



EXECUTIVE SUMMARY

Profiling Australia's affordable housing industry

Inquiry into affordable housing industry capacity

FOR THE

**Australian Housing
and Urban Research Institute**

PUBLICATION DATE

August 2016

DOI

doi:10.18408/ahuri-7108401

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ISBN	978-1-925334-30-2				
Key words	Australia's affordable housing industry, capacity, capacity-building, industry development				
Series	AHURI Final Report	Number	268	ISSN	1834-7223
Publisher	Australian Housing and Urban Research Institute Limited Melbourne, Australia				
DOI	doi:10.18408/ahuri-7108401				
Format	PDF, online only				
URL	http://www.ahuri.edu.au/research/final-reports/268 (full report)				

Recommended citation

Milligan, V., Martin, C., Phillips, R., Liu, E., Pawson, H. and Spinney, A. (2016) *Profiling Australia's affordable housing industry*, AHURI Final Report No. 268, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/268>, doi:10.18408/ahuri-7108401.

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Inquiry panel members

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Executive summary

Australia's emerging affordable housing industry has considerable potential to expand housing options for lower income households. This study examines the industry's current profile and capacity.

For the purposes of this study, the affordable housing industry comprises:

- Non-government (for-profit and not-for-profit) affordable housing providers.
- The institutions and individuals that enable, support and regulate their work.

Capacity is the ability of the industry to perform its work. Capacity is multidimensional and includes having:

- The resources to do the work, appropriate organisational and workforce capacities, industry-specific skills, effective networks and political influence.

The regulated industry comprises two main types of providers:

- A group of 40 commercially-oriented entities that raise private finance, procure housing and offer diversified housing services. Most in this group could accommodate further expansion and develop their own future capacity.
- A second group of 283 smaller organisations that mainly provide government-contracted tenancy and/or homelessness services. Many have growth potential but lack resources. Capacity-building could be targeted to assist this group.

There is also a sizeable group of (both registered and unregistered) Indigenous-run community housing organisations (ICHOs). Limited operating scale, poor viability and recent policy disruptions have left many ICHOs vulnerable. An intentional tailored approach to building scale and capacity among this group is critical to ambitions to 'close the gap' in Indigenous disadvantage.

Key gaps in industry infrastructure include the absence of:

- Clear and consistent government and industry leadership.
- A core industry data set.
- A financial intermediary to harness private investment.

For the industry overall, the main capacity issues identified so far concern:

- The need for scaled-up and predictable growth opportunities to promote further capacity development and strategic investment.
 - Shortcomings in policy-making capacities and regulation.
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Key findings

The Inquiry defines ‘affordable housing’ as housing provided subject to access and affordability requirements set by government. This includes:

- Rental housing priced at below market rents and earmarked for eligible low- to moderate-income households.
- Owner-occupied housing for eligible low- to moderate-income households that is provided under a subsidised loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement.

For the purposes of the Inquiry, the affordable housing industry comprises:

- Non-government (for-profit and not-for-profit (NFP)) affordable housing providers.
- The institutional entities and individuals that enable, support and regulate the work of affordable housing providers.

Below we discuss this study’s findings concerning the profile of the industry and its present capacity.

Affordable housing providers

Outside of government itself, affordable housing provider organisations include NFP community housing organisations and a small number of for-profit companies. The primary suppliers are mission-driven, officially registered community housing providers (CHPs). This is a diverse group numbering 323 entities in March 2016.

Heading the group is a cohort of around 40 NFP companies that operate a commercial business model and function at scale. Many in this cohort had their origins in managing social housing tenancies, but over the past decade they have diversified their housing service offerings, broadened their operating locations, and acquired experience in raising private finance and partnering with the development industry. Others are more recently founded special purpose vehicles established by governments or parent bodies with specific capacity to develop affordable housing.

