

# **Directions for Affordable Housing Policy in Australia: Outcomes of a Stakeholder Forum**

**Collaborative Research Venture 3: 'Housing  
Affordability for Lower Income Australians'**

## **Background Report**

authored by  
**Vivienne Milligan**

for the  
**Australian Housing  
And Urban Research Institute**  
RMIT/NATSEM Research Centre  
Southern Research Centre  
Swinburne/Monash Research Centre  
Sydney Research Centre  
UNSW/UWS Research Centre

July 2005

ISBN: 1 920941 81 9 [Report]

## **ACKNOWLEDGEMENTS**

This material was produced with funding from the Australian Government and the Australian States and Territories. AHURI Ltd gratefully acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

The author would like to acknowledge the valuable input to this paper made by participants in a forum on affordable housing policy held on June 23rd 2005 at the University of Sydney.

## **DISCLAIMER**

AHURI Ltd is an independent, non-political body which has supported this project as part of its programme of research into housing and urban development, which it hopes will be of value to policy-makers, researchers, industry and communities. The opinions in this publication reflect the views of the authors and do not necessarily reflect those of AHURI Ltd, its Board or its funding organisations. No responsibility is accepted by AHURI Ltd or its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.

The views expressed in this paper represent the prevailing views of stakeholders who attended the policy forum on which it is based. However, they do not necessarily represent the views of individual stakeholders who attended.

# CONTENTS

<b>1</b>	<b>INTRODUCTION</b> .....	<b>4</b>
1.1	Purpose .....	4
1.2	Background and context.....	4
1.3	Benefits of improving housing affordability .....	6
<b>2</b>	<b>TARGET GROUPS AND PRODUCTS</b> .....	<b>7</b>
2.1	Low income households with multiple disadvantage.....	7
2.2	Low income households.....	8
2.3	Intermediate households.....	8
2.4	Implications .....	8
<b>3</b>	<b>LEVERAGING PRIVATE FINANCING</b> .....	<b>10</b>
<b>4</b>	<b>EXTENDING THE INFLUENCE OF THE PLANNING SYSTEM</b> .....	<b>14</b>
<b>5</b>	<b>ENHANCING THE DELIVERY SYSTEM</b> .....	<b>17</b>
<b>6</b>	<b>SUMMARY OF INTEGRATED AFFORDABLE HOUSING POLICY FRAMEWORK</b> .....	<b>21</b>
	<b>REFERENCES</b> .....	<b>25</b>
	<b>APPENDIX 1: LIST OF STAKEHOLDERS</b> .....	<b>28</b>

# 1 INTRODUCTION

## 1.1 Purpose

This paper presents the views of national and international housing experts and stakeholders on ways to address the mounting housing affordability challenges that we face in Australia, as a result of the interaction of demographic shifts in our population structure and major economic, social and housing market changes.

These views have emerged from a strategic forum on affordable housing held in Sydney in June 2005. They have been developed in the context of efforts by Australian Housing Ministers (supported by housing, planning and local government public officials) that commenced in 2002 to establish a National Affordable Housing Project and the National Summit on Affordable Housing held in Canberra in June 2004<sup>1</sup>. The forum strongly supported the direction that all spheres of government in Australia should endorse and promote a new integrated national approach to the financing, development and delivery of a wider range of affordable housing options capable of addressing our growing need for affordable housing.

After presenting additional background information, this paper explains the outcomes of the forum. Its sections describe in turn the target groups to be assisted, and the financing, planning and delivery strategies that could be applied to increase the supply of and access to a variety of forms of affordable housing. To maximise their effectiveness, the proposals described are intended to operate as a package of measures. Together they offer a systematic and coordinated plan for involving the public, private and not for profit sectors in partnerships that can harness the expertise and innovative capacity of each of those sectors to increase the supply of well located and appropriate forms of affordable housing, drawing on proven international models and successful local demonstration projects (see for example, Monk and Whitehead 2000 and Milligan et al. 2004, respectively).

## 1.2 Background and context

Following many years of research into policy and funding options and numerous small-scale demonstration projects, Australia held its first national conference on affordable housing in June 2005 ([www.housing.nsw.gov.au/nahc](http://www.housing.nsw.gov.au/nahc)). The conference brought together 450 delegates from the housing industry, all spheres of government, not for profit housing organisations, peak housing agencies, the financial sector, national and international housing research centres, trade unions, housing

---

<sup>1</sup> Following preliminary discussions held in 2002, Australian Housing Ministers agreed “to promote a national, strategic, integrated and long term vision for affordable housing in Australia through a comprehensive approach by all levels of government” (Principle 11, Commonwealth State Housing Agreement, 2003). Subsequently officials have been preparing the case and a framework for a new national approach to affordable housing, which will be considered by Housing, Planning and Local Government Ministers later in 2005. The National Summit on Housing Affordability was hosted by the Housing Industry Association, the Australian Council of Social Services, the Australian Council of Trade Unions, The Australian Local Government Association and the National Housing Alliance (see [www.housingsummit.org.au](http://www.housingsummit.org.au) for more information).

consumers and other housing-related agencies. The main aims were for participants to learn about affordable housing best practice, share knowledge with other practitioners, and create innovative solutions for future implementation. The conference was organised by the Centre for Affordable Housing in the NSW Department of Housing.

Immediately following the conference, nearly 50 experts and stakeholders reflecting the different perspectives present were invited to participate in a one-day policy forum, hosted by the Australian Housing and Urban Research Institute (AHURI) Sydney Research Centre at the University of Sydney<sup>2</sup>. (A list of stakeholder groups that attended is at Appendix 1.) The forum was designed to draw on the ideas and issues that emerged from the preceding conference and to shape those into a coherent national policy framework capable of responding to the housing affordability challenge facing Australia.

The growing problem of housing affordability, which is not unique to Australia, has emerged across all housing sectors over the last two decades. It is manifest in declining access to home ownership among younger generations (Yates 2000; McDonald 2004); a significant loss of lower cost forms of private rental housing across all metropolitan and many non metropolitan areas (Yates et al. 2004); and the declining viability and residualisation of the public housing sector, which has resulted from the combined pressures of demand from groups with very high needs, concentrations of public housing in large distinctive estates and constraints on public sector investment (Hall and Berry 2003).

