstream private sector investment might have in a relatively high risk environment.

Currently, it is largely ethical investors who have supported the approach and it is unlikely that mainstream institutional investors would be attracted to invest, even if the approach proved capable of significant up-scaling. It is also the case that ultimately government has to fund the returns on the social investment and the return at an attractive rate would likely to be on a par with the costs of a more direct funding model. In summary, the approach has capacity to assist the supply of affordable housing at individual project level, but even when such projects are aggregated it is not capable of sustaining a national approach to improving housing affordability.

2. What are the policies, funding and regulatory settings required to support large scale social impact investment?

Social impact bonds are a relatively new funding model for social initiatives. CHIA is not aware of any national or global example of large scale social impact bond investment models. It notes however ongoing work about setting up smaller scale schemes in South Australia and Queensland.¹¹

As stated, CHIA does not see social impact bonds as anything more than a companion piece, with the potential to provide value at the margins, to a larger private finance model capable of driving a national social and affordable housing system growth agenda.

3. 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?

There is no evidence to support the premise of the question. CHIA contends that moving households through the continuum is, in the majority of cases, a function of that household's ability to sustainably increase its income.

¹¹ <http://impactinvestingaustralia.com/social-impact-bonds/south-australian-government-looks-to-social-impact-bonds-to-tackle-homelessness/>



There are many households in the social housing systems that do not have that ability due old age or disability. Others, mainly in the public housing system, may have the ability to increase their income but forego that option if it means losing eligibility for social housing. This is, arguably, a rational economic choice if the option is transitioning to considerably less secure tenure in the private rental market.

CHIA does, however, believe that there is a constituency of household in the social housing system that, with the right supports, have the ability to successfully transition to the mainstream housing system. CHIA is aware that initiatives to achieve those outcomes are being developed in more than one jurisdiction and supports those efforts.

Conclusion

CHIA applauds the formation of the Affordable Housing Working Group and the publication of the issues paper.

Community Housing providers around the country are excited by this initiative and ready to contribute in conjunction with Government(s) to the growth and development of the social and affordable housing system.

CHIA hopes that the views expressed in this submission will be useful and informative for the members of the working group and it looks forward to working with it as the process continues.