

# **COMMUNITY – THE PLACE FOR AFFORDABLE HOUSING**

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## **The affordable housing problem**

Affordable housing supply is a pressing national issue and has recently become more prominent in the national agendas of government and industry. The problems of insufficient affordable *rental* housing are systemic and rooted in the economic and political systems in Australia. The nature of and response to the affordable housing problem is a different story in different housing markets and communities. Hence the responses and strategies will need to be viable and sustainable in particular market and community contexts. The challenge is to develop a coherent response to a national problem which will succeed at a community level – for both individuals and households, and communities.

This paper focuses on the responses to affordable housing supply problems in the rental sector, with the very limited supply of public and community rental housing and the *absolute decline* occurring in low rent dwellings in the private sector.

## **What is affordable housing?**

Discussion about “affordable housing” spans a range of income levels, from those who would have previously expected to be housed in traditional forms of public and community housing to moderate income households no longer able to afford housing in rising markets. Affordable housing projects are addressing a range of needs requiring a mix of funding approaches including government grants and subsidies, especially where a significant proportion of tenants are likely to require an “affordable” (below market) rent.

Affordable housing is much more than “cheap” housing. Affordable housing needs to be safe, secure and appropriate to household needs. It should be energy efficient, further reducing living costs for residents and its impact on the environment and resources. Affordable housing should also be well located in relation to services, employment and transport.

## **Community housing**

Community and not-for-profit housing organisations manage over 29,000 dwellings around Australia funded under the CSHA and at least a further 15,000 dwellings not CSHA-funded. In addition there are over 20,000 indigenous community housing dwellings and around 4000 units of crisis accommodation.

Over 25 years, community housing organisations around Australia have developed a strong body of unique expertise in serving people with diverse housing needs. The community sector strongly values the diversity of organisations within it and, most importantly, its core values of tenant participation, local connectedness and community involvement. Community housing organisations recognise the importance of a local housing response and the need to connect with other services and people in communities.

Community housing has a proven track record in developing housing solutions from the local community and managing these in a way which goes well beyond a standard landlord-tenant relationship. Community housing organisations respond to individual’s needs and empower tenants to be part of the management of their housing and be part of their local community. With their mission and values firmly rooted in serving and developing their community, community housing organisations approach the business of housing management with a clear understanding of how to work with their tenants and how to connect them to the organisation and to their communities.

The community housing sector has for years been delivering effective housing management, often beyond the expectations and roles envisaged by governments that have traditionally funded them. There is also a compelling argument that the community housing model itself, by being embedded in the community it serves, has clear benefits to that community in responsiveness and local control of outcomes. Community housing organisations are clearly demonstrating that at this level, local needs

can be best understood and linkages made to other local organisations and individuals to serve clients.

Another important advantage of the community housing model is of course financial. Under the current taxation and other policy settings of the federal government, community not-for-profit organisations have a more favourable operating environment, for example access to tax concessions and rent assistance for their tenants. As charitable organisations, community housing organisations are able to claim input tax credits on several aspects of operations including constructions costs and cyclical maintenance. Some local authorities and water supply organisations will also provide concessions to community housing organisations on the basis of their charitable status. Research by the Community Housing Coalition of Western Australia estimates that considerable additional rental income and cost savings on property management provide significant financial advantages in community housing management over public housing.

There are many advantages in the community sector's involvement in delivering affordable housing, including:

- It can establish locally responsive targeting of assistance to a range of housing needs;
- It has strong commitment and practice in tenant participation;
- It has a proven track record in successful coordination of housing and support;
- It provides higher levels of client satisfaction than public housing;
- It can work in a diverse range of ways to respond to particular needs;
- It is able to work in an holistic way with clients and in partnership with other organisations;
- It is more responsive (than government and private sector) in developing and implementing models of innovation in management and practice;
- Rent income can capture rent assistance payments;
- It can access favourable tax treatment of costs under charitable status;
- It is more likely to attract a range of additional resources to housing services;
- It is more able to debt finance projects (than government managed housing);
- It is able to enter more flexible (and potentially lower price) contractual arrangements; and
- It can adopt more flexible/responsive approaches to rent setting

### **Approaches to financing affordable housing**

Government, not-for-profit organisations, academics and housing industry groups in recent years have been exploring various ways of bringing alternative (to public) sources of funding for low cost housing, with the realisation that the private sector is not investing in low rent housing (in particular because returns are inadequate in comparison with other investment options).