Analysis of housing affordability standards using the latest national census data (2001) shows that 836,000 Australian households use at least 30% of their household income for rent or mortgage repayments and 233,000 of those households use more than 50% of their income to meet those housing costs. Over 350,000 of households in housing stress<sup>3</sup> were working households on incomes below \$50,000 per year (Gabriel and Yates 2005). These numbers can be expected to grow at least in line with population growth or faster, if the availability of affordable housing continues to decline.

Discussion at the forum showed there is strong alignment among participants about what can and should be done to address the housing affordability problem. All sectors support the drive for more innovative and flexible ways to address the housing needs and aspirations of households who cannot compete effectively for housing in high priced housing markets across Australia. Participants considered

---

<sup>2</sup> The AHURI Sydney Research Centre is one partner in a three-year (2004/05 – 2006/07) Collaborative Research Venture investigating aspects of 'Housing Affordability for Lower Income Australians'. The overarching research question that is being addressed is "What can be done to improve affordability?" (Yates, Berry, Burke, Jacobs, Milligan and Randolph, 2004). Members of the AHURI Sydney Research Centre were actively involved in the organisation of the National Affordable Housing Conference.

<sup>3</sup> Housing stress refers to the situation of lower income households paying at least 30% of gross income for their housing (Gabriel and Yates 2005).

that improving housing affordability will have multiple and far reaching economic and social benefits, as outlined briefly below.

### **1.3 Benefits of improving housing affordability**

Improvements in housing affordability could be expected to assist macroeconomic stabilisation policies, help to maintain economic growth and competitiveness, and contribute to anti inflationary strategies through reducing pressure on wages and house prices. At regional and local levels, improving the affordability of housing can help labour markets to function more effectively – for example by improving labour mobility and assisting the supply of vital lower paid workers. It can also contribute to local economic growth, for instance by attracting young entrepreneurial and skilled workers (Yates et al. 2004: *Housing Affordability for Lower Income Australians*).

Providing secure and affordable housing contributes positively to a wide range of social outcomes, often referred to as non-shelter benefits. Affordability of housing is an influential factor in family stability, the health and wellbeing of individual household members and the educational attainment of children. Locating more affordable housing in areas with job growth can encourage lower income households to participate in the labour market and thereby reduce welfare payments required of governments. Providing well located affordable housing can also prevent long commuting times for lower income households who have been displaced to more distant areas to obtain lower cost housing. Additionally, offering better-located affordable housing can help alleviate the patterns and consequences of spatial exclusion, which adversely affect lower income and disadvantaged households (Bridge et al. 2003).

## **2 TARGET GROUPS AND PRODUCTS**

Among very low, low and some middle income households (up to 120% of median household income) there is a diverse and growing group who cannot access affordable and appropriate housing in their local/regional area because of factors including insufficient income (for the cost of housing), local housing shortages, discrimination or special needs. The group includes many young people entering training or the labour market for the first time; single parents and single people on low incomes; people with special needs arising from disability, ill health, injury or frailty; retired households who do not own their home; Indigenous families; and lower paid workers whose jobs are located in high cost cities or major resource areas. Across these household types, large numbers of private renters and home purchasers in particular are affected by affordability stress (Gabriel and Yates 2005).

Because of the diversity of housing needs and the complexity of factors underpinning these, it is important that an overarching policy framework does not approach the concept of affordable housing too narrowly. The forum expressed a preference to start with a general definition of the target groups who may need assistance. It was suggested these could be described broadly as households 'at risk in the housing market' or 'households who cannot compete successfully in their local housing market'. Affordable housing by this definition becomes forms of government assisted or privately provided housing that can specifically assist these groups to attain and pay for housing without experiencing undue financial hardship.

For implementation purposes, a broad view of who should be assisted can be broken down into segments, according to the kind and duration of response that may be required. Different affordable housing products (and deeper or shallower subsidies) will be appropriate for different segments (see below).

The forum suggested that three broad segments should be recognised: low income households with multiple disadvantage; low income households; and what are described below as intermediate households. Each segment has a different potential for the application of innovative financing and may have differing service requirements, as illustrated below.

### **2.1 Low income households with multiple disadvantage**

For these households the need for assistance is likely to be significant and ongoing. Whatever housing is offered has to be effectively linked to support services and community networks. In the past this group has had limited choice of housing and many of the most disadvantaged households have been trapped in institutionalised models of housing provision, or have relied on various transitional housing programs or the relatively inflexible public housing system. An expansion of long term community based housing (delivered by specialised community housing providers or other accredited housing providers in partnership with support agencies) will add to the choices of this group and promote further innovative responses to their need.

This segment also includes low income and disadvantaged tenants in the existing public housing system. For this group, a key priority is accelerating estate regeneration to improve the quality of public housing that is retained, revitalise local neighbourhoods that have become degraded and improve the economic and social opportunities of existing residents. As the redevelopment process in public housing estates may result in a reduction in the amount of affordable housing on site, redevelopment plans must be linked directly to other plans to replace any affordable housing that is lost to ensure the overall supply of affordable housing grows.

## **2.2 Low income households**

These are households who face a housing affordability problem because they have low incomes. They may, or may not, be employed. Different forms of housing assistance can address their need, depending on their life stage and market conditions in their location. For example, some households may need extra financial assistance to enable them to afford existing rental housing. However, because of the widespread decline in lower cost rental housing in many areas, incentives to increase local supply will also be required to meet the needs of low income households in those areas. Some in this group, such as young people, may need only short-term assistance (2 to 5 years) to enable them to get a tenancy record or to save for market priced housing. Another sub group will be ageing private renters who may not be able to sustain market rents after retirement. This sub-group is likely to need assistance for a longer period of time because their incomes are unlikely to improve. Others in this segment who are more likely to have the opportunity for growth in their incomes, particularly young families and single parents, may benefit from having an incentive to achieve home ownership, perhaps through new products such as shared equity schemes. If such incentives are successful their need for on-going housing assistance is likely to be minimal. In other words, depending on how well they fare over time, assistance for households on low incomes may be required for a shorter or longer term.