This cohort has grown steadily in number and organisational scale over the last decade. Growth was driven mainly via NFP participation in the two major 2008 national affordable housing supply initiatives, the National Rental Affordability Scheme (NRAS) and the Social Housing Initiative (SHI), as well as state government housing investment programs operated in certain jurisdictions. This cohort now accounts for an estimated 80 per cent of the long-term affordable housing under the industry’s control.

As an indication of their business scale, those from the top group that responded to our online survey (17 organisations or groups of organisations) had on average:

- assets of \$316 million
- liabilities of \$42 million
- over 2,000 dwellings in management, with over half of these owned or on long-term leases
- about 100 dwellings in a procurement pipeline
- annual rent revenue of \$20 million (\$9,796 per annum per dwelling managed).

Organisations in this group are subject to the highest level of regulatory engagement (Tier 1 National Regulatory System Community Housing (NRSCH) or its equivalent in WA and Victoria) and are centrally monitored for compliance with defined performance standards covering service effectiveness, accountability and viability.

Community housing registrar classifications show that another 72 CHPs—those classified as NRSCH Tier 2 providers or their equivalent—have some housing development and asset

management experience but to a more limited extent than the top group. In our survey, organisations from this group (30) had an average dwelling portfolio of less than 400 dwellings and average rent revenue of around \$2 million per annum—a scale factor of around one tenth of Tier 1s.

A much larger cohort of generally smaller and often specialised organisations accounted for the remainder of the regulated sector (Tier 3 or equivalent). This group of 211 organisations is very diverse and difficult to profile from available data. It includes organisations specialising in tenancy management that is often in a single locality or sub-region; those serving a specific population group with specialised housing needs (e.g. people with disabilities), self-managed housing cooperatives and homelessness service providers with little or no long-term housing. Several large multi-functional welfare agencies with small housing operations and some faith-based providers are also registered in this group. Those in this group that responded to our survey (48) had an average of 66 dwellings in management and \$630,000 in average annual rent revenue.

While the number is difficult to confidently estimate, there are around 200 Indigenous-run community organisations of various types offering housing services. Many of these have very small housing roles, but some also offer a range of other human services. Larger organisations typically manage between 400 and 700 dwellings and one has in excess of 1,500. Only nine Indigenous community housing organisations have as yet achieved mainstream registration, although another 42 in NSW are registered in an Indigenous-specific housing registration system. The remainder have contractual relationships with governments, own their own housing and/or are not currently registered.

To complete the industry picture, in addition to registered providers our study identified a small number of for-profit providers (mostly NRAS tax incentive recipients). Their recent experience of the advent and demise of NRAS highlighted that private firms are unlikely to achieve the commercial parameters and economies of scale required to make affordable housing a viable part of their business unless there is a more durable policy and scaled up investment framework for affordable housing.

There are also a few dozen local governments providing affordable housing (especially in WA and Queensland regional areas) as well as several hundred very small unregistered community organisations engaged in specific forms of housing service delivery, often under government contract.

Provider capacities for growth

While the community housing registers do not publish disaggregated performance information, previous research and other data indicate that the Tier 1 registered group of CHPs have the industry-specific skills and organisational capacities to manage and absorb substantial growth.

Our survey results indicate these organisations are self-driven, continuing to invest in their own organisational capacity and avidly seek growth opportunities for their businesses—for example through pursuit of new funding sources, partnerships and mergers within the industry. Most collaborate through a peer network and/or peak bodies engaged in knowledge exchange, professional and industry development and shared service initiatives.

While their previous growth cycles have been typically driven by governments' housing programs, more in this group are now looking to enhance their (revenue and asset-based) resource capacity through new business ventures and wider engagement with a variety of government, NFP and private partners.

Their own endeavours notwithstanding, most have found steady growth difficult to achieve given recent affordable housing policy volatility, and a lack of forward industry plans and fit-for-purpose subsidy arrangements. For many, intensive investment in internal systems and human resources in the period 2008–14 has created capacity that is arguably under-utilised in the post-2014 context of scaled-back Commonwealth and/or state and territory affordable housing programs and the failure of government plans to materialise, e.g. large-scale public housing transfers. Thus, many in our survey

felt that governments had been holding back their growth, and that more durable policy infrastructure and resourcing were needed to realise their capacity.

