

AFFORDABLE HOUSING DEVELOPMENT MODELS

PREPARED FOR: CITY OF PORT PHILLIP



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GLOSSARY

Nation Building Economic Stimulus Plan

In February 2009, the Commonwealth announced the provision of additional funding for social housing under the Nation Building - Economic Stimulus Plan.

The Social Housing Initiative will provide funding of \$5.238 billion over three and a half years from 2008-09 to 2011-12 for the construction of new social housing (in two stages), and a further \$400 million over two years for repairs and maintenance to existing public housing dwellings.

This Initiative is being conducted in partnership with State and Territory governments. It will provide a boost to public housing and housing administered by the not-for-profit community sector and is designed to assist low income Australians who are homeless or struggling in the private rental market.

The National Affordable Housing Agreement (NAHA)

The National Affordable Housing Agreement (NAHA) aims to ensure that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation.

The NAHA is an agreement by the Council of Australian Governments that commenced on 1 January 2009, initiating a whole-of-government approach in tackling the problem of housing affordability.

The NAHA provides \$6.2 billion worth of housing assistance to low and middle income Australians in the first five years.

The NAHA is supported by the National Partnership Agreements on:

- social housing
- homelessness
- Indigenous Australians living in remote areas

The National Rental Affordability Scheme (NRAS)

The National Rental Affordability Scheme or NRAS was launched in 2008 for the purpose of providing assistance and funding to increase the supply of affordable rental dwellings, reduce rental costs to low to mid income earners and to encourage investment on a large scale to provide more affordable housing.

NRAS is expected to supply up to 50,000 affordable rental houses across Australia by 2012, with a further 50,000 to be made available post 2012 at a cost of \$623 million.

The government will provide an incentive of \$9,140 per annum (\$6,855 from Federal and \$2,285 from the State governments). This payment increases in line with CPI and in 2010 it is \$9,140. This incentive is guaranteed for every year for 10 years to enable equivalent property rents to be reduced in accordance with eligibility criteria.

GLOSSARY (Continued)

Affordable housing

The Australian Government define affordable housing as being housing for low to moderate-income households for which housing payments are such that the household is able to meet other basic and long-term living costs. Affordable housing includes public, community, social and high needs housing.

Social housing

Social housing is for people who are on low incomes and in greatest need including the homeless, those living in inappropriate housing or where rental costs are too high. Housing is provided and managed by either government or non-government organisations.

Public housing

Public housing comprises a form of social housing where the dwellings are financed, owned and managed by the State housing authority.

Community housing

Community housing is housing provided for low to moderate-income or special needs households. The two types of community housing available are:

- Housing that is managed by community organisations but is financed, developed and owned State housing authorities.
- Housing that is financed, developed and owned by the community organisation in its own right or under joint ventures with State housing authorities where the costs are shared.

Inclusionary zoning

A policy that when implemented requires developers to make either a percentage of housing in new residential developments available to low- and moderate-income households or provide a cash contribution for local government to use towards the provision of housing. In return, developers usually receive non-monetary compensation in the form of density bonuses or zoning variances. By linking the production of affordable housing to private market development, the theory behind IZ is to expand the supply of affordable housing while dispersing affordable units throughout a municipality to foster mixed-income communities.

NIMBY

'Not In My Backyard' – local community concerns about proposed physical changes in their local area.

Housing Association

Community housing organisations which own and manage community housing and are registered by State Housing Regulators

GLOSSARY (Continued)

Bonds

A bond is a formal contract to repay borrowed money with interest at fixed intervals. Thus a bond is like a loan: the issuer is the borrower (debtor), the holder is the lender (creditor), and the coupon is the interest. Bonds provide the borrower with external funds to finance long-term investments, or, in the case of government bonds, to finance current expenditure.

LVR (Loan to Value Ratio)

LVR describes the amount of a mortgage as compared to the registered value or purchase price.

Introduction

The purpose of this paper

This paper is concerned about mechanisms by which local government authorities might positively influence the supply of affordable housing in their municipality.

This paper was prepared for the City of Port Phillip as part of Council's program of research projects that support affordable housing.

An increase in the supply of affordable housing requires the investment of finance in new housing that is specifically set aside for lower income households at prices they can afford – which by definition are below market.

Affordable housing therefore requires some intervention in normal market operations to reduce the cost of supply and hence the price of consumption. This is generally achieved through some form of subsidy or market adjustment.

Throughout this paper we will continually refer to these "levers" which are generally the province of Commonwealth and State governments. Our focus however is on the interventions available to local government to facilitate projects which attract these subsidies to their municipality.

There are a number of reasons why a local government authority might employ such "levers" to attract greater investment in their municipality.

- The provision of affordable housing specifically designed for people with special needs makes it possible for residents of the municipality with special needs to remain living within their community where they are established after their family care givers are no longer able to provide such care.
- The provision of a range of "affordable housing" products such as shared equity housing provides pathways to home ownership for low to moderate income residents who aspire to move out of the rental market.
- The supply of affordable rental housing accessible to low wage earners will lead to an increase in the availability of low wage labor locally thus increasing the efficiency of the local economy and enhancing the well being of low income residents.
- A supply of social housing in the municipality makes it possible for households to manage the many life transitions which may lead to crisis and lead to destabilization of family life and unwanted moves (e.g. marriage breakdown). This in turn leads to greater stability in the running of key services such as schools, child care and medical services.

- The introduction of new affordable housing products such as affordable rental housing and shared equity housing can contribute to greater social mix in what are currently high density public housing estates. This will lead to a reduction in social polarization and enhance social sustainability in disadvantaged neighborhoods.

Methodology

In accordance with the brief, this paper provides a review of affordable housing models and their salient issues.

The paper draws on local and international examples and reviews current and past models.

Each model is viewed from the perspective of how a local government might use the mechanisms available to positively influence the supply of affordable housing in their area. In so doing we endeavor to take account of the pros and cons for local government and other stakeholders.

The models reviewed were chosen on the basis of their application in the sector and use of private finance initiatives. They fall under the following categories:

- Private Sector Finance
- Partnerships
- Shared Equity
- Rent to Buy.

As part of the research into the paper, community consultation was undertaken with a selection of private development participants. A list of these participants and their comments is available in appendix 1.

The need for an increase in the supply of affordable housing

Recent research undertaken by the Australian Housing & Urban Research Institute (AHURI) shows that of the 7.6 million households in Australia 2003/2004, just under 1.2 million (16% of all households), paid 30 per cent or more of gross household income to meet their housing costs. Of these, 862,000 were lower-income households in the bottom 40% of income earners. These households are defined as being in housing stress. A further 164,000 were moderate income households.

The National Housing Supply Council released a report in April, 2010 which identified that there were only 146,000 private sector dwellings with rents below \$115 per week. They concluded there was, in 2006, an estimated shortfall of 251,000 affordable rental housing dwellings. According to the National Housing

Supply Council the demand for affordable rental housing is expected to increase by approximately 21 per cent over the next 15 years. Based on the current mix of private and public dwellings they have estimated that there is a demand over that period for:

- 93,000 additional public dwellings, and
- 387,000 private rental dwellings

While the demand is spread across the country it is predominantly needed in metropolitan locations close to transport and employment opportunities.

The key stakeholders in the supply of affordable housing

There are many stakeholders in the supply of affordable housing – both private and public.

The Commonwealth government has a major impact on both the demand for and supply of affordable housing.

- Economic policies have a direct impact on housing affordability. The movement in interest rates driven by monetary policy can significantly increase the cost of finance and consequently the price of housing. This has been evident in the improved affordability of housing when interest rates declined during 2007 and 2008 and then the reverse as interest rates increased during 2009 and 2010.
- Taxation policies can contribute to changes in demand. For example the capacity of investors to negatively gear passive investment in rental housing has often been accused of contributing to house price inflation and the reduction in affordability for new home owners.
- Population policies have a major impact on housing demand. An increase in immigration over the last 3 years has seen the demand for housing increase rapidly – especially in our capital cities where most of the new immigrants arrive.
- Urban and regional development policies can have an impact on the expansion or decline of industries and hence the demand for housing in areas close to the employment centre's for those industries.
- Finally there are the specific housing policies of the Commonwealth government. Interest in these significantly declined through the Howard years however the Labor government has seen a significant increase in interest and flourish of activity.
 - A new National Affordable Housing Agreement (NAHA) between the Commonwealth and the states has been signed replacing the 60 year old

Commonwealth State Housing Agreement (CSHA). The NAHA is an agreement by the Council of Australian Governments that commenced on 1 January 2009, initiating a whole-of-government approach in tackling the problem of housing affordability. The NAHA provides \$6.2 billion worth of housing assistance to low and middle income Australians in the first five years. This agreement has locked in place capital funding levels for social housing and provides a mechanism for a coordinated approach to the development and management of housing policies across the whole housing sector.

- A new National Rental Affordability Scheme (NRAS) has been introduced and has been designed to increase the supply of affordable rental housing by 50,000 dwellings over the period 2008-2013 through the provision of an incentive payment initially set at \$8000 per dwelling per annum for ten years (indexed) to private investors who develop and provide rental housing to low and moderate income households at less than 80% of the market rent. In 2010 the NRAS subsidy was approximately \$9,140.
- In February 2009, the Commonwealth announced the provision of additional funding for social housing under the Nation Building - Economic Stimulus Plan. This initiative will provide funding of \$5.238 billion over three and a half years from 2008-09 to 2011-12 for the construction of an estimated 18,000 new social housing dwellings (in two stages), and a further \$400 million over two years for repairs and maintenance to existing public housing dwellings.
- The continuation of the \$2 billion per annum Commonwealth Rent Assistance Scheme which provides a rent subsidy to over 500,000 households renting in the private market.

The State government also plays a major role in the supply of affordable housing:

- Land supply for residential development is largely the responsibility of the State government which must plan for the growth of cities and regions and zone specific tracts of land as appropriate for development as residential communities. When land supply does not keep up with population growth the prices of houses can increase quickly
- Planning policies also contribute to housing cost. For example the density of residential development has a direct impact on land cost and house prices. The State through its strategic planning role can influence the shape of local planning controls
- Regional development strategies developed and implemented by State governments can increase the demand for housing in particular localities. The recent Victorian budget commitment to move government departments to

regional Victoria (Geelong, Ballarat and Bendigo) will create a significant new demand for housing in those cities and impact on affordability.

- Regulatory controls over the building industry also have a direct impact on construction costs and hence house prices.
- Housing policies are generally are generally considered to be the province of State governments in Australia. In reality they have tended to minimise their involvement since the demise of home ownership schemes in the 1980s. Today they are primarily focused on the management of the social housing system and the last few years has seen a number of significant new directions:
 - The introduction of regulatory frameworks for the not-for-profit sector and the increasing role of this sector in the development and delivery of social rental housing. This has been particularly marked in Victoria where today nine Registered Housing Associations provide over 10,000 social housing dwellings between them.
 - The provision of additional capital funds outside matching contributions under the NAHA. Over the last decade nearly \$600 million has been invested by the Victorian government in new social housing – mostly for community housing through the new Registered Housing Associations.
 - An increasing focus on improving the social and economic conditions of large scale public housing estates which have becomes areas of concentration of disadvantage. In Victoria the redevelopment of the Kensington public housing estate, the implementation of the Ashwood-Chadstone Gateway Project and the recent call for proposals to redevelop sites in the Norlane public housing area demonstrate a new commitment to proactive housing policies.

