Data Report

Stakeholder requirements for enabling regulatory arrangements for community housing in Australia

DEVELOPER'S DATA REPORT

authored by

Claire Barbato, Robyn Clough, Adam Farrar, Peter Phibbs

Australian Housing and Urban Research Institute

Sydney Research Centre

AHURi

Australian Housing
and Urban Research Institute

INTRODUCTION

These data reports describe the responses from each of the seven stakeholder groups investigated in the project. The first five stakeholder groups are 'external' to community housing and their involvement has been seen as potentially important to the further development of the sector. They are financiers, developers, local government, churches and central agencies.

The remaining two groups are the providers and the administrators – the regulated and the regulators. Both of these two groups have a crucial interest in the outcomes to be achieved by regulatory arrangements. Unlike the external stakeholders, however, their interest is two dimensional. That is, it is an interest in both the new opportunities that might be opened up, and in how it will affect their current core business and achievement of social housing outcomes.

Information from the external stakeholders was gathered using semi-structured interviews. The broad questions, and their relationship to the project aims, are in the appendix to this data report. The informants were chosen because they had sufficient familiarity with the community housing sector to be 'information rich'.

Information from the internal stakeholders was gathered using workshops to identify issues and to get some responses to the external stakeholder views. In addition, four interviews with state based community housing peak bodies were conducted (prior to the workshops) for an assessment of:

- the strategic opportunities being limited by current regulatory arrangements; and

- the strategic opportunities that could be pursued through developments and trends in the local environment.

- The informants' views have been presented in each of these data reports in six parts:

- The current context in which the informants are becoming engaged with the sector – or for internal stakeholders, pursuing regulatory reform and sector development.

- What might effective measures within the community housing sector enable or in other words the potential and emerging opportunities.

- The preconditions for realising or achieving these opportunities.

- The aspects of regulation that could help meet these preconditions.

- Principles for effective regulation.

- The informants' assessment of how much difference regulation or regulatory tools or elements might make.

In other words, stakeholders believe there is an opportunity for (and are interested in) achieving some outcomes, but they report a number of preconditions for realising these. This is of interest in itself, but in particular, they suggest ways that some of the preconditions might be met with appropriate regulation. (Table 3 in the main report starts to describe the relationships between the opportunities, preconditions and community housing regulation across the stakeholder groups).

This form of presentation has been adopted to provide an explanatory framework through which to understand the views of the informants. It is intended to help understand how the informants are currently engaged with the community housing system – the drivers and limitations on this involvement; what larger benefits might be enabled if there were some changes in the current system; and what role, if any, regulation might play in this. The overall findings of the research are presented in the findings section of main report.

Developers and community housing

Until recently there has been little involvement in community housing by developers – particularly larger companies. In some jurisdictions, community housing providers may have themselves had some development capacity, but on the whole large scale projects have been rare. Over recent years this has begun to change, first as developers have entered joint

ventures with Departments of Housing over the redevelopment of public housing estates and, more recently, as a number of redevelopment opportunities have been created by local government or through other partnerships yielding a tenure mix, including substantial amounts of community housing.[1]

Community Housing Canberra (CHC) provides one such example of how these partnerships have worked. [2] CHC, a not-for-profit company established in 1998, successfully redeveloped a public housing complex in partnership with a private consortium to provide a mix of private and community housing.

At the same time, there has been an increasing use of developer contributions to affordable housing have been secured through local government planning instruments.[3]

The potential now exists for partnerships with developers to play a more important part in the overall development of the sector. This section explores the extent to which a clearer regulatory environment might support the extension of such partnerships.

The informants

The views reported in this section were drawn from two informants, both managing large projects with major Australian development companies. While one was based in Sydney (D1) and the other in Melbourne (D2), both operate in a number of states. The informants had each recently developed bids – and in one case won the contract – to undertake major mixed tenure redevelopments including social housing. In both cases, the current bids were the informants' first exposure to social and affordable housing. Each had partnered with a community housing organisation as part of the bid team.

