



briefing paper



NSW Parliamentary Research Service

Affordable rental housing: current policies and options

Briefing Paper No 11/2015
by Andrew Haylen

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ISSN 1325-5142

ISBN 978-0-7313-1940-4

October 2015

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Affordable rental housing: current policies and options

by

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ACRONYMS

AHURI	Australian Housing and Urban Research Institute
CHP	Community Housing Providers
COAG	Council of Australian Governments
CRA	Commonwealth Rent Assistance
LEP	Local Environmental Plan
LIHTC	Low-Income Housing Tax Credit
NAHA	National Affordable Housing Agreement
NRAS	National Rental Affordability Scheme
SEPP	State Environmental Planning Policy
SHI	Social Housing Initiative
VPA	Voluntary Planning Agreements

SUMMARY

The e-brief *Affordable rental housing: the problem and its causes* outlined the extent of the undersupply of affordable housing in NSW and the market based and policy shortcomings behind this shortfall.

This briefing paper seeks to expand on this discussion by outlining in detail the legislative and policy framework related to affordable housing in NSW and more broadly in Australia. This will provide the basis for the discussion to follow in the latter part of the paper regarding future policy options – with a particular focus on the supply-side planning and financing mechanisms available to government to facilitate affordable housing supply growth.

What is affordable housing?

Affordable housing can be understood in a narrower and broader sense. The broader use of the term encompasses any private rental housing for low to middle income residents, where rents for these households is at a level that enables them to meet other basic living costs.

In the context of this paper and the Australian context more generally, narrowly understood affordable housing is a specific type of housing built to be occupied by a range of low to moderate income households that are ineligible for public housing and also unable to participate effectively in the private rental market.

Typically, this category of affordable housing is delivered through government intervention of one sort or another and is managed by dedicated non-profit, private affordable housing companies.

NSW Government affordable housing policies and initiatives

Following the change of government in March 2011, NSW Government policy priorities were articulated through *NSW 2021*. This policy framework set targets and actions across a range of government portfolios. However, there was no specific mention of affordable housing.

The *NSW 2021* document has since been superseded by *NSW: Making It Happen* which was released by Premier Mike Baird on 14 September 2015. Again, while there is no specific mention of affordable housing, 'faster housing approvals' was one of the 12 key priorities.

The *State Environmental Planning Policy (Affordable Rental Housing) 2009* – with later amendments under the *State Environmental Planning Policy No. 70 Affordable Housing (Revised Schemes)* – has been the key lever for the NSW Government in recent years to address affordable housing supply.

In May 2011, the NSW Government announced the establishment of the Affordable Housing Taskforce. It delivered an *Interim Report* in 2012 that made initial recommendations on actions to develop a new affordable housing planning policy. To date, there is yet to be any further action on this policy framework.

Commonwealth policies and funding schemes

While there is no federal head of power that is directly relevant to housing, it is the case that at least since the Commonwealth-State Housing Agreement of 1945, the federal government has played an important role in this field.

A series of important affordable housing reforms were undertaken by the Rudd Government in 2009. These included the Nation Building Economic Stimulus Plan, the National Affordable Housing Agreement and the National Rental Affordability Scheme – which were anticipated to result collectively in the building of more than 80,000 affordable rental homes. While they did not reach this target, a significant quantity of affordable housing was developed as a result of these reforms.

A number of the schemes introduced by the Rudd Government – including National Rental Affordability Scheme – were discontinued following the election of the Abbott Government in 2013.

Community housing sector

Community housing is affordable rental housing provided to low-to-moderate income and/or special needs households, managed by non-for-profit organisations that lease properties from government or have received a capital or recurrent subsidy from government.

As at 30 June 2014, there were 212 registered community housing providers in NSW accounting for 25,954 community housing properties (CHPs).

CHPs are, by definition, not-for-profit entities and the vast majority of providers are charitable organisations with Public Benevolent Institution status. As such they can access a range of tax concessions including GST exemption, income tax exemption, access to fringe benefit tax, and often local tax concessions. Such taxation benefits, as well as rent setting to maximise revenue from Commonwealth Rent Assistance, are crucial to their ongoing viability.

The sector has more than doubled in the past decade or so and has come off the back of the *Community Housing Strategy* – released in March 2007; as well as funding channelled through the National Rental Affordability Scheme. Much of this expansion was achieved through the transfer of public housing units to the sector.

However, as acknowledged by the NSW Auditor General, the Department of Family and Community Services has not had a strategy for community housing since 2013 and “without a clear direction for the sector, there is a risk that providers will not deliver the outcomes that government wants.”

Regulation and policy at a local level in NSW

The management, ownership and/or facilitation of housing provision are currently outside the core function of a local authority, as identified by the *Local Government Act 1993*.

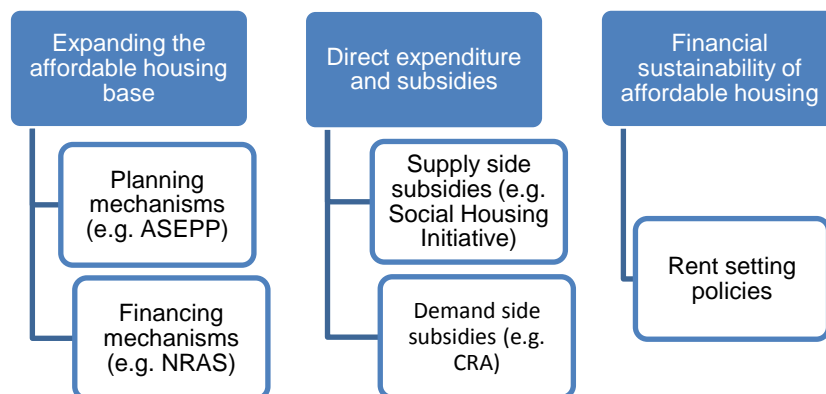
As outlined by the Affordable Housing Taskforce, “...having no legislative requirement to consider affordable housing means that developing and delivering affordable housing solutions is at a council’s discretion and such work must compete for limited council resources with other tasks councils are charged with carrying out.”

The City of Sydney, Leichhardt and Marrickville Councils have specific affordable housing strategies - which include targets as well as mechanisms to achieve those targets. Other councils (including Waverly Council, North Sydney Council, Parramatta Council and Randwick City Council) have developed affordable housing strategies – although a number of them are out of date and have not accounted for the latest regulatory changes.

Broad policy framework for affordable housing

Policy measures implemented by local, State and Commonwealth governments to address affordable housing have largely targeted supply-side improvements through direct expenditure, planning policies, and to a lesser extent, the facilitation of private investment in the sector. Other policy measures, such as Commonwealth Rent Assistance, have been used directly to improve the affordability of housing in the private rental market (figure below).

Affordable housing policy options available to government



Ultimately, the aim of the above policy options is to optimise the financial balance in the investment and operation phases of affordable housing provision.

Planning mechanisms to improve affordable housing supply

The State Environmental Planning Policy (Affordable Rental Housing) 2009 and the State Environmental Planning Policy No. 70 Affordable Housing (Revised Schemes) have been the key planning levers for the NSW Government in recent years to address supply.

A number of planning mechanisms which may provide more conducive conditions for affordable housing supply have been recognised in the Affordable Housing SEPP; although their application has been limited in a number of instances. These and other mechanisms include: inclusionary zoning; residential densification (i.e. minimum lot sizes); voluntary planning agreements; affordable housing levies; and discounted land release.

Financing mechanisms for affordable housing

Social housing in Australia has traditionally been built through capital programs fully funded by government. However, it is widely acknowledged the provision of rental accommodation at a scale to meet the forecast shortage requires large scale institutional investment; on a scale beyond which the government may supply alone. This is particularly important in the current environment of fiscal austerity and reducing direct public sector investment in housing.

Institutional investment in affordable housing has been limited in Australia and currently there is no clear regulatory or institutional framework that supports finance for the sector.

Internationally over the last few decades, affordable housing has experienced an increasing diversification of its finance mechanisms and sources. This has been driven by governments, faced by increasing budget constraints, which have successfully incentivised private institutional capital to invest in affordable housing.

This finance can take on a variety of forms, comprising grants, public loans, commercial loans as well as shareholder equity. It can be facilitated by various forms of collateral, government guarantees, mortgage insurance and tax incentives, often involving a specialist financial intermediary.

Countries such as France, Austria and Switzerland have models of finance that incorporate various forms of financing which limit the direct financial burden of affordable housing on government.

While such case studies cannot present a ready-made solution to affordable housing in Australia – the examples used help to demonstrate that mixed funding models for affordable housing can generate substantial capacity for affordable housing investment.

1. INTRODUCTION

Stable and affordable housing, with access to jobs and services, is fundamental to support employment and wellbeing by enabling social and economic participation in society.¹ However, as pointed out by the *Affordable Housing Taskforce*, “by a range of indicators, there is a housing affordability issue facing NSW which is particularly acute in Sydney and other large regional centres.”²

Low-to-moderate income earners are especially vulnerable to housing affordability stress. Even after Commonwealth Rent Assistance is taken into account, many find themselves in rental “no-man’s land” – that is, they don’t have access to social housing and in many cases are unable to compete effectively in the private rental market. For these people, affordable rental housing – provided by community housing and non-for-profit organisations - is the only realistic alternative accommodation.

However, there is a chronic undersupply of affordable housing for lower to middle income earners in NSW.³ This shortage has been the result of a combination of market based and policy factors – which are discussed in the paper [Affordable rental housing: the problem and its causes](#).

Following on from that discussion, this briefing paper outlines, in detail, the current legislative and policy framework related to affordable housing provision in NSW and more broadly in Australia. This provides the basis for a discussion of future policy options – with a focus on the supply-side planning and financing mechanisms available to government to facilitate affordable housing supply growth.

Housing is a particularly complex area of intergovernmental policies and relations.⁴ The purpose of this paper is not to try to resolve the issues at hand; rather, it tries to bring the variety of options together for comparative purposes.⁵

2. WHAT IS AFFORDABLE HOUSING?

An initial point to make is that affordable housing can be understood in a narrower and broader sense. The broader use of the term encompasses any private rental housing for low to middle income residents, where rents for these households is at a level that enables them to meet other basic living costs.⁶ In

¹ Department of Social Services. (2014) [A new system for better employment and social outcomes](#), Interim Report of the Reference Group on Welfare Reform, p.30

² Affordable Housing Taskforce. (2012) Interim Report, p.4

³ Community Housing Federation of Australia. (2015) [Response to the White Paper on Housing and Homelessness](#), p.6

⁴ Beer, A., Morris, A. and Paris, C. (2014) [Housing and Local Government in Australia in the 21st Century](#), Australian Centre of Excellence for Local Government, p.6

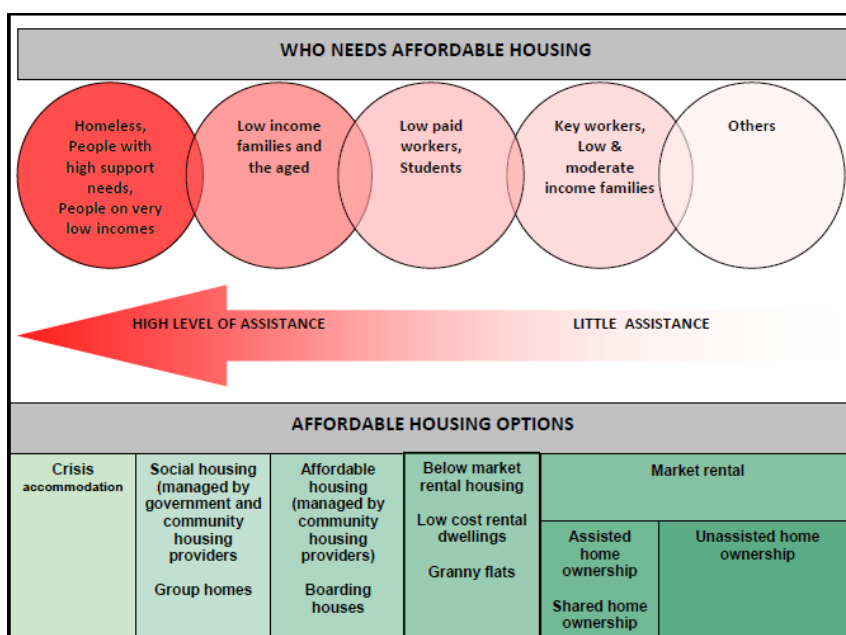
⁵ Readers are best served referring to key literature – particularly for the financing mechanisms – as to understand the intricacies of such options.