Local government also has an influential role in affordable housing provision:

- Successful local economic development strategies will impact on the demand for housing.
- Local planning policies and regulations have a direct impact on the price of housing. This has become a recent battleground in the affordable housing debate with some members of the community accusing local government of not preserving the amenity of their community as they approve affordable housing developments close to transport hubs whereas others think local government cave in too quickly to the NIMBY (Not In My BackYard) syndrome as they refuse permits for affordable housing projects.

- While planning policies might increase costs some Councils have adopted policies that assist and support the development of affordable housing projects. An example is the reduction of required car parking levels through the statutory planning process in recognition of the low car ownership rate amongst low income households.
- Council rates are a significant annual cost for affordable housing providers and the higher these are the less viable are affordable housing projects.
- Some Councils have played a strategic role in site identification and other forms of facilitation of affordable and social housing development projects.
- There are a small number of Councils which have played a direct role in the development of community housing and the City of Port Phillip is perhaps the best known in Australia. However, the majority of those that did get involved in delivery have since established arms length delivery vehicles such as housing companies or housing trusts or have established partnerships with not-for-profit community housing developers.
- With the increasing cost of housing and declining affordability in many metropolitan areas, Councils have become more engaged in advocacy in support of affordable housing. They see a role in engaging with State and Commonwealth governments as an important part of their facilitating role.

The private development industry is in the business of housing to generate profits from its activities. In the process they can have a significant impact on affordable housing supply:

- Release of privately held land can be accelerated or decelerated with the change in supply impacting on land price and directly affecting the price of new homes.
- Design and construction innovation may lead to cost reductions and lower priced homes thereby improving affordability.
- Competition between developers should result in fair prices. Where competition is diminished then there is the potential for developers to have greater control over supply and force prices up.

The finance sector is the other private sector stakeholder which plays an enormous role in housing affordability:

- Without product innovation by the banks there is a high likelihood that significant sections of the community will not be able to access finance to purchase homes or invest in homes for rental. In the wake of the Global Financial Crisis there has been a very significant conservatism sweeping the banks and many low income borrowers have been excluded from the market.

- Pricing risk is also a key factor which the banks control. Lack of understanding of the affordable housing sector can lead to higher pricing and subsequently much higher cost of finance directly impacting on the cost of delivering housing. A good example is the current lack of preparedness to invest in the Registered Housing Associations because of the banks lack of understanding of the affordable housing business.
- Market creation is also an area which can impact on affordability. Banks which can securitize loan portfolios for subsequent sale in secondary markets, create greater liquidity and reduce risk will be able to provide finance at a lower cost. This is an outcome that has not yet been achieved in Australia.

The emerging not-for-profit community housing sector is becoming an increasingly important player in affordable housing provision:

- The focus and role of the emerging not-for-profit community housing agencies are fundamentally on the provision of affordable housing. Some of these have positioned themselves as regional development organisations with partnerships with Local Government while others see themselves as Statewide or even National operators looking for the most favourable LGA's to invest and develop projects.
- The capacity of these organisations is growing. In Victoria the larger registered Housing Associations are estimated to have assets in excess of \$100 million, some as high as \$600 million, and liabilities at less than 20% of assets. However they are still building an affordable housing development capability and do not have the balance sheet and governance structure to manage the risks of larger more complex projects.
- Essentially the sector is still very reliant on brokering partnerships with a range of stakeholders where each partner can each bring something to the table to create an affordable housing project. In particular not-for-profit affordable housing sector rely on capital grants from the State government and limited debt finance from banks. They are therefore always seeking additional partnerships that make their projects more attractive in a competitive market.
- One of the significant advantages of this sector is the taxation benefits they enjoy courtesy of their status as Tax Exempt Charities. This includes income tax exemption, GST free supply, stamp duty exemption, land tax exemption and if they are also recognised as Public Benevolent Institutions then they can receive donations which are tax deductible to the donors and can take advantage of partial fringe benefits tax exemption.

The role of local government in affordable housing provision

Local government is not recognised as having a direct role in the provision of social and affordable housing in the Australian context. In Europe and the USA Local Housing Authorities are key providers of social housing. In the Australian context this role is assumed by State Housing Authorities, leaving local government a minor role in statutory planning and regulation in the building industry with only a few local governments playing a direct role in development and provision of social and affordable housing.

However, with the consolidation of LGA boundaries and the increasing capacity and sophistication of Councils there has been a growing tendency to look to local government to do more in the affordable housing area. This has become a more acceptable position amongst Councils as the link between the health of local economies and the availability of appropriately skilled labor and hence the proximity of affordable housing has been increasingly recognized.

More and more Councils are now exploring how to positively influence the supply of affordable housing without overstepping their traditional roles and assuming functions that the responsibility of other levels of government or the private sector.

This raises two questions:

1. What are the mechanisms that a local government authority can use to facilitate an increase in the supply of affordable housing within their municipality?
2. What are the principles which Councils should consider before applying these mechanisms?

The next two sections briefly address these two questions before we examine the specific way in which local government might participate in a range of emerging opportunities to encourage supply.

Mechanisms that can facilitate the supply of affordable housing

Direct financial investment in affordable housing projects is one mechanism available for local government. There are a few examples around the nation with the best known being the City of Port Phillip which over a period of nearly 21 years invested approximately \$13 million of its own funds.

However, direct investment in housing projects by local government is often viewed as cost shifting by Councillors and therefore inappropriate particularly as the supply of Commonwealth and State government funds for other Council services becomes more constrained and constituencies demand better service levels for core Council functions.

The City of Port Phillip over a period of nearly 21 years invested approximately \$13 million of its own funds to leverage \$39.1 million of government and private investment in a community housing program managed by an arms-length not-for-profit housing provider. This program produced 389 units in 17 projects over a 21 year period from 1985 until 2006 until Council restructured its community housing program to transfer the development and ownership roles to Port Phillip Housing Association Ltd. under a housing trust. Two of these developments involved the development of community housing over air space over a replacement car park and a community centre and provides a model for asset rich municipalities.

The **use of Council owned land** for affordable housing projects is another mechanism that has been applied by some Councils. A legacy of earlier decisions has often placed Councils in the position of holding land that is now surplus to requirements. This was a particular outcome of the consolidation of local government in the 1990s in Victoria. These tracts of land might be made available for development with a requirement for an affordable housing component as a condition of planning approval. The question for Council in such a decision is the “discount” to land value Council will have to absorb as a consequence of the affordable housing requirement. An area that is able to be further explored is the increased land value that can be added to a surplus Council owned site through application of statutory powers through rezoning land to a zone with a higher land value and capturing some of the uplift in value for the purposes of affordable housing. Considerable uplift in underutilised sites is gained through the application of new zones to land which transfers to a land owner for no risk or effort.

The City of Port Phillip has provided four Council owned sites under its former community housing program for community housing, community housing mixed with private housing and a partnership for mixed housing with a developer. Two of these developments involved the development of community housing in air space over a replacement public car park and provides a model for asset rich municipalities.

The City of Melbourne also transferred what is known as the Drill Hall in inner Melbourne to Melbourne Affordable Housing for nominal consideration on the understanding it would be developed to retain the heritage architecture of the façade and original hall as community use while the air rights would be developed for affordable housing.

Inclusionary zoning is a mechanism that is widely used overseas and has become an increasingly discussed mechanism in Australia. Put simply it implies that Council uses its statutory powers as planning authority to impose a requirement upon developers that a defined proportion of housing in a particular precinct, local government area or region must be affordable. This requires Council to define what qualifies as affordable housing. Depending on that definition inclusionary zoning may result in a reduction in the value of the land or, if the land is purchased prior

to the imposition of the inclusionary zoning a stalling of the project while the developer tries to secure the subsidies necessary to achieve the affordable housing product. However, recent research has led to the conclusion that for hypothetical development scenarios there was no material impact that could be discerned above the “background noise” of market economics.¹

The ‘Housing Plan for South Australia (2005)’ sets a 15% target set for affordable housing across all development in Adelaide. Local Councils then consider how each Development Plan for significant new development and growth areas contribute to the overall strategic state targets and how the application can contribute to the objective.

Development contributions are another mechanism to ensure a development contributes to the supply of affordable housing. However rather than requiring the developer to provide affordable housing as part of the development they make a financial contribution to a designated affordable housing fund which is used to provide affordable housing at another site.

The CUB site in the City of Sydney is a high profile redevelopment site of up to 1800 new dwellings. State Government was the responsible authority and negotiated a developer contribution (cash contribution) for affordable housing to be delivered off site.

Planning concessions can also be used to enable a developer to enhance the financial viability of a particular project which includes affordable housing. For example an increase in the yield on a site (reduced land component) or a reduction in the required number of car parking spaces in recognition of end use as affordable housing may reduce the cost of production.

In Brisbane the developer of the Ferry Apartments was provided with developer bonuses that included – car park concessions, density bonuses, reduction in balconies sizes and reduced setbacks. Planning bonuses were protected in covenants. Covenants were time limited, typically 20 years, in response to concerns from developers that open ended covenants reduced value.

Rate relief can also contribute to increased affordability since it represents one of the major costs borne by an affordable housing provider. Rate exemption on the grounds the provider is a charitable organisation or at least a rate reduction in lieu of the financial circumstances of the end user may be the difference between viability and non-viability.

Yarra City Council provides some rate relief on projects that can demonstrate a commitment to social housing and targeting residents in

¹ Biruu Australia Pty. Ltd., *Advice on Issues of the Inner Region Affordable Housing Overlay*, June 2008

need of housing assistance. In particular, the community housing needs to be owned by a not for profit organization with Deductible Gift Recipient (DGR) tax status, operate predominantly for charitable purposes and does not include land owned by the Department of Human Services and does not include land transferred by DHS over the past 10 years.

Community education can also contribute to an increase in the supply of affordable housing by raising community awareness of the need for an increase in supply and overcoming misconceptions about affordable housing. Such an educative role can lay the groundwork for more direct community engagement when there are incidents of NIMBY opposition to planning applications for projects which include affordable housing.