However, the subsequent exposure to community housing providers varied considerably, with D1 noting that they knew of only one other organisation (a specific affordable housing developer and manager); while D2 had specifically visited other Australian providers – particularly those involved in community renewal – and had toured major renewal sites in the UK, speaking to both developers and the housing associations involved. Despite this variation, both noted that they had become aware of the resource limitations under which community housing organisations operate.

The current context

The business environment

Both informants described a new aspect of the business environment that was shaping part of their current work. This is the increasing requirement in tender specifications that large redevelopment proposals include social or affordable housing components. In part this was an acknowledgement that there is about to be an increasing use of inclusionary zoning powers by local authorities, but more importantly informants cited a number of projects with varying elements of social housing - including the Commonwealth Games Athletes' Village (20% social housing), St Mary's site in Sydney (3% affordable housing), and the Kensington Estate redevelopment in Melbourne. Both explicitly remarked on both an opportunity (and indeed the need) to explore different ways in which that could be undertaken using a private industry methodology as opposed to a government solution.

Current limitations

However, both informants also noted that there are a number of constraints that they perceived limited their ability to take full advantage of the opportunities presented by this new environment or to be effective in doing so. These fell into three groups.

Inconsistent government objectives within and between states

D2 noted that establishing a new kind of mixed tenure business is hampered by a lack of clear government objectives or inconsistent objectives between jurisdictions. Both informants are

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[1] See the Positioning Paper for more detailed examples (Barbato et al, 2002)
[2] The information below has been provided by Bruce McKenzie, Executive Officer, Community Housing Canberra
[3] This information has been drawn from the various networks – perhaps most notably, the Policy Advisory Committee – that comprise, or make use of, the National Community Housing Forum. It is worth noting, as Bisset points out, that a number of joint ventures between state housing authorities and developers have been undertaken to redevelop large public housing estates. Bisset, Hal (2000) *Social Housing: Building a New Foundation* Melbourne, November, p.17

exploring opportunities in more than one jurisdiction. "My observations of the [government agencies] and the community housing organisations that we need to have as our partners in this is that they are confused from state to state. In the case of [government agencies], we've seen different states with different objectives…" D1 suggested that government is yet to "bite the bullet and enter into some partnerships with providers and developers to get the right long-term residential solution".

Innovation inhibited by current tender processes

Both informants saw prescriptive tendering processes as a major limitation. "There are still limitations because of the bureaucratic process and the inability of the bureaucrats to be able to act outside what is considered normal government practice." Or: "Bureaucracies use timeframes that developers aren't comfortable with." Or again: "Government is not prepared to move away from policy [even with the preferred tenderer]. So you restrict lateral thinking and good ideas because of the tender process." This concern resonates with the wider theme that government needs – not just private sector investment – but private sector innovative solutions.

However, it is important to note that D2, who discussed this most extensively, was most concerned about a tender process that was not open to solutions that provided the most effective local management strategies to better integrated social housing tenants and private tenants or owners, while delivering financial benefits to government. "We put in a conforming tender and a non-conforming tender. They had no choice but to accept the conforming tender and now they want us to deliver the non-conforming tender. We will do that because of where we want to be in the long run. We will deliver millions of dollars worth of community benefits that wouldn't have won you the conforming tender." At the same time, the informant was aware of the need for transparency and probity in government tendering and was keen to find a compromise that met this objective while enabling innovation*.*

Inability to identify community housing partners with capacity to work on these projects

Both informants saw that working with community housing partners as a significant advantage in the emerging mixed tenure market. However, both were concerned about the capacity of most community housing organisations to enter into partnerships for the sorts of projects they were interested in. This was both an issue of scale and of the ability to identify appropriate partners:

- "One of the difficulties with community housing providers at the moment is there aren't enough of them; they have very little backing."

- "They run on a shoestring, there's not a lot of choice out there for providers."

- "Some of them are so small you can't do projects, but some manage in such a way that you can."

- "It [finding a community partner] was sheer luck in our case, with this project."

- "Five years from now I hope to create a 'medium to high density private/public housing' business – a run of projects in this state and others that keep the business rolling along – I'll need more partners than I've got, and in other states. I'd have to go to NSW and do everything I did in Vic. And I'm busy at the moment."

