



EXECUTIVE SUMMARY

Transforming public housing in a federal context

Inquiry into affordable housing industry capacity

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Inquiry panel members

Each Evidence-Based Policy Inquiry is supported by a panel of experts drawn from the research, policy and practice communities. Panel members for this Inquiry:

Brian Elton (Facilitator)	Elton Consulting
Iain Scott	Department of Social Services, Australian Government
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Executive summary

The research focuses on public housing reform within multi-provider systems and complex governmental settings.

In the context of Australia's own Review of Federation, how four federated governments: the United States (US), Canada, Germany and Austria have managed the transformation of their social housing systems provides valuable insight.

Key findings:

- Strong and stable intergovernmental and stakeholder commitment underpins successful public housing sectors, in complex federated governance settings.
- Prescriptive centrally driven requirements, such as very narrow income targeting of tenancy allocations, negatively impacts on revenue, concentrates disadvantage and increases demand for support services, as in the US.
- Vibrant and growing multi-provider systems are present in countries where business models are well defined, broadly allocated, publicly supported and well-regulated with conditional subsidies contestable, as in Austria.
- Devolution of responsibilities without the adequate transfer of resources often deteriorates and reduces public social housing stock in the long term, as in Canada and Germany.
- Insufficient funds to resource capital and operating expenses forces social housing providers to rely more heavily on entrepreneurial activities and shorter term private finance, often increasing rents and asset sales, as in Germany. Privatisation of public housing can impede the enforcement of social rental contracts, also as in Germany.
- Devolution can support local innovation and responsiveness, as in Austria but also lead to fragmentation undermining comprehensive national policy, as in Canada and Germany.
- New sources of private funding can significantly supplement declining supply subsidy programs, as in the US and Austria, but can also increase costs for tenants and increase demand for rent assistance.
- Private investment, while accessible to the affordable not-for-profit sector, has not addressed the shortfall in funding for deeply social public housing, as in the US.

Deeper insight to the impact of federal state transformation of public housing is provided via eight local illustrations, which reveals how organisations mediate federal shifts through changes in governance, asset management and human resources.

The Australian Government is reshaping federal-state relations that govern many areas of social infrastructure funding and delivery, including public housing. But given the challenges facing public housing, what type of transformation do we need and how can this best be achieved? This report ploughs the experiences of other federal states to inform Australian approaches.

Key findings

In general, successful public housing sectors, in complex federated governance settings, require strong and stable intergovernmental and stakeholder commitment to support a sustainable affordable housing industry.

Devolution of responsibility for public housing without an adequate transfer of resources has had a negative impact on social housing supply. Regional tax revenues are often narrower and thus insufficient to fully fund housing programs, forcing providers to rely more heavily on entrepreneurial activities and private finance, leading to a shift away from social housing to less affordable housing.

Conversely, centralisation can also be counterproductive where it stifles innovation. Prescriptive requirements cannot be met under shrinking resources for operating and capital costs.

New sources of private funding have, in some countries, supplemented declining supply subsidy programs. Channelled effectively, these can ensure desired housing outcomes are achieved, although this can sometimes be at the expense of affordability.

In the US, public landlords are subject to nationally and centrally prescribed programs that are declining in capital funding and increasingly targeted to very low income households. Until recently, public housing authorities have not enjoyed alternative sources of private funding accessible to the affordable not-for-profit sector. In contrast, devolution and diversity are key dimensions of Canada's interjurisdictional agreements, where public or multi-provider provider systems co-exist in each province. Bilateral agreements between the national government and each province, offer a declining share of federal funds towards operating costs supplemented by sporadic specific purpose funds and fragmented provincial investment, impeding the development of a comprehensive and robust national financing model.

Moving to continental Europe, in Germany the national government has largely withdrawn from capital investment programs in social housing. Few regional governments have supplanted this funding and most have discontinued their supply effort. In the handful of remaining active regions, subsidies are provided to both private and public landlords delivering social housing under social contract. As these subsidies expire, conditions regulating rents and allocation are literally 'melting away' and this process has accelerated with privatisation.

This contrasts with the more vibrant, federally legislated Austrian system, where supply subsidies prioritise a well-regulated limited profit sector that also takes on increasing role in managing and building municipal housing as well.