An example of the community education role is the research by Mandy Press commissioned by City of Port Phillip (2009) to further understand effective community education and engagement strategies for proposed affordable housing developments. The report documents several affordable housing developments and evaluates the processes associated with each development to identify best practice, and to recommend strategies in the future

Finally we mention Council involvement in **advocacy**. As noted several times the principal responsibility for the provision of affordable housing in the Australian political structure is with Commonwealth and State governments. A Council committed to an increase in the supply of affordable housing will therefore be committed to raising awareness of the need and arguing for responses to local need with these higher levels of government. At the end of the day substantive responses to the shortage of affordable housing can only be achieved through real intervention and investment by these governments. Council can leverage investment in the municipality from its own contribution only in the context of supportive state and national policies backed by appropriate program budgets. This report in itself is a small example of one Council seeking to raise the level of debate and provide a rationale for an increased investment overall in affordable housing.

An example of the advocacy work is the commissioning of GTA Traffic Consultants by City of Port Phillip (2008) to produce a report to identify the amount of car parking required for affordable housing developments. This advocacy work recognized the tenants of affordable housing projects have a lower car ownership rate, and that projects are generally well located with good access to public transport. City of Port Phillip also understood that the construction of unwarranted car parking spaces was a poor use of resources that could be better directed into actual construction of additional units on the site. This report has been widely adopted by the affordable housing development sector and importantly by other local Councils to substantiate the requirement for lower levels of car parking for affordable housing developments.

Principles that might guide the application of these mechanisms by a local government authority

Before a Council makes the decision to utilise one of these mechanisms in a particular project there is a need to assess whether the benefits of the intervention are worth the costs to the Council. The following criteria provide a framework for making that assessment.

Not the role of another level of government: The first criterion generally applied is that the particular intervention is not the role of another level of government. This is particularly relevant in the case of a financial contribution which in Australia is principally the role of Commonwealth and State governments. Local government therefore often restricts any financial contribution to only that necessary to lever the contributions of other levels of government.

Measurable benefit to the municipality: The second criterion is that there is a measurable benefit to this community, i.e. the constituents of the municipality are the beneficiaries of the affordable housing. This for instance might mean that older citizens or residents with significant links to the municipality or area are housed or the housing targets low income workers required for local industry.

Contribution leverages investment from other public and private sources: Affordable housing ultimately depends on the provision of subsidies to bridge the gap between market and below market rents. That contribution might be in the form of capital to the provider or rent assistance to the consumer. However the key issue for the local government authority is that any contribution maximises the availability of other sources of subsidies.

Value captured for future generations: A fourth criterion is that the contribution is one that has a lasting effect, i.e. it is not captured by either the initial developer or consumer but is retained for the benefit of future generations of low income households.

Municipality is not exposed to future commercial risk: A final important criterion for local government is that an intervention at the implementation stage of a project does not expose Council to a future liability. The contribution should facilitate a financially sustainable project not to just get a project across the line only to find that 5-10 years down the track the revenues generated from the project are insufficient to sustain increasing levels of maintenance.

Models that can increase the supply of affordable housing

Against this background the paper will review four types of “financing” structures designed to increase the supply of affordable housing that Council’s might find they wish to support. These are:

Private finance: a project which is financed by private sector debt and/or equity but is targeted for a period of time for affordable housing, e.g. projects under the National Rental Affordability Scheme.

Partnerships: contractual arrangements between a Council and a private or public developer, e.g. the development of a Council owned site by a private developer under a Development Agreement that specifies a certain affordable housing outcome. The joint venture may be at arms length via a Housing Association which has entered into an arrangement with the Council to acquire the site subject to agreed development outcomes.

Community Land Trusts: developments where occupants purchase long term ground lease from a not for profit landowner. The separation of the land value from the value of the lease reduces the price to potential occupiers and provides some of the benefits of home ownership.

Shared equity: developments where occupants purchase a share of the dwelling and rent the balance thus bridging the affordability gap to owner occupation.

Rent-to-buy: projects where occupants commence as tenants on a subsidized rent but eventually have the opportunity to purchase the dwelling.

The remainder of this paper provides a detailed examination of each of these models and suggests ways in which Councils might support their implementation.

Private Sector Finance

Context

The growing need for additional affordable housing and the involvement of the private sector to help bridge this gap is well evidenced.

The Australian Government has recently made a significant investment in affordable housing through the Nation Building Economic Stimulus Plan, the National Affordable Housing Agreement (NAHA) and the National Rental Affordability Scheme (NRAS). Over the next four years these three measures alone will support the building of more than 80,000 affordable rental homes.²

While these initiatives are significant it is unlikely they will solve the problem since the demand continues to grow and outstrip new supply. It is because of this gap, alternative funding structures are urgently needed to provide a long term solution.

Governments, restricted by regulations and operating in a risk adverse political culture, recognise the need for private sector involvement to do what they are unable to do, which is undertake and fund projects at the scale required to make a real change to the sector and achieve the social outcomes required in affordable housing.

Conversely, as is evidenced by the limited institutional take up of the Governments NRAS scheme, private developers are as yet unconvinced there is sufficient commercial return on equity from affordable housing projects and are wary of the perceived risks³:

- Working with not-for-profit management organizations
- Inherent risks that government subsidies may be withdrawn in the event of a change of Government
- Operating within government regulations and compliance frameworks which may not have the level of security available in the private sector

As a consequence private investment has been limited to small amounts of equity being made available to specific projects and attracting retail funds through programs similar to that employed by the Defence Housing Authority.

A recent AHURI report reviewing international measures to channel investment towards affordable rental housing looks at overseas examples, concluding that the use of private funding has helped to create and sustain a diversified housing

² Australian Government, April 2010, *Regulation and Growth of the Not-For-Profit Housing Sector, Discussion Paper*

³ This view is that of the authors of this paper, Affordable Housing Solutions, which has been seeking to raise private finance for investment in affordable housing at scale over the last three years.

delivery system and that access to robust finance arrangements provides a crucial pillar to support the provision of affordable housing in the long term.⁴

Across Australia, governments have been taking positive steps to build the foundations of an affordable rental housing industry (Milligan et al. 2009). However until recently financial incentives on offer have been small scale and one off. AHURI conclude that Australia requires a housing finance strategy that is capable of attracting large volumes of low cost funding over the long term to meet the need for additional affordable housing and to accelerate restructuring of the existing social housing asset base.

Over the last 3-4 years the affordable housing sector has enhanced its capacity considerably however the change has only managed to enable providers to move from projects measured in the millions of dollars to projects measured in the tens of millions.

The scale of the response required demands the sector move to projects measured in the hundreds of millions. As the sector is still evolving from a culture born of its welfare origins this step up in scale is considered unobtainable in the short to medium term.

As part of the review into Private Sector Finance we have reviewed overseas examples, the Australian experience including emerging options and three types of models: Partnerships, Shared Equity and Rent-to-buy. Each model requires a blend of private sector finance to operate.

Overseas examples

The need for an intermediary to navigate the path to bridge the gap in funding the affordable housing sector is well evidenced overseas. A summary table incorporating overseas examples of 'Typical projects' has been provided in appendix 2

As an example The Housing Finance Corporation in England (THFC) was established as a result of a joint initiative between the Housing Corporation (a UK government agency that funds housing & regulates HA's in England), The National Housing Federation (a non-government agency that represents 1,200 not-for-profit HA's) and the private sector in 1987 to bridge the gap in the sector and achieve economies of scale in housing. THFC has raised a total of £1.5 billion (AUS \$2,563billion) for housing to date.

⁴ Lawson, J., Gilmour, T., & Milligan, V.,(May 2010) *International measures to channel investment towards affordable rental housing*. AHURI.

In contrast, until the last couple of decades in Australia, affordable housing was largely funded through government borrowing and state and local government initiatives which has resulted in approximately 7000 additional dwellings.⁵

A recent AHURI report outlines that the need for private financing in the sector has emerged for a range of reasons citing that foremost among these has been a strong downward pressure placed on government borrowings by monetarist fiscal policy (promoting privatization and a diminished role of governments in direct housing provision), and a strong ideological preference for targeted and controlled demand-side subsidies rather than supply-side subsidies.⁶

Lawson, Gilmour and Milligan et al, 2010 note that from international comparative reviews (CECODHAS 2009; Scanlon & Whitehead 2008; Lawson & Milligan 2007) that private finance has become an increasingly important element of social and affordable housing provision in many countries. Following the move away from traditional public grant/loan funded models, the proportion of direct government involvement in housing finance has tended to decline.⁵

In the same independent AHURI research paper released on 25 May, 2010 an analysis of six established, private and public affordable housing finance structures was undertaken to assess international models for financing affordable housing, the use of incentives and subsidies to attract institutional finance at scale to the sector, draw similarities to existing Australian structures and review what lessons can be learned. Some of the relevant models reviewed were:

1. Dedicated and tax-privileged saving deposit system for Affordable Housing – France
2. Housing tax credits – US
3. Loan & Bond system with public guarantees – Switzerland
4. Syndicated bonds issuer - (The Housing Finance Corporation) in the UK

The balance of this section deals with these models.

France - Dedicated and tax-privileged saving deposit system for Affordable Housing

In France the largest providers of rental housing are public and private HLM (Habitations a loyer Modere). According to Lawson, Gilmour & Milligan et al, 2010 private HLMs are now the main producers of French social housing, for both rental

⁵ Lawson, J., Berry, M., Milligan, M., & Yates J., (2009) *Facilitating Investment in Affordable Housing – Towards an Australian Model*, Housing Finance International. September 2009 pp 18-25.

⁶ Lawson, J., Gilmour, T., & Milligan, V.,(May 2010) *International measures to channel investment towards affordable rental housing*. AHURI.

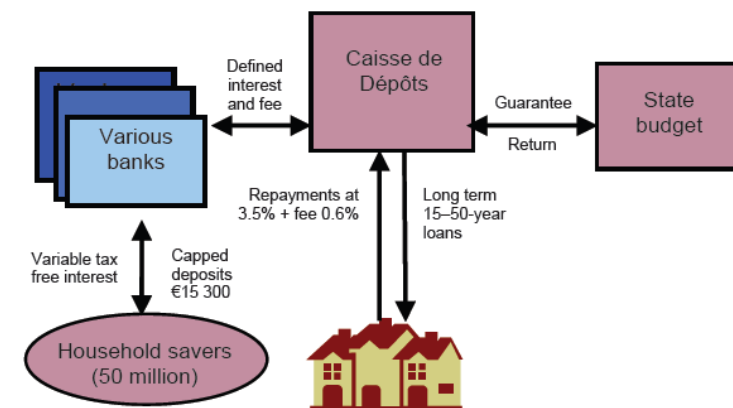
and ownership models in the social and affordable housing sector and there are as many as 317 private HLMs managing from 10,000 to 130,000 dwellings each.

French social housing is largely funded by off-market loans, supplemented by various employer grants, subsidies, guarantees and tax incentives, as well as a small contribution of landlords own equity.⁷

To provide lowest cost finance for social housing construction, the French government has sustained for over 200 years a method involving the conversion of short terms deposits into long term loans at a cost price for services in the public interest. Deposits made into the Livert A government backed savings scheme, while providing security and adequate return for investors, are the main sources of loan funds to build social housing.⁶

Livert A savings accounts are popular because they offer a stable interest rate, interest is tax-free and deposits are guaranteed by the state (through the Caisse des Dépôts (CDC)) of which there is around 50 million such accounts. The CDC has a credit rating of AAA, the same as the French State. The role of the CDC in housing finance has proven robust over time, with the potential to perform a countercyclical role when required.⁶

A diagram of the CDC financing mechanism in France has been provided in the Diagram below.



