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Growth and innovation in affordable housing in Australia: the role of not-for-profit providers

NOT-FOR-PROFIT ORGANISATIONS IN AUSTRALIA HAVE STRONG POTENTIAL TO INCREASE THE AVAILABLE STOCK OF AFFORDABLE HOUSING FOR LOW AND MODERATE INCOME HOUSEHOLDS. TO ACHIEVE THIS GROWTH REQUIRES CLEAR POLICY GUIDANCE FROM GOVERNMENTS, A LONG-TERM PUBLIC INVESTMENT STRATEGY AND A MECHANISM FOR RAISING LARGER QUANTITIES OF PRIVATE FINANCE.

KEY POINTS

- Around 40 not-for-profit organisations across Australia have recent experience in producing affordable housing for lower income households and aspire to expand this function. Within this group, there are eleven leading not-for-profit developers that have well established capacity and have grown rapidly in recent years.
- The leading not-for-profit developers in Australia are starting to gain experience in delivering a variety of purpose designed affordable housing products that are cost-effective and have the approval of their tenants. Several projects have also attracted industry awards.
- All governments in Australia have recently been active in introducing funding, policy and regulatory strategies that enable not-for-profit providers to develop affordable housing. While activity levels differ across jurisdictions, generally the level of public funding has been insufficient to generate large volume supply or catalyse private investment at scale. New Commonwealth initiatives, which include offering a larger scale financial incentive and calling for nationally consistent regulation of the not-for-profit sector, have the potential to give greater impetus to this emerging activity across Australia.
- These moves in Australia follow similar strategies that are well established in many countries, including Austria, France, the Netherlands, Switzerland, the UK and the USA. Diverse and better developed models in those

*This bulletin is based on research by **Associate Professor Vivienne Milligan** and **Professor Peter Phibbs** of the AHURI UNSW-UWS Research Centre, **Associate Professor Nicole Gurran** and **Dr Julie Lawson** of the AHURI Sydney Research Centre and **Ms Rhonda Phillips** of the AHURI Queensland Research Centre. The research examined the provision of affordable housing in Australia by not-for-profit organisations.*

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countries can offer useful insights of potential relevance to Australia, particularly into the ways that public and private financing mechanisms and supportive land supply policies are used, the role of legislation and regulation, and the features of not-for-profit delivery models.

CONTEXT

This research builds on and updates a previous AHURI funded study of the engagement of not-for-profit organisations in developing affordable housing, completed by Milligan et al. in 2004.

Since 2004, there have been significant developments in the policy and delivery frameworks for affordable housing in Australia, under directions from state and territory governments. These differing foundations are being built upon under a suite of national initiatives from 2008. In this context the researchers set out to assess how far Australia has come in establishing a viable and sustainable not-for-profit affordable housing industry and what additional effort will be required to produce affordable housing at scale using not-for-profit developers.

RESEARCH METHODS

For the purposes of this study, the researchers defined affordable housing as 'housing that is procured directly by not-for-profit providers using a mix of public and private finance for renting at rates that are below market levels to low and moderate income households in housing need'. The providers studied were those existing not-for-profit housing organisations that finance, develop and own housing or have plans to do so in the near future.

The main methods used to collect empirical information in Australia included surveys of leading provider organisations (11); interviews (57) with organisational staff, stakeholders, partners and other key informants; group discussions (3) with tenants of affordable housing projects; and analysis of a wide variety of documents and websites of governments and relevant organisations. A catalogue of affordable housing projects across Australia was also compiled from web-based information.

The international case studies were conducted by one of the researchers who was based in Europe, using interviews and email correspondence with 26 key informants across government agencies, peak housing organisations, individual provider organisations and financing institutions. Particular case studies were chosen from Austria, Switzerland, France and the Netherlands because of the innovative and novel approaches to affordable housing found in those countries.

KEY FINDINGS

Not-for-profit providers of affordable housing

The study differentiates not-for-profit housing providers with potential for growth using a five level classification:

1. Established developers already procuring at a modest scale.
2. Emergent developers intending to scale up, with some limited procurement experience.
3. Aspiring developers with some limited procurement experience, unclear growth path.
4. Growth partners – growing through management services linked to supply.
5. Traditional 'asset-rich' service agencies expanding into affordable housing.

At the end of 2007/08, the eleven established providers owned over 5,440 dwellings used for affordable housing and had plans to finalise procurement of at least another 2,330 in the near future. Collectively their net asset worth in 2007/08 was just under $1.3 billion. The 220 per cent growth in housing stock of these agencies since 2004 has been achieved mostly through a combination of strategies including the development of new dwellings, purchase of existing dwellings, transfers of existing social housing from state housing authorities and organisational mergers. This growth has been accompanied by enhancements to corporate governance and professional capacity. Successful developers have been attracting highly qualified people with a variety of skills to their staff and Boards, with increased emphasis being given, for example, to appointing directors with business, property, financial and legal skills. This is important because of the growing complexity of the business of these agencies and indicates the attractiveness of the not-for-profit housing industry to social entrepreneurs with both social and business expertise.