There are several approaches presently under discussion to bringing much larger volumes of private finance to affordable housing:

- Raising of government bonds;
- Establishment of a pool of private equity investment funds;
- Tax incentives to attract finance into affordable housing development;
- Shared equity, where the housing investment is shared by an external funder (government or private) and the occupier; and
- Volume debt finance, through some sort of intermediary on behalf of affordable housing (not-for-profit) providers.

Each of these approaches have the potential to raise large scale finance, which raises some interesting issues about the management of affordable housing at this scale. However these approaches to large volume financing of affordable housing are contingent on the preparedness of the private finance sector to enter new forms of investment and on governments to provide the required guarantees, subsidy payments and policy settings to facilitate any of these models being implemented. So while there has been much discussion about these approaches to affordable housing, nothing yet has been implemented.

There is more practical experience with smaller affordable housing developments, usually featuring a partnership with community housing organisations. These might involve the use of debt finance to enable a new project to be constructed, or management of new affordable housing on behalf of another owner. A couple of examples are:

### *City Edge, Canberra*

The City Edge development involved the sale of a rundown public housing estate in Canberra to Community Housing Canberra Ltd for its land value. 143 hard to let bedsit flats were demolished and replaced by 126 new dwellings, 30 of which were retained as social housing, the remainder sold to private purchasers. The project featured sale of the land on deferred settlement terms, avoiding the need for interim finance for the land purchase, and the project features high standards of design and environmental sustainability.

### *Inkerman Oasis*

"Inkerman Oasis" in St Kilda, an inner suburb of Melbourne, is a joint venture between the local Port Phillip City Council and a private developer. The council owned the land (a former council depot) and undertook site remediation, title conversion and rezoning along with preparation of an initial master plan design and cost estimates.

The site is being developed and financed by a private company, who will transfer 28 new dwellings back to council in exchange for the land value. A further 12 dwellings are available for affordable housing if the council can find an investor. The affordable housing will be owned by the council but managed by the local Port Phillip Housing Association.

Another emerging approach to affordable housing provision and management is the affordable housing company. This approach was pioneered in New South Wales in 1994 with the establishment of Citywest Housing, a not for profit company created by the NSW government, with funding support from the Commonwealth *Building Better Cities* program. Citywest Housing was established to provide affordable housing for local people in the Ultimo/Pymont area of inner Sydney, a rapidly gentrifying locale. In addition to the start-up Commonwealth funds, Citywest receives income from a levy on government land sales in the precinct, developer contributions and rental receipts. It presently manages 340 units housing more than 700 people and has a target of 600 units over a thirty year period. Citywest undertakes its tenancy management in house.

The Brisbane Housing Company was set up in 2002 to provide affordable rental housing to people in Brisbane, again as a response to the loss of private sector housing through inner city gentrification. Like Citywest, the Brisbane Housing Company is a creation of state and local government (who are the shareholders), although it has a different funding mix. It receives State funding through land contributions, has a proportion of debt funding and is seeking to also benefit from developer contributions. It has around 70 dwellings operating and aims to develop 400 to 600 dwellings over four years. The Company has outsourced tenancy management on its first site to a church based housing organisation and will continue to use external agents for tenancy management on its future developments.

New South Wales and Queensland established these companies as mechanisms for raising finance and developing and managing properties in a specified area. Both organisations feature community participation with significant community representation on their management boards and a commitment to tenant participation. Both companies also benefit from developer contributions to fulfill their financing requirements as well as contributions from government land sales or obsolete sites.