## **2.3 Intermediate households**

These are households with somewhat higher incomes but whose circumstances place them below the margin where they can afford market housing in higher cost locations. Examples include lower paid single people and working families on a modest wage. These households may require some level of housing assistance for a limited period to enable them to get established in the housing market. Forms of assistance could include assisted home ownership, shared home ownership or an offer of rental housing at a below-market rental.

## **2.4 Implications**

In drawing conclusions about who should benefit from a broader national affordable housing policy, the participants in the forum agreed that a new policy framework should seek to promote a range of responses to a range of household types among low and middle income groups. To match changing housing conditions and

opportunities, the policy response needs to be extended beyond the current programs of the Commonwealth State Housing Agreement (CSHA) (mainly public, community and Indigenous housing), Commonwealth Rent Assistance, and First Home Owners Grant. As this paper will detail, the new approach should encompass a wider range of affordably priced rentals, shared home ownership in either existing housing or new housing, and additional forms of assisted home ownership commensurate with the life stage, income and personal circumstances of the target households.

Frameworks and policies for the financing and delivery of affordable housing should be more flexible than present program based models. This will help break down barriers in the existing tenure-bound housing system and create a continuum of choices and pathways between options, so that people can more readily change their housing arrangements as their circumstances change or as new opportunities arise (such as training and employment). It was also stressed in the forum that affordable housing – in whatever form of ownership or tenure – needs to be very well integrated into the community to make it indistinguishable from that provided by the market. Such an approach will help to overcome stigma attached to present models, such as some public housing, and prevent further development of undesirable patterns of social exclusion and spatial segregation.

The following three sections provide an overview of stakeholders' views on how private financing might be leveraged to meet these objectives; on how the planning system might be oriented more strongly to promoting affordable housing; and on what might be done to enhance the delivery of affordable housing.

### 3 LEVERAGING PRIVATE FINANCING

There has been no shortage of proposals about private funding sources and financing models that could be applied to expand investment in affordable housing in Australia. (For overviews see, AHNRC 2001; McNelis et al. 2002; Allen Consulting Group 2004.) Internationally, large-scale private investment in affordable housing is widespread and well established.

In the United Kingdom, the cumulative private investment in affordable housing exceeded £34 billion in 2003 and is running at an annual rate of about £2 billion. Finance has come mainly in the form of mortgage backed debt finance to housing associations but there is an emerging bond market. Debt finance has been increasingly competitively priced and compares favourably with other investment sectors. The finance has been applied mainly to new housing construction, upgrading of former local authority housing that has been transferred to housing associations, and home ownership and shared home ownership schemes for tenants (Berry et al. 2004). Key factors that have contributed to the progressive development and overall success of the UK model include:

- Reliable income streams for housing providers, which are underpinned by housing subsidies paid to low income households;
- An established regulatory framework for housing associations which gives lenders confidence in their capacity and performance;
- The availability of government capital funds to supplement private financing and reduce the debt burden (around 50% to 60% of the cost of new housing built in the sector is debt financed);
- Use of land use planning powers to enable development of affordable housing projects and to generate additional funding from landowners and developers;
- Lenders having first call on the housing assets (with second mortgages or other charges over the asset held by government funders); and
- A sufficient and growing scale of business that is capable of engendering greater competition and innovation (Berry et al. 2004).

The UK experience demonstrates how the coordination of financing, regulatory and planning policy levers has helped to create a growing affordable housing system. The scale of investment and the predictability of growth in that part of the market have also been decisive factors in the development of investor interest and confidence, and hence, lower rates of return.

It is a similar story in the US where national financial elements – such as low income tax credits, government grants and tenant subsidies – are layered and combined with local planning incentives (such as inclusionary zoning requirements) and a strong not for profit sector, to produce and deliver housing. An additional feature of the American model is regulation that requires financial institutions to invest in affordable housing. This includes an obligation on the major (government created) mortgage

finance institutions, Fannie Mae and Freddy Mac, to lend to individuals and not for profit agencies for affordable housing. There is also a requirement on all lending institutions that enjoy federal government guarantees to match their lending profile to the credit needs of the whole community, including low income and excluded households. This requirement is bolstered by laws that require public disclosure of lending patterns (Zigas 2003; Stegman 2005).

In comparison to these situations, stakeholders suggested that Australia has been lacking an investment environment that offers:

- The right mix of government commitment, policy certainty and rules of engagement to give confidence to potential investors and providers;
- A sufficient scale of opportunity to generate commitment from the financial sector, to attract large players (such as banks and superannuation funds) and to create necessary competitive pressures;
- A secure and adequate level of subsidies (or tax offsets) that are sufficient to close the gap between the required rate of return for investors and the income stream that is generated by prices or rents that are kept affordable for lower income households;
- Delivery agencies with robust governance, and balance sheets and income streams that can accommodate the range of risks associated with property development, loan financing and long term property management; and
- A regulatory regime underpinning the delivery system that gives confidence to private investors, and underwrites their risk, thereby reducing the cost of finance. (Such a regime will also help to ensure there is a high level of public accountability for any public subsidies that are provided – see below.) (Berry 2002, 2003; Youren 2005a,b).

All stakeholders agreed that a systematic approach led by committed governments is now required to grow an investment industry for affordable housing in Australia. Leadership is needed to bring certainty and clarity to the investment environment through a public policy and regulatory framework that offers a predictable scale and rate of investment opportunities. The framework must be understood and adhered to by all levels of government, as appropriate to their defined roles and responsibilities.

Under the new policy framework, the rules of engagement should not be program-based, as in the past, but instead should be structured to encourage creative public, private and not for profit partnerships. Such partnerships can combine different financing and non-financing elements to meet specified requirements (the rules and standards) and exploit diverse local opportunities, using the capacity and different interests of spheres of government, private investors and developers and not for profit partners. Consistency (rather than uniformity) of rules across jurisdictions will also be important to achieve ease of entry into the market in different places, to drive market efficiencies, and to create the potential for larger volume (cross jurisdictional) operators.