Tier 2 CHPs have also been investing in their capacity, particularly their core social housing business capabilities, but they typically have more modest growth aspirations. There are fewer opportunities for this class of providers to prove their capacity to grow and diversify. This contributes to a finding that it is not organisational capacity that is the key limiting factor restraining the industry's future but the opportunities for growth.

Recent capacity-building in Tier 3 CHPs has mostly been driven by the necessity to meet new regulatory requirements rather than to enable service expansion. The small scale of most of these organisations has required state governments to directly resource capacity-building. In our survey, organisations in this tier were less likely to be planning for growth.

Policy disruption over the past decade, associated with states and territories taking over responsibility for Indigenous housing and the management of remote Indigenous housing, has diminished the Indigenous housing sector. Lack of operating scale, viability concerns and imposition of mainstream competitive funding and regulatory regimes have left many organisations vulnerable. This is in spite of compelling evidence of the importance of Indigenous-controlled organisations to addressing Indigenous disadvantage. Only in NSW and Victoria have governments invested in Indigenous sector development.

A separate report (Milligan, Martin et al. forthcoming) will provide a more in-depth consideration of organisational capacity, drawing on complementary fieldwork investigating the views of partners, industry bodies and other stakeholders.

Supporting institutions

Beyond provider organisations themselves, effective and efficient provision of affordable housing relies on many supporting institutions, networks and actors. Their capacity is critical to both effective policy-making and to industry advancement.

In the affordable housing domain, supporting institutions include:

- Government agencies and their coordinating entities and the government-established regulatory systems.
- Industry peak bodies and peer network organisations.
- Tenant/consumer organisations and tenancy support agencies.
- Providers (for-profit and NFP) of specialist services to the industry—covering training and professional development and consulting, data and research services.

While local industry-supporting infrastructure appears extensive, and in some parts enduring, a number of gaps emerged from our initial assessment of what will be required to optimise industry potential and guide its future development.

Government

A stable and robust policy framework to steer the development of a viable affordable housing market is essential, especially to ensure that private funding will flow to potential providers, to give provider organisations the confidence to invest in their business continuity, and to encourage contestability.

Within government there is a lack of authoritative leadership in the housing policy realm at both national and state/territory levels. Policy-maker expertise in this field has been eroded both through wider public service changes and by a lack of policy priority accorded to affordable housing. Within jurisdictions and nationally, ownership of housing policy has become damagingly fragmented across departments. Vital co-ordinating mechanisms operating between levels of government have also

been largely abandoned, militating against nationally coherent growth strategies and knowledge-sharing.

In the recent absence of Commonwealth leadership in this field, shaping the industry has been left to the eight jurisdictional governments each of which has different policy agendas and priorities. The extent of divergence and fragmentation in state level approaches is working against development of a national market and cultivating organisational scale and capacity. This problem is exemplified by the failure to achieve national regulation of community housing and (except in Tasmania) to meet the ministerially agreed aspirational target for NFPs to account for 35 per cent of social housing by 2014.

In most jurisdictions it has been the norm for the agency that is responsible for funding alternative housing providers and regulating them to be, at the same time, responsible for delivering public housing. This gives rise to a clear conflict of roles, particularly as transfers of public housing have been designated as a key strategy for growing the resource capacity of the non-government provider system.

This pattern of fragmentation of responsibilities, weak coordination, role conflicts and a lack of policy capacity within governments is widely seen by industry players to have severely hindered the effectiveness of recent approaches to expanding affordable housing provision.

Industry leadership

Unlike in many other emergent and established industries, there is no national industry council or similar guiding industry development, engaging with government and negotiating future positioning. A joint policy-maker and industry forum that shaped an earlier phase of development of the community housing sector, the National Community Housing Forum (1996–2006), had clear success in this regard.