⁶ Urban Research Centre. (2008) [Models of Sustainable and Affordable Housing for Local Government](#), p.30

this context, housing is usually considered affordable if it costs less than 30% of gross household income.⁷

In the context of this paper and the Australian context more generally, narrowly understood affordable housing is a specific type of housing built to be occupied by a range of [low to moderate income households](#) that are ineligible for public housing and also unable to participate effectively in the private rental market;⁸ this may include people who work full or part-time in lower paid jobs, where their household income is not high enough to pay market rent in the area in which they live and/or work.

The spectrum of housing need and affordable housing options⁹



Typically, this narrower category of affordable housing is delivered through government intervention of one sort or another and is managed by dedicated non-profit, private affordable housing companies – including [community housing providers](#) (Chapter 5).¹⁰ Eligibility¹¹ and rents vary depending on the affordable housing scheme involved. For example, where rent is set as a discount on the market rent, the discount is “usually between 20 and 25% compared to the market rent for a similar property in the area.”¹²

⁷ Centre for Affordable Housing, [What is affordable housing?](#), accessed 15 July 2015

⁸ Urban Research Centre. (2008) [Models of Sustainable and Affordable Housing for Local Government](#), p.30

⁹ Affordable Housing Taskforce. (2012) Interim Report, p.9

¹⁰ Urban Research Centre. (2008) [Models of Sustainable and Affordable Housing for Local Government](#), p.30

¹¹ Eligibility, including income limits, can vary depending on the way a property was funded or developed, and who manages it. Income eligibility limits set by the NSW Government are outlined in the [NSW Affordable Housing Guidelines](#).

¹² Centre for Affordable Housing, [How much rent will I pay?](#), accessed 15 July 2015

Traditionally in Australia, the term ‘public housing’ has been used to refer to low rent housing financed, owned and managed by state housing authorities. Affordable housing differs from public housing as it is open to a broader range of household incomes. Other differentiating attributes usually include ownership, financing mechanisms, allocation rules and rent setting.¹³

As will be discussed in later chapters, Australia is in the process of a transition from traditional models of public housing supply to “a more diversified system of affordable housing provision, involving new delivery arrangements, non-government responsibility for asset and tenancy management, mixed public and private funding sources, planning innovation, different rent setting models, and a mix of target groups.”¹⁴

3. NSW GOVERNMENT AFFORDABLE HOUSING POLICIES AND INITIATIVES

Following the change of government in March 2011, NSW Government policy priorities were articulated through [NSW 2021](#). This policy framework set targets and actions across a range of government portfolios. NSW 2021 replaced the previous government’s *State Plan*. Neither document gave “specific consideration of affordable housing.”¹⁵

The NSW 2021 document has since been superseded by [NSW: Making It Happen](#), released by Premier Mike Baird on 14 September 2015. This document outlines 12 key priorities for the Government, including “faster housing approvals” – with a specific target of 90% of housing development applications determined within 40 days.

The [State Environmental Planning Policy \(Affordable Rental Housing\) 2009](#) – with later amendments under the [State Environmental Planning Policy No. 70 Affordable Housing \(Revised Schemes\)](#) – has been the key lever for the NSW Government in recent years to the address affordable housing supply. However, as pointed out by Davison et. al. (2012):¹⁶

...to date, no overarching housing, or affordable housing, strategy is in place. Also, since the change in government in 2011, housing policy has been split into assets and services under different departments and ministers.

In spite of this, the Baird Government is developing affordable housing initiatives, including the [Macquarie Park plan](#) announced in September 2015

¹³ Milligan, V, Gurrán, N, Lawson, J, Phibbs, P, and Phillips, R. (2009) [Innovation in affordable housing in Australia: Bringing policy and practice for not-for-profit housing organisations together](#), AHURI Final Report No. 134, p.18

¹⁴ Milligan, V, Phibbs, P, Fagan, K, and Gurrán, N. (2004) [A practical framework for expanding affordable housing services in Australia: learning from experience](#), AHURI Final Report No. 65, p.4

¹⁵ Davison, G. et al. (2012) [Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales](#), AHURI Final Report No.195, p.65

¹⁶ Ibid, p.66

which proposes to swap public housing for private-sector mixed-use apartments.

This chapter will present relevant NSW Government policy and regulatory instruments related to the provision of affordable housing in NSW. As a prelude to that discussion a brief outline of relevant legislation is provided.

The NSW Government makes up only part of the framework of affordable housing provision. Subsequent chapters will examine the respective roles of Commonwealth (Chapter 4) and local governments (Chapter 6), as well as the community housing sector (Chapter 5) in affordable housing provision.

3.1 Legislative foundation for social and affordable housing in NSW

The NSW Government has a key role in the provision and administration of affordable housing. In addition to administering public, community and indigenous housing, the Government provides financial support to renters through private rental assistance (Chapter 3.5.4) and, though not directly relevant to this discussion, to buyers through home purchase assistance.

Social housing is regulated under the [Housing Act 2001](#). This Act provides the basis for social housing assistance, including rental rebates, advances and tenancies. Provisions in this Act established the [Land and Housing Corporation](#) – giving it the power to acquire, sell and construct social housing in certain circumstances.

The NSW Government is also responsible for land use and supply policy, urban planning and development policy, housing-related taxes and charges (such as land taxes and stamp duties) and residential tenancy legislation.¹⁷

At the State level, the [Department of Planning and Environment](#) develops and provides planning policies that underpin the development of affordable housing (Chapter 3.2).

The [Environmental Planning and Assessment Act 1979](#)¹⁸ and the [Environmental Planning and Assessment Regulation 2000](#) provide the legal foundation for planning and development law, including the power of the State government to make environmental planning instruments and policies.¹⁹

The *Environmental Planning and Assessment Act 1979* was amended in 1999 to include an objective specifically related to affordable housing; Section 5(a)(viii) states that an objective is “to encourage the provision and

¹⁷ Productivity Commission. (2015) [Report on Government Service - Housing](#), p.17.6

¹⁸ In 2000, the NSW *Environmental Planning and Assessment Act 1979* was amended to include affordable housing as an objective, meaning that land use plans could address affordable housing and that affordable housing could be considered during development assessment.

¹⁹ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.19

maintenance of affordable housing."

3.2 State Environment Planning Policy – Affordable Rental Housing

The [*State Environmental Planning Policy \(Affordable Rental Housing\) 2009*](#) (Affordable Housing SEPP) was introduced on 31 July 2009 to support the supply and [retention](#) of affordable rental housing by:

- incentivising private sector provision of various forms of affordable rental housing through the use of planning incentives²⁰ in certain circumstances; and
- enabling certain types of developments to be constructed, even if they did not comply with local planning laws.²¹

Specific planning methods employed by the NSW Government for the development of affordable rental housing under the Affordable Housing SEPP included:²²

- Allowing development of low-rise villas, townhouses and flats up to 8.5 metres high in areas that are otherwise classified as low density, provided that a proportion of floor space is dedicated for affordable rental housing for at least 10 years;
- Relaxing restrictions on the development of ancillary accommodation;
- Providing incentives for the development of boarding houses;
- Self-assessment for Housing NSW developments up to 20 units (subject to a number of other criteria); and
- Requiring consent to demolish, change use or alter low cost rental accommodation or boarding houses, or to strata subdivide low cost rental accommodation.

For a more detailed and critical discussion of these amendments see the *Affordable Rental Housing SEPP Review*²³ published by the Department of Planning in December 2010.

Less than two years after the Affordable Housing SEPP was first introduced, there was a change of government in NSW. As noted by Davison et. al. (2012), "the new government had a number of policy differences to the previous one, particularly in response to urban consolidation, changing neighbourhood

²⁰ See Appendix 2, Table 2 Affordable Housing Taskforce Report - Summary of the provisions in each Division in the Affordable Rental Housing SEPP when made in July 2009.

²¹ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.186

²² Western Australia Department of Planning. (2013) [Planning Provisions for Affordable Housing – Discussion Paper](#), p.40

²³ At the time this report was published the online version of this document was no longer available.

character, and a desire for more community say over local developments.”²⁴

As such, in May 2011, the O’Farrell Government [amended](#) the affordable housing SEPP stating that it imposed “inappropriate development on suburbs”.²⁵ The [State Environmental Planning Policy No. 70 Affordable Housing \(Revised Schemes\)](#) was subsequently introduced which included a number of [amendments](#).²⁶

- merit assessment of compatibility with ‘local character’;
- affordable housing contributions had to be commensurate with the density increase (i.e. a proportion of floor space, rather than a proportion of dwellings); and
- removing the permissibility of low-rise, medium-density development (villas, townhouses & two-storey flat buildings) in areas where only single dwellings are usually permitted

It is beyond the scope of this paper to assess the effectiveness of the Affordable Housing SEPP and subsequent amendments. However, a number of the concerns were raised related to the limitations of the existing policy framework in Chapter 9 of the Legislative Council Select Committee [report](#) on social, public and affordable housing. According to the Affordable Housing Taskforce:²⁷

Whilst the Affordable Housing SEPP has been the first step in establishing a state-wide planning policy on affordable housing, much more needs to be done so that the planning system encourages the development of affordable housing to meet the needs of local communities in a manner that is consistent with the character of those areas.

Legislation and planning instruments need to recognise affordable housing provision as a legitimate planning objective if there is to be the increase in numbers of affordable housing delivered to help address current and future housing needs.

3.3 Affordable Housing Taskforce

Following amendments to the *State Environmental Planning Policy (Affordable Rental Housing) 2009* in May 2011, the NSW Government announced the establishment of the [Affordable Housing Taskforce](#) to help “drive new planning policies for delivering affordable housing and seniors housing, which meets community needs and respects local character.”²⁸

²⁴ Davison, G. et al. (2012) [Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales](#), AHURI Final Report No.195, p.71

²⁵ Sydney Morning Herald, [Affordable housing policy dumped](#), 20 May 2011

²⁶ Davison, G. et al. (2012) [Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales](#), AHURI Final Report No.195, p.71

²⁷ Affordable Housing Taskforce. (2012) Interim Report, p. 19

²⁸ NSW 2021. (2012) [Eastern Sydney and Inner West - Regional Action Plan](#), p.11

The [Terms of Reference](#) for the Taskforce included “assisting the NSW Government in establishing its new approach for delivering affordable housing.”²⁹ Membership of the Taskforce comprised representatives from Local Government NSW, social housing experts, community housing providers, development and planning experts and representatives from government agencies.

The Affordable Housing Taskforce delivered an [Interim Report](#)³⁰ in 2012 that made initial recommendations on actions to develop a new affordable housing planning policy. According to the [Department of Planning and the Environment](#), “the Government [was] considering the recommendations and work of the Affordable Housing Taskforce as it progresses broader reforms to the planning system.”

In its March 2012 Interim Report the Taskforce rejected a ‘no option’ policy approach. However, with September 2012 identified as the target in the Delivery Program for an Affordable Housing Planning Policy, to date no action has been taken up on this policy framework. According to Gurrán and Phibbs (2015):³¹

Although the Taskforce was ostentatiously launched at a half-day harbourside event involving over 400 housing advocates and community members, it soon faded into the background and its final report was never publically released.