Private investment opportunities will vary with the kinds of products offered and with the capacity of the client type to contribute to the costs of the housing services they receive. For example, products for very low income households with special needs will require the largest government subsidies, possibly leveraged with some private debt financing. Other affordable housing products, such as sub market rental housing and shared equity schemes, can support higher gearing and have the potential to attract significant equity investment from institutional and retail investors, provided that appropriate tax incentives or other (shallower) subsidy measures are in place to secure a sufficient rate of return for investors.

Investment models are also likely to vary across housing sub markets: those with higher capital growth potential may attract equity investors, whilst more modestly performing areas may be more likely to suit debt investors.

While highlighting the desirability of an array of financing products, forum participants also identified a need in the early stages of development of a new industry to have available several ready made products – such as a standard shared equity product or a housing association mortgage loan – that were road tested and easy to use for new players. The forum also considered the idea of developing a consortium of investors who are well informed about objectives of governments and the structure of the industry.

Government incentives and expenditure levels that are needed to support the scale and returns necessary to foster a sustainable affordable housing industry could be provided by a combination of existing incentives and new or purpose designed subsidies. Examples of existing incentives that could be directed or redirected to the affordable housing sector are tax exemptions at all levels of government, depreciation allowances and negative gearing provisions, Commonwealth and State/Territory funded rental subsidies, CSHA capital grants, State investment programs and public land assets<sup>4</sup>.

Given public sector financial and borrowing constraints, the forum considered that one option that could be mobilised to generate more leverage would be the transfer of larger tranches of public housing assets to not for profit providers. Such transfers will enable the unencumbered value in those assets to be released, and help to build the asset base of those providers and hence, their borrowing potential<sup>5</sup>. This move would also help to establish a more competitive multi-provider system and offset the structural imbalance in the present delivery system, which is characterised by a few large State/Territory (hereafter State) providers and hundreds of small to very small community based players (see below). Nevertheless, embarking on larger scale

---

<sup>4</sup> The value of major expenditures gives an indication of the magnitude of outlays for housing. Tax expenditures for owner occupied housing by Commonwealth and State Governments alone were estimated at \$25 billion in 2004 (Productivity Commission 2004, p.109). CSHA outlays and Centrelink payments for rent assistance totalled nearly \$3.5 billion (FACS, 2004).

<sup>5</sup> The non current assets of State housing agencies were valued at \$58 billion at the end of 2002/03. Equity in those assets (after allowing for outstanding loans and other liabilities) stood at \$52 billion (FACS, 2004).

transfers of public housing will be a sensitive issue that needs to be well managed with the close involvement of tenants and consumer groups.

Another approach to leveraging public housing assets would involve private sector participation in a mixed tenure redevelopment, such as is being considered currently for the Bonnyrigg housing estate in Western Sydney.

Another critical reform necessary to develop the industry in Australia is to replace income related rents, which have largely been eliminated from affordable housing systems elsewhere, with market or cost related rents that provide a more adequate and predictable income stream to providers (and comfort to lenders) (McNelis and Burke 2003). To ensure very low income tenants are not disadvantaged by this reform, consequential changes to the social security system will be required to compensate those households for higher rents.

## 4 EXTENDING THE INFLUENCE OF THE PLANNING SYSTEM

The urban development planning and regulatory system has a fundamental impact on affordability in the housing market by affecting the rate of supply of new housing and patterns of urban renewal. It also affects the costs of individual dwellings through its impacts on design and construction standards, the efficiency of the development process, and permissible locations, forms and densities of housing. As industry stakeholders emphasised, the broad impact of planning policies and systems on housing affordability must continue to be a key concern and all planning policies should aim to optimise the efficiency and effectiveness of the housing market to that end.

That said, however, stakeholders considered that the planning system could play a much stronger role in ensuring we achieve an appropriate mix of housing tenures, and household types and income groups in all new release areas and urban renewal districts. In particular, in many metropolitan areas that have significant development potential, there is an opportunity to realise some of the increase in value that will result from rezoning and densification for the provision of a component of affordable housing. Another task of the planning system is to ensure affordable housing is integrated seamlessly into private development. This strategy will help to combat spatial segregation and to normalise communities, thereby contributing to their social and economic vitality and sustainability.

There is clear evidence that the now widespread use of planning policy explicitly to support the provision of affordable housing in North America and Europe has secured additional affordable housing in a wide variety of locations, and has also assisted with the integration of market and affordable housing (Whitehead 2005a,b; Stegman 1999, 2005).<sup>6</sup> This effect has also been demonstrated successfully in Australia but on a more limited scale, in urban renewal areas such as Pymont Ultimo and Green Square (Sydney), East Perth, and Honeysuckle (Newcastle) (Milligan et al. 2004).

Stakeholders do not expect that the planning system and planning policies can singly address problems of affordability that are beyond the capacity of the private housing market. Instead, they recognise the significant strategic opportunities and variety of important tools in the planning system that can be used in conjunction with other financing and regulatory mechanisms to help overcome the shortage of affordable housing. Having planning strategies and incentives in place will help to leverage these other inputs as development occurs. For example, a requirement to provide a component of affordable housing in all new development areas will help to create the

---

<sup>6</sup> One impressive example is the Greater London area. Following the release of the draft London Plan (in 2002), which set a target of 50% of new housing being affordable for low and moderate income households, a rate of 42% has been achieved through a combination of planning, financing and delivery strategies (MOL 2002; verbal communication Greg Clarke, Global Practice Adviser, London Development Authority, July 12 2005).

demand for a private financing product with the potential to attract a new class of investors.

The view that emerged from the forum is that all State Governments should embed the objectives of promoting and protecting affordable housing in their land use planning frameworks: that is, in State planning policies and metropolitan and regional strategic plans. Legislative change will also be required in most jurisdictions to establish a clear and strong mandate that will enable regional and local planning agencies, especially local government, to use a range of locally appropriate policy levers (such as development contributions, development agreements and other incentives) to secure additional affordable housing, and to ensure that tools are available to mitigate the loss of existing stocks of affordable housing through urban redevelopment and renewal processes.