Source: Adapted from Schaeffer (2008)

US - Housing tax credits

In the United States, unlike Australia, public housing operates independent of both state and local authority control and is a nationally co-ordinated and funded program.

In 1993 the government launched a program called HOPE VI to increase available public housing through the use of a non-profit, private and public partnership. The

⁷ Lawson, J., Gilmour, T., & Milligan, V., (May 2010) *International measures to channel investment towards affordable rental housing*. AHURI.

partnership mixes private capital with federal government subsidies to achieve ownership and rental which is often transferred to non-profit organisations to manage.

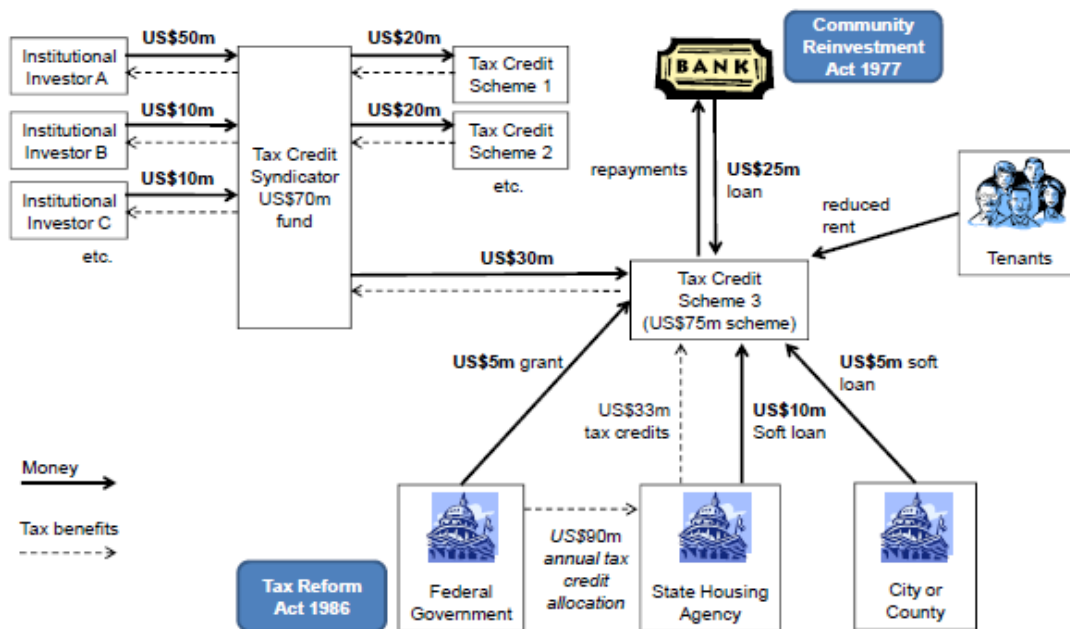
Unlike most European countries and Australia, the US rarely provides direct capital grants to support building new social and affordable housing other than through the Public Housing Authorities (PHAs). The federal grants that are provided, such as Community Development Block Grants (CDBG) and the HOME Partnership Program, are devolved to states and local authorities, and are carefully targeted.⁸

Lawson, Gilmour and Milligan et al, 2010 outline that public grants only supply a small portion of funding for new affordable housing, with reliance placed on market mechanisms such as tax incentives to encourage private investment. The following types of private finance instruments are used in the US:

- Tax credits: The Low Income Housing Tax Credit (LIHTC) scheme, providing tax and depreciation benefits for institutional investment in affordable housing, is described below.
- Bank debt: Traditional amortising loans by both local and national banks are usually part of the financing package in addition to LIHTC support. Banks choose to lend based on normal banking criteria and at commercial rates to both for-profit and not for profit affordable housing developers.
- Bonds: States, local authorities and state Housing Finance Agencies, can seek voter approval to raise finance through bond issues. These are subject to state caps of US\$90 for each resident of that state. Most, but not all, bonds are exempt from federal and state taxes for the investor, and are therefore priced below market rates. The two main types being:
 - *Multi-family Housing Revenue Bonds*. These are used to finance construction of projects where at least 40 per cent of units are for families with income below 50 per cent of the areas median income.
 - *Mortgage Revenue Bonds*. These are a type of municipal bond where the proceeds are used to subsidise the provision of low cost mortgages for affordable housing. Recipients must be low or moderate income first-time home buyers, earning below 115 per cent of area median income.⁹

⁸ Lawson, J., Gilmour, T., & Milligan, V.,(May 2010) *International measures to channel investment towards affordable rental housing*. AHURI.

⁹ Ibid



Source Gilmore & Milligan (2009) – a hypothetical example

Switzerland - Loan & Bond system with public guarantees

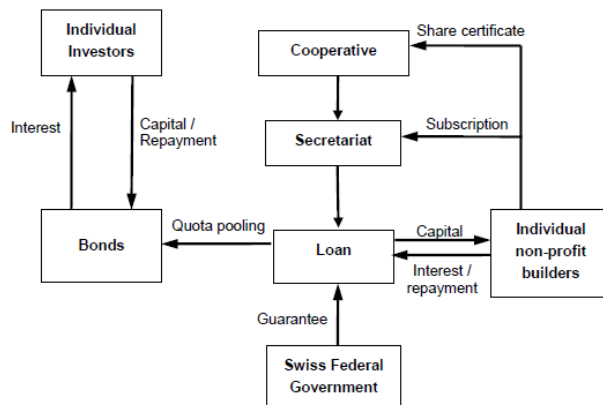
Renting is the dominant tenure in Switzerland (65%), and is largely provided by individual private landlords and institutional landlords. There is a small and diverse social housing sector that comprises around 1700 non-profit organisations, being primarily small cooperatives and social housing foundations. The government regards these social enterprises as important providers of social housing (affordable housing for families, elderly and socially and economically disadvantaged persons).

To promote and generate housing the Government has made provision for subsidies and low cost loans. The availability of these subsidies has decreased so the government has moved to debt finance to grow the sector.

To reduce finance costs, small low interest loans are competitively allocated from an accumulated revolving fund, financed by the federal government and managed by the sector. These loans contribute 5 per cent of total project costs. In addition the sector has established its own members fund based on a levy per dwelling, which can issue small loans. Most recently they have established another revolving fund specifically to assist new cooperatives (Solinvest).

To promote access to private loans, the non-profit sector and federal government established a bond-issuing cooperative in 1991. This secures lower-cost capital from the market by issuing 7–10 year bonds guaranteed by the federal government. There are several variations of the mixed financing regime, with varying proportions of cooperative equity, low interest loans provided by the sector's revolving funds together with funds from the bond-issuing cooperative and commercial loans.

Swiss bond-issuing co-operative: Diagram 2 ¹⁰



Source: FOH (2006)

UK - Syndicated bonds issuer (The Housing Finance Corporation)

During the past 30 years the proportion of social housing (Australia's affordable housing equivalent) has fallen from over 30 per cent to just below 20 per cent of total households, mainly as a result of granting the right to buy to sitting tenants in 1980.

In the UK, social housing traditionally relied on public grants, known as the Social Housing Grant (SHG) since 1974. Private finance was introduced in 1988 via the Housing Act creating a combination of private bank finance and public grants and in 2004 for-profit companies were enabled to take place in the SHG to promote the growth of social housing.

Bank debt and bonds are the two main sources of private finance in England with a variety of options available in each.

The Housing Finance Corporation (THFC) in England is the leading social housing example in the sector and was established in 1987 by the Housing Corporation and the National Housing Federation (England's Housing Association Body).

THFC is a non-profit organisation, operating without government control, subsidy or guarantee of indebtedness. Rather, THFC is assessed by credit ratings agencies such as Standard & Poors (S&P) and its bonds priced accordingly. It has maintained a zero default record through its 22-year history, relying on the strong underlying cash flows of housing associations. As at March 2009, THFC provided £1.90 billion (\$3.42 billion) of loans to 188 housing associations. ¹¹

¹⁰ FOH – Federal Office of Housing Switzerland, 2006

¹¹ Australian Government. (April 2010). *Regulation and Growth of the Not For Housing Sector, Discussion Paper*.

The Australian Experience

NRAS

The National Rental Affordability Scheme or NRAS was launched in 2008 for the purpose of providing assistance and funding to increase the supply of affordable, private rental dwellings, reduce rental costs to low to mid income earners and to encourage investment on a large scale to provide more affordable housing.

NRAS is expected to supply up to 50,000 affordable rental houses across Australia by 2012, with a further 50,000 to be made available post 2012 at a cost of \$623 million. In Victoria the State government has given a priority to projects that have a community housing provider as the tenancy and property management.

Under NRAS governments provide an incentive of \$8000 per annum (\$6000 from Federal and \$2000 from the State governments). This payment increases in line with CPI and in 2010 it is \$9,140. This incentive is provided each year for 10 years to enable rents to be reduced to below 80% market rent while investors are provided with an adequate return.

NRAS has opened doors to a new level of funding and provision for affordable housing in the private sector. However, there are doubts as to whether the subsidy is sufficient to attract the institutional investors that government hoped for.

AHS's analysis of the take up of NRAS so far is that two types of models have emerged:

- *Not-for-Profit (NFP) Ownership Model*
NFP organisations purchase stock and use NRAS to support the income stream and service debt with low loan to value ratio (LVR) of 40-50%. At the end of the 10 years, the properties are retained in prosperity and held by government. This model requires an equity contribution generally provided by State governments.
- *Private Sector Sale & Leaseback Model*
Private developers develop stock and sell to retail investors under a 10 year leaseback arrangement generally with a not for profit, such as a community housing provider, to provide tenancy and property management functions. In this case none of the properties are held in perpetuity as they are sold off to repay the debt owing.

Neither of these models has managed to attract the big equity investors such as superannuation funds.

New model emerging – Hold & Trade

The most recent initiative emerging from the affordable housing sector is the National Housing Company (NHC). NHC is a not-for-profit company limited by guarantee which has been registered as a charity.

The NHC is a new model which invests in housing using structured debt finance. The entity has recently raised \$350M in debt finance (with strategies in place to raise an additional \$200M) and has lodged a submission for over 1600 National Rental Incentives under NRAS. If successful the company will acquire 1600 properties in Queensland, NSW and Victoria.

The funding mechanism relies on the sale of properties during the 10 year NRAS period at a time when the market generates maximum capital gain in order to pay down debt and retain profits for future investment in more affordable housing.