The Legislative Council Select Committee was concerned about the role and outcomes of the Affordable Housing Taskforce.³²

On face value, it appears an appropriate vehicle for consulting with stakeholders and driving the growth of affordable housing at a state and local level; however, we are not clear as to extent of its role or what outcomes it has achieved since being established in 2011.

3.4 NSW Affordable Housing Guidelines

Increasing the supply of affordable housing through the community housing sector (Chapter 5) is a “strategic priority for the NSW Government to assist a greater number of households in housing need.”³³

As noted in the [NSW Affordable Housing Guidelines](#), the community housing sector has the ability to play an increased role in the provision of affordable housing because it can “use debt funding, and can access tax and other concessions to reduce delivery costs.”³⁴

²⁹ Department of Planning and Environment, [Affordable Housing Taskforce](#), 16 July 2015

³⁰ The online version of this document is no longer available.

³¹ Gurrán, N, and Phibbs, P. (2015) [Are Governments Really Interested in Fixing the Housing Problem? Policy Capture and Busy Work in Australia](#), Housing Studies, p.15

³² NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.202

³³ Housing NSW. (2013) [NSW Affordable Housing Guidelines](#), p.1

³⁴ Housing NSW, [NSW Affordable Housing Guidelines](#), July 2013, p.1

The Affordable Housing Guidelines are Ministerial Guidelines that set out the policy framework for the delivery of affordable housing by registered community providers. The guidelines include:³⁵

- principles for the operation of affordable housing programs;
- expectations regarding housing outcomes for the target groups to be housed;
- criteria for assessing eligibility for affordable housing; and
- expectations in relation to financial and asset management.

3.5 Other recent NSW Government affordable housing initiatives

3.5.1 Affordable Housing Innovations Fund

In March 2007 it was announced that the NSW Government would set aside \$49.8 million in funding for an Affordable Housing Innovations Fund to increase the supply of affordable housing. This included \$39.4 million for debt equity partnership projects with community housing organisations. Under the model:³⁶

...the Government provided up to 60 per cent of a project's costs and a registered community housing provider provided the remaining funds through a combination of debt, its own funds and contributions from partners, such as local government. The community housing provider then owns the properties and manages them as affordable rental housing. Debt equity projects are structured so that rent revenue is sufficient to cover all ongoing costs, including debt servicing, maintenance and management costs.

As noted by the [Centre for Affordable Housing](#):

The [Affordable Housing Innovations Fund] will encourage the growth of the community housing sector and enable community housing providers to attract private investment and financing, thus maximising the amount of affordable housing which can be provided.

This funding package also included \$10.4 million to provide 70 new rental properties for low-to-moderate income earners in St Marys in Western Sydney.³⁷

3.5.2 Housing Acceleration Fund

In June 2015, the NSW Government announced an additional \$400 million for the [Housing Acceleration Fund](#) to be sourced from Restart NSW. While not directly applicable to the specific provision of affordable housing, according to the NSW Government, the fund is supposed to “speed up the delivery of more

³⁵ Housing NSW. (2013) [NSW Affordable Housing Guidelines](#), p.1

³⁶ Housing NSW. (2007) [Planning for the Future: New Directions for Community Housing in NSW 2007/08 – 2012/13](#), p.6

³⁷ Centre for Affordable Housing, [NSW Affordable Housing Initiatives](#), 2 September 2015

housing and put downward pressure on home prices.”³⁸

It specifically provides funding for critical growth infrastructure projects to drive housing growth, and according to the NSW Budget Overview, the “funding that has been allocated for infrastructure projects support over 161,000 new dwellings and 1,200 hectares of employment lands.”³⁹

This extra \$400 million will take total funding for the Housing Acceleration Fund to \$966 million since 2012.

3.5.3 Boarding House Financial Assistance Program

The [Boarding House Financial Assistance Program](#) has two components. It provides boarding house owners with grants for fire safety upgrading, and it provides grants to developers of ‘new generation’ boarding houses that provide self-contained boarding rooms, whether in new projects or as extensions to existing boarding houses.

The program offers grants of \$10,000 per room (for up to 30 rooms per boarding house) to assist with the construction of “new, self-contained boarding house rooms to provide long-term, low-cost accommodation for at least five years.”⁴⁰

3.5.4 NSW Government private rental allowances

Although not directly applicable to affordable housing, Housing NSW provides practical assistance to help people search and apply for housing in the private rental market. By assisting people into the private rental market, “it takes the pressure off the social housing system by providing people, who can afford to rent in the private sector, with some short-term assistance.”⁴¹

Rentstart

The [Rentstart](#) scheme is managed by Housing NSW and aims to assist low income households access accommodation in the private rental market.

The scheme offers an [interest-free bond loan](#) that covers up to 75% of the rental bond to establish a tenancy in the private market. The loan is repayable by tenants to Housing NSW on a fortnightly basis usually over 12 or 18 months. In exceptional circumstances a 36 month payment plan may be offered.⁴²

Private Rental Subsidy

³⁸ NSW Department of Planning and Environment, [Housing Acceleration Fund](#), accessed 1 September 2015

³⁹ NSW Government. (2015) [Budget 2015-16 Overview](#), p.7

⁴⁰ Housing NSW, [Boarding House Financial Assistance Program – Fact Sheet](#), May 2013

⁴¹ Housing NSW, [2007-08 Annual Report – Outcome 4](#), accessed 28 September 2015

⁴² For further details see the Rentstart Bond Loan [factsheet](#).

The [Private Rental Subsidy](#) is a medium-term solution to assist eligible people accessing affordable accommodation in the private market while waiting for a suitable social housing property to become available. This product aims to assist people in the greatest need who have a disability and are at risk in their current accommodation.⁴³

Tenancy Guarantee Scheme

The [Tenancy Guarantee Scheme](#) assists people with poor or limited tenancy history to establish a private rental history by guaranteeing up to \$1500 to supplement the rental bond.

To be eligible, clients must meet the eligibility criteria for social housing and be applying for a rental property where the rent does not exceed 50% of their gross income plus any Commonwealth Rent Assistance they might receive.⁴⁴

Tenancy Guarantees are available to people who are eligible for public housing and are willing and able to sustain a private sector tenancy. Target Groups for the Tenancy Guarantee are: people without a tenancy history or references; people with a negative tenancy record whose situation has now changed; people with a history of mental illness; and/or people facing discrimination.

3.5.5 NSW Premier's Innovation Initiative

The [NSW Premier's Innovation Initiative](#) concerns an Expression of Interest process underway, at the time of writing, calling for financing innovations to assist with social housing modernisation and new supply. Specifically the Government is seeking:⁴⁵

...alternative mechanisms to bring additional supply to the sector. These solutions may include specific proposals related to regional and rural communities, new financing models to support the development of social housing or tailored solutions that provide support for individuals outside the social housing portfolio.

Milligan et. al (2015) describes the initiative as:⁴⁶

...centred on 'sweating existing assets' rather than offering new government investment. Indeed, proponents were directed to propose innovations that represented no cost to government.

The [factsheet](#) on the initiative uses the example of pension funds in the United Kingdom which are looking at a number of ways to invest funds into social and

⁴³ Housing Pathways, [Private Rental Assistance Policy](#), accessed 2 September 2015

⁴⁴ Community & Private Market Housing Directorate, [Tenancy Guarantees](#), accessed 2 September 2015

⁴⁵ NSW Government (2014) [The Premier's Innovation Initiative – Social Housing Assets](#), p.1

⁴⁶ Milligan, V, Pawson, H, Williams, P, and Yates, J. (2015) [Next moves? Expanding affordable rental housing in Australia through institutional investment](#), p.10

affordable housing to increase supply.

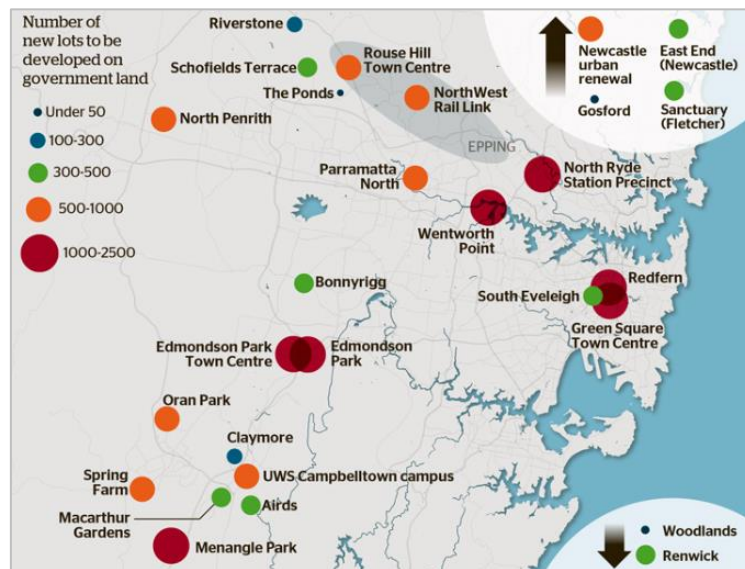
More in depth discussion around such financing mechanisms is provided in Chapter 8 of this paper.

3.6 The Greater Sydney Commission

While again not directly related to the provision of the narrow segment of affordable housing, the NSW Government's proposed Greater Sydney Commission is another measure currently being implemented to improve the efficiency of housing supply in the Sydney region. A formal structure for the proposed Greater Sydney Commission, consisting of State and local Government representatives and independent experts, was announced by Planning Minister Rob Stokes in September 2015.⁴⁷

This follows a [commitment](#) from the NSW Government during the 2015 State Election to deliver 20,000 extra home sites in Sydney over the next four years by releasing government land for development (see figure below).

Prospective locations for new housing developments in Sydney⁴⁸



According to documents obtained by the [Sun Herald](#), about 2,500 lots will be released in the inner city, including 1000 at Redfern, 1300 at Green Square, and 300 at South Eveleigh. Nearly 40 per cent of the 20,000 target will be achieved from selling greenfield land in the south west, including Edmondson Park in the Liverpool Council area, Menangle Park, and the University of Western Sydney's Campbelltown Campus. Urban regeneration for high-rise in Sydney's inner west and northern suburbs, at Wentworth Point, North Ryde Station and along the North West Rail Link will yield another 5000 lots, with

⁴⁷ NSW Legislative Assembly, [Hansard – Tuesday 8 September 2015](#), p.25

⁴⁸ Needham, K, [Greater Sydney Commission: Budget to tackle housing crisis with London-style planning authority](#), 21 June 2015, The Sun Herald

North Parramatta slated for another 800.⁴⁹ It is unclear how this property will be specifically distributed between the private rental and affordable housing markets.

4. COMMONWEALTH POLICIES AND FUNDING SCHEMES

While there is no federal head of power that is directly relevant to housing, it is the case that at least since the Commonwealth-State Housing Agreement of 1945, the federal government has played an important role in this field.⁵⁰

In recent time, a series of significant reforms were undertaken by the Rudd Government in 2009. In the words of the then Housing Minister Tanya Plibersek, “the centrepiece of the government’s reform agenda is to facilitate the growth of a number of sophisticated not-for-profit housing organisations that will operate alongside existing state-run housing authorities.”⁵¹ The reforms included the Nation Building Economic Stimulus Plan, the National Affordable Housing Agreement and the National Rental Affordability Scheme –which were anticipated to result collectively in the building of more than 80,000 affordable rental homes.⁵²

A number of the schemes introduced by the Rudd Government were discontinued following the election of the Abbott Government in 2013. Current and recently discontinued Commonwealth programs related to the provision of affordable housing are the focus of this section of the paper.

