

Not for profit affordable housing – the Australian experience

THE SMALL AUSTRALIAN NON-GOVERNMENT NOT FOR PROFIT AFFORDABLE HOUSING SECTOR PROVIDES COST EFFECTIVE AND FLEXIBLE AFFORDABLE HOUSING. THIS SECTOR COULD BE EXPANDED WITH GOVERNMENT INCENTIVES AND A CLEARER POLICY FRAMEWORK.

KEY POINTS

- With real funding levels for public housing declining and increasing numbers of low to moderate income households in the private rental market experiencing housing affordability difficulties, the non-government, not for profit housing sector is a vehicle that could provide more affordable housing.
- This study of eight Australian not for profit housing organisations, shows that the sector has the potential to provide cost effective, high quality and well located affordable housing. However, the sector remains small and most developments undertaken to date have been either 'one-off' projects or schemes confined to small areas.
- Not for profit housing providers are able to leverage finance for affordable housing from several sources. These include: savings on developer margins, GST exemptions on the supply of housing, cross-subsidies from allocating higher income tenants into developments, capacity for tenants to receive Commonwealth Rent Assistance, and some limited developer contributions and gains through the land-use planning system.
- Not for profit housing providers need to be large enough to achieve economies of scale in housing development and to be able to generate sufficient revenue to sustain their operations and contribute to their own growth. However, the objectives for affordable housing projects are unclear and there is a lack of any overarching policy framework, which contributes to uncertainty for potential players and makes innovation more risky.
- If Australian governments wish to see an expansion of the non-profit affordable housing sector, they might: support providers to achieve scale economies by underwriting their development and financing risks through a mix of capital and recurrent subsidies; develop their organisational capacity and skills; and assist them to obtain finance and realise planning and development approval for innovative projects.

Based on research by Vivienne Milligan, Peter Phibbs, Kate Fagan and Nicole Gurrans of the AHURI Sydney Research Centre.



Australian Housing and Urban Research Institute

www.ahuri.edu.au

BACKGROUND

In the Australian context, there is no single accepted definition of what constitutes 'affordable housing' but in general, it is housing which meets the needs of households whose incomes are not sufficient to allow them to access appropriate housing in the market without assistance.

More recently, the term has been applied to distinguish a range of privately initiated housing options for lower income households from traditional forms of social (public and community) housing.

Providers of affordable housing are generally non-government organisations. In return for government or developer assistance in various forms (for example, land grants, planning concessions, tax breaks, developer contributions), they invest in housing provided to the tenant (under government regulation, funding agreement or contract) at a price considered affordable to the low-income households they serve.

In the past few years, there has been interest in the potential to use alternative financing and delivery models for social and affordable housing supply in Australia. The main drivers of the growing research and policy attention being given to innovative models have been: reduced public funding in real terms for public housing, increased numbers of low and moderate income households experiencing housing affordability difficulties, and greater diversity of client needs that cannot be addressed adequately within the current social (public and community) system.

METHOD

The study focussed on eight not for profit affordable housing providers with an established housing development function in Australia. These providers:

- initiated and owned housing for a social purpose;
- financed their housing through a mix of public subsidies and/or planning benefits and private equity and/or debt finance;
- set rents at below market; and
- allocated housing to moderate and/or low income client groups.

They were: City West Housing Pty Ltd (NSW), Community Housing Canberra Ltd, Brisbane Housing Company Ltd, Perth Inner City Housing Assn (Inc.), and three Victorian providers – City of Port Phillip/Port Phillip Housing Assn (Inc), Community Housing Ltd,

and Melbourne Affordable Housing (formerly Inner City Social Housing Ltd). An eighth agency closed recently after transferring most of its housing projects to Melbourne Affordable Housing.

The study focussed on emerging models of affordable housing, and so excluded small community housing organisations, social housing providers whose stock was acquired or developed under past community housing programmes now closed, and specialist housing providers in aged care, disability or Indigenous sectors that operate under specific legislation.

The project used interviews with directors, managers and stakeholders of the selected not for profit affordable housing providers in Australia and documents provided by those agencies. It examined existing practice in Australia and compared this with overseas approaches to make an assessment of delivery models that can assist in expanding the supply of affordable housing.

FINDINGS

SIZE OF THE SECTOR

The Australian affordable housing sector is very small. The seven largest providers currently operating have developed little more than 1200 housing units in total over the past decade or so. By contrast, demand for affordable housing, especially by people with low incomes, is very high. Other recent AHURI research (Yates, 2004) suggests that there was a shortfall of 134,000 affordable and available dwellings for low-income households in the private rental market in 2001, implying that there is considerable scope for the sector to grow.

FINANCING AND LEVERAGE POTENTIAL

Affordable housing providers are not able to meet their costs without some form of ongoing assistance, as the price of providing housing is invariably higher than the capacity of most clients to pay.

Development capital for affordable housing providers has so far mainly come from government sources (in the form of land and finance). The low level of private financing has been due mainly to the limited revenue stream available and small asset base of the organisations.

Nevertheless, a range of leverage sources have been available to the not for profit sector, including: savings on developer profit margins; increased rent revenue from different rent setting approaches (thereby also

capturing Commonwealth Rent Assistance) or from allocating some tenancies to higher income households that can pay higher rents; some limited developer contributions and planning gains; and GST free supply.