Overall, our research on the experience of four federal states in transforming their public housing has found:

- 1** The allocation of national level resources and the associated establishment of institutions, including dedicated funds, legislated models of provision and their regulation, play a very influential role steering the scale and nature of social housing development. Their long-term stability is also crucial in attracting private investment on a scale that is required to address needs.
- 2** Deteriorating quality and supply of public housing assets has been a long-term trend in the US, Canadian and German cases, and is clearly an outcome of declining public investment

from federal transfers, short-term operating agreements and increased targeting to very low income and high needs households.

- 3 Federal governments, such as Germany and Canada, are undergoing a process of devolution, decentralising responsibilities for social housing to lower tiers of government without making dedicated transfers for their operational and capital needs and this is having negative and unintended consequences on supply and affordability outcomes.
- 4 Despite the rhetoric of localism and subsidiarity, the comprehensiveness of public housing provision has been severely challenged by devolution. When long established tied federal transfers are loosened, the majority of regions divert resources away from housing programs (e.g. Canada, Germany and Austria).
- 5 Much progress has been made in the US and Austria towards channelling private investment and tax credits towards the not-for-profit and private sector, but this has tended to bypass public housing organisations and access often requires privatisation.
- 6 Active asset management requires both fine grained attentiveness to building occupancy and the application of cost standards across the stock. Sustainable asset management requires adequate build up and expenditure of funds maintaining, refurbishing and eventually replacing public housing, to ensure that assets remain appropriate and in good quality for the long term (Austria, US).
- 7 To make up for shortfalls in public investment, some providers have designed better structures to package and lever their housing assets and revenue streams and raise private investment in order to reduce reliance on public funds. Though this tends to result in less affordable rents (US, Austria, Canada).
- 8 A national level legislative framework outlining the business model for not-for-profit housing provision, establishing cost rent setting rules and delineating conditions for the use of direct and indirect subsidies consolidates good business practices, ensures contestability and transparency in the allocation and use of subsidies, promotes efficiency and facilitates private investment to grow supply (Austria).

Policy development options

There are specific approaches and initiatives exposed by our international research of federated systems that can inform responses to the numerous challenges facing Australian public housing. These challenges include a lack of funds, fragmentation and marginalisation of public housing policy, as well as rising operating costs, maintenance backlog and narrowing revenue base (Hall and Berry 2004; 2009; Jacobs, Atkinson et al. 2010; Pawson, Milligan et al. 2013).

Constructive co-ordination of national housing policy

Given the complexities of federated governance settings and involvement of multiple public and private social housing providers, Australian housing policy requires strong and stable intergovernmental and stakeholder commitment in order to play an important and ongoing role as part of a multi-provider affordable housing industry.

Towards this goal, new forms of governance need to be embraced and supported, building on Australia's past experience with the National Supply Council and the Housing Summit and learning from Germany's efforts in forming and institutionalising a role for a National Alliance of all relevant stakeholders responsible for implementing affordable housing policy goals and targets, which emulates successful multi-stakeholder approaches from active city governments there (Hamburg).

Long-term mechanisms for adequate funding

Alongside adequate and committed governance, provision of social housing necessarily entails a *stable mechanism for transferring and dedicating public resources* complemented by robust instruments and intermediaries to channel *private investment*. This dual and integrated funding approach is exemplified by the Austrian Federal Government where national transfers on a per capita basis support regionally designed programs reflecting local needs to co-finance revolving loan programs. The US system of distributing federal tax credits to state governments and ability to issue tax exempt bonds for the competitive and needs based allocation of funding can also inspire similar approaches here.

Social housing systems require not only *long-term* agreement over the transfer of public and private funds but also well designed policy tools to ensure their efficient and effective allocation and application to the management, maintenance and (re)development of social housing stock by both the public and increasingly the private and NFP sector. In this regard, Australia could learn from the US' Harvard Cost Study (2003) and HUD Area Median Rent indexes. The HUD sets standards and benchmarks informing subsidy and rent levels as well as Austria's legally defined cost capped, cost rent regime which requires projects to cover financing costs, encourages a wide range of affordable housing outcomes and requires the dedication of funds for ongoing maintenance and new supply. A feasible rent setting and assistance regime covering these costs and promoting affordability needs to be put in place and routinely refined as market conditions and needs change.