1.1.1 What might effective measures enable?

Key points:

- New development opportunities are likely to increase but this market is untested

- The new market is also an opportunity to achieve social objectives

- There are opportunities for partnerships with community housing, but the role is still uncertain

The engagement of developers with the social or affordable housing systems is not solely focused on partnerships with community housing organisations or on opportunities that would be enabled by more effective regulatory arrangements. The following section describes the informants' sense of the general opportunities to enhance their engagement with these

sectors, and their sense of the drivers that are opening up opportunities. It is from this wider set of opportunities that we identify those that are particular to community housing.

New development opportunities

- *Access to large well-located sites* – The informants were very optimistic that the urban renewal market will grow. The most attractive aspect of the projects is they are opening up access to an otherwise scare resource – large, well-located parcels of land.

- *Growing market* – Significantly, the informants saw mixed tenure redevelopments/ developments as a potentially very significant market – one in which they hope to establish a presence.

- *Growing demand for affordable housing* – This perception was not only based on the recent round of government tenders and projects. Rather, the informants were aware of the pressures for increased supply of affordable housing in major cities – to meet the needs of the 'working poor' in appropriate locations for work – and believed that this would ultimately put pressure on government to develop long-term solutions. Unlike social housing, they saw that these solutions must involve private industry and partnerships between government, providers and developers.

- *Drive for inclusionary zoning* – They believed that the role of local government and the spread of inclusionary zoning was part of this trend. "So it's an ideal time to implement some good prototype projects that get real recognition from the community and all the stakeholders."

- *An unproved market* – But despite the perception that the drivers are there for this to be a growing market, it is yet to be proved. The informants were aware that their early entry involved considerable risks in the face of uncertainty about policy, effective processes, and appropriate partners.

An opportunity to achieve social objectives

Informants were quite blunt about the importance of the profit motive underpinning their involvement. Indeed, they both stressed that this was an issue for their partnership with community housing providers. (In one case providers' non-profit status was seen as a disincentive for investors, in the other non-government partners needed to understand that "…as a developer we were greedy, vulgar and profit orientated".) But with that understood, informants talked about a number of social objectives that also underpinned their involvement in the area. It has already been noted above that they saw the new market as being driven by a growing need for affordable housing for the 'working poor'. This was linked to a wider objective of "social diversity in locations where people work". Within the developments too, both expressed the view that there was a benefit rather than a problem in mixed communities and argued that social mix was widely accepted in the areas in which these redevelopments were proposed. However, one informant (D1) did draw a distinction between low-income working households and others that might be harder to manage. The latter were not seen as the target group. Perhaps most important, D2 placed very great emphasis on developing a local management approach that focused on sustaining the social mix and bringing a community building approach to the community as whole.

Opportunities for partnerships with community housing

The overall trend to mixed tenure development (including affordable housing planning requirements) was seen as requiring partnerships.

> Looking at the overseas experience, where councils are legislating that 20–25%, and now possibly 50%, of the dwellings developed under a permit will be for public and social housing – not just government land, but a town planning issue. I think the legislators here are going to move in that direction anyway. So if I buy a piece of real estate I'd better have a good partner in public and social housing because I'm paying a shit-load of money and I'm forced to build social housing.

In particular, community housing partners were seen to bring two different skill sets to the process. The first is an understanding of government policies, processes and programs. The other is an understanding of social management. Despite these strengths, the precise role of

community housing partners is not yet worked out. One informant suggested that it would be project specific. The possible options mentioned included: providing expertise in the bid team, managing a (small) discrete part of the social housing tenancies, and providing overall estate management. The scale of current operations noted above currently limits some opportunities.

Preconditions for achieving these opportunities

Key points:

To realise these opportunities, developers looked for:

- policy clarity and government initiatives

- effective timeframes – and openness to innovation rather than proscription

- a focus on community dynamics and local management

- or alternatively, selectiveness of tenants – a focus on affordable rather than public housing

- ways to utilise the value adding of community housing

- Building a track record and avoiding the political risk of failure

- Creating a market

- Capacity of community housing providers

- Ability to find community partners

Realising these opportunities, requires actions or approaches to be adopted by a number of stakeholders. The informants described a number of measures that are, in effect, the preconditions for both the wider engagement by developers in social and affordable housing, and in particular for wider engagement with community housing providers. The potential contribution of specific regulatory measures is described in the subsequent section.