Based on estimates from City West Housing, an original Australian government investment of \$50 million in 1994 generated 7020 tenancy years of housing, over a 20-year period. Modelling done for this project suggests that this output is considerably larger than if the same level of investment had been directed at public housing.

OPERATIONAL VIABILITY

Though many affordable housing organisations are relatively young, financial analysis of the accounts of one of the larger and established agencies (City West Housing, with 365 dwellings owned) showed their operations to be financially sustainable. Several other agencies were found to be making good surpluses on their operations even at a relatively small scale, although smaller organisations' capacity to offer affordable housing could be compromised if cost structures were to increase. As well, too small a scale is not conducive to maintaining a viable property development function.

GOVERNANCE AND PERFORMANCE

Two main kinds of agency models were compared – new vehicles specifically established by governments to provide affordable housing, and independently formed agencies that have expanded and/or diversified into the provision of affordable housing.

The models were assessed according to four criteria for governance (organisational capacity and expertise, accountability to government, community and tenant involvement and ability to be replicated). The study did not find any intrinsic advantages of government shareholder companies over independently formed not for profit companies.

Successful organisations had boards with an appropriate blend of skills including in property development. Success so far has been less to do with the structure of an organisation and more to do with the way people within government and agencies persisted in initiating new models and demonstration projects.

The study also assessed companies by five criteria of performance (ability to grow to generate scale economies, capacity to leverage housing from government funds, financial sustainability, flexibility and cost-effectiveness). The study found that some organisations were under-utilised at present and might gain economies by expansion of operation

(e.g. Community Housing Canberra, Melbourne Affordable Housing). Access to a reliable and secure capital stream would reduce hold ups and cost hikes that have occurred at the pre-development stage while funding is being approved. Reliance on rent setting policies inherited from the public sector has also inhibited the capacity to leverage funds.

PRODUCTS AND SERVICES

The larger affordable housing sectors in some other countries, such as the United Kingdom and the Netherlands, are characterised by their capacity to offer a greater choice of housing options to households with constrained incomes than the sector in Australia. To date, the products provided through not for profit housing providers in Australia have been relatively undifferentiated, being aligned principally with the criteria and rules for public housing – especially in terms of rent setting and eligibility.

That situation is changing however, and agencies included in this study are at the forefront of trialing new rent setting and allocations models. As well, the new providers are offering favourably located and well-designed housing, much of it configured differently to traditional public housing (for example, affordable housing located in mixed tenure developments or a purpose-built boarding house). Some are also interested in developing new products, especially 'key worker' housing and shared equity options.

POLICY IMPLICATIONS

This study shows that affordable housing organisations can leverage government investments in affordable housing more effectively than public housing, can provide high quality housing, and also contribute to other objectives such as social mix. Nevertheless, the study suggests that the Australian affordable housing sector is not as large or diverse as it might be, if international examples are any guide.

The findings demonstrate the need for capable and committed leadership, and the importance of adequate sources of leverage for affordable housing providers to succeed. If governments wish to expand the supply of affordable housing to others on low incomes, they might:

I. Provide greater clarity over affordable housing providers' place within the social housing sector.

The few non-profit organisations presently providing affordable housing have come about due to the hard work of a few strongly motivated individuals within government and non-government agencies –

and have come without coherent strategies from governments. Current providers are looking to government for leadership to coordinate a national policy approach, articulate government policy regulatory requirements, rules of engagement and expectations of performance.

- 2. Provide further incentives and support to the sector.** Because of high costs, learning curves and long lead times to set up new agencies, the most cost effective and efficient way to expand affordable housing is for government to further develop existing organisations (some of which are presently underutilised). Adequate sources of funding, especially up-front capital contributions are most effective in enabling providers to reach scale quickly. There is an opportunity for governments to invest capital and recurrent subsidies in ways that will optimise leverage and increase certainty for those not for profit agencies seeking to expand their housing development activities to a more sustainable level.
- 3. Improving the skills within affordable housing organisations.** There is evidence that skill levels could be improved and would benefit from government investment in capacity building and skills development for the existing community housing sector, particularly in relation to governance, development financing and project management skills.
- 4. Managing financial and development risks through growing a specialised capacity.** This would preferably be done through a national special purpose body that can provide guidance on development financing; develop a prudential and regulatory framework for the development role of the sector; accredit agencies; and monitor, regulate and evaluate their performance.

- 5. Better integrating of affordable housing in planning decisions.** This might occur by ensuring that affordable housing is a consideration in each step in the planning process – land allocation, plan making, setting subdivision and residential development standards, and the development assessment process as well as strengthening the recognition of affordable housing in planning legislation and mandating the use of a wider range of planning levers.

FURTHER INFORMATION

This bulletin is based on AHURI project 60191, *A practical framework for expanding affordable housing in Australia: learning from experience*. Reports from this project can be found on the AHURI website (www.ahuri.edu.au) by typing the project number into the search function.

The following document is available:

- Final Report

See also: Yates, 2004 *Changes in the supply of and need for low rent dwellings in the private rental market*, AHURI Project 60190.

Or contact the AHURI National Office on +61 3 9660 2300.



HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

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

DISCLAIMER The opinions in this publication reflect the results of a research study and do not necessarily reflect the views of AHURI Ltd, its Board or its funding organisations. No responsibility is accepted by AHURI Ltd or its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.