Balanced access to sources of funding

The research findings reveal that public housing authorities (in addition to NPOs and private landlords) have varying access to financial resources and this access largely determines their market role and position in a multi-provider system. Access to public grants and loans, demand assistance, tax credits, tax exempt bonds and commercial loans and their regulation differs by type of landlord and this can undermine a healthy balance and competitive drive within social housing systems. To date, Australian PHAs have stood outside the ambit of not only private finance initiatives but also proposed regulatory systems. An evaluation of current and ideal access to funding by CHOs, private investors and public housing providers is warranted.

Efficient and effective tools to channel private investment

The research also suggests that tax incentives and financial intermediaries can be very effective in boosting the supply of new affordable rental housing provided by regulated not for profit organisations, as illustrated in the US and Austria. In the United States, declining public funds have been greatly supplemented by Low-income Housing Tax Credits, more than doubling affordable housing output. Furthermore, project based demand assistance now attracts private investment towards US public housing and this process is having a major impact on public housing leadership, strategy and development. In Austria, specialist financial intermediaries and tax incentives on retail housing bonds, provide well targeted long-term lower cost private finance that supports a growing limited profit sector providing affordable rental and ownership housing.

Drawing on these initiatives, considerable work has been completed by AHURI adapting these instruments and intermediaries to suit Australian conditions (Lawson, Berry et al. 2014; Lawson, Milligan and Yates 2012) and there is cross party support to move forward from this basis (Commonwealth Senate ERC 2015: Recommendation 40).

Integrated and sophisticated local planning

Internationally, local government can be seen playing a role in preparing responsive housing strategies and local charters, actively engaged on boards of public housing authorities and facilitating partnerships with local service providers as in US cities and counties, many German municipalities and example par excellence in Vienna, Austria. Closest to tenants, local governments can also play a key role in allocating housing assistance and monitoring social contracts with landlords as in Berlin and Munich. In strong property and labour markets, carefully designed land banking strategies and planning instruments make a positive difference to pure 'free' market outcomes. City governments have played a direct role in land banking, enabling equity funding and also direct provision in Vienna, Berlin, Munich, San Diego, Portland and Toronto and demonstrated the value of inclusionary zoning in Munich, Vancouver and San Diego. In Australia, there is a need for much closer integration of social and affordable housing policy with metropolitan and local government roles and responsibilities and the implementation of more sophisticated planning tools.

From bureaucratic silo to community ally

In order to *reduce bureaucratic isolation* and integrate social housing more effectively into the broader social housing market, lessons can be drawn from the US, where many formerly bureaucratic agencies of HUD are now operating as community allies alongside a growing NPO sector (which primarily provides affordable but not deeply social housing). Portland's HomeForward is one of the more successfully transformed Public Housing Authorities: pursuing a partnership approach, working closely with local governance and linking with support services.

There has been critique of Australian public housing authorities not only for their capacity to address waiting lists but also for their monopoly position in the social housing market. Hence, the growth and regulation of the CH sector has been seen as a legitimate focus for policy development. However, the role of SHAs as community partners has been overly discounted and should be more closely examined.

Like the US and Canada, Australian public housing's financial predicament stems from a narrowing revenue base from increased targeting coupled with rising operating costs, amidst stagnant social benefits and insufficient rent rebates. Some have argued that broadening of the tenant income profile could partly ameliorate this problem, but this could also reduce access to scarce housing resources by the very poor. It is a complex problem.

A comprehensive Australian model for public housing redevelopment and allocation of new supply is lacking. Lessons can be learnt from the extensive mixed tenure redevelopment of US public housing under the HOPE VI program and the recent RAD program which illustrate different approaches and provide valuable lessons in how financing can determine redevelopment outcomes.

Anticipating maintenance and funding it

Related to structural deficits, Australian SHAs also face a growing backlog in maintenance. This also afflicts public housing authorities in the US, Canada and Germany. A cost competitive assessment of maintenance works can form part of property data base system and inform capital investment plans, as is now the case with the Toronto Community Housing Corporation. More structural legislated solutions can be found in Austria's LPHA model, which requires set aside funds for maintenance and their gradual accumulation via specific rent contributions.