4.1 National Affordable Housing Agreement

The National Affordable Housing Agreement (NAHA) is a broad-ranging, ongoing housing agreement which commits a significant amount of Commonwealth funding to the States and Territories⁵³ through the National Affordable Housing Specific Purpose Payment (amounting to \$1.3 billion in 2012-13).⁵⁴

It was agreed to on 1 January 2009⁵⁵ through the [Council of Australian](#)

⁴⁹ Needham, K, [Greater Sydney Commission: Budget to tackle housing crisis with London-style planning authority](#), 21 June 2015, The Sun Herald

⁵⁰ For discussion of the progression of Federal Government involvement in housing see: Department of Prime Minister and Cabinet. (2014) [Roles and Responsibilities in Housing and Homelessness](#), Reform of the Federation White Paper, Issues Paper 2, Appendix D, p.38; and Troy, P. (2012) *Accommodating Australians : Commonwealth government involvement in housing*. Federation Press.

⁵¹ Plibersek, T. (2009) [Room for More: Boosting Providers of Social Housing](#), Speech by the Minister for Housing to the Sydney Institute, Sydney, March 19

⁵² Department of Families, Housing, Community Services and Indigenous Affairs. (2010) [Regulation and Growth of the Not-For-Profit Housing Sector](#), Discussion Paper, p.4

⁵³ Senate Economics Reference Committee. (2015) [Out of reach? The Australian housing affordability challenge](#), p.331

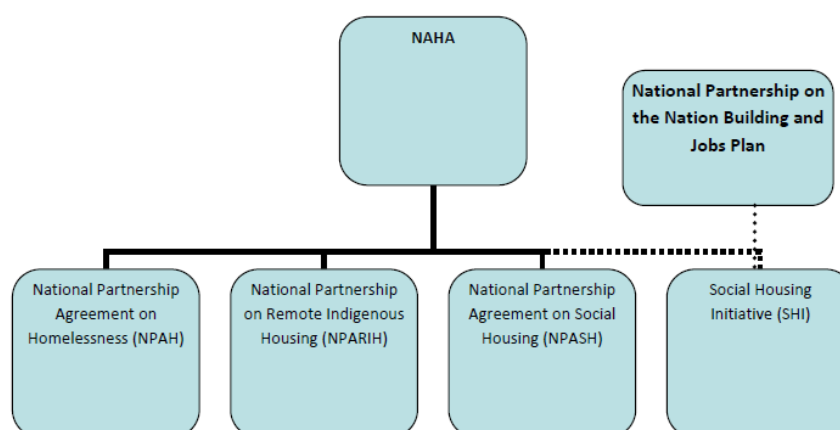
⁵⁴ Council of Australian Governments. (2012) [Review of the National Affordable Housing Agreement - Performance Reporting Framework](#), p.4

⁵⁵ For a complete discussion of the reforms implemented see: Housing Ministers Conference.

[Governments](#) and is part of the [Intergovernmental Agreement on Federal Financial Relations](#) to improve housing affordability and homelessness outcomes for Australians.⁵⁶

The NAHA is also supported by National Partnership Agreements on Homelessness, Remote Indigenous Housing, the Nation Building and Jobs Plan and the National Partnership Agreement on Social Housing.

National Affordable Housing Agreement and associated agreements



The overarching objective of the NAHA is to ensure “that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation.”⁵⁷ One of the key performance benchmarks of the NAHA was that:⁵⁸

From 2007–08 to 2015–16, a 10 per cent reduction nationally in the proportion of low-income renter households in rental stress.

It replaced the former *Commonwealth State Housing Agreement* which “focused almost entirely on social housing.”⁵⁹ The NAHA broadened the scope of housing policy to “support wider national objectives, regarding social inclusion, assistance to people in the private rental and home ownership markets.”⁶⁰

As pointed out by the Community Housing Federation of Australia, while “funding, service provision, and the activities of State and Territory governments did not change significantly when the NAHA was introduced, this new funding framework differed from the previous arrangements in a number of significant

(2009) [Implementing the National Housing Reforms](#), A progress report to COAG

⁵⁶ Productivity Commission. (2015) [Report on Government Service - Housing](#), p.17.3

⁵⁷ Council of Australian Governments. (2009) [National Affordable Housing Agreement](#), p.3

⁵⁸ *Ibid*, p.7

⁵⁹ Housing Ministers Conference. (2009) [Implementing the National Housing Reforms](#), A progress report to COAG, p.6

⁶⁰ *Ibid*, p.6

ways.”⁶¹ The most notable differences were that it was not a time-limited Agreement and it did not require matched funding from State and Territory governments.⁶²

The NAHA is paid proportionate to a jurisdiction’s population which contributes to [horizontal fiscal equalization](#). However, it could be argued that a distribution based on a ‘per dwelling’ basis, rather than population, would be more adequate as it would not disadvantage jurisdictions that invest heavily in social housing. This was acknowledged as an option by the Conference of Housing Ministers in the National Housing Reform progress report.⁶³

A full discussion around the effectiveness of the NAHA is provided in Chapter 19 of the Senate Select Committee report, *Out of reach? The Australian housing affordability challenge*. The Community Housing Federation of Australia provided the following critique of the Agreement.⁶⁴

There is general consensus that the NAHA has not performed as anticipated. The Commonwealth currently provides \$1.2 billion per year in funding to the states and territories for housing and homelessness activities. The ‘growth factor’ for this funding is calculated using the wage cost index 1, estimated to be 1.40% for 2015-16. This is significantly lower than the Consumer Price Index, currently stable at 2.5%: the value of the NAHA payments has been declining in real terms since its introduction.

Key policy documents – National Affordable Housing Agreement	
Report Title	Date of Publication
National Affordable Housing Agreement	January 2009
Implementing the National Housing Reforms	November 2009
Review of the National Affordable Housing Agreement Performance Reporting Framework	July 2012
Towards an Improved National Affordable Housing Agreement	August 2012
National Agreement Performance Information 2013-13 – NAHA	December 2013

4.2 Commonwealth Rent Assistance

Commonwealth Rent Assistance (CRA) provides low income households with

⁶¹ Community Housing Federation of Australia. (2015) [Response to the Reform of Federation White Paper on Homelessness and Housing](#), p.2

⁶² Ibid, p.19

⁶³ Housing Ministers Conference. (2009) [Implementing the National Housing Reforms](#), A progress report to COAG, p.16

⁶⁴ Community Housing Federation of Australia. (2015) [Response to the Reform of Federation White Paper on Homelessness and Housing](#), p.20-21

additional non-taxable income to help offset the cost of private rent. Around 1.3 million people received CRA in 2013.⁶⁵ In the 2013–14 financial year, CRA expenditure was \$3.95 billion and was projected to increase to \$4.35 billion for the 2014–15 financial year.

Number of income units in receipt of CRA at 14 June 2013, by State and Territory								
NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
421,325	287,671	361,401	97,285	94,951	32,916	10,828	6,579	1,267,979
Source: Productivity Commission – National Agreement Performance Reporting 2012-13								

The [Social Security Act 1991](#) states that a person is eligible for rent assistance if, “the person is not an ineligible homeowner, is not an aged care resident, and is liable to pay rent other than to a state or territory housing authority.”⁶⁶ The maximum amount payable and the minimum rent threshold are based on a person’s family situation. However, the [income or asset test applicable](#) to the primary payment may reduce the actual amount payable.

In June 2014, 67.4% of CRA recipients would have paid more than 30% of their gross income on rent if CRA were not provided; even with CRA provided, 40.3% of CRA recipients still spent more than 30% of their income on rent.⁶⁷

While CRA generally has a positive impact on private rental affordability for eligible households, elements of the Scheme have received considerable scrutiny in recent years. Detailed analysis of all aspects of the scheme is beyond the scope of this paper. It is enough to note the following key issues:

- the declining real value of rent assistance to private rental households;
- the disproportionate generosity of CRA compared with public housing provision; and
- the effectiveness of CRA in improving structural affordability over the longer term.

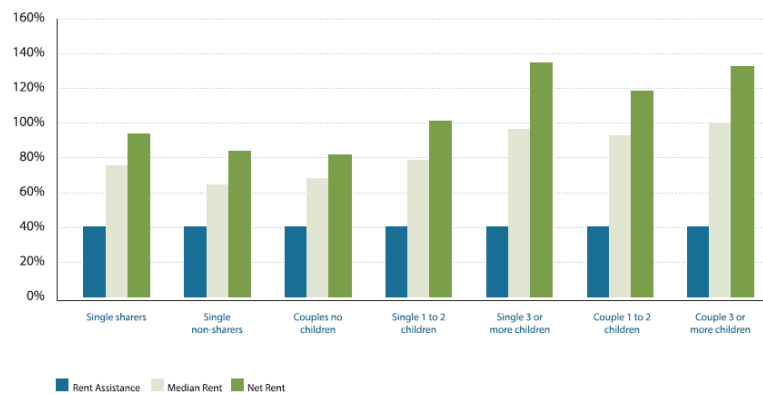
CRA, which is indexed to the consumer price index, has failed to keep up with rising private rental costs. The figure below, from the Department of Social Services, shows that while maximum rates of CRA have increased by 40% between 2001 and 2013; median rents for each group have increased by between 65% and 100%. This means that CRA has gradually become less effective in reducing rental stress and improving affordability for people in the private rental market.

⁶⁵ Australian Institute of Health and Welfare. (2015) [Housing assistance in Australia 2014](#), p. 2.

⁶⁶ [Social Security Act 1991](#), Module D, Section 1068AD1. Section 13, 13, (1) (f).

⁶⁷ Productivity Commission. (2015) [Report on Government Services](#), Volume G, Produced by for the Steering Committee for the Review of Government Service Provision, p.G-7

Growth in housing costs for income support recipients by household type, 2001 to 2013⁶⁸



As the Reference Group on Welfare Reform noted, "...it has also widened the gap between the relative generosity of CRA and public housing [assistance]."⁶⁹ Further, the COAG Housing Supply and Affordability Reform Working Party found that "significant inequities exist[ed] between the effective subsidies provided to lower-income earners in public housing and similar circumstances in the private rental market."⁷⁰ This is because public housing rents are indexed typically at 25% of a household's income. As most public housing tenants are in receipt of government income support, their rents have been increasing in line with government support increases, at a rate below rent increases in the private market.

Both the [Harmer Review](#) (Finding 17) and the [Henry Review](#) (Recommendation 102) recommended a reindexing of CRA, in line with movements in national rents.

As noted by the Productivity Commission, the Reform of the Federation White Paper process is currently underway and is "likely to have substantial implications on housing assistance policy."⁷¹

In terms of their structural effectiveness, as concluded by Hulse et. al (2014) of the Australia Housing and Urban Research Institute, demand-side subsidies are likely to be of limited effectiveness on their own in a situation of supply shortage – as is being realised in NSW currently.⁷² The Productivity Commission (2010) also acknowledged that "the effectiveness of demand-side strategies is

⁶⁸ Department of Social Services. (2014) [A new system for better employment and social outcomes](#), Interim Report of the Reference Group on Welfare Reform, p.69

⁶⁹ Ibid, p.31

⁷⁰ Housing Supply and Affordability Reform Working Party. (2012) [Housing Supply and Affordability Reform](#), p.28

⁷¹ Productivity Commission. (2015) [Housing Assistance and Employment in Australia](#), p.53

⁷² Hulse, K., Reynolds, M. and Yates, J. (2014) [Changes in the supply of affordable housing in the private rental sector for lower income households, 2006–11](#), AHURI Final Report No.235. p.47

questionable when housing supply is relatively inelastic”.⁷³

Policies such as CRA and the first home buyer’s grant can inflate rents and house prices, reducing the ability of those on low incomes to access well located quality housing. Further, CRA is not accessible to those not already in the private rental market and therefore does not assist those who cannot access the private rental market.

A more detailed discussion of the effectiveness of the CRA is provided in Chapter 22 of the Senate Select Committee report, *Out of reach? The Australian housing affordability challenge*.