While the model does require the sale of the majority of the housing initially acquired the structure of the company allows state and Commonwealth governments to increase stock retained by becoming an equity investor.¹²

Summary

The need for greater investment of private finance in affordable housing is well evidenced. Attracting that level of commitment is the question and the evidence on the most recent Australian attempt, NRAS, does not lead to the conclusion that scale investment has yet been achieved.

Lawson, Gilmour & Milligan et al, 2010 conclude that the international cases they have reviewed provide a good reflection on lessons Australia could use to develop a suitable Australian Model.

Overseas models demonstrate that a successful private finance mechanism for affordable housing will be underpinned by some combination of:

- government guarantee
- tax concessions
- public grants or loans
- a predictable rent revenue stream secured via rent regulation and / or rent subsidies

¹² Affordable Housing Solutions has taken the initiative to establish the NHC and will initially act as the management agency. However the company is under the direction of an independent Board of Directors and will review long term management arrangements and make future management decisions in the best interests of the company.

Within this broadly universal approach, distinct policy choices have been applied in each national setting.

The AHURI report concludes that Australia has reached the stage where a clear vision of desired housing outcomes needs to be agreed upon, legislated and implemented. This should encompass:

- An ongoing but flexible growth strategy
- An asset management strategy, initially focused on restructuring existing social housing assets
- A coherent rent regime and an eligibility policy
- Each of which is responsive to local housing needs and market conditions

As illustrated by the case studies, getting the mix and balance of these settings right will require a careful and constant process of monitoring, evaluation and adaptation to tailor each component so that collectively they continue under dynamic market and financing conditions to achieve the housing vision and goals.¹³

Specifically in the Australian context, key dimensions of a national strategy should incorporate:

- A permanent subsidy stream (or incentive) to reduce the cost of housing procurement by designated providers. Policy choices concern the use of deep or shallow subsidies (depending on the capacity of the target group to meet rental costs), whether operating or financing costs are subsidised (such as NRAS) and which providers are used (public, not-for-profit or private).
- A coherent rent regime (cost, market-related or nominated) governing the level and indexing of rents to secure revenue and promote affordability. This implies a movement away from income related rents paid to housing providers.
- Explicit eligibility criteria (broad or narrow) coupled with adequate demand-side assistance. This implies a broader target group than is currently captured by our public and community housing providers and a rent assistance program that supports the capacity of tenants to meet regular rental payments.
- A delivery regime that promotes cost effective housing services, tenant accountability and efficient and effective asset management strategies, to ensure that social tasks continue to be met and to foster revolving investment. This implies greater transparency within the roles of funder and provider that are often combined in the Australian state housing authorities.

¹³ Lawson, J., Gilmour, T., & Milligan, V., (May 2010) *International measures to channel investment towards affordable rental housing*. AHURI

Partnerships

Types of partnerships

Partnerships have played a crucial role in combining private and public sector resources and funds to provide social and affordable housing outcomes.

The notion of partnerships as applied to the development of affordable housing can be understood in two distinct definitions.

- **Social partnerships** – two or more parties agreeing to work together to achieve shared social objectives, and
- **Commercial partnerships** – an agreement where the financial risks and rewards are identified and allocated between two or more parties in the implementation of the project.

Under the broad notion of a commercial partnership there are many other arrangements that can be agreed between parties. Some of the more common arrangements regularly applied to the development of an affordable housing project are:

- **Joint ventures** – where all risks and rewards are defined and allocated in a project at the outset with the “profits” or “returns” to the partners being in proportion to the risks they carry.
- **Alliance** – where partners proceed to implement a project on the basis of a set of agreed commercial principles in an open book transaction.
- **PPP (Public Private Partnership)** – where all project risk is generally transferred from the public sector to a private sector partner in return for an agreed income stream over a period of time generally related to the life of the asset.

While there have been several models used over the years in the affordable housing sector, some of which are outlined below, the key elements to understand the various models are:

- Who is the land owner?
- What is the source of funding?
- Which organisations are exposed to any risks associated with the development?

Examples of partnerships

Emmaus Community Housing Project

This project is an example of a social partnership implemented through an alliance.

The partners included:

- *Emmaus Christian Community Ltd (Land Owner)*
- *Jubilee Housing Inc (Tenancy and Property Manager)*
- *Vicurban (Developer)*
- *Office of Housing (Funder)*
- *National Australia Bank (Financier)*

Emmaus Christian Community owned a large parcel of land fronting Bayswater Rd, Bayswater of approximately 3 Hectares. The site contained a Church and Community centre at the front with vacant land at the rear. The entire site was subdivided off into 21 lots with 2 separate lots retained by the Church. One of these containing the Church and Community Centre was kept by the Church and the second lot retained by the Church was developed into 19 medium density units for community housing under the auspices of Jubilee Housing. The remaining 19 lots were sold for private residential housing by VicUrban which had entered into a Development Agreement with the Church community to subdivide the land and sell the private lots.

Features of the project included:

- A community contribution of land from the Church
- A capital contribution from the Office of Housing
- Project development, project management and sales risk carried by VicUrban
- Independent community housing manager Jubilee Housing
- National Australia Bank (NAB) providing a loan against the income stream.

The project developed a mix of private and community housing with innovative design. The result provided a significant uplift in value that was shared by both the Church and VicUrban as the developer.

Victoria Harbour Affordable Housing Proposal

This project is an example of a commercial partnership implemented through a joint venture.

The partners included:

- *Lend Lease Developments (Developer)*
- *VicUrban (Landowner and Statutory Planning Authority)*
- *National Australia Bank (Lender)*
- *Office of Housing (Capital funding)*
- *Melbourne Affordable Housing (MAH, a Housing Association now part of Housing Choices Australia)*

This project evolved as part of Melbourne's Docklands development. Lend Lease recognized the importance of providing key worker housing in a high land value location to provide affordable housing for key workers and also social diversity in the Docklands Precinct.

The project finally resulted in a 55 unit demonstration project of affordable housing, in the form of community housing, targeted at key workers. The building was a mixed use building. Key features of the project involved:

- The Planning Authority approving a density bonus that contributed to reduced production costs of the affordable housing
- The developer agreeing to not impose a share of infrastructure costs on the affordable housing
- VicUrban waived the land value component of the projects costs to increased the project viability for MAH
- Capital contribution to the project construction costs from the Office of Housing and the Victorian Property Fund
- Debt finance provided by the NAB to MAH serviced from the net income stream generated by the affordable housing. MAH also attracted NRAS subsidies to increase the cash flow and accelerate bank finance debt reduction for MAH
- MAH (now HCA) manages the community housing.

Kensington Public Housing Estate Redevelopment

This project is a commercial partnership which, while having some features of a joint venture, is best understood as a property transaction with an ongoing commitment to work collaboratively to achieve common social objectives.

The partners included:

- *OOH (land owner and purchaser of public housing)*
- *Becton Corporation (developer)*
- *Kensington Management Corporation (now called Urban Communities Limited which was established as the manager of the public housing and provider of facilities management services to both public and private housing)*
- *Kensington Community Liaison Committee (community reference group)*

The 6 hectare site originally contained 586 units of public housing managed by Office of Housing. This was the first inner city public housing redevelopment site put out to public tender. The tender included a requirement to provide a mix of new public and private housing and the retention of two existing high rise public housing towers.

The tender was won by the Becton Corporation and the final stage will be constructed in 2011.

Outcomes of the project included 195 new units of public housing, intermixed with 450 private units.

Key features of the project include:

- A Development Agreement which enabled the developer to acquire the land in stages over time
- The Development Agreement also locked the OOH into purchasing new public housing within each stage thus ensuring the developer some advance sales
- The negotiation of a Management Agreement which led to the establishment of an on-site integrated approach to facilities management and a proactive approach to community development
- A proactive community engagement through Community Liaison Committee (CLC), and
- The eventual expansion of the role of the on-site manager to provide a tenancy management service for all public housing and a rental management service available to private investors – today UCL has approximately 35% of the private rental market within the development precinct.

St Mary's Affordable Housing Strategy

This project is also a commercial partnership which, while having some features of a joint venture, is best understood as a simple property transaction.

The partners include:

- *ComLand (the Commonwealth Governments land authority which was owner of the site for the Australian Defense Industries)*
- *Delfin Lend Lease (the Developer)*
- *Maryland Development Corporation (the special purpose company established by the Developer for the project)*
- *NSW Dept of Infrastructure, Planning and Natural Resources (DIPNR, which was responsible for the statutory planning approvals)*
- *NSW Dept of Housing (responsible for the implementation of the affordable housing requirement under the planning approval)*
- *BlueCHP Ltd (the Housing Association that won the right to acquire the affordable housing within the development)*

This project, in the western suburbs of Sydney, involved the development of a 1500 hectare site previously owned by the Australian Defense Industries. A condition of the sale was that 2% of all lots would be transferred at nil consideration to the NSW Dept of Housing for development as affordable housing, in the form of community housing. The project was put out to public tender and demonstrated inclusionary zoning on a large development site.

Key features of the project included:

- Inclusionary zoning requirement included as a condition of development approval
- Development contribution by way of 2% of lots for nil consideration (a total of 150 lots over the course of the development)
- Capital contribution from the NSW Dept of Housing to a Housing Association to construct affordable housing, in the form of community housing, on the transferred lots
- BlueCHP Ltd appointed following tender process based on an assessment of good design, good management and effective leverage
- Contribution of debt finance provided by BlueCHP to increase the quantum of affordable housing produced

Bonnyrigg Living Communities Project

This project is the only example of a Public Private Partnership involving social housing in Australia at this stage.

The partners include:

- *NSW Department of Housing*
- *Becton Corporation (Developer)*
- *Westpac (Financier)*
- *Spotless (Asset Manager)*
- *St George Community Housing (Tenancy Manager)*

This project involves the redevelopment of a large public housing estate in the west of Sydney (NSW) of over 60 ha. The site originally included 850 public housing dwellings and 100 private dwellings.

The State Government tendered the project to the private market under a PPP Framework with the successful proponent to achieve an agreed set of outcomes over time.

The successful proponent was a consortium known as Bonnyrigg Partnerships and included the developer, the financier, the asset manager and the tenancy manager.

The project transferred all the public housing from Government to the developer on a defined date for a period of 30 years. The consortium was committed under the PPP Agreement to:

- Master plan and redevelop the precinct within 12 years to achieve 600 new public housing dwellings and up to 1400 new private dwellings
- Manage the public housing for the 30 year period to agreed standards for both property and tenancy management
- Implement a community building strategy that would contribute to social cohesion and community development over the 30 years

The PPP Agreement included Key Performance Indicators which had to be met in order for full payment of the monthly “concession payments” during the 30 years – failure to do so would result in a financial penalty.

Inkerman Oasis

This project is an example of a commercial partnership based on a joint venture approach.