Organisations in the four other categories have produced only a handful of projects in recent years but have the potential to upscale quickly given access to additional resources and capacity building measures.

Range of affordable housing projects

Several of the established providers have developed purpose designed products, such as boarding houses, studios and one-bedroom apartments, which are durable for long-term renting. These products complement those developed in the for-profit market. A large share of developments is aimed at population groups with specific design requirements. Waste, water and energy-efficient housing designs that reduce living costs for tenants and meet broader environmental sustainability goals are also emerging features of projects in the sector. Larger and more experienced providers are starting to undertake larger-scale developments and are venturing into mixed-tenure, mixed-use development projects.

Current policy and funding measures

The review of policy settings and funding for affordable housing indicates that all state and territory governments have increased their efforts to develop affordable housing initiatives since 2004. In the context of significant shortages of affordable housing across Australia, the direction being taken appears to reflect growing recognition of the potential for not-for-profit organisations to lever additional resources for this task, using models that were demonstrated in the last decade or so. The largest level of public investment in affordable housing has occurred in Victoria and this, coupled with the Victorian Government's decision to direct these funds to a limited number of tightly regulated housing associations, explains why seven of the eleven leading developers are located there.

However, there is little evidence of financing innovation arising from current initiatives. In comparison to international models, approaches in Australia to drawing-in private funding are inefficient and also tend to distort and fragment where growth can occur. This is largely because there is no mechanism for pooling diverse funds and channelling them through larger-scale, cost-effective providers.

South Australia has led the way in planning policy innovation by introducing statewide housing and planning strategies for affordable housing. Queensland, South Australia, the Australian Capital Territory and the Northern Territory have established systemic approaches for securing affordable housing outcomes when government land is developed, using 15 per cent as the standard target for affordable housing inclusion.

Since 2008, the Australian Government has taken a strong interest in promoting the growth of the not-for-profit housing sector. One major opportunity being provided to stimulate growth through additional supply is the National Rental Affordability Scheme (NRAS), which is designed to encourage large-scale for-profit and not-for-profit investment in affordable housing. At the time of this research, it was too early to assess how effective this scheme will be in promoting development by not-for-profit providers directly.

International approaches

In the countries chosen for analysis, the supply of affordable housing has been facilitated through supportive policies around financing mechanisms, land supply and planning, and the regulatory framework.

Firstly, growth in not-for-profit affordable housing has been underpinned by long-term public funding commitments and incentives. For example, in Switzerland the state provides public revolving loans and state guarantees to finance affordable housing. In Austria tax-privileged bonds are used, while a tax-free pooled savings scheme for social housing operates in France.

Secondly, land supply and planning policies are used to help affordable housing developers to obtain well located sites and to reduce the costs of development. For example in Austria, the Vienna Land Procurement and Urban Renewal Fund assists in procuring land for approved developments undertaken by both the private and non-profit sector. In the Netherlands and the United Kingdom central governments foster collaboration between local government and housing associations, such as through public/private/not-for-profit partnerships.

Finally, these countries have an explicit legislative and regulatory framework, which specifies the public policy goals and measurable social tasks for affordable housing developers and effective enforcement procedures (Austria, Switzerland and the Netherlands).

POLICY IMPLICATIONS

Assessment of successful local and overseas models suggest that Australian governments aiming to support not-for-profit suppliers of affordable housing should seek to establish an industry framework that combines the following key elements in a national policy model:

- A financing strategy that offers a cost-effective mix of public financial incentives and private financing. To maximise effectiveness, fund-raising and distribution could be managed by a specialised institution. Public investment will need to be at a sufficient scale to attract private investment and to promote viable providers.
- Planning policies and mechanisms that are capable of ensuring the timely and cost-effective provision of appropriately located affordable housing.
- A variety of providers operating in different market contexts and having sufficient financial and organisational capacity to procure and manage a growing portfolio of housing.
- Clear public policy settings that cover: requirements for affordable rent settings that achieve viability for providers; well defined needs-based eligibility policies and allocations criteria; a core set of housing and service standards; and business rules relating to the realm of activities of providers.
- A robust and nationally consistent regulatory system that is capable of giving assurance to all parties that policy outcomes and financial and service requirements are being met, ensuring provider business risks are identified and managed, and has the power to redress cases of failing performance.
- Supporting infrastructure and capacity building measures (such as enhancements to corporate governance and skills development) that are designed to secure and maintain the capability of individual providers and the industry as a whole.

While all of these elements are important to the industry's future, the highest priority should be to put in place an effective national financing model. The research findings suggest that Australian governments need to rethink the total package of funding incentives and mechanisms required to foster a viable and sustainable not-for-profit affordable housing development industry across Australia. The design of any future funding package will determine the scale, rate and key attributes of affordable housing that can be generated and to what extent the housing procured can be preserved as affordable housing.

FURTHER INFORMATION

See also Vivienne Milligan, Peter Phibbs, Kate Fagan and Nicole Gurran (2004) *A practical framework for expanding affordable housing services in Australia: learning from experience* AHURI Final Report No. 65, July 2004

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