4.3 National Rental Affordability Scheme

The now discontinued National Rental Affordability Scheme (NRAS) was a partnership between the Commonwealth Government and the States and Territories to address the shortage of affordable rental housing by “[incentivising] private investment in newly constructed affordable rental housing.”⁷⁴ As pointed out by Milligan and Pinnegar (2009):⁷⁵

The large scale program to encourage institutional investors into rental housing represent[ed] a well overdue attempt by Australia to emulate the widespread success of international governments that have used a mix of public and private financing to supply more affordable housing.

Under the NRAS, a subsidy was granted to community housing providers each year, for 10 years, on the condition that the dwelling is rented to eligible low and moderate income households for at least 20 percent below market rates. As such, it basically covered the gap between what the market rent was and what the tenants could afford to pay. As noted by Milligan & Pinnegar (2009):⁷⁶

From a housing policy perspective, however, the scheme has a strong down side, as it does not protect affordability beyond the 10-year duration of the tax credit. Similar investor driven approaches internationally in the past have proved short sighted and costly to government.⁷⁷

The original NRAS program committed support for 50,000 additional low rent dwellings. As at June 2014, the scheme had around 22,000 homes tenanted or available for rent and around 16,000 homes yet to be delivered.⁷⁸ However, following the change of Government, the NRAS was discontinued. This was outlined in the 2014-15 Commonwealth Budget paper:⁷⁹

⁷³ Productivity Commission. (2010) [Contribution of the Not-for-Profit Sector](#), p.l.13

⁷⁴ Milligan, V, Pawson, H, Williams, P, and Yates, J. (2015). [Next moves? Expanding affordable rental housing in Australia through institutional investment](#). City Future Research Centre. p. 9

⁷⁵ Milligan, V, and Pinnegar, S. (2009) [Recent developments in housing policy in Australia in comparative perspective](#), International Housing Conference Housing Assets, p.14

⁷⁶ Milligan, V, and Pinnegar, S. (2009) [Recent developments in housing policy in Australia in comparative perspective](#), International Housing Conference Housing Assets, p.14

⁷⁷ For more discussion of such approaches see Chapter 8 of this paper.

⁷⁸ Australian Institute of Health and Welfare. (2015) [Housing assistance in Australia 2014](#), p.6

⁷⁹ Commonwealth Government, [Budget measures: Budget paper No. 2: 2014–15](#), p. 205

The Government will achieve savings of \$235.2 million over three years by not proceeding with Round 5 of the NRAS. Funding for incentives from earlier rounds that are uncontracted or not used within agreed timeframes will be returned to the Budget. Funding for tenanted NRAS properties is not affected.

A number of key community housing sector stakeholders expressed their apprehension at the decision. The NSW Federation of Housing Associations stated that it was “concerning that there remains no policy driver to increase affordable housing supply to help meet some of the most pressing housing demand.”⁸⁰ The Community Housing Federation of Australia strongly objected to the removal of the rental affordability scheme, considering it necessary to “foster private investment in supply of new affordable housing [and attract] the much sought after institutional investor.”⁸¹

Key policy documents – National Rental Affordability Scheme		
Report Title	Date	Department
National Rental Affordability Scheme - Technical discussion paper	2008	Commonwealth Attorney General's Department
National Affordability Scheme Quarterly Reports	Various	Australian Institute of Health and Welfare
Administration of the National Rental Affordability Scheme	2015	Australian National Audit Office

4.4 Nation Building Economic Stimulus Plan – Social Housing Initiative

The Social Housing Initiative, which was a schedule to the National Partnership Agreement on the Nation Building Jobs Plan, was designed as additional economic stimulus to address the emerging global financial crisis which began in 2008.

While not strictly applicable to affordable housing, the Initiative represented an unprecedented funding boost to social housing. It committed funding of almost \$6.4 billion over the years 2008-09 to 2011-12 to fund around 20,000 additional social housing dwellings and the refurbishment of around 2,500 existing public housing dwellings.⁸²

According to the Department of Social Services and based on a KPMG Review, the Social Housing Initiative resulted in the construction of 19,669 additional social housing dwellings nationally, exceeding the agreed target by 12.7%. The average price per dwelling was approximately \$286,000, compared to the target of \$300,000.⁸³

⁸⁰ NSW Federation of Housing Associations. (2014) [Community Housing Engagement with the Private Rental Market](#), p.12

⁸¹ Community Housing Federation of Australia. (2015) [Response to the White Paper on Housing and Homelessness](#), p.18

⁸² Housing Ministers Conference. (2009) [Implementing the National Housing Reforms](#), A progress report to COAG, p.4

⁸³ Department of Social Services. (2013) [Social Housing Initiative – Factsheet](#), p. 1

In NSW 6,329 additional dwellings were built, compared to the target of 5,879; 50.9% of these were located in non-metropolitan areas, and 49.1% in Sydney.⁸⁴

4.5 Housing Affordability Fund

The Commonwealth Government [Housing Affordability Fund](#) is a \$500 million fund to lower the cost of building new homes and address the approvals process, infrastructure charges and regulatory costs. It does so by addressing two significant 'supply-side' barriers to housing development:

- The 'holding' costs incurred by developers as a result of long planning and approval times; and
- Infrastructure costs, such as the laying of water pipes, sewerage, transport and the creation of parks.

The program, which commenced from 1 July 2008, provided grants to local councils and State agencies based on a competitive application process. Two funding rounds have been conducted and program funding is now fully committed.⁸⁵

4.6 Building Better Regional Cities Program

The [Building Better Regional Cities Program](#) was part of the Commonwealth Affordable Housing Program, committing \$100 million to invest in local infrastructure projects that support new housing developments in regional cities. According to the Department of Families, Housing, Community Services and Indigenous Affairs:⁸⁶

The objectives of Building Better Regional Cities Program are to invest in local infrastructure projects that support an increase in the number of homes for sale and rent that are affordable for working families on ordinary incomes, in communities that are experiencing positive jobs and population growth that need more homes to be built.

Forty-seven regional cities were eligible to apply for funding under the Program including Newcastle, Tweed Heads, Wagga Wagga, Albury, Coffs Harbour, Queanbeyan, Tamworth, Port Macquarie, Orange, Dubbo and Wollongong. To date, [sixteen Projects](#) have been approved for funding. It is worth noting that no funding from this program was directly provided to fund housing construction; rather funding was provided to the associated infrastructure attached to new developments.

⁸⁴ Homelessness NSW, [KPMG Review of Social Housing Initiative](#), accessed 9 September 2015

⁸⁵ Department of Social Services, [Housing Affordability Fund](#), accessed 4 September 2015

⁸⁶ Department of Families, Housing, Community Services and Indigenous Affairs. (2013) [Building Better Regional Cities Program Guidelines](#), p.3

5. COMMUNITY HOUSING SECTOR

Community housing is affordable rental housing provided to low-to-moderate income and/or special needs households⁸⁷, managed by non-for-profit organisations that lease properties from government or have received a capital or recurrent subsidy from government.⁸⁸

As at 30 June 2014, there were 212 [registered community housing providers](#) (CHPs) in NSW accounting for 25,954 community housing properties⁸⁹, of which 17,234 were leased from the Land and Housing Corporation at no cost, 5,621 were leased from the private market and 3,099 were owned by community housing providers.⁹⁰ About 90 per cent of community housing is owned or managed by the largest 30 providers.⁹¹ It should be noted these statistics reflect the fact that community housing providers cater for affordable housing tenants, as well as public housing tenants on tenants behalf of government.

Community housing providers (CHPs) engage with the private rental market in four main ways:⁹²

- Headleasing properties from the private rental market, on either:
 - a fee-for-service basis; or
 - through the [Community Housing Leasing Program](#) which enables community housing providers to meet the difference between social housing rent (set at 25 percent of tenant's income) and market rent charged by private landlords.
- Facilitating access to [private rental assistance brokerage programs](#).
- Engaging with private investors to deliver affordable housing by managing affordable housing programs for local councils on a fee-for-service basis, or leveraging their own portfolios through private finance to provide additional properties (Chapter 9).
- Working in partnership with support providers and real estate agents to react early and provide timely support to vulnerable tenants.

⁸⁷ Community housing providers may specialise in housing tenants who have particular cultural needs or respond to other needs such as disability, mental or physical health issues or cater to certain age groups, such as youth or the aged.

⁸⁸ Productivity Commission. (2015) [Report on Government Service - Housing](#), p.17.8

⁸⁹ This figure is for June 2013. It was reported in the 2014 Annual Statement of Performance for the NSW Registrar of Community Housing that the sector provided affordable rental housing to over 27,000 NSW households.

⁹⁰ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.131

⁹¹ NSW Registrar of Community Housing. (2014) [Annual Statement of Performance](#), p.6

⁹² NSW Federation Housing Associations. (2014) [Community Housing Engagement with the Private Rental Market](#), p.3

- Three out of five non-profit housing organisations provide some form of non-shelter assistance to their tenants.⁹³ Many have “links to other community support services and have demonstrated good outcomes in negotiating supported tenancies with specialist providers such as aged care and mental health services.”⁹⁴

In NSW eligibility criteria for entry to community housing is the same as applies for entry to public housing. However, there are no ongoing eligibility criteria for community housing tenants. This means that, even if their incomes increase above the income eligibility criteria, they will not be required to vacate their housing.⁹⁵

5.1 Community housing financing and revenue

CHPs are, by definition, not-for-profit entities and the vast majority of providers are charitable organisations with Public Benevolent Institution status. As such they can access a range of tax concessions including GST exemption, income tax exemption, access to fringe benefit tax, and often local tax concessions such as exemption from or discounted land tax, stamp duty exemption and planning concessions during construction.⁹⁶ These tax benefits lower operational costs for providers and lower the costs for building and development on new construction.

Commonwealth Rent Assistance is pivotal to the viability of the Community Housing Sector and serves as a de facto subsidy that enables providers to operate in surplus. It was reported that the CRA comprised between 30 and 39% of a CHP's rental income.⁹⁷ It is NSW Government policy that all community housing providers collect 25% of income plus 100% of Commonwealth Rent Assistance provided to eligible tenants.⁹⁸ As pointed out by the Community Housing Federation of Australia (2015):⁹⁹

Since the mid-2000s there has been a widespread shift by CHPs towards setting rents that are 'optimised' for a tenant's eligibility for CRA. Rents are optimised for tenants' eligibility for CRA by increasing rents to the point where the maximum amount of Rent Assistance can be claimed without leaving a

⁹³ Community Housing Federation Australia. (2008) [The National Affordable Housing Agreement: A community housing perspective](#), Appendix 3

⁹⁴ Ibid

⁹⁵ For a complete discussion on community housing eligibility criteria in NSW and other Australian jurisdictions, see: Community Housing Federation Australia, [Allocation, eligibility, and rent setting in the Australian community housing sector](#), April 2014

⁹⁶ Community Housing Federation of Australia. (2015) [Response to the Reform of Federation White Paper on Homelessness and Housing](#), p.12

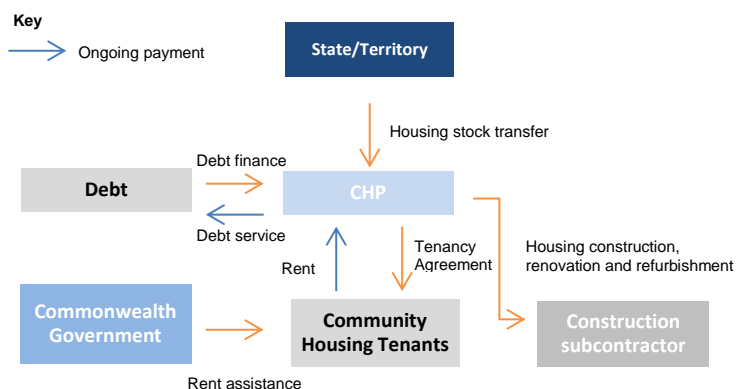
⁹⁷ Community Housing Peaks Policy Network. (2014) [The vital subsidy: the importance of Commonwealth Rent Assistance to community housing providers](#), p.5

⁹⁸ Community Housing Federation of Australia. (2014) [Allocation, eligibility, and rent setting in the Australian community housing sector](#), p.17

⁹⁹ Community Housing Federation of Australia. (2015) [Response to the Reform of Federation White Paper on Homelessness and Housing](#), June 2015, p.11

tenant worse off than they would be if they were simply charged 25% of their income

Community housing leveraging model¹⁰⁰



Community housing organisations report that ‘optimising’ rents for tenants’ eligibility for CRA increases rental revenue by around 50%.¹⁰¹ If community housing tenants were no longer able to access CRA (or if CRA was quarantined to existing tenants), without this revenue being replaced by an alternative source, the viability of many CHPs would be threatened.¹⁰²

For an in-depth discussion of the role of CRA for the community housing sector, see the Community Housing Peaks Policy Network paper *The vital subsidy: The importance of Commonwealth Rent Assistance to community housing providers*.