The partners included:

- *City of Port Phillip (land owner and project initiation)*
- *Inkerman Developments (Developer)*
- *Commonwealth Government (ESD grant)*
- *Port Phillip Housing Association Ltd. (manager of community housing, subsequent owner under a housing trust with Council)*
- *Office of Housing (purchaser of 3 additional social housing units)*

City of Port Phillip undertook initial project investigation and master planning from 1996-2000 (costing \$624,000) on high value, 1.22 ha surplus Council land (valued at \$7.5 million after master planning). Council put in place a development agreement with preferred developer Inkerman Developments Pty Ltd for a \$90 million development.

In 2000 Council contributed land and transferred the development risk in return for the delivery of 28 units of community housing that were to be mixed in a cluster and salt and pepper manner with (now) 231 private housing apartments and 5 retail tenancies in 6 five level buildings.

This was the first example of developer provided community housing in Australia. Through this process Council was also able to secure an option for the additional purchase of community housing units on the site resulting in the purchase of a further 3 units that were subsequently transferred to PPHA for ownership and management. Further to this Council was also able to secure additional investment in ecological sustainable design including grey and storm water recycling and ensured that there was a high quality design outcome.

Advantages & disadvantages of partnerships

The advantages of Partnerships which may make affordable housing attractive to project stakeholders are:

- Partnerships Model is well understood by state and local government, affordable housing organisations, lenders and some developers
- Taxation benefits from charity status of affordable housing organizations provide real financial benefit for projects

- Partnerships Model can access land held by local councils, churches and other not-for-profit organisations that have an interest or commitment to the provision of affordable housing outcomes
- Long term availability of funds by the Commonwealth through NRAS for a period of 10 years
- Partnerships Model can assist projects get off the ground by reducing funding risk for developers through early purchase of affordable housing units
- Local government can have a strong role in facilitating joint venture partnerships through bringing together two potential partners
- May provide additional income raising opportunities for affordable housing organisations such as managing private tenancies, or facilities management

The disadvantages of affordable housing as an outcome of a Partnership are:

- Relies on ongoing government land or capital funding
- Difficulties for partners to manage negative perception by community of affordable housing especially which may increase development costs through a lengthy planning process
- Developers wary of stigma which may impact on potential private sales in a mixed development
- Securing private funding may be more difficult especially while the banking sector does not fully understand the affordable housing business
- Management of stock is constrained by funding bodies primarily State Housing authorities which limits innovation in housing management

Summary

Partnerships have been widely used in Australia to produce affordable housing through private developments. Key ingredients to the success of these projects are:

- A requirement as a condition of the development that affordable housing is an outcome
- Access to a capital contribution to the project – land, grants, development contributions
- Utilizing the taxation advantages of not-for-profit Housing Associations which are registered charities

- A government agency with a commitment to social outcomes while working within the legislative constraints of government enterprises

In practice Local Government is rarely involved in commercial partnerships due to restrictions under section 193 on entrepreneurial activities by the Local Government Act 1989 (Victoria).

Despite this there is scope under the local Government Act to enable partnerships to function at a practical level. An LGA for example can be a significant partner in a property development using a range of levers to ensure affordable housing outcomes, including:

- Selling land with a requirement for an affordable housing outcome – an outcome supported by the Council’s planning policies
- Working with developers to negotiate an affordable housing outcome as a condition of planning approval
- Offering planning concessions to developers willing to include an agreed volume and range of affordable housing outcomes
- Facilitating and/or brokering partnerships between developers and community housing organisations
- Supporting applications for Commonwealth and State subsidies to affordable housing projects within the municipality

Shared Equity

Background

The past decade has witnessed a growing level of concern over the affordability of Australian housing and the subsequent decline in the capacity of young households to become home owners. Shared equity schemes are one option for addressing these concerns. Shared equity schemes have the potential to facilitate home ownership for those households who may have difficulty purchasing a home through the open market.¹⁴

Shared equity schemes vary in detail but broadly allow the consumer to obtain part equity in a home by sharing the overall cost with an equity partner — either a financial institution or a government backed provider. The involvement of an equity partner helps to reduce the overall costs involved in a mortgage, and thus improves housing affordability.¹⁵

Shared equity schemes currently operating in Western Australia, South Australia and Northern Territory demonstrate the appeal of shared equity approaches. Other states have explored the potential of such schemes but as yet have not introduced anything more than pilot programs. One of the major reasons for the reluctance of these states to move forward is the memory of the failed government sponsored home ownership programs introduced in the 1970s and collapsed in the financial crises of the 1980s. The following diagram summarises the current state based programs.¹⁶

State	Provider	Shared equity products
Western Australia	Keystart Home Loans	First Start (withdrawn 2009) Step Up Scheme (from 2010, consolidating previous Goodstart, Access and Aboriginal Home Ownership schemes)
South Australia	HomeStart Finance	Breakthrough Equity Start
Northern Territory	Territory Housing	HOMESTART NT
Victoria	VicUrban/ Burbank Homes	Ownhome
Queensland	Queensland Department of Housing	Pathways
Tasmania	Housing Tasmania	HomeShare
ACT	The ACT Affordable Housing Action Plan 2007 signalled a role for shared equity	
NSW	No current schemes	

Source: Pinnegar, Milligan, Randolph, Quintal, Easthope, Williams & Yates. How shared equity schemes facilitate home ownership in Australia?, AHURI, April 2010

¹⁴ Pinnegar, M. R., Easthope, H., Randolph, B., Williams P., & Yates, J., (April 2010). *How shared equity schemes facilitate homeownership in Australia?* AHURI.

¹⁵ Ibid

¹⁶ Ibid

Understanding shared equity

Shared equity is best explained through an theoretical example. Recent research undertaken by the Victorian Office of Housing the following assumptions have underpinned their financial modelling:

- 25% equity offered by equity provider
- 10% deposit funded by purchaser
- 65% mortgage provided by commercial bank at variable interest rate of 7.41% over 30 year loan
- 30% affordability target

These assumptions provide the outcomes summarised in the following table.

<i>Purchase price of home</i>	<i>Income required by household to purchase without shared equity</i>	<i>Income required by household to purchase with shared equity</i>
\$250,000	\$67,600pa	\$49,920pa
\$300,000	\$79,040pa	\$57,720pa
\$350,000	\$91,000pa	\$66,560pa
\$400,000	\$102,960pa	\$75,400pa

Public sector initiatives

State Governments have played an innovative role in developing shared equity schemes to date. Government initiated schemes have been well placed because they benefit from lower cost funds and Treasury guarantees. The lower cost of finance enables them to innovate by directing products to those households that might be perceived as a greater risk by mainstream lenders.¹⁷

Central to the model is striking a balance between targeting support to those most in need, and sufficient freedoms to act as a commercial concern. Schemes need to ensure purchasers have the financial capacity to service the debt and need to be flexible enough to respond to changing market conditions.

¹⁷ Pinnegar, M. R., Easthope, H., Randolph, B., Williams P., & Yates, J., (April 2010). *How shared equity schemes facilitate homeownership in Australia?* AHURI.

For example, if eligibility criteria are too loosely targeted, schemes may become oversubscribed. Alternatively, if eligibility criteria are too tightly defined the product may only permit a low maximum property value resulting in the product being of little use in the market as there may be no properties available at that price point.

¹⁸

In Australia, government-backed schemes that operate at an arms-length from government, such as HomeStart Finance in South Australia, have been successful in achieving affordability objectives and maintaining financial viability. Key features attributed to this success include:

- Statutory independence
- Viable operating scale
- Staff and board members who are drawn from business and finance sectors rather than government departments
- Close and trusting partnership with government housing departments and Treasuries.¹⁹

Private Sector Initiatives

Private lenders have expressed some interest in shared equity; however interest is tempered with caution and concerns about the costs of bringing a new product to market and potential risks to reputation. Lenders also reported unfamiliarity and a lack of track records with these products. To date there have been no successful private shared equity schemes as the private sector is not interested in what they deem too complicated.

Other concerns have also related to:

- Uncertainty and unfamiliarity heighten risk. Lenders were uncertain if this market was going to be temporary while prices were high or a permanent market with temporary residents who move through to the mainstream market.
- Lenders noted potential problems arising from any divergence between house price and income growth on a borrower's capacity to buy out the loan. This might constrain normal market mobility.
- There was some concern that government involvement might unnecessarily complicate product development, but many lenders considered government participation appropriate as a means of cushioning added risks.

¹⁸ Pinnegar, M. R., Easthope, H., Randolph, B., Williams P., & Yates, J., (April 2010). *How shared equity schemes facilitate homeownership in Australia?* AHURI.

¹⁹ Ibid

Not-for-profit initiatives

With the reluctance of both the public and private sector to develop products that enable low income earners to enter the home ownership market there has been growing interest in Australia at what might be achieved by the not-for-profit sector. Community Land Trusts are one mechanism developed primarily in the USA that are receiving increasing attention in Australia.

The Community Land Trust model (CLT) is where a not-for-profit CLT is established to acquire land to be held in perpetuity. Dwellings are then built on the land. A long term ground lease is created which allow for dwellings to be leased by low to moderate income households. The ground lease sets out legal obligations of the two parties i.e. occupier and CLT. The ground lease also provides the owner of the building exclusive use of the land on which the building and improvements sit. The long term ground lease will have a value which means the ground lease with improvements can be bought and sold. In effect the CLT model is a form of *lease hold* common in the business sector but adapted for residential purposes.

Under a CLT the provisions of the ground lease need to be such that any transactions of the ground lease require the approval from the CLT as landowner. Approval of the disposal and purchase of the ground lease by the CLT, as well as caveats contained within the "ground lease" will ensure that the sale price is kept to a predetermined affordable level that also allows for some share of the capital gain of the dwelling and improvements. By controlling this aspect also ensures that the potential purchaser meets eligibility requirements. With these restrictions in place affordability remains in perpetuity and the control of the land remains under the management of the CLT.

The ground lease also provides for the CLT to have some step in powers if the owner of the building does not use the building responsibly and the CLT can force some owners to make good repairs as required. The ground lease should also provide for first right of purchase to the CLT if an owner decides to sell and should therefore proactively manage the risk of inheriting a building requiring substantial renovations.

Community Land Trusts are most common in United States but also operate in England, Canada, Scotland, Wales and Kenya.

Key features of a typical US CLT are:

- Non profit, tax exempt land owning corporation;
- Dual ownership;
- Leased land;
- Perpetual affordability;

- Perpetual ownership;
- Open membership;
- Community control;
- Tripartite governance;
- Flexible development.

The primary focus of a CLT is to acquire, own and retain the land for the purposes of creating long term ground leases for affordable housing options. While a long term ground lease has appreciating value however the land component remains unchanged which has the effect of making the dwelling and improvements more affordable.

Currently there are no active community land trusts providing affordable housing operating in Australia. There are some models of hybrid ownership of land and dwellings for mutual benefit such as some collectively owned land by indigenous groups, share farmers and several models of perpetual community owned land for ecological / wildlife preservation.²⁰

In the ACT, the Government Land Rent Scheme appears to have similar benefits to a CLT however the majority of land in ACT has remained in government ownership with the allocation of, typically, 99 year leases. This has been a special characterisation of land tenure in the ACT since Federation.