Policy clarity and government initiatives

Some of the preconditions mirror the limitations in the current operating context noted earlier. The most general of these (although not the highest priority noted by informants) is for governments to develop clearer and more consistent objectives from state to state. Equally, it was suggested that governments must provide the leadership to enable "partnerships with providers and developers to get the right long-term residential solution" for low income working households.

Effective timeframes – and openness to innovation rather than prescription

Again this observation mirrors the limitations reported earlier. One informant (D2) suggested a possible compromise between the need for transparent government processes and innovation. "There's probably a middle ground for the tender process, which includes: general brief, not over-specifying, run a pre-tender where you get a preferred tenderer, negotiate with that preferred tenderer with wide-ranging enough negotiations that they're prepared to put all their good ideas on the table."

A focus on community dynamics and local management

However, a more fundamental issue for the informants was how mixed tenure developments could be made to work. Both recognised that specific management approaches were needed to support low-income tenants in such developments – "I found the issues were less about built form than the people problems, the community problems that transform themselves into destructive, anti-social behaviour that in fact trashed millions of dollars of good, mediocre architecture and buildings". However, D2 placed great emphasis on how the whole community could be most effectively managed. This was not seen as an altruistic interest. Rather, it was a response to the commercial imperatives of a large scale, long term, redevelopment. "Normally developers develop, sell and get out. But because [with] this project — about 11 stages over five years — you're still developing while part of your project is inhabited, you have to deal with the issues that could raise a bad profile for the whole project just in the first stages and then prevent us from being able to sell the latter stages – to protect our income stream."

This requirement meant forming a partnership. "We should always be a developer, and never attempt to have the skills that community housing brings to the equation. We need to understand what they bring, but one will never absorb the other. Even in UK you didn't have one organisation that was everything - like a developer metamorphosed into a community organisation, a finance company, a building group. They brought partnerships together."

Or selecting the community – a focus on affordable rather than public housing

However, D1 took a somewhat different approach. **"As a developer forming a community, we would be selective about the people included in your development — getting the cosmopolitan feel without some of the longer-term social housing issues."** This approach focused more on taking the management risk out by more selective tenancy management processes at both ends. "Private industry is probably not as hamstrung by expectations of government – for example, the removal or exit strategy of a bad tenant might be more rigorously managed." This informant noted that there is a range of possible tenant groups – of types of affordable housing – that the business might focus on. And the management strategy was seen as a combination of up-front selection and tenancy management with the skills to take the management risk out, "varying depending on where we're talking about".

Utilising the value adding of community housing

As noted earlier, both informants saw partnerships with community housing as bringing an approach and skill set that would meet some of the preconditions for managing mixed tenure developments. These advantages included:

- *Flexible allocations* – D2 particularly referred to the experience of Argyle Community Housing Association[4] as exemplifying the community building allocation approach needed. They perceived that community housing had some "freedom" from first come first served rules to better deal with local management issues. "[That] enabled [Argyle] to create a community that the government wasn't able to do".

- *Secure income streams* – This informant also noted the advantages that community housing providers bring in: attracting subsidised income streams for the social or affordable rental aspects of a mixed tenure development. "Community housing holds key elements – tenants — that provides an income stream, …because they have some money or they're subsidised. Developers are continually looking for groups that can bring an income stream."

- *Specialist skill* – Reflecting on the UK, D2 identified a range of skills that a developer looked for from a partner in any complex redevelopment, since "it's a monstrous task":
  – community management
  – understanding of policy, funding arrangements
  – accessing government funds.