5.2 Regulatory and policy developments in the community housing sector

As described by the Productivity Commission, “the role of community housing in the housing sector is expanding, driven primarily by changes in government policy that encourage the sector to play a larger role in the provision of affordable housing.”¹⁰³

Between 2006 and 2013 the number of properties under community housing management in NSW more than doubled.¹⁰⁴ This growth came off the back of the *Community Housing Strategy* – released in March 2007- which identified an expansion target from 13,000 to 30,000 units over a ten year period to 2016-17. Department of Family and Community Services data shows that, at 30 June

¹⁰⁰ KPMG. (2012) [Social Housing Initiative Review](#), p.33

¹⁰¹ Community Housing Federation Australia. (2014) [Allocation, eligibility, and rent setting in the Australian community housing sector](#), p.11

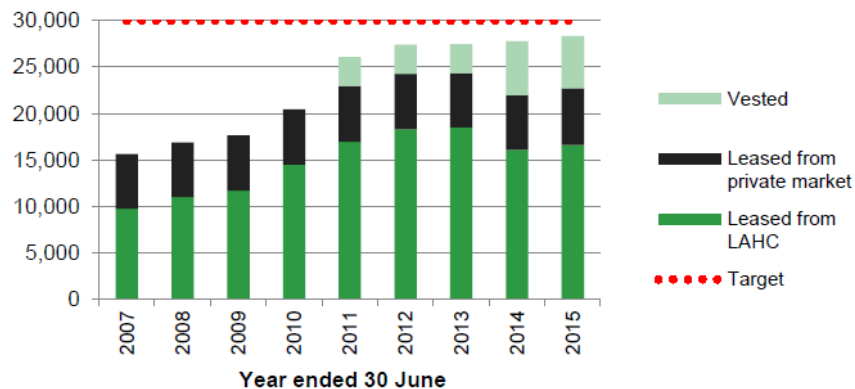
¹⁰² Community Housing Peaks Policy Network. (2014) [The vital subsidy: the importance of Commonwealth Rent Assistance to community housing providers](#), p.5

¹⁰³ Productivity Commission. (2015) [Report on Government Service - Housing](#), p.17.9

¹⁰⁴ NSW Federation Housing Associations. (2014) [Community Housing Engagement with the Private Rental Market](#), p.9

2007, the community housing sector managed 15,624 homes. At 30 June 2015, the sector managed 28,353 homes.¹⁰⁵

Total number of homes managed by community housing providers¹⁰⁶



Much of this expansion was achieved through the transfer of public housing units to the sector.¹⁰⁷ These transfers have occurred either through management or ownership/title transfers. Most transfers have been management transfers. Under this arrangement, the government retains ownership of the properties and community housing providers manage them.¹⁰⁸

According to the NSW Auditor General (2015), government transfers of housing to the community housing sector have occurred because:¹⁰⁹

- providers can use their local knowledge, experience and connections to provide flexible and responsive services to tenants
- providers can access a mix of private, government and other sources of finance to build new social and affordable housing
- providers have additional sources of revenue through their tenants, who are able to access Commonwealth Rent Assistance.

However, as acknowledged by the Auditor General, the Department of Family and Community Services has not had a strategy for community housing since 2013 and “without a clear direction for the sector, there is a risk that providers will not deliver the outcomes that government wants.” The Auditor General subsequently recommended that the Department finalise its social housing policy with a “clear direction for the community housing sector.”¹¹⁰

Having “received evidence supporting the need to transfer the management of

¹⁰⁵ NSW Auditor General. (2015) [Report to Parliament – Community Housing](#), p.18

¹⁰⁶ Ibid

¹⁰⁷ Pawson, H et al. (2013) [Public housing transfers: past, present and prospective](#), AHURI Final Report No. 2015

¹⁰⁸ NSW Auditor General. (2015) [Report to Parliament – Community Housing](#), p.6

¹⁰⁹ Ibid

¹¹⁰ NSW Auditor General. (2015) [Report to Parliament – Community Housing](#), p.7

more public housing properties to community housing providers via long term leases”,¹¹¹ the 2014 Select Committee on social, public and affordable housing recommended the “NSW Government review the target that the community housing sector comprise at least 35 per cent of all social housing...”¹¹²

The finalisation of a national system of registration, monitoring and regulation in 2015 – known as the [National Regulatory System for Community Housing](#) – was a key development for the community housing sector. This system ensures a consistent legislative environment across Australia. As acknowledged by the Community Housing Federation of Australia:¹¹³

[Nationally consistent] regulation of the sector provides the necessary assurance to government funders, private investors, and tenants that registered community housing providers are well governed, viable organisations, further paving the way for ongoing growth and development of the sector.

Community Housing Policy and Research Documents		
Report Title	Date of Publication	Department/Organisation
Planning for the Future: New directions for community housing in NSW 2007/08 – 2012/13	December 2007	Housing NSW
Achieving a viable and sustainable community housing sector: an industry perspective	June 2009	Community Housing Federation of Australia
Regulation and growth of the not-for-profit housing sector	April 2010	Department of Families, Housing, Community Services and Indigenous Affairs
Decision Regulation Impact Statement – National Regulatory System for Community Housing Providers	May 2013	A joint initiative of Commonwealth, State and Territory Governments
National Industry Development Framework for community housing	January 2014	National Regulatory System for Community Housing Project Directorate
The vital subsidy: the importance of Commonwealth Rent Assistance to community housing providers	May 2014	Community Housing Peaks Policy Network
Allocation, eligibility, and rent setting in the Australia community housing sector	April 2014	Community Housing Federation of Australia
NSW Community Housing Industry Development Strategy 2013/14 – 2015/16	June 2014	Department of Family and Community Services; Housing NSW
NSW Community Housing Rent Policy	July 2014	Department of Family and Community Services
NSW Community Housing Asset Ownership Policy	July 2014	Department of Family and Community Services
An Affordable Housing Reform Agenda	March 2015	Joint Community Sector Report
Community Housing – Performance Audit	September 2015	NSW Auditor General

¹¹¹ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.xv

¹¹² NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, Recommendation 21, p.xxi

¹¹³ Community Housing Federation of Australia. (2015) [Response to the Reform of Federation White Paper on Homelessness and Housing](#), p.9

6. REGULATION AND POLICY AT A LOCAL LEVEL IN NSW

The Charter for Councils under the *Local Government Act 1993* identifies the general need for local authorities “to identify, plan and, if possible, provide for the needs of future and existing generations.” However, the management, ownership and/or facilitation of housing provision are currently outside the core function of a local authority, as identified by the Act.¹¹⁴

As outlined by the Affordable Housing Taskforce, “...having no legislative requirement to consider affordable housing means that developing and delivering affordable housing solutions is at a council’s discretion and such work must compete for limited council resources with other tasks councils are charged with carrying out.”¹¹⁵

Despite this, local government has an important role in influencing the efficiency and nature of affordable housing supply and does so through:¹¹⁶

- Strategic planning policies and regulatory controls, including zoning, building and urban design standards, which impact where and how development can occur;
- Individual and cumulative planning decisions;
- Developer levies and voluntary planning agreements, which can also have an impact on cost, timing and rates of release; and
- Levying of rates and rating policy generally.

In conjunction with State Environmental Planning Policies (Chapter 3.2), [Local Environmental Plans](#) and Development Control Plans set out planning requirements and rules, some of which apply to the development of social, public and affordable housing.¹¹⁷ However, Davison et. al (2012) argue that:¹¹⁸

Under recent reforms, which standardise the format of local environmental plans, there are no standard provisions for affordable housing programs in the template, and a limited number of bespoke local provisions have been supported by the NSW Government.

The Department of Planning and Environment advised the 2014 [NSW Legislative Council Select Committee on social, public and affordable housing](#) that only five local councils had affordable housing provisions in their Standard Instrument Local Environment Plans, namely Gosford LEP 2014, Draft Byron LEP 2014, Bellingen, Waverley LEP 2012 and Ashfield LEP 2013.

¹¹⁴ Affordable Housing Taskforce. (2012) Interim Report, p.17

¹¹⁵ Ibid

¹¹⁶ North Sydney Council. (2008) [Affordable Housing Strategy](#), p.10

¹¹⁷ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.187

¹¹⁸ Davison, G. et al. (2012) [Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales](#), AHURI Final Report No.195, p.68

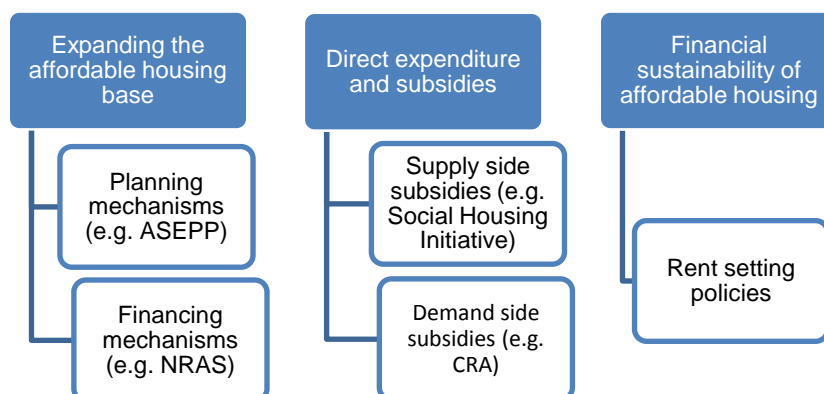
With respect to council policies, the Select Committee commented that “only a few local councils...had a current affordable housing policy or strategy in place.”¹¹⁹ The [City of Sydney](#), [Leichhardt](#) and [Marrickville](#) Councils have specific affordable housing strategies - which include targets as well as mechanisms to achieve those targets. Other councils (including [Waverly Council](#), [North Sydney Council](#), [Parramatta Council](#) and [Randwick City Council](#)) have developed affordable housing strategies – although a number of them are out of date and have not accounted for recent regulatory changes.

The Legislative Council Select Committee recommended that the “Department of Planning and Environment ensure each local council has considered having an affordable housing strategy in place, including affordable housing targets, by 1 September 2016.”¹²⁰ See Chapter 9 of the Select Committee [report](#) for a complete discussion of local government affordable housing policies.

7. BROAD POLICY FRAMEWORK FOR AFFORDABLE HOUSING

The policy measures discussed in previous chapters implemented by local, State and Commonwealth governments to address affordable housing have largely targeted supply-side improvements through direct expenditure, planning policies, and to a lesser extent, the facilitation of private investment in the sector. Other policy measures, such as Commonwealth Rent Assistance, have been used directly to improve the affordability of housing in the private rental market (figure below).