In 2008 the ACT government established a system where low income households could rent the land at about 2% of unimproved value rather than pay for the upfront purchase of the 99 year lease. A significant difference to a CLT is that the ACT scheme is land provided by and owned by the ACT government rather than a not for profit organisation. The scheme only applies on land owned by the government's Land Development Agency.²¹

There is growing interest to document a typical CLT structure and a typical CLT ground lease. Development of a CLT 'establishment kit' or handbook would assist interested organisations to readily adapt the information and documentation to suit their circumstances. Consistency in the structure of CLTs would assist to approach financiers and regulators such as the Australia Taxation Office and State Revenue Office. This work would be especially beneficial during the development of the CLT industry.

²⁰ Kliger, B., (June 2005) *Mount Alexander Community Housing and Land Trust (CHALT) Feasibility Study Report*.

²¹ ACT Government, (n.d.). *ACT Land Rent Scheme*. Retrieved from www.actaffordablehousing.com.au//land_rent.htm

The benefits of Community Land Trusts include:

- Occupiers get long term security.
- Opportunity for households to build assets through affordable mortgage repayments and potentially a share of the capital gain.
- Opportunities for affordable homeownership to households typically unable to access homeownership.
- Capture subsidies for affordable housing in perpetuity.

The disadvantages of CLT's are:

- Complex leasing arrangements to be communicated and understood to potential purchasers of ground leases.
- No federal taxation law or rulings available for this type of housing development.
- Difficulties accessing finance to purchase ground lease.
- Acquiring land for development.

The concept of Community Land Trusts is increasingly viewed as a potential mechanism to remove high costs of land from potential homeownership for low income households and to provide some of the benefits associated with homeownership for low to moderate income households.

There is considerable work required to document a CLT establishment kit to guide the development of CLTs however there are also very real and considerable benefits for low to middle income households.

Local Government interested in the potential of CLT would need to first facilitate the development of CLT by assisting in the early development of a 'CLT establishment kit' which would ensure that the CLT structure met the needs of local government as well as ensure adequate consultation with key stakeholder groups such as financiers and also taxation and revenue departments. Further to this a local government keen to establish a CLT in the municipality could then make land available at no cost or at a discount for the purposes of a CLT.

Summary

Shared equity schemes are theoretically an excellent way to enable people to transition into home ownership. Unfortunately the evidence seems to suggest that, at least in Australia, they are reliant on the backing of State governments. As noted above, schemes in South Australia and Western Australia have been popular and successful.

Unfortunately the previous legacy of other state government backed home ownership schemes has resulted in the larger eastern states remaining cautious and very reluctant to move into this area despite considerable research and development.

Community Land Trusts are an innovative model which has the capacity to provide very significant outcomes for low to middle income households. These structures managed on a not-for-profit basis need resourcing to consult and develop a CLT kit which will have applicability across a number of jurisdictions. Local government could play a driving role in the development of this kit before working with a potential CLT to identifying a site to demonstrate the capacity of a CLT to operate in the Australian context.

It would appear that one of the most productive ways forward is leadership at a national level to lead policy and legal framework for shared equity schemes. Local Government has an opportunity to facilitate and provide national leadership through continued advocacy. Once established then local government could become an active participant in encouraging such schemes through its planning powers.

Establishing housing affordability targets for new developments at the point of change of use and/or development approval would make it possible for the uplift in land value that is generated by such approvals to be captured as an equity share in property. If Councils were prepared to consider this approach then they might, in conjunction with a nationally accredited shared equity home purchase scheme, facilitate many young families into home ownership.

Rent to Buy

Background

House prices have increased faster than household incomes for the past 40 years²² and according to the 2006 ABS Census, between 69 and 71 per cent of Australian households are owner occupiers.

The number of households who own their home outright has fallen since 1995 from 42 per cent to 34 per cent, whilst the number of households who owned their home with a mortgage has increased from 30 per cent to 35 per cent²³.

The Australian dream of home ownership is becoming less of a reality for many Australian's as a consequence of the paradigm shift in the relation between median house prices and household incomes. As a result the ability for first time owners to meet financial institution loan to value ratio requirements by establishing a deposit base is becoming more difficult.

Public sector initiatives for assisting renters into home ownership

Commonwealth First Home Owners Grant

There have been various mechanisms for assisting renters into home ownership over the years.

In 2000 the Commonwealth Government reintroduced their First Home Owner Grant (FHOG) to assist first home buyers to purchase a dwelling in the form of a grant.

In 2000–2004 the grant started at \$7,000 for an existing dwelling and \$14,000 for a new home. In 2004 this was lowered in line with the improving economy to \$7,000 for both scenarios.

Following the global financial crisis in 2008 the government then increased the grants to \$14,000 for an existing dwelling and \$21,000 for a new home. The FHOG was then phased out in December 2009.

State Government home ownership schemes

According to Hulse & Burke²⁴ the early 1990s saw a fundamental change in Australian housing policy with the elimination of explicit measures to promote home

²² Yates, J., (2008). *Melbourne Institute Presentation*. University of Sydney

²³ ABS 2007 4

²⁴ . Hulse, K., & Burke, T., (August 2009) *The benefits and risks of Home ownership: disaggregating the effects of household income*. Melbourne AHURI.

ownership which had characterised most of the post-war period²⁵. Such policies had included, at various times, discounted/controlled interest rates for home mortgages, cash grants to first home buyers, sales of public housing to sitting tenants and, in some jurisdictions, development of 'affordable' lots by state land development organisations.

By the 1990s however governments no longer saw it as their role to assist the 'marginal would-be home owner' in purchasing a home, although they continued to provide tax advantages for those who were already owners, most notably through full exemption from payment of capital gains tax on the sale of owner occupied housing.²⁶

Withdrawal of governments from housing policies to assist lower income households to buy their own homes was also a reaction to problems associated with state government sponsored schemes in the late 1980s and early 1990s in New South Wales and Victoria. These schemes were intended to assist households on public housing waiting lists to buy their own home. Although these schemes differed, they generally involved mortgage instruments that were unfamiliar to Australian households: 'low start' loans in which repayments were set low initially but increased over time as wages increased, in an attempt to redistribute repayments over the lifecycle in line with changing circumstances.²⁷

The schemes, while well intended, started to unravel when the market became volatile because of changes to the economic landscape. Interest rates rose significantly in the early 1980's and 1990's as did unemployment however median house values fell. As a result many home owners had difficulty in covering the required home repayments and were unable to sell their houses to cover losses as they were worth less than the value of their loan.

According to Hulse & Burke the NSW HomeFund scheme, restructured in 1993 still has cases before the courts relating to the Capital Indexed Loan (CAPIL) scheme.

Not all such schemes failed, and the Keystart scheme in Western Australia, which started in 1989, has assisted 57,000 households to purchase homes²⁸ (Manton 2000). This is targets households on 'low to moderate income and those with minimal deposits'²⁹. This scheme was converted to a variable interest rate early,

²⁵ Yates, J., (1997) *Changing directions in Australian housing policies: The end of muddling through?* Housing Studies, Vol. 12, No. 2. (1997), pp. 265-277.

²⁶ Berry, M., Dalton, T., Engels, B., & Whiting K., (1999) *Falling out of home ownership: mortgage arrears and defaults in Australia*. AHURI.

²⁷ Hulse, K., & Burke, T., (August 2009) *The benefits and risks of Home ownership: disaggregating the effects of household income*. Melbourne AHURI.

²⁸ Source: <http://www.housing.wa.gov.au/key/about-keystart.htm>

²⁹ Keystart Housing Scheme Trust 2005

thus avoiding the problem of households' lack of understanding of the implications of alternative mortgage instruments³⁰.

In Victoria, in 1984 the Victorian Government introduced the Home Opportunity Loans Scheme (HOLS) in a bid to enable low income Victorians and recipients of existing government benefits to own their own homes.

The government selected participants from the pool of existing tenants to the Ministry of Housing. The program operated on the basis of participants making repayments to the equivalent of 25% of their income which set a low interest rate benchmark to the loan of 3% (subject to market rate changes). Unfortunately as interest rates increased, rising to almost 20% in the late 1980's interest due started to accumulate on the loans and the borrowers were unable to service the debt accumulating.

The Victorian Government responded by adding the interest owed to the capital borrowed for the home which meant the borrowers ended up paying interest on outstanding interest as well. These loans unfortunately increased to the point where the money owed became more than the market value of the home. To date these owners continue to fight for a resolution through the Victorian Borrowers Association.

Private Sector Initiatives

Currently there are no successful examples of private sector rent-to-buy models.

However with the introduction of the National Rental Affordability Scheme (NRAS) there has been renewed interest in providing tenants of affordable housing under a rent to buy approach.

In part this is driven by the commercial imperative for investors to sell the properties toward the end of the ten year NRAS incentive, particularly if the property is highly geared. On the other hand, particularly among the not-for-profit organisations participating in the scheme, there is a social imperative to provide a transition to home ownership for their tenants rather than confronting tenants with what might be a 30% increase in rents at the end of the 10 year NRAS period.

The newly established not-for-profit charitable organisation National Housing Company (NHC) is currently developing an affordable housing program nationally and has declared its intention to provide all tenants an option to purchase their rental property after a minimum of 3 years renting that property if they meet the following conditions:

³⁰ Hulse, K., & Burke, T., (August 2009) *The benefits and risks of Home ownership: disaggregating the effects of household income*. Melbourne AHURI.

- Regular payment of rent demonstrating credit worthiness for a period of at least 3 years
- Maintaining the property in good condition and therefore ensuring the growth in asset value
- Completing a certified course in financial management relating to home ownership, thereby reducing their risk as a borrower

The NHC would propose that tenants meeting these criteria could take up their option to purchase and share in the capital appreciation either through a discount to the purchase price or a contribution to a recognised regulated fund, such as superannuation funds.

As part of their support for the transition to home ownership NHC would also provide advice and assistance to tenants to secure all applicable Commonwealth and State home ownership assistance. It is anticipated that NHC will roll out its first affordable rental properties in 2011 and that the rent-to-buy scheme would be introduced from 2014.

Summary

Rent-to-Buy schemes also make eminent sense in a market where house prices have increased at a much faster rate than incomes locking low and moderate income households out of the ownership market.

State Housing Authorities have in the past been major developers of housing with the state objective of encouraging tenants to purchase. However as the target group for public housing has increasingly focused on those with the lowest incomes and often with a range of other needs this has become less realistic. Sales of public housing are therefore driven more by asset management and debt reduction strategies.

If the Commonwealth government were serious about supporting home ownership then it should take up the issue with the States through the National Affordable Housing Agreement in an endeavor to integrate Commonwealth assistance with State initiatives to develop and sell new housing to lower income households.

In the private sector there is unlikely to be significant initiative as the typical risk assessment of low income households generally results in higher pricing of finance and less help.