Community Housing Canberra Limited was created by the ACT Government in 1999 to hold and manage assets transferred from the public housing sector. The ACT government is looking to Community Housing Canberra to develop additional affordable housing supply through debt financing.

### **Issues in delivering affordable housing**

There is presently widespread exploration and experimentation of mixed funding models for affordable housing, engaging many stakeholders and identifying a range of possibilities. The models under discussion and testing are diverse and complex. These models also raise a number of issues about for managing organisations, eg. in relation to rent setting and targeting, the involvement of local government, the need to trade assets eventually, the control of property assets and the implications of managing large scale affordable housing developments.

### *Rent setting and targeting*

In an environment where funding is sourced beyond traditional government sources, the operator of the housing requires certainty about the income required to service the debt. This means that rent models and targeting need to be established to address the target revenue requirement. Generally all

of the affordable housing dwellings in a development would be expected to target people on the basis of income to ensure those gaining access to the affordable housing do have a housing need – initially indicated by low income. Without some sort of mechanism for identifying and allocating to even a general target group, the an affordable housing project will risk having less social impact, as it will house potentially higher income tenants.

#### *Controlling assets*

Probably the most contentious issue between the community housing sector and state governments, and considered within the community housing sector to be critical to the future of the sector, is the question of who should control the housing assets. Most governments do not allow control by the managing organisation and community housing organisations complain that this does not allow them to seek new sources of finance, because they cannot legally secure the asset for a loan.

Control of the asset gives governments leverage over the performance of the organisation and the nature of the service being delivered. An issue is whether this level of control is necessary and whether the government's interest in the housing outcomes can be secured in other ways, eg. through legislation and regulation.

#### *Potential large scale management*

Some of the proposed approaches to financing could make available hundreds of millions of dollars for affordable housing development, requiring a scale of property acquisition and management beyond the imagination of most community housing organisations. What are appropriate development and delivery strategies for these volumes of funds and what organisations might be involved to make these projects a success? And if community organisations are to be major players in these strategies, what skills and capabilities need to be developed to enable the sector to rise to the challenge?

#### *Local government*

A small number of local councils are already playing a prominent role in developing and implementing affordable housing. An explicit council commitment to and policy on affordable housing development is a very important element of a viable affordable housing project, particularly as delays in the planning system can load considerable costs onto affordable housing schemes.

### **Management of Australia's affordable housing by community housing organisations – what needs to be done?**

Community housing organisations are well placed to play a key delivery and local management role in affordable housing, as the best place to carry out the decisions and management of affordable housing is at the community level. But what conditions must be in place in order for the community housing sector to develop into this role *with success*? Different types of models have different implications. Large scale approaches may mean that, for efficiency, assets are held and managed by a single organisation, or small number of organisations. The tenancy management and day-to-day property management may then be outsourced to community housing managers, involving the expansion of a role that community housing organisations have traditionally undertaken.

However some community housing organisations may seek a much broader role across the financing, acquisition and full management of affordable housing, requiring a wider range of capabilities in financial and portfolio management as well as tenancy management. Some organisations are already developing this broader role, expanding their portfolios outside the traditional sources of funding for community housing.

A key issue for community organisations seeking to develop a larger role in affordable housing provision and management is to focus on those capabilities which will give them a solid basis of expansion. Experience in other community service sectors and from overseas suggest that capability will need to focus on the managing board's expertise, responsiveness to clients and stakeholders, appropriately detailed business planning including forecast financial arrangements (income and expenditure), good control over long term asset management and the general ability to sustain the effort to pursue its mission – over the long term. And it is not just community organisations that face capability challenges – in a potential new affordable housing environment, government and the housing industry will also need to build skills and capability to play their roles.

Another important issue for community housing organisations contemplating an expanded role in affordable housing is the implications of this change on the core purpose and values of the

organisation. Do community housing organisations stop being “community” organisations when their role and mission extends beyond the services originally envisaged when it was established?