Affordable housing policy options available to government



Ultimately, the aim of the above policy options is to optimise the financial balance in the investment and operation phases of affordable housing provision.¹²¹ That is, making it cheaper and more efficient to bring affordable housing supply forward; then once established, ensuring the business model is sustainable. For example, those in charge of housing policy have to decide who (that is, people with up to what income level) can be housed in the affordable

¹¹⁹ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee, p.190

¹²⁰ *Ibid*, p.xxii

¹²¹ United Nations. (2006) [Guidelines of Social Housing – Principles and Examples](#), p.46

rental sector. Starting from this point, they have to make the best choices concerning:¹²²

- rent setting in the affordable housing sector;
- the most efficient ways of financing investment in this sector; and
- the balance between housing allowances¹²³ and object subsidies¹²⁴.

The United Nations, in their policy document *Guidelines of Social Housing – Principles and Examples*, outline of the variables involved in optimising this balance in the investment and operation phases of social/affordable housing supply. Not all of these variables are influenced by government policies. However, some are directly impacted by government policies, as evidenced by these recent measures in the NSW and Australian context:

- The National Rental Affordability Scheme which involved direct subsidies to improve investment finance available to community housing providers.
- The Commonwealth Rent Assistance optimisation by community housing providers which seeks to maximise revenue in the operations account.
- Planning provisions at State and local government (e.g. the Affordable Housing State Environmental Planning Policy) that can reduce investment costs at the development stage of an affordable housing development.

Key cost and efficiency variables in affordable housing supply			
Investment account		Operation account	
Investment costs	Investment finance	Expenses	Revenue
Developers profits	Direct subsidies	Maintenance costs	Chargeable rents
Loan takeout costs	Loans	Management costs	Billable charges
Construction costs	Own funds	Utility costs	Operating subsidies
Land improvement costs		Property tax	
Land costs		Loan repayment	
		Losses due to vacancy and unpaid rents	
<i>Source: United Nations. (2006) Guidelines of Social Housing – Principles and Examples</i>			

The discussion in subsequent chapters will look at key policy options available to government, at various levels, to allow for cost and efficiency improvements in the supply of affordable housing. The discussion will focus specifically on:

- Planning mechanisms (Chapter 8);

¹²² Ibid

¹²³ A housing allowance is a payment designed to increase the rent that a given household is able to pay.

¹²⁴ Object subsidies are a combination of production and investor subsidies that enables eligible landlords to offer a lower rent for a given housing unit. Object subsidies are sometimes called “bricks-and-mortar subsidies” or supply-side subsidies

- Financing mechanisms (Chapter 9); and
- Rent setting policies (Chapter 10).

While acknowledging that there are other broader policy aspects relevant to the affordable housing discussion – particularly from a demand point of view – it is beyond the scope of this paper to examine all such measures in detail.

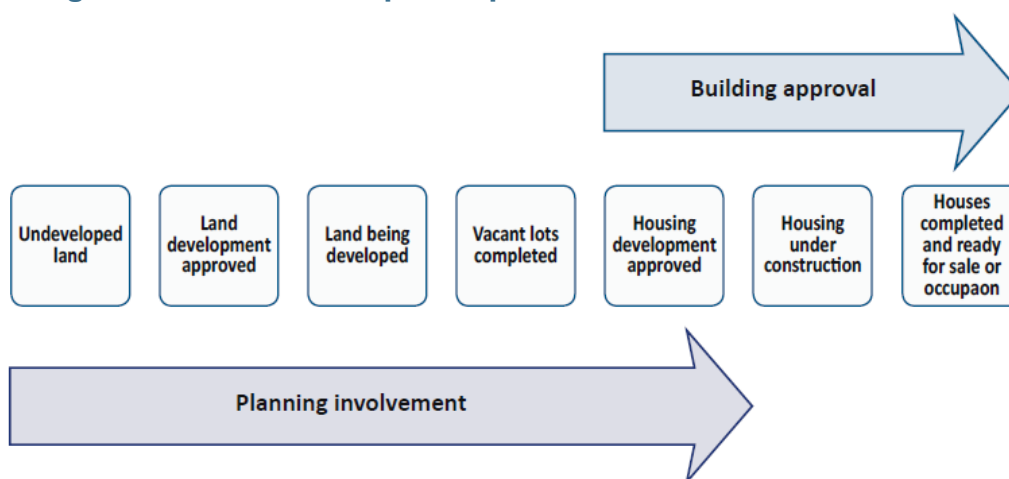
8. PLANNING MECHANISMS TO IMPROVE AFFORDABLE HOUSING SUPPLY

While planning has an important role to play in this context, there are also limits to this role. Broadly speaking, planning can influence or control development outcomes by:¹²⁵

- encouraging the development of affordable housing through measures that promote the efficient supply of well-located diverse housing;
- promoting the development of affordable housing with specific incentives enabled through planning schemes and policies; and/or
- requiring the development of affordable housing with the use of mandatory provisions in appropriate locations.

However as the figure below shows, planning's role largely ends once development is complete (provided it is in accordance with the development conditions).¹²⁶

Planning's role in the development process¹²⁷



Typically the most severe lack of affordable housing occurs within inner and middle suburbs of cities such as Sydney. Excessive land prices, approvals

¹²⁵ Western Australia Department of Planning. (2013) [Planning Provisions for Affordable Housing – Discussion Paper](#), p.23

¹²⁶ Western Australia Department of Planning. (2013) [Planning Provisions for Affordable Housing – Discussion Paper](#), p.7

¹²⁷ Ibid

processes and construction costs in such areas require revenues from developments that more often than not preclude the delivery of affordable housing.¹²⁸ For that reason, the discussion of planning's role in affordable housing in this paper relates to infill developments rather than greenfield developments on fringe suburbs of cities.

To address supply the [State Environmental Planning Policy \(Affordable Rental Housing\) 2009](#) and the [State Environmental Planning Policy No. 70 Affordable Housing \(Revised Schemes\)](#) have been the key affordable housing policy levers for the NSW Government in recent years.

A number of planning mechanisms which may provide more conducive conditions for affordable housing supply have been recognised in the Affordable Housing SEPP; although their application has been limited in a number of instances. These and other selected planning options – including some of which are applicable at the local government level (table below) – are outlined in this section of the paper.

Typology of planning measures for affordable housing within urban renewal contexts		
Strategic objective	Approach/mechanism	Affordable housing impact
Increase land for housing supply within existing urban areas	Land audit of under-utilised sites	Indirect
	Government dedication / acquisition of land	Indirect
	Land acquisition and assembly (sometimes including rehabilitation of contaminated sites)	Indirect
Reduce barriers to affordable housing development	Audit existing controls; assess impact of proposed regulations, to ensure diverse housing types and forms are permissible	Indirect
	Faster approvals for preferred development	Indirect
	Overcome local barriers to affordable housing	Indirect
Preserving and offsetting the loss of low-cost housing	Preserving particular house types at risk / offsetting their loss through impact fees able to support replacement stock	Direct
Encouraging new affordable housing	Planning bonuses / concessions (such as density bonuses, reduced car parking or open space requirements) for affordable housing meeting defined criteria	Direct

¹²⁸ Rowley, S. and Phibbs, P. (2012) [Delivering diverse and affordable housing on infill development sites](#), AHURI Final Report No.193, p.2

	Fast track approvals for affordable housing meeting defined criteria	Direct
	Fee discounts for affordable housing meeting defined criteria	Direct
Securing new dedicated affordable housing	Voluntary negotiated agreements during master planning process	Direct
	Inclusionary zoning - mandatory contributions for all identified development in the zone; introduced when land is rezoned for residential or higher density residential use	Direct
	Mixed tenure requirements – proportion of development in new release areas must be affordable	Direct
<p><i>Source: Davison, G. et al. (2012) Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales, AHURI Final Report No.195</i></p>		

8.1 Inclusionary Zoning

Inclusionary zoning is a mechanism that incentivises developers to set aside an affordable proportion (usually around 10% to 15%) of units in residential developments for low-income households in exchange for development rights or zoning variances.¹²⁹ Inclusionary zoning is most often mandated in inner city high density housing projects but can also apply in suburban, greenfield development.

Inclusionary Housing programs can include Mandatory Inclusionary Zoning, Voluntary Inclusionary Zoning or a combination of both.¹³⁰ As outlined by Conlon (2013):¹³¹

Mandatory inclusionary housing programs are achieved through the implementation of a compulsory inclusionary zoning ordinance which mandates that developments must include a certain percentage of below market-rate housing units. On the other hand, density bonuses are generally the central policy instruments that make up voluntary inclusionary housing programs, which are designed to incentivise the delivery of affordable units in exchange for increased floor area ratios or height limits.

Provisions for inclusionary zoning have existed in certain specified circumstances in NSW. In the 1990s, the Sydney and South Sydney City councils conducted an extensive urban renewal development across two inner

¹²⁹ MacArthur Foundation, [Inclusionary Zoning Policies in Affordable Housing Programs](#), July 2012

¹³⁰ Defence Housing Australia. (2015) [Compact Housing Scoping Study](#), Prepared for Government Land Organisations, p.29

¹³¹ Conlon, J. (2013) [Mandatory inclusionary zoning and density bonuses at Arden-Macaulay](#), p.3

city, former industrial sites, one at Ultimo-Pyrmont and one at Green Square.¹³² The former was a 300 hectare urban renewal site, which planned to deliver up to 9000 dwellings, including 600 affordable units.

An amendment to the local planning scheme in 1995 incorporated “statutory requirements for private development within the Ultimo-Pyrmont precinct to contribute to affordable housing.”¹³³ Under the mandatory inclusionary zoning arrangements, residential developments were required to contribute 0.8% floor space to affordable housing, while commercial developments had to provide 1.1%. The incentive provided was an in lieu payment option of \$30 per square meter, with the money going towards a State affordable housing fund.

Provisions for inclusionary zoning were inserted in sections 94F and 94G of the *Environmental Planning and Assessment Act* in 2000. The *State Environmental Planning Policy 70 — Affordable Housing (Revised Schemes)* in 2002 validated some existing schemes of this nature. As noted by Shelter NSW:¹³⁴

The effect of the 2000 amendments is that, where a consent authority considered that a proposed development (i) will or is likely to reduce the availability of affordability housing within the local government area; (ii) will create a need for affordable housing within the area; or (iii) is allowed only because of the initial zoning, or rezoning, of a site - it may (if it wishes) require a contribution of affordable housing. There are, however, some constraints on whether this action can be operationalized.

A small number of local council affordable-housing schemes were established under this section. Two of them were in the City of Sydney local government area and one was in Willoughby; the Redfern-Waterloo affordable housing scheme (now managed by UrbanGrowth NSW Development Corporation) also has its legal basis under this section. However, according to Shelter NSW, successive NSW governments have declined to allow local councils (apart from the two indicated) to use the provision.¹³⁵

The *Sydney metropolitan strategy: City of cities*, released in December 2005, provided for inclusionary zoning (an affordable housing levy from developers) where there was a value increment as a result of a zoning, rezoning or increase in density (Action C4.3.34). However, this Action was never implemented; it did not feature under the *Sydney Metropolitan Strategy of 2010, Metropolitan Plan for Sydney 2036*, and did not reappear in the draft strategy released in March 2013, *Metropolitan Strategy for Sydney to 2031*.

According to Davison et. al (2012), the initial development of the [State Environmental Planning Policy \(Affordable Rental Housing\) 2009](#) had expanded provision for inclusionary zoning mechanisms that existed in the *State*

¹³² Ibid, p.8

¹³³ Harbour Foreshore Authority. (2004) [Ultimo Pyrmont Decade of Renewal](#)

¹³⁴ Shelter NSW, [What is 'inclusionary housing'?](#), June 2014

¹³⁵ Shelter NSW, [What is 'inclusionary housing'?](#), June 2014

Environmental Planning Policy 70. However, because of the global financial crisis, “the government sought to reduce any financial imposition on the development sector.”¹³⁶

SGS Economics and Planning, in their April 2015 paper [Revisiting the economics of inclusionary zoning](#), discuss the public policy merits of inclusionary zoning in the Australian context.