A policy to support provision of affordable housing that is mandated through State planning legislation will provide all planning authorities with the certainty necessary to obtain additional or replacement affordable housing. A mandated approach is also desirable because it offers certainty in the development process and ensures a consistent (and, therefore, more cost efficient) approach across areas. This is in contrast to voluntary agreements that operate presently in some jurisdictions.

Adopting a nationally consistent specification of planning policies and nomenclature related to affordable housing would also be beneficial. States could achieve this through a voluntary approach similar to the cooperative model used to realise uniform building codes in Australia.

While broad State planning policies are required to help address the chronic shortage and deteriorating spatial distribution of affordable housing, the diverse nature of housing needs and varying local housing market conditions show that affordable housing strategies and implementation plans need to be locally driven. To support a spatially differentiated approach, Local Governments have a key role to play developing local housing strategies, or collaborating in sub-regional strategies, and monitoring the impacts and results. To assist this process, State Governments should provide guidance and tools for promoting and securing affordable housing – such as housing needs data, planning templates, density bonus calculators and formulae for developer contributions, research on factors (such as restrictive covenants) that make housing less affordable, best practice models, etc. This guidance will assist local and regional areas to achieve better affordable housing outcomes, by taking into account best practice elsewhere as well as local considerations.

Those responsible for devising regional and local housing strategies will need to develop skills in areas such as housing market analysis, real estate, property development, financing tools and affordable housing products. Accordingly, it was suggested that professional development programs aimed at developing the skill base for an expanding affordable housing industry (see below) should give priority to

the application of resources and development of appropriate capacity in planning agencies and local government.

In addition to making affordable housing an objective in planning for residential development, the forum also considered that all spheres of government should examine their own capacity to provide affordable housing on publicly owned sites that are being developed or disposed of. State Governments should also use their land development agencies to help secure sites for affordable housing.

## 5 ENHANCING THE DELIVERY SYSTEM

The third key component of an integrated strategy to achieve an up scaling of affordable housing is a delivery system capable of growing supply and managing the risks associated with more complex financing of affordable housing (see Bisset and Milligan 2004).

The current delivery framework for affordable housing consists of four main groups. Stakeholders identified a set of structural, governance, ownership and regulatory issues that would need to be addressed to realise the potential contribution of each of these provider groups to the envisaged national industry.

The first and dominant group is the eight State governed public housing providers. These agencies hold large housing portfolios and small to modest land reserves, depending on the jurisdiction<sup>7</sup>. Around 30% of their dwellings are located in predominantly public housing estates. The major investment requirements for this part of the system are: funding to enable the break up of the larger estates; critically, the replacement of the housing lost in this process; and funding for upgrading and reconfiguring ageing assets that are poorly matched to current tenant and applicant profiles. As discussed above, releasing the value locked in the public housing asset base will require new ownership arrangements, given public borrowing constraints. If State housing agencies are to play a larger role in promoting and enabling the development of more diverse affordable housing models, including different ownership and investment arrangements, stakeholders consider that skills development and cultural change within these agencies will also be required.

The second group comprises a large number (around 1,200) of mostly small community based housing providers. These agencies have extensive experience in specialised tenancy management, managing around 44,000 dwellings (many for households with special needs) (NCHF 2004). However, most of these providers have limited or no experience in financing and producing dwellings, and therefore are not yet positioned to take on the risks associated with these functions. However, with investment in the development of their professional skills, organisational structure and capacity, and business infrastructure (eg IT systems), many of these organisations have the potential and interest to expand. Importantly, their strong base in local communities makes them ideal partners for local government and private developers. This is because they can mobilise local community involvement, implement locally devised projects, and commit to having a long term presence in a local neighbourhood. Depending on a number of factors, their potential could be realised through expanding their specialised tenancy management and community development roles in partnership with a development agency or, for the larger more professionalised agencies, by embarking on not for profit housing development, supported by transfers of public housing assets and/or government land to their

---

<sup>7</sup> At the end of 2002/03, State housing agencies owned and managed 348,012 public housing dwellings and an additional 12,729 dwellings for Indigenous households. The largest state provider (NSW) had nearly 130,000 dwellings; the smallest (Northern Territory) had 11,000. (FACS 2004)

balance sheets. They could also take on new roles in the industry; for example qualifying clients for new products such as shared home ownership. The tax status of community housing organisations, particularly exemptions that flow from their charitable status, can also provide significant financial benefits for the provision of affordable housing (see CHFA, 2004). However, stakeholders noted that these benefits need to be guaranteed and secured by the Australian Government and State Governments to reduce risk and to ensure that projects designed around such provisions stay viable.

A third group with many characteristics in common with community housing providers are numerous, mostly small Indigenous housing providers that manage about another 12,000 dwellings, many of which are in discrete or remote communities (FACS 2004). Indigenous households are over represented in the groups needing affordable housing in Australia and, logically, community based Indigenous providers should play a key role in a newly shaped delivery system. Stakeholders considered that developing the capacity of larger and well performing Indigenous providers, and promoting partnerships and alliances between them and government, private and other not for profit players, will help to ensure that Indigenous communities throughout Australia benefit equitably from new models.

Finally, there is a small group of not for profit affordable housing providers who are taking on innovative projects using a mix of financing strategies. Some of these agencies have been set up by governments for the purpose of developing affordable housing (eg City West Housing in Sydney and the Brisbane Housing Company), whilst others are existing community housing agencies that have taken the initiative to broaden their role (eg City Housing Perth and Canberra Community Housing). In Victoria a structured approach to developing a sector of affordable housing 'growth providers' is presently being implemented<sup>8</sup>. Up to six existing providers who meet rigorous business registration standards will receive capital funds to enable them to expand their housing development function and balance sheets. All these lead agencies have helped to demonstrate what is required to successfully initiate, finance and develop affordable housing projects in the not for profit sector. However, the lack of a well developed and endorsed policy framework in most jurisdictions has inhibited their capacity to plan for further growth and innovation (Milligan et al. 2004).