There is no doubt that organisations must change when the nature and scale of their operation changes. Policies and procedures must be clearly documented, performance documented and analysed, mechanisms for staying in close contact with clients and stakeholders maintained. Supervisory roles broaden and other roles need to be clearly articulated. All stakeholders in the organisation must commit to the direction as a strategy for successful pursuit of the organisation’s mission. To stay true to their original purpose, community housing organisations require a mission and vision that codifies what the original purpose and intent of the organisation and then pursue organisational strategies which combine the new business environment with the organisation’s reason for being.

Control of assets is an important issue concerning future roles in affordable housing. There needs to be some resolution of the conflict between state governments and the community housing sector over control of publicly funded assets managed by community housing organisations. The benefits of appropriate community housing developments, responsive models of management and sustainability of the housing and the organisation provided through capable more complex community housing organisations will *not* be realised without those organisations having control over the portfolios they manage.

Formal regulation of the community housing sector is under active discussion and development across a number of jurisdictions. Community housing organisations are hopeful that the outcomes will have taken a realistic and balanced assessment of the risks in providing social and affordable housing. Over-regulation will make it more difficult for organisations to do their work well and constrain their capacity to develop and expand services. Over-regulation can also be unnecessarily burdensome on governments to administer. Recent research by the National Community Housing Forum suggests an approach to regulation involving:

- Legislation to legitimise the role and functions of community housing and manner in which government monitors performance and intervenes in operations;
- Registration on adherence to identified industry standards to promote good management practice;
- Voluntary accreditation;
- Regulation of capital assets (with ownership by community organisations); and
- A tiered regulation system which would recognise the diverse forms of community housing organisations in operation.

Local government has been an important catalyst for some mixed funding projects, which have not required other direct government support. On the other hand, project viability can be greatly threatened by delays in planning and approvals, which may be streamlined if a local council had an explicit affordable housing policy and strategy. Local government support is a very important ingredient to a successful expansion of affordable housing. Local community housing organisations must also be proactive in promoting affordable housing to local government, as there is ongoing ambivalence about affordable housing by some in local government.

### **Position statement on the role of community housing in the management of affordable housing**

An exciting range of opportunities is being explored and tested to bring new resources to the development of affordable housing in Australia. Whether these see the light of day still depends on the support of state and Commonwealth governments and the persistence of motivated financiers. It is hard to say whether opportunities could be realised in two years or ten years. Nonetheless the community housing sector is positioning itself to participate in future affordable housing schemes. As has occurred in other countries, Australia could see the convergence of interests of communities, low income households, community organisations, private investors and governments in the provision of critical new affordable housing supply.

A number of community housing organisations are already well placed to provide creative and flexible solutions to developing and managing affordable housing which serves both individual and community needs. Community housing has the support of a range of stakeholders for its focus on place and community, its ability to work with individuals and assist them with other resources if required, and to bring in skills and other resources in partnerships of people working toward affordable housing solutions.

The following principles are suggested to underpin community housing's future role in the delivery of affordable housing:

- The community housing sector will remain diverse – some organisations will expand their role and others will choose to remain with their existing business.
- Effective delivery will be underpinned by a commitment to client responsiveness, community participation and the building of local community strength.
- The effectiveness of the role of community housing organisations in affordable housing delivery will be maximised by local organisational control of resources and property assets.
- An expansion of the role of community housing organisations in affordable housing delivery will be supported to development of appropriate capabilities and the support of sector development structures and resources.
- The community housing sector will participate in the delivery of affordable housing where these models are demonstrated to be viable, efficient and responsive to the needs of local communities.

## **Conclusion**

The community sector is poised to develop a greater role in the provision and management of affordable housing, following trends in other countries, such as Canada, the United States and the United Kingdom. The keys for the community sector to expand its role in providing and managing affordable rental housing however are progress in the development of new models of affordable housing, the right regulatory environment to enable effective organisations to operate, resolution of issues concerning control of assets and developing the capability amongst those community organisations seeking to undertake the span of activities required of a more complex affordable housing business.