National and state level peak bodies remain small and lack sufficient resources to realise their potential in contributing to industry development. In recent years NSW has exemplified what could be done to achieve growth and capacity-building through adopting modestly-funded industry development plans (see below).

Industry data

As a basis for accountability and informed policy making, official data relating to social and affordable housing services are completely inadequate. Data frameworks are out of date—for instance, relating to obsolete programs but unresponsive to industry changes and new outputs. Similarly, data definitions of key financial metrics and measures of affordable housing outputs lack specificity and consistency. There is also no industry-wide model for measuring affordable housing needs. This is important to give assurance that service outcomes will be aligned with the pattern and mix of needs (rather than being dictated by the ad hoc opportunities which have driven recent growth).

There have been some encouraging industry-led improvements in capturing industry-wide performance and financial data, especially core operational benchmarks. However, these are not publicly available except in aggregate. As their database becomes more extensive, industry regulators should be made responsible for the fitness-for-purpose and transparency of industry performance and outputs.

Financial institutions

A critical piece of missing industry infrastructure is a specialist financial intermediary—with a responsibility to match diverse CHP demands for private financing with the strong interests of institutional investors in scaled-up rental housing investment. Extensive work on options for such a model has been undertaken both by AHURI-funded researchers and a number of industry players over several years. Responsibility for this now needs to be brought into government and actioned if cost effective private financing of affordable housing is to become a reality any time soon. The 2016 work on this issue by Treasury officials (Australian Government 2016a), in response to a brief from the Council of Federal Financial Relations, has been widely welcomed within the industry by providers, peak bodies, lenders and development partners.

Engaging and supporting tenants

A fundamental tenet of a community-based housing model is engaging tenants in decision-making around the delivery of their housing services. This is occurring at the organisational level to some extent but not at the industry level.

Given the special needs of many tenants, affordable housing providers rely heavily on support partners to achieve viable and sustainable tenancies. Continuing priority needs to be given to co-ordination processes and institutional structures that help connect housing and support services, especially in the arenas of homelessness, domestic violence, disability and Indigenous tenancies.

The housing disadvantage and increasing prevalence of Indigenous tenancies in social and affordable housing requires increased attention to engagement with Indigenous tenants, organisations and communities.

Capacity-building and industry development

The development of the affordable housing industry across Australia is subject to diverse and fragmented approaches. This situation is of concern, especially given the small size of the industry overall.

A 2014 high level national industry development framework (for community housing) has had only limited impact because it lacked a champion in government as well as an appropriately resourced implementation plan. In only two states (NSW and Queensland) do formal industry development strategies currently exist. A positive feature of these has been their joint government-industry management that has built trust and mutual understanding.

While it is not possible to estimate the total value of state and territory resources being invested in industry development, there is evidence of widespread duplication of effort among government agencies, across individual organisations and across jurisdictions. In the absence of any medium

term national growth plan for the industry, providers and industry stakeholders question ‘capacity-building for what’?

Policy development options

Within the bounds of limited sources of information, this report offers an up-to-date snapshot of the shape and scale of Australia’s affordable housing industry. It is this research team’s first contribution to a wider assessment of the industry’s capacity to respond to large-scale growth that could stem from public housing transfers or other investment strategies directed to increasing affordable housing supply and social housing renewal.

With regard to affordable housing providers themselves, we consider that there is a strong cohort of commercially-oriented and independent NFPs with considerable capacity for further growth and development. Better utilisation of their capacity and realisation of scale economies could be achieved through a (preferably national) industry plan that sets clear affordable housing growth targets and is underpinned with secure and adequate subsidy streams, and more cost-effective private financing approaches. Balance sheet enhancement—via giving large CHPs greater control of managed assets—will also be beneficial to growth and efficiency goals. Strengthening the policy framework for affordable housing could also be expected to attract new entrants to the industry from both the for-profit and NFP sectors.