Must build a track record and avoid the political risk of failure

However, informants also noted that there are particular risks associated with being part of the establishment of a new kind of business. This was seen to place particular pressure on the project in hand and on approaches taken to these opportunities in general. As a result it was argued that those taking part now must "establish a level of confidence; we can't afford to have early failures". D1 particularly related this to the risk of government losing confidence in partnerships with the private sector: "there can't be in the first couple of years a perceived failure …because that will provide the impetus for politics/bureaucrats to pull back. There are plenty of case studies over the past 10–20 years of privatisation in part where that has occurred — electricity, water". It was suggested that demonstration projects are needed, "which are good prototypes for organisations and government to use in forming policy decisions".

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[4] Argyle Community Housing Association took over the management of part of the Claymore Housing Estate in NSW with well documented success in transforming the community (Office of Community Housing, nd)

Creating a market

In a similar way, both informants noted that such a track record is important if a market is to be established. Both saw the establishment of such a wider market as an advantage. There was some difference in emphasis between the informants, with one seeking to establish a competitive advantage by building a capacity for quality local management strategies, while the other look to something a range of players could undertake rather than simply establishing a niche market that might be less robust. "The more difficult it is you're almost creating specialist developers, and that means you may not get the best development solutions; you just get people that are specialist in dealing with social housing."

Capacity of community housing partners

Again this precondition reflects one of the key limitations in the current environment referred to earlier. That is, despite the value added that community housing partners can in principle bring to help meet some of the preconditions, this will not be achieved unless they have the capacity to engage. D2 identified two possible options. The first is a niche role that can be conducted under existing conditions. This is to include in the structure of developments, a small amount of lower cost community housing that providers have the capacity to take on. But if the business is to continue and expand, and if community housing partners are to take on local management roles, a wider choice of providers with a greater capacity or scale of operation is needed. At the same time, the informant argued that this does not mean organisations on the scale of the largest UK providers, who are too bureaucratic.

> While it's not-for-profit, it's about economies of scale, being sharp and well run to win the next contract from government and attract funds. …If we found three or four community housing organisations that were managing 2,000 properties with the necessary staff and experience, we'd be hitting the market.

Ability to find community partners

Finally, the ability to identify community partners is currently entirely word of mouth. "We started to find the odd partner we could work with - with good commercial sense and a real empathy with the community building side of communities." It was clear from the informants that this will continue to some extent because personal relationships are very important to partnerships with developers. However, informants suggested that the initial process could be assisted with better points of information.

What aspects of regulation could help meet these preconditions?

Key points:

- Registration provides information on potential partners

- Performance management will help to prevent early failures

- Quality assurance supports capacity building

- Legislation provides a more certain environment

Clearly not all of the above preconditions will be furthered by the application of regulatory arrangement – or by particular aspects of a regulatory framework. However, the informants identified a number of advantages flowing from various aspects of a regulatory framework. These help achieve the preconditions in three ways: by helping to identify potentially suitable community partners needed for a sustainable mixed tenure development; by adding to the capacity to prevent early failures and to maintain confidence; and by supporting the kind of organisational capacity needed in an effective partner. Only D1 was explicit about the latter advantages*.*

Registration

The main outcome sought by these informants from a regulatory framework is information about community housing providers. Both implicitly and explicitly, informants seem to link this to registration. At the broadest level this can enable CHOs to establish a profile in the development business. At the next level, a register of CHOs can be used to select potential candidates for assessment as a partner. It can also provide information about a partner – such as their financial viability or help to understand their quality and depth of management, their

experience, links with government, or exposure to managing communities. The main advantage then is "something that can give a number of options with regard to providers and very clear rules of procedures". D1 also noted that registration is important because it "is a tracking system".

Performance management

D1 also saw a performance management system as important. Performance management would be a help to build up a track record and a level of confidence. "A governing body [regulator] which provides support to ensure there aren't failures — monitoring, guidance — is vital."

Quality assurance

Similarly, the same informant also argued that "quality assurance is fundamental because it's part of good business practice".

Legislation

Finally, (although this conclusion was not explicitly drawn by either informant) legislation might meet two preconditions identified by the informants. First policy certainty through legislation would help prevent government pulling back if there are perceived early failures. And it could also provide consistency to help avoid delays

Principles for effective regulation

Key points:

- Processes need to be balanced against efficiency

- Consistent approaches must be balanced against innovation

- All parties must want to own the system

D1 also identified in passing three principles for effective regulation.