8.2 Compact housing and minimum lot sizes

Planning provisions typically mean that the current minimum lot size in NSW is around 300m²; however, this may vary between local jurisdictions and depending on conditions specified in local development plans. For example, development approvals in some locations can be submitted and approved for development on lots substantially less than this minimum size.¹³⁷ Many compact housing developments (i.e. less than 300m²)¹³⁸ would need to rely on such exemptions in order for them to proceed.

Residential densification through compact housing has been raised as a potential solution to improving the quantity and affordability of housing in dense urban areas.¹³⁹

A [scoping study](#) related to compact housing – which reviews regulations, planning schemes and strategies in Australia – was prepared by Defence Housing Australia in collaborations with the Government Land Organisations. It concluded that “allowing smaller lot sizes can dramatically improve housing affordability.”¹⁴⁰ Specifically the report suggested that:

...if councils were to remove or reduce the minimum lot size to 150m², from their current minimum which might be of 300m², the cost difference for the land alone would be \$75,600.

The reduction of minimum lot size provisions in Local Environmental Plans and/or Development Control Plans was also raised in the Legislative Council Select Committee Inquiry into Social, Public and Affordable Housing; particularly in the context of whether reducing lot size would boost housing supply and increase affordability. According to the Inquiry report, certain councils across NSW had already removed minimum allotment sizes in

¹³⁶ Davison, G. et al. (2012) [Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales](#), AHURI Final Report No.195, p.69

¹³⁷ Defence Housing Australia. (2015) [Compact Housing Scoping Study](#), Prepared for Government Land Organisations, p.19

¹³⁸ A single dwelling, attached, semi-detached or detached, occupying a lot or block of less than 300 square metres, preferably on its own title (i.e. without a body corporate, Home Owners Association or Community Scheme).

¹³⁹ Defence Housing Australia. (2015) [Compact Housing Scoping Study](#), Prepared for Government Land Organisations, p.9

¹⁴⁰ *Ibid*, p.18

residential areas.¹⁴¹

Dr Tim Williams (CEO - Committee of Sydney), in a submission to the Committee, argued that “there is over regulation of lot sizes and that there should be no minimum standard for lot sizes.”¹⁴² On the other hand, certain stakeholders expressed the view to the Committee that the [Livable Housing Design Guidelines](#) need to be considered as they specify standard space ratios to promote accessible living.

There has recently been progress in terms of minimum lot size policy in NSW. The [Housing Diversity Package](#) standardizes rules¹⁴³ – including for lot sizes – for the North West and South West Sydney growth areas (spanning across six separate council areas). Such rules are typically specified in their respective State Environmental Planning Policies and Local Development Control Plans.

In the aforementioned [scoping study](#), specific features of a best practice small lot housing code are discussed in Chapter 10 concerning provisions related to lot widths, placement (e.g. corner block, rear-loaded), development site (green or brownfield), dwelling type and location.

8.3 Voluntary Planning Agreements

[Voluntary planning agreements](#) (VPAs) are agreements entered into by a planning authority and a developer. They have been used at both a State and local government level to secure a dedication for affordable rental housing in large urban renewal developments.

Under this type of agreement, a developer can agree to provide or fund affordable housing, usually in exchange for another incentive, such as a density bonus¹⁴⁴ or a land contribution. It is consequently worth noting “the overlap between Voluntary Planning Agreements and a number of other mechanisms such as inclusionary zoning and levies on developers.”¹⁴⁵

VPAs are provided for under section 93F of the *Environmental Planning and Assessment Act 1979* and have been utilised to deliver affordable housing in the context of large scale developments such as at the Carlton United Breweries Site at Broadway, Sydney. Carlton and United Breweries as land owner offered to enter into a voluntary planning agreement with the Redfern-Waterloo Authority under which Carlton and United Breweries would make

¹⁴¹ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee, p.201

¹⁴² Ibid

¹⁴³ Changes have been made for pathways, minimum lot sizes, housing types, public laneways/shareways and controls for subdivision and dwelling design.

¹⁴⁴ A density bonus – typically negotiated as part of a VPA – is an allowance for a lot to be developed for grouped dwellings and/or subdivided at a higher density than otherwise permitted by the applicable residential density coding

¹⁴⁵ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee, p.199

monetary contributions to the Authority for the purpose of provision of affordable housing in the Authority's operational area.

In order to secure affordable rental housing stock, a number of other councils – including Waverley Council, Randwick Council and City of Canada Bay Council – initiated VPAs to secure stock.¹⁴⁶ However, as outlined by the NSW Affordable Housing Taskforce:¹⁴⁷

...the application of this tool is time consuming as each negotiation is different, their effectiveness relies on skilled staff to negotiate the terms and conditions of the agreement and outcomes may vary considerably so that consistency of what is required or may be delivered is not provided for the development sector or government.

8.4 Affordable housing levies

As noted by the [Centre of Affordable Housing](#), the *Affordable Rental Housing SEPP* contains provisions which enable local councils to impose a levy on a development if it is going to result in the loss of existing low cost rental housing.

In 2009, the Minister for Planning issued a direction under section 94G of the Environmental Planning and Assessment Act 1979 requiring the consent authority, upon receiving the contribution in the form of a levy, to transfer it to the Secretary, NSW Department of Family and Community Services. These contributions are used to fund the Boarding House Financial Assistance Program and to provide financial assistance to support the construction of new, self-contained boarding house accommodation.¹⁴⁸

The NSW Department of Planning has developed [guidelines for retaining existing affordable housing](#) which detail how to implement these provisions, including when and how to impose a levy and what to do with the funds collected.

8.4.1 Section 106 Agreement – United Kingdom

Internationally, levies have been used to fund affordable housing. For example, the use of a [Section 106 agreement](#) has been important in allowing local authorities in the UK to acquire social housing at a price that did not reflect the very high land costs in central London.

These are legally-binding agreements that require developers to make contributions linked to the granting of planning permission. Examples of such contributions include funding of school places, public transport or health facilities. Of interest is that a significant form of contribution is the provision of social or affordable housing at a discount to the full market price; in this respect

¹⁴⁶ Department of Planning. (2010) Affordable Rental Housing SEPP Review, p.14

¹⁴⁷ Affordable Housing Taskforce. (2012) Interim Report, p.18

¹⁴⁸ Centre for Affordable Housing, [Retaining existing affordable housing](#), accessed 27 August 2015

Section 106 is similar to [Ireland's Part V](#).¹⁴⁹

8.5 Discounted land release

Investment in rental housing, like investment in most infrastructure projects, requires significant outlays during the asset building or acquisition phase whereas the revenue generated from it is spread out over the economic life of the asset.

Excessive land values have been key obstacles in the acquisition phase of affordable housing investment. Therefore, one form of government assistance could be through the provision of land at zero or below market cost or through a land rent scheme where rent is charged at a discounted rate. As acknowledged by Milligan et. al. (2013):¹⁵⁰

Any of these approaches reduce the up-front cost associated with provision of rental housing by reducing the up-front land cost associated with its development. It also reduces the risk for private investors because of the increased collateral or equity created by the public contribution.

Such a scheme is employed in the ACT for affordable home purchase. The [Land Rent Scheme](#) gives a lessee the option of renting land through a land rent lease rather than purchasing the land to build a home. This reduces the up-front costs associated with building a dwelling since only the construction costs have to be met.

9. FINANCING MECHANISMS FOR AFFORDABLE HOUSING

Social housing in Australia has traditionally been built through capital programs fully funded by government. However, it is widely acknowledged¹⁵¹ that the provision of rental accommodation at a scale to meet the forecast shortage requires large scale institutional investment; a scale beyond which the government can supply alone.¹⁵² This is particularly important in the current environment of fiscal austerity and reducing direct public sector investment in housing.¹⁵³

Private institutions have invested directly and indirectly in commercial real estate through property trusts but their exposure to residential property has

¹⁴⁹ Cahill, N. (2014) [Financing of Social Housing in Selected European Countries](#), National Economic and Social Council Ireland, p.22

¹⁵⁰ Milligan, V., et al. (2013) [Financing rental housing through institutional investment—Volume 2: supplementary papers](#), AHURI Final Report No.202, p.8

¹⁵¹ Community Housing Federation of Australia et. al. (2015) [An Affordable Housing Reform Agenda, Goals and Recommendations for reform](#), p.17

¹⁵² Department of Families, Housing, Community Services and Indigenous Affairs. (2010) [Regulation and Growth of the Not-For-Profit Housing Sector](#), Discussion Paper, p.10

¹⁵³ Hooker, L, J. (2014) [Australia's essential housing crisis – Collaborative solutions involving institutional capital and public private partnerships](#), Submission to the Senate Inquiry into Affordable Housing, p.3

been limited to debt acquired through the secondary mortgage market.¹⁵⁴ The Department of Social Services noted that many institutional investors have little interest in affordable housing, “primarily due to the [low] return offered on these investments”¹⁵⁵ and that they “do not meet the risk-adjusted requirements of the large institutions, including the superannuation funds.”¹⁵⁶

Perceptions of banks to lending to affordable housing providers	
Positive attributes	Negative attributes
Non-cyclical stable earnings	Access to efficient, flexible funding for growth
Relatively high tangible assets	Relatively low earnings
Reinvestment of profits for growth	A lack of scale
Implied government support through policy	Inconsistencies in government policy direction
Governance and independent oversight through regulation	A lack of skilled professionals from the private sector in some cases
Alignment with their social responsibility charter	The difficulty of recovering loan funds because of the inability to evict low income tenants.
Source: McCarthy J & Pringle R 2013, <i>Financing your future</i> , presentation to the 2013 NSW Community Housing Conference, Sydney	

A number of small scale programs that experimented with mixing public and private finance were introduced in Australia from the late 1980s but none of these had been developed to scale.¹⁵⁷ Thus, “Australia does not have a long history of financial innovation for affordable housing”,¹⁵⁸ nor does it currently have “a clear framework that supports finance for the sector.”¹⁵⁹

Currently, funds for affordable housing are raised through either: the use of a provider’s own funds from accumulated operating surpluses; use of funds from government grant programs; private or government debt funds; and/or seeking equity funds through on-selling properties to investors under the NRAS. An outcome of this relatively unstructured financing model is that private debt finance is relatively expensive for not-for-profit providers.¹⁶⁰

¹⁵⁴ Gilmour, T, and Milligan, V. (2008) [Stimulating Institutional Investment in Affordable Housing in Australia: Insights from the US](#), Australasian Housing Researchers’ Conference, p.2; For a more detailed discussion around this, see Chapter 2.3 - Milligan, V., et al. (2013) [Financing rental housing through institutional investment—Volume 1: outcomes from an Investigative Panel](#), AHURI Final Report No.202

¹⁵⁵ Senate Select Committee. (2014) Inquiry into Affordable Housing, [Submission 198 – Department of Social Services](#), p. 29

¹⁵⁶ Lawson, J., Berry, M., Hamilton, C. and Pawson, H. (2014) [Enhancing affordable rental housing investment via an intermediary and guarantee](#), AHURI Final Report No.220, p.13

¹⁵⁷ For discussion around this, see Chapter 2: Milligan, V., Phibbs, P., Fagan, K. and Gurrán, N. (2004) [A Practical Framework for Expanding Affordable Housing Services in Australia: Learning from Experience](#), AHURI Final Report 61

¹⁵⁸ Milligan, V, Gurrán, N, Lawson, J, Phibbs, P, and Phillips, R. (2009) [Innovation in affordable housing in Australia: Bringing policy and practice for not-for-profit housing organisations together](#), AHURI Final Report 134, p.27

¹⁵⁹ Rowley, S, Costello, G, Higgins, D, and Phibbs, P. (2014) [The financing of residential development in Australia](#), AHURI Final Report 219, p.60

¹⁶⁰ Rowley