Innovation linking demand assistance to capital investment

The limited ability to expand Australian public housing has also led to calls for a substantial equity injection and or unencumbered transfer of public dwellings to NPO in Australia with the potential to level CRA. Inspiration can be derived from the US, where the RAD program enables pooled rent assistance payments to lever private investment on a project by project basis. In Austria, new social housing is not public but largely provided by LPH Associations on a cost rent basis that automatically covers financing costs. Rent levels vary according to the share of public subsidy and tenant equity injected into the total financing package. More detailed research is required to compare US and Australian approaches to rent setting, pooling assistance and raising finance.

New funding models and cultural change

Unlike Australia, the reform of public housing authorities in the US and Canada has been accelerated by new funding models, which demand more active and locally attentive asset management strategies. Greater reliance on private funding has not only motivated efforts to reduce tenancy turnover but also exploit high rent and land value locations through redevelopment. It has also promoted the shift from rent geared to income models to cost rents reliant on demand assistance for affordability.

Overall, this process of transformation in the US has generated a substantial cultural change in public housing management, redefining their mission away from the poorest to an expanding tenant profile, reducing social stigma through marketing and partnership and strengthening skills in asset management and finance to ensure financial continuity, renovate stock and permit the expansion of affordable housing supply in a few cases.

The study

This study, being one of four interconnected research projects concerned with 'An Inquiry into affordable housing industry capacity' concerns the strategies followed by four federal states: US, Canada, Germany and Austria. It aims to explore how these states have managed their public housing provision and in particular how governments have helped to facilitate this change and build capacity.

Public housing in these countries is no longer the dominant social landlord, but part of a multi-provider system alongside other not-for-profit and private players. However, the design of their social housing systems in terms of policy, funding, provision and regulation differs markedly.

This research takes a 'whole system' approach examining differences in macro and micro transformation strategies that drive change in these federated states and influences the capacity of housing systems to deliver affordable and social housing outcomes.

Within decentralised federal systems there is space for regionally distinctive approaches. Hence, national transformation strategies have been elaborated with reference to two local illustrations for each country; being San Diego and Portland, Toronto and Vancouver, Berlin and Munich, Vienna and Lower Austria. The experiences of these cities and their housing providers illustrate how federalism is mediated locally and offers much deeper insight than national overviews alone can provide.

Table 1: Local illustrations of public housing transformation

Federal state	Local illustrations	
	A	B
United States	San Diego Housing Commission exchanged public housing operating subsidy for ongoing housing vouchers, enabling use of equity and revenue stream to access private finance. Transformative leadership.	Homeforward (Portland) pioneered reform of HUD regulations on investment, rent and allocation, piloted more flexible approach attracting investment for tower rehabilitation. Community ally.
Canada	BC Housing transferred most public housing to NPOs, invested in new SH and operates wholesale financing scheme for social housing for new dwellings.	Toronto Community Housing Corporation operates under prescriptive provincial framework, constrained funding, and limited financing capacity at municipal level.
Germany	Berlin Municipal Housing underwent considerable privatisation to global investors, impeding regulation of local social contracts. Some public buyback of stock at much higher prices and potential return to public administration despite austerity.	City of Munich is a provider and facilitator of social housing. It was outbid by private investors in state privatisation but eventually bought back sold social stock. Its strong economy allows inclusionary land use policies to require affordable housing in development.
Austria	Wiener Wohnen, a very large public landlord, ceased direct construction and focused on renovation. Affordable housing supply embedded in City's comprehensive approach to housing and economic development.	Wien-Süd top ranking building co-operative active in 46 municipalities, focuses on energy efficient building and non-profit construction of social infrastructure. Contracted to manage smaller municipal housing companies.

The research methods have involved a literature review charting key contours of transformation of federated housing policy, the drivers these changes and the housing outcomes generated. The review draws on input from national experts selected for each country, who guided the selection of illustrative organisational cases and informed local field work. Local investigations were elaborated via interviews with key stakeholders, offering multiple perspectives on social housing transformation by providers in eight different cities.

From these macro and micro examinations of the transformations of public housing in a federal state context, a number of policy tools and approaches were abstracted to inform strategies addressing Australia's public housing challenges.

AHURI

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AHURI has a public good mission to deliver high quality research that influences policy development to improve the housing and urban environments of all Australians.

Through active engagement, AHURI's work informs the policies and practices of governments and the housing and urban development industries, and stimulates debate in the broader Australian community.

AHURI undertakes evidence-based policy development on a range of issues, including: housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

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