In future, with a different set of financial levers and other regulatory controls in place, there may also be potential for existing private rental investors to be drawn into the affordable housing system. There are already a number of small-scale head leasing programs in Australia (run by State housing agencies and not for profit providers) that are designed to improve the access of households in need to the existing supply of rental housing. With more flexible financial arrangements and an identified and accredited delivery system for affordable housing, more rental investors may be willing to provide housing for affordable housing purposes.

---

<sup>8</sup> Western Australia has foreshadowed a similar approach, although capital funds have not been identified yet.

In summary, to achieve the vision and directions outlined earlier in this paper, stakeholders considered that complementary changes to the delivery system for affordable housing should embrace plans to restructure the industry to include a larger number of medium sized not for profit 'growth' providers – that is, with the capital and asset base and skills to finance and develop additional affordable housing – and an accompanying plan to build skills and capacity across the industry.

In addition to the directions for providers outlined above, the new approach envisaged will require a variety of other arrangements to support the development of a robust affordable housing industry. Some specific suggestions that were well received by forum participants included:

- Establishment of an overarching affordable housing industry national council to guide and coordinate implementation of the national framework, and to provide strategic advice about its ongoing development;
- The development of a set of standards and benchmarks for the procurement (eg probity requirements, cost parameters), financing (eg desired liquidity ratios) and operations (eg affordability benchmarks, service costs) of affordable housing providers;
- An industry development fund to invest in building the infrastructure, capacity and skills of industry partners;
- A planned skills transfer into the not for profit sector from public, private and international agencies;
- Development of specialised professional qualifications in affordable housing provision suitable for government, private sector and not for profit players;
- Encouraging various existing industry peak, resourcing and professional bodies to take a lead role in promoting affordable housing policies and strategies among their constituents; and
- Independent evaluation of different models of provision to help guide development of policy and the broader system.

Finally, ongoing consideration will need to be given to the regulatory framework for the affordable housing industry. As noted in earlier research (Kennedy et al. 2001; Clough et al. 2003) and reiterated by international experts at the forum, such frameworks have played an essential part in establishing the track record of successful international systems that are based on a mix of public and private financing.

The purposes of a national regulatory framework for an affordable housing industry would include:

- to accredit providers and thereby guide the allocation of public subsidies and build confidence in the industry;
- to identify and help manage risks in the industry in a way that will give comfort to private investors and lenders and, thereby, reduce the costs of private finance;
- to give assurance to governments and the wider public about the performance of the industry nationally and, in cases of failing performance in an agency, to provide powers of intervention; and
- to contribute performance data to an industry information base from which risks and desirable improvements to the industry can be assessed.

Over the past few years, considerable progress has been made in several jurisdictions on the framework for accreditation and regulation of the existing community and Indigenous housing sectors. This element of the infrastructure necessary to support an expanded national approach seems to be well advanced. However, finance industry representatives at the forum expressed a view that it would be highly desirable for regulation to be designed consistently across jurisdictions, to aid understanding in the financial sector and to promote more cost effective product development. A set of principles devised by the proposed national council could be used to help achieve this.

## **6 SUMMARY OF INTEGRATED AFFORDABLE HOUSING POLICY FRAMEWORK**

The following tables present, in summary form, the vision and particular suggestions that emerged from the stakeholder forum for a national strategic and integrated policy framework capable of attracting a significantly larger volume of private investment and generating a competitive and viable affordable housing industry.

Table 1 describes high level objectives and a set of financing, planning and delivery strategies that have the potential when combined to bring about a significant up-scaling in the provision of housing for households unable to access appropriate housing that is affordable to them, in their local or sub regional area.

Table 2 shows how these broad strategies and objectives could be applied to meet the specific needs of different target groups across diverse local and regional housing markets. This table illustrates how a strongly coordinated and flexible approach, backed up by broad rules and guidelines, can generate locally responsive housing initiatives.

The policy forum emphasised that leadership from all spheres of governments working to a shared and coordinated agenda is crucial to achieving a sufficient response to the challenge of maintaining housing affordability across Australia. For the strategies outlined above, Table 3 shows an allocation of responsibilities to each sphere of government and points to where changes to existing policy settings will be required.

**Table 1: Overall approach to developing an affordable housing industry**

Target groups	Products	Objectives	Financial Strategies	Planning strategies	Delivery Strategies
<p>Low and moderate income households who cannot compete successfully in their local or regional housing market</p>	<p>Rental housing at a range of affordable rents and variable duration</p> <p>Shared equity/ownership</p> <p>Assisted home ownership</p>	<p>Broaden the range of affordable housing options to meet housing needs</p> <p>Promote innovative responses to the affordable housing challenge, involving partnerships between the private, not for profit and public sectors</p> <p>Promote sustainable communities that have a mix of housing types and tenures that reflect individual needs and aspirations, local labour market requirements and demographic profiles</p>	<p>Encourage private investment in affordable housing by offering targeted incentives to retail, institutional and ethical investors</p> <p>Use existing government land, public housing assets and housing outlays to create greater opportunities to leverage private investment</p> <p>Review all forms of existing subsidies and tax concessions for housing with a view to increasing their potential to be used more effectively for meeting affordable housing goals.</p> <p>Develop new national guidelines for rent setting in the affordable housing sector that promote viability for providers and affordability for low income households.</p>	<p>Continuously monitor the land use planning and development approval process for unnecessary barriers to housing market efficiency and remove them.</p> <p>Include objectives to promote and protect affordable housing in planning legislation</p> <p>Use planning strategies and tools to promote the integration of affordable housing into new development and urban renewal areas</p> <p>Promote forms of lower cost housing in development and building standards</p> <p>Offer development concessions and incentives for affordable housing</p> <p>Allow planning authorities to require developer contributions for affordable housing in areas with significant development potential.</p>	<p>Encourage and build the capacity of accredited not for profit affordable housing developers</p> <p>Establish a nationally consistent prudential and regulatory framework (rules, standards, guidelines) to ensure financial risks, and policy and service delivery requirements are fully addressed by affordable housing providers</p> <p>Allocate land and capital to accredited affordable housing providers with capacity to leverage other resources.</p>