Many smaller registered providers also have potential for modest growth and partnering approaches. Their futures are important to meeting Australia’s geographic spread of housing needs, meeting complex and special needs, fostering innovation and leveraging local community resources. Capacity-building could be designed to assist their further growth and development as appropriate within a framework of a future industry plan and an industry-negotiated strategic approach to market shaping.

Specific attention must be given to building governance capacity and organisational scale in the ICHO sector and to reinstating a strong Indigenous voice within the industry. Along with improving the cultural proficiency of mainstream services, retention of robust and culturally-adapted housing services for Indigenous households is essential to both government and community ambitions to ‘close the gap’ in indigenous disadvantage.

Priority areas for bolstering the current affordable housing industry supporting institutions and infrastructure that have been identified through the assessment so far include:

- Enhancing leadership, expertise and coordination within government.
- Separating the administration of public and affordable housing.
- Completing and refreshing national regulation.
- Joint government and industry guidance of industry development and restructuring.
- Reinforcing the leadership and capacity-building functions of industry peak bodies.
- Industry core data reform and housing needs modelling.
- Development of specialist financial brokerage arrangements.
- Restoring culturally appropriate institutional arrangements to support the provision of Indigenous housing.

The study

This study is concerned with the capacity of Australia’s affordable housing industry to significantly up-scale, in the context of government and industry ambitions to transform the current public

housing-dominated system and to increase the supply of affordable housing. Specific avenues of interest include attracting large scale private finance to a new affordable housing asset class, offering a wider range of affordable housing products matched to diverse needs and ensuring the efficiency, effectiveness and accountability of housing provider organisations.

In this context, this study has been designed to address four core research questions:

- 1 What is the present structure and capacity of the Australian affordable housing industry?
- 2 What are the current forms and levels of industry assistance and regulation provided to this industry by governments and other supporting institutions?
- 3 What are stakeholder/expert views on desirable directions and priority areas for the development of organisational and industry capacity?
- 4 What industry adjustment and institution-building is recommended to support the preferred industry development path and support public policy goals?

The study forms one contribution to an AHURI-driven Evidence-Based Policy Inquiry into 'affordable housing industry capacity'.

The Inquiry defines 'affordable housing' as housing provided subject to access and affordability requirements set by government. This includes:

- Rental housing priced at below market rents and earmarked for eligible low- to moderate-income households.
- Owner-occupied housing for eligible low- to moderate-income households that is provided under a subsidised loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement.

Capacity is defined as the ability of the industry to perform the work and achieve the goals that governments and industry stakeholders envisage for it.

To help diagnose different capacity challenges this has been further broken down (following previous researchers) into questions about the industry's:

- resourcing capacities
- organisational capacities
- industry-specific capacities
- network capacities
- political capacities.

As elaborated in Chapter 2 of this report, the assessment of these capacity dimensions considers both supplier organisations and the industry as a whole.

This first report of the study addresses the first two research questions above. The report describes the current profile of Australia's affordable housing industry (see Chapters 3, 4 and 7). It investigates current approaches to industry development (Chapter 5) and then examines issues affecting the industry's capacity to develop, finance and manage affordable housing (Chapter 6).

Complementing this document is a second report—to be published later in 2016—which will address research questions 3 and 4 (above) and offer recommendations for a plan to guide industry growth and development.

Information presented in this report has been obtained from three main sources:

- Documentary records pertaining to the industry and its development, including previous research, data repositories, policy and industry reports, and consultants' advisory reports.

- An online survey of registered community housing providers to ascertain organisation operating functions and scale and to probe provider viewpoints on capacity issues for them individually and for the overall industry.
- Interviews with key policy-makers, industry leaders and, in regard to Indigenous housing issues, Indigenous community housing leaders.

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Acknowledgements

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

The researchers would like to acknowledge the assistance of housing registrars with the administration of the online provider survey and to thank providers who responded to the survey. They are also grateful to the policy-makers, industry leaders and Indigenous informants who assisted with the provision of information.

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