Efficiency

> "Don't make the process cumbersome, so that it becomes an obstacle to implementation …make sure that the process is streamlined."

Not overly prescriptive

> "Having consistency can only help avoid delays. But it shouldn't block innovative ways [to solve problems]".

Ownership

> "All parties have to want to implement it, not just the ideal but the reality, as opposed to different groups protecting their parcel of responsibilities."

How much difference would such regulatory elements make?

The two informants differed in their assessment of the importance of regulation to enabling the opportunities they had identified, from 'useful but not essential' to 'vital for the process'

For example, in the case of registration and information, D2 particularly stressed the primary role of relationships.

> It would be helpful in terms of a direction. But now I think I could phone half a dozen people and say look this is what I've got and this is what I want to do, and you could give me some contacts. That's what I have to do in my organisation…. These are big projects and I won't be satisfied until I've met the people on the ground, visited some of the communities.

On the other hand – the D1 said that all the elements of a regulatory framework discussed are key to the process; and in particular, a governing body which provides support to ensure there aren't failures — monitoring, guidance — is vital.

Summary

Developers now see the potential for a growing new market in mixed tenure developments. The access to well located sites is particularly attractive. However the ongoing management of such mixed tenure developments presents a specific challenge that may call for new partnerships with community housing groups. The growth of this new market requires a clearer framework of policy and process, the ability to identify the right partners, and avoiding failures as the market is in its infancy. It is not clear that community housing partners with the right capacities currently exist to play a large role. However, elements of a regulatory framework can help meet these preconditions by identifying potential partners through a registration system, building their capacity through quality assurance, avoiding failure through performance management and intervention, and providing a clearer framework. At the same time, personal relationships will continue to be crucial to partnerships between developers and providers.

APPENDIX: PROJECT AIMS & CORRESPONDING RESEARCH ELEMENTS

Stakeholder requirements for enabling regulatory arrangements for community housing in Australia (60118)	
Project Aims	*Research elements (including interview questions)*
To identify the **outcomes** looked for from a community housing regulatory system by external stakeholders - private financiers, local government, developers, church partners and central agencies	*1.2 External stakeholder interviews* 1. What is your current involvement with community housing or what do you understand about the sector? 2. What opportunities does the community housing sector present? 3. What are the barriers to expanding these opportunities? *(prioritise importance)* 4. How could these barriers be overcome? (*if ways of overcoming the barriers relate to regulation, discuss for more detail on the types of mechanisms that would be useful*) 5. If the barriers you have identified could be overcome in the ways we have discussed what would it change in your dealings with the community housing sector? (*ie: how would it impact on the risk assessment?*) 6. How would these types of changes affect the costs of expanding your opportunities within the community housing sector? (n.b. questions modified for central agencies)
To identify the limitations of current arrangements and the enhanced **capacity** of community housing providers that might flow from improved regulatory arrangements	*Peak interviews* 1. What are the new developments in your jurisdiction in relation to regulatory arrangements? Or, what are the emerging trends? 2. What are the strategic directions/opportunities for the sector in your state that might be affected by regulatory arrangements? 3. What are the difficulties or limitations that have arisen from current regulatory arrangements? 4. What are the difficulties or limitations that have been identified with respect to the new developments or emerging trends? 5. What are the strategic opportunities that could be opened up for the sector from new developments or trends, as they are now or if they were modified? What are the policy implications? 6. What are the strategic directions for the sector now? *Literature review* *Workshops* *Analysis and final report*
To identify the **criteria** for regulatory arrangements that would optimise the flexibility and efficiency of providers as well as robust and transparent accountability	*Literature review* *Workshops* *Analysis and final report*
To identify the aspects of the operations of UK and other international community housing regulatory systems that provide similar benefits to those being sought by the above stakeholders and to assess their applicability to the Australian context	*International literature review* *International interviews (mainly finance sector)* *Analysis and final report*
To familiarise administrators and providers with the findings and test their applicability in the existing community housing systems - including Indigenous housing	*Joint findings seminars*

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