**Table 2 Illustration of application to markets and target groups**

<b>Target</b>	<b>Products</b>	<b>Objectives</b>	<b>Financial Strategies</b>	<b>Planning strategies</b>	<b>Delivery strategies</b>
Low income multiple disadvantage	Stable housing at affordable rent, linked to support  Some shared equity potential (eg for people with disabilities)	The most disadvantaged households have more choice of providers Supported housing is well integrated into local communities Concentrations of disadvantage in existing public housing estates are eliminated Poor standard/ run down public housing estates with high rates of disadvantage are revitalised as mixed communities	Increase leverage off existing public housing assets Migrate from income related rents to a range of market linked rents to secure income streams of providers Accelerate capital investment in renewal of public housing through private and not for profit (NFP) partners Restructure public housing and CRA rent subsidy systems to ensure low income clients can afford the cost of their housing services whether provided by public, private or NFP providers Provide greater certainty of rental subsidies to support debt financing and achieve viability for providers	Ensure supported housing is a permissible use in local plans  Streamline approval processes for new projects and address barriers to approval  Ensure that a share of any planning gain allocated for affordable housing goes to this group	Consider transferring a larger proportion of existing public housing to accredited specialist and generalist NFP housing providers to provide an asset base for borrowing and greater choice for public housing clients Require all accredited affordable housing providers to allocate a share of their places to this group
Low income	A range of affordable housing products with lower than market rents and different tenure terms for different groups (eg youth, aged, working families, people transitioning to work etc)  Shared equity products  Assisted home purchase in some markets	Provide pathways to home ownership  Create potential for savings for staged home purchase  Provide additional rental housing at sub market rates in areas of high need  Provide a pathway to private tenancy for young people through giving them an independent living experience	Identify private and not for profit equity partners Use public land, airspace and capital to leverage private finance for affordable housing Include requirements for affordable housing in disposal of public land Use delivery mechanisms that can capture existing tax concessions for housing development Offer additional local and State fee/tax exemptions to complying development Consider specific tax incentives for investors in affordable housing projects (eg cashed out depreciation allowance)	Ensure planning regimes allow development of low cost housing forms eg boarding houses, studios, shop top units etc Use density bonuses and inclusionary zoning tools to obtain a component of affordable housing in urban renewal and new release areas Protect low cost stock or obtain compensation for loss resulting from development and reinvest in affordable housing schemes	Accredit not for profit affordable housing developers Provide funding for training and skills development in the NFP sector Accelerate development of larger scale NFPs with capacity to leverage Establish regional brokerage services for development of affordable housing strategies and projects
Intermediate	Mainly provision of incentives for shared equity or home purchase  Some affordable rental products	Improve jobs housing balance in key growth areas through investment in affordable housing Promote investment in affordable housing on transit routes Promote entry to home ownership	As above Include intermediate households in affordable housing to increase cross subsidy potential (and counter residualisation by creating 'normal market' dynamics) Share capital gain from subsidised home ownership between providers and clients and reinvest returns	As above	As above

**Table 3: Allocation of government responsibilities across financing, regulatory, urban planning and delivery functions**

<b>Commonwealth</b>	<b>State/Territory</b>	<b>Local</b>
Establish the national affordable housing policy framework, in collaboration with other levels of government. The framework must give certainty to investors and providers about the investment environment for affordable housing	Adopt explicit affordable housing strategies that support the national framework	Adopt local affordable housing strategies that support the national framework Collaborate with neighbouring Councils to strengthen capacity for regional responses to affordable housing need
Work with industry partners to establish a National Affordable Housing body to oversee development of the industry and advise on future policy directions	Participate in the National Affordable Housing body	Be represented on the National Affordable Housing body
Develop a national framework for consistent regulation of the affordable housing industry	Administer State based regulation of affordable housing providers	
Develop national rent setting guidelines that support viability of providers and affordability for clients, in consultation with other levels of government and industry partners	Develop standards and benchmarks for affordable housing development	
Review all forms of existing subsidies and tax concessions for housing with a view to increasing their potential to be used more effectively for meeting affordable housing goals	Review all forms of existing subsidies and tax concessions for housing with a view to increasing their potential to be used more effectively for meeting affordable housing goals	Consider fee and rate concessions for affordable housing providers
Consider additional subsidy support for Commonwealth target groups where needed to ensure their rents are affordable	Consider additional subsidy support for State target groups where needed to ensure their rents are affordable	
Guarantee the charitable status of affordable housing providers	Mandate the use of planning mechanisms to obtain well located, well integrated affordable housing Provide tools and guidance to agencies devising local and regional housing strategies (incl. affordable housing brokerage services) Include requirements for promoting and achieving target increases in affordable housing in the charter of State land agencies	Streamline approval processes for affordable housing projects
Develop and help fund a national affordable housing professional development plan, in consultation with stakeholders. Provide specific support that will enable Indigenous housing providers to benefit	Match Commonwealth funding for an affordable housing professional development plan and oversee implementation in conjunction with industry peaks Develop restructure plans for the affordable housing sector to establish an efficient and contestable industry and encourage larger scale providers	Support local affordable housing providers
Address barriers in Australian Government policy to larger scale transfers of public housing that are consistent with achieving cross government affordable housing objectives	Develop public housing asset transfer plans to meet industry restructure, housing choice and leverage goals	
Require a component of affordable housing in Australian Government owned sites on disposal/redevelopment	Require a component of affordable housing in State owned sites on disposal/redevelopment	Require a component of affordable housing in Council sites on disposal/redevelopment

## REFERENCES

AHNRC (Affordable Housing National Research Consortium) (2001) *Affordable Housing in Australia: Pressing need, effective solution*, [www.consortium.asn.au](http://www.consortium.asn.au)

Allen Consulting Group (2004) *Better Housing Futures: Stimulating private sector investment in affordable housing*, Brotherhood of St Laurence, Melbourne.

Berry, M. (2002) *New approaches to increasing the supply of affordable housing in Australia: an increasing role for the private sector*, Final Report, Australian Housing and Urban Research Institute (AHURI), Melbourne.