The real solution may well come from the not-for-profit sector where the social imperative of providing effective assistance to their constituency can be balanced with the commercial imperative to build financially sustainable schemes. Furthermore, with the introduction of the NRAS program there is for the first time a

subsidy stream which can alleviate the risk associated with highly leveraged investment in property.

The example of the National Housing Company provides first evidence of the emergence of interest in the NFP sector in providing assistance to home ownership. It is likely to be just the first of several initiatives while NRAS continues. If Commonwealth, State and local governments get behind these schemes then the mechanisms that they might employ (such as utilizing public land, providing incentives) could further reduce the risk of these schemes and enable the social benefits of home ownership to reach even further down the income scale.

Conclusion

Local Government is a key stakeholder in the provision of housing and has a role in influencing the opportunities for current and future residents to access affordable housing. The most obvious intervention for local government is an advocacy role, however advocacy alone is unlikely to bring about the necessary change. As the City of Port Phillip has consistently demonstrated, advocacy alongside targeted interventions has proven to be a very effective strategy.

Local government authorities keen to be involved in affordable housing projects should consider a variety of models and interventions depending on the circumstance and opportunity. However, local government should firstly consider the responsibility of Council and make a proper assessment of the opportunities and constraints. We have identified a series of principles which local government can use as a filter for involvement in affordable housing namely:

- The intervention **should not replace the role of another level of Government** however a small intervention may leverage significant action from other levels of government
- Any intervention should have a **measurable benefit to the municipality** and in particular to the current and future constituents
- Any local government contribution **should leverage further investment from public and private sectors** thereby multiplying the overall economic and social benefits to the municipality
- **The value of any intervention is captured for future generations** by ensuring that any incentives or contributions are not simply a windfall to the first generation of recipients of the affordable housing
- Above all it is essential **that the municipality is not exposed to commercial risk** through the affordable housing initiative

Having identified these principles a number of mechanisms that a local government might employ to facilitate an affordable housing initiative have also been presented. These include:

- Making a **direct financial investment** in an affordable housing project from Council revenues
- Allowing **Council owned land** to be used for an affordable housing project with the land value being contributed at or below market value
- Implementing **inclusionary zoning** on all new rezoning approvals and large scale residential development approvals

- Requiring **development contributions** from developers who are capturing the uplift in property value generated by the exercise of statutory powers of Council
- Providing **planning concessions** to developers of affordable housing projects where those concessions make sense in terms of the affordable housing market
- Providing **rate relief** for providers of affordable housing in a similar way that local government provides relief to low income home owners
- Implementing **community education** to raise awareness of the need for and benefit of affordable housing and resist community opposition to affordable housing projects based on prejudice
- Undertaking **advocacy** directed at other levels of government with the specific intent of getting them to increase their investment in affordable housing, particularly in their municipality.

Every local government authority, while remaining true to the accepted role of facilitator when it comes to affordable housing, nevertheless can employ some or all of these mechanisms to great effect in leveraging increased public and private sector investment in affordable housing. Several of the possible housing outcomes such as NRAS, rent to buy and shared equity have been explored in more detail. A visual representation of these models and where they sit in the spectrum of housing options has been included as attachment 3.

This paper has spent considerable time examining looking at the ways in which finance does flow to housing and affordable housing in particular. We have concluded, along with various research papers emanating from the Australian Housing and Urban Research Institute, that this country needs a national housing finance strategy including the following key dimensions:

- A **permanent subsidy stream** (or incentive) to reduce the cost of housing procurement by designated providers. Policy choices concern the use of deep or shallow subsidies (depending on the capacity of the target group to meet rental costs), whether operating or financing costs are subsidised (such as NRAS) and which providers are used (public, not-for-profit or private)
- A **coherent rent regime** (cost, market-related or nominated) governing the level and indexing of rents to secure revenue and promote affordability. This implies a movement away from income related rents paid to housing providers
- Explicit eligibility criteria (broad or narrow) coupled with **adequate demand-side assistance**. This implies a broader target group than is currently captured by our public and community housing providers and a

rent assistance program that supports the capacity of tenants to meet regular rental payments

- A delivery regime that promotes **cost effective housing services**, tenant accountability and efficient and effective asset management strategies, to ensure that social tasks continue to be met and to foster revolving investment. This implies greater transparency within the roles of funder and provider that are often combined in the Australian state housing authorities

There is not a lot local government can do directly but it is a significant stakeholder in the housing market and the sphere of government most directly effected by the absence of a strategic housing finance system. Advocating to both Commonwealth and State governments for the implementation of such a scheme might be a very good place to begin.

The paper then examined three models. The first of these we simply called partnerships – a word that encompasses a vast array of different commercial relationships including joint ventures, alliances and Public Private Partnerships. They differ in the allocation of risk between parties but at the end of the day a number of parties come together to carry out a development project which results in the achievement of social objectives – affordable housing for low income households – and commercial objectives – development profit, project sustainability.

There are many avenues for local government to enter into a partnership to achieve affordable housing outcomes:

- LG might be a major player because it is the landowner and one of its primary objectives is a significant yield of affordable housing from the project. In this instance it will take a lead and carry significant risk in order to achieve that objective – which doesn't mean to say it has to undertake functions for which it is not well equipped such as land development or construction.
- On the other hand LG might be a significant player because of its role as landowner but financial return is the primary objective and therefore it may impose certain affordable housing requirements onto the developer as a condition of the development agreement but transfer the risk and funding responsibility to the developer.
- At other times LG may simply be a minor player in that it is the responsible authority when it comes to planning approvals. In this case LG can use its statutory powers and influential position to negotiate affordable housing outcomes either voluntarily with the developer or as a requirement of development approval. In this instance the capacity of LG to offer concessions or incentives will be a major advantage.

One thing that the examples of partnership demonstrate is that the role of the not-for-profit Registered Housing Associations is increasingly important – they are becoming a conduit for public sector investment in affordable housing projects and are rapidly gaining in development and finance expertise. It is hard to imagine a LG successfully facilitating an affordable housing project without the involvement of a Registered Housing Association. This raises the strategic question for LG as to whether the best approach is to identify and partner with a preferred provider or select a preferred partner on a project by project basis.

The need for this type of strategic partner is reinforced by the fact that local government is regulated by several legislative instruments namely the Local Government Act 1989 and the Planning and Environment Act 1987 which constrain the use of statutory powers or disposal of land assets. A close relationship with a Registered Housing Association may be the only way for a LG to provide strong support to local affordable housing projects while remaining within its legislative requirements.

The report then goes on to consider two types of instruments designed to assist low and moderate income households make the transition from renting to home ownership. In general we have concluded that while private finance is essential to the implementation of these instruments the appropriate products can only be offered by State or Commonwealth governments as they require an integrated approach to finance, subsidies and income support.

We have also noted however the reluctance particularly of some State governments as a result of the legacy of previous schemes that turned out badly. As a result we conclude that it is likely to be the not-for-profit sector through Registered Housing Associations and other intermediaries (such as the newly established National Housing Company) which will lead the charge.

There is little local government can do to design and implement these schemes however they can take a proactive role in making sure access to such schemes is part of the development strategy associated with large scale developments within the municipality.

At times we have been cautious about the capacity of local government to exercise significant impact over the supply of affordable housing. Nevertheless, it is, ultimately, local government which is the level of government 'closest to the people' and therefore most readily exposed to the effects and impacts of the rising price of housing for all of its constituents. In this context local government should be the most inclined to identify appropriate opportunities to be involved and well placed to make the arguments to influence the supply of affordable housing across their municipality.

It is therefore our conclusion that local government should take an increasing role in the achievement of affordable housing outcomes within its municipality

employing all of the mechanisms at its disposal while respecting the principles which govern the use of those mechanisms.

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APPENDX 1

STATEMENT BY SELECT DEVELOPERS, HOUSING ASSOCIATIONS AND PROVIDERS ABOUT THE RELEVANCE OF THE MODELS TO THEIR ORGANISATION BASED ON THE BRIEF (December 2009)

Private developers

ORGANISATION	PERSON	POSITION	COMMENT
MAB Corporation	David Allt-Graham	Development Manager	The models are relevant and the right ones have been selected.
Equiset Grollo Group	Jon Purcell	Development Director	The models cover the main ones Equiset are interested in. They are relevant to Equiset's interest and involvement in affordable housing.
JG King Homes	Natalie King	General Manager Operations	All the models are equally relevant to the organisation and look forward to becoming better informed about them through the research project.
Lend Lease	Paul Wallec	Property Director	Supportive of the intent of the study, in particular the models on partnerships and the role of local government incentives.
Inkerman Developments	Richard Ng	Development Manager	The models are not relevant as the developer is not large enough to be interested in affordable housing.

Community housing developers

ORGANISATION	PERSON	POSITION	COMMENT
Housing Choices Australia Ltd.	Jan Berriman	Chief Operations Officer	The models selected are the relevant ones.
Community Housing Ltd.	Brett Wake	Victorian State Manager	All models are of interest to Community Housing Limited.
South Port Community Housing Group Inc.	Janet Goodwin	Manager	She would like to read the completed study in order to determine the relevance of the models to the organisation.
St.Kilda Community Housing Ltd.	John Enticott	General Manager	The models are very relevant and worth investigating.
Port Phillip Housing Association Ltd.	Karen Barnett	Chief Executive Officer	The models are relevant to the organisation.

APPENDIX 2

International Examples, Typical Projects – Summary table

Country	Soc Hsg %	Income mix/ demand levers	Rent regime	Main private finance mechanisms (supply)*	Public policy supply levers*	Delivery
England	21	Broad access increasingly targeted with full subsidies	Amenity & cost related	Bank debt secured by secure revenue and grant (40-50%)	Public grants Developer contrib. (under planning provisions) (~50%)	NFPs Local Authorities Private (few)
US	5	Low & moderate Limited no vouchers for low incomes	Affordable rents related to area median income	Equity investment via tax credits (42%) Bank debt (36%)	State & local govt loans	Public housing authorities For Profits NFPs
France	17	Segmented, varies with program subsidy conditions	Govt set maximum rents (by location & program)	Low interest loans raised via tax privileged public savings scheme (70%)	State & local subsidies (10%) Local authority land & developer contrib. (under planning provisions)	Public bodies NFPs PPPs
Austria	21	Broad, targeting varies with local subsidy conditions	Cost based, costs are capped	Low interest loans raised via tax privileged Housing Bonds (40-60%)	Graduated public grants/ loans (30-40%) Municipal land set asides & land banking	Regulated limited profit assoc. & co-ops. Municipal companies
Switzerland	8	Broad, limited subsidies for low incomes	Cost based	Bank loans (60%) Bond issuing cooperative (25%)	Low interest public revolving loan (6%) State guarantee for bond	Regulated limited profit assoc. & co-ops. Municipal companies

*Typical projects'. Provider and tenant equity and/or minor loans make up additional finance. Source: Lawson et al, forthcoming

APPENDIX 3

AHS Spectrum of housing options by income types