Berry, M. (2003) Why is it Important to Boost the Supply of Affordable Housing in Australia - and How Can We Do It? *Urban Policy and Research*. 21 (4): 413-435.

Berry, M, Whitehead, C, Williams, P and Yates, J (2004) *Financing Affordable Housing: a Critical Comparative Review of the United Kingdom and Australia*, Final Report, (AHURI), Melbourne.

Bisset, H. and Milligan, V. (2004) *Risk Management in Community Housing*, Report for the National Community Housing Forum, NCHF, Sydney.  
<<http://www.nchf.org.au/publications.html#general>>

Bridge, C., Flatau, P., Whelan, S. Wood, G. and Yates, J. (2003) *Housing Assistance and Non-Shelter Outcomes*, Final Report, AHURI, Melbourne.

CHFA (Community Housing Federation of Australia) (2004) *Community Housing: New Partnerships & the Tax System*. Project Report and Policy Considerations, CHFA, Canberra.

Clough, R., Barbato, C., Farrar, A. and Phibbs, P. (2003). *Stakeholder Requirements for Enabling Regulatory Arrangements for Community Housing in Australia*. Final Report: AHURI Melbourne.

FACS (Department of Family and Community Services) (2004) *Housing Assistance Act 1996 Annual Report 2002-2003*, Australian Government, Canberra.

Gabriel, M. and Yates, J. (2005) *Housing Affordability in Australia*, Background Paper 3, Collaborative Research Venture Housing for lower-income Australians, AHURI, Melbourne.

Hall, J. and Berry, M. (2004). *Operating Deficits and Public Housing: Policy Options for Reversing the Trend*. Final Report. AHURI, Melbourne.

Kennedy, R. and Company Pty Ltd. (2001). *A Regulatory Framework for Community Housing in Australia: Volumes 1 and 2*. Report for the National Community Housing Forum. NCHF, Sydney. <<http://www.nchf.org.au/publications.html#general>>

McDonald, P. (2003) *Medium and Long-Term Projections of Housing Needs in Australia*, Final Report, AHURI, Melbourne.

McNelis, S. and Burke, T. (2003) *Rental Systems in Australia and Overseas*, Positioning Paper. AHURI, Melbourne.

McNelis, S., Hayward, D. and Bissett, H. (2002) *A Private Rental Investment Vehicle for the Community Housing Sector*, Final Report, AHURI, Melbourne.

Milligan, V., Phibbs, P., Fagan, K. and Gurran, N. (2004) *A Practical Framework for Expanding Affordable Housing Services in Australia: Learning from Experience*, Final Report, AHURI, Melbourne.

MOL (Mayor of London). (2002). *The Draft London Plan: Draft Spatial Development Strategy for Greater London*.

<[www.london.gov.uk/mayor/strategies/sds/draft\\_london\\_plan\\_download.jsp](http://www.london.gov.uk/mayor/strategies/sds/draft_london_plan_download.jsp)>.

Monk, S. and Whitehead, C. (eds). (2000). *Restructuring Housing Systems: from Social to Affordable Housing?*. Joseph Rowntree Foundation, York.

NCHF (National Community Housing Forum) (2004) *Strategic Framework for Community Housing in Australia 2004-2008*, NCHF, Sydney.

Productivity Commission (2004) *First Home Ownership*, Report No. 28, Productivity Commission, Melbourne.

Stegman, M. (1999). *State and Local Affordable Housing Programs: A Rich Tapestry*. Urban Land Institute, Washington.

Stegman, M. (2005) *The Rise, Fall and Resurrection of Affordable Housing Policy in the United States in a Post 911 World*. Keynote address to the National Affordable Housing Conference, Making it Happen Innovation in Policy and Practice, June 21-22, Sydney.

Whitehead, C. (2005a) *Making a Difference: Achievements in Affordable Housing in the UK*. Keynote address to the National Affordable Housing Conference, Making it Happen Innovation in Policy and Practice, June 21-22, Sydney.

Whitehead, C. (2005b) *Planning Tools That Work: The use of Section 106 Agreements in the UK* Keynote address to the National Affordable Housing Conference, Making it Happen Innovation in Policy and Practice, June 21-22, Sydney.

Yates, J. (2000). Is Australia's Home-ownership Rate Really Stable? An Examination of Change between 1975 and 1994. *Urban Studies*. 37(2): 319-342.

Yates, J., Wulff, M. and Reynolds, M. (2004). *Changes in the Supply of and Need for Low Rent Dwellings in the Private Rental Market*. Final report. AHURI, Melbourne.

Yates J., Berry, M., Burke, T., Jacobs, K., Milligan, V. and Randolph, B. (2004). *Housing Affordability for Lower-Income Australians*. Plan for Collaborative Research Venture. AHURI, Melbourne.

Youren (2005a) *Private Sector requirements for involvement in affordable housing investments*. Keynote address to the National Affordable Housing Conference, Making it Happen Innovation in Policy and Practice, June 21-22, Sydney,

Youren (2005b) *Developing lending products to service the Australian affordable housing market*. Keynote address to the National Affordable Housing Conference, Making it Happen Innovation in Policy and Practice, June 21-22, Sydney,

Zigas B. (2004) *US Housing Policy and Fannie Mae*, Seminar for the Community Housing Federation of Australia, March 29, Canberra,

## **APPENDIX 1: LIST OF STAKEHOLDERS**

Experts and stakeholders who participated in the forum came from the following sectors:

- AHURI research network
- Commonwealth and State housing agencies
- Local government
- Planning agencies
- Community housing national peak bodies
- Indigenous housing sector
- Housing consumer organisations
- The finance industry
- The residential development industry
- The National Summit on affordable housing
- The trade union sector
- Housing and planning professional associations
- The New Zealand Housing Corporation
- United Kingdom and United States housing provider sectors
- United Kingdom and United States housing research centres

## **AHURI Research Centres**

Queensland Research Centre  
RMIT-NATSEM Research Centre  
Southern Research Centre  
Swinburne-Monash Research Centre  
Sydney Research Centre  
UNSW-UWS Research Centre  
Western Australia Research Centre

## **Affiliates**

Charles Darwin University  
National Community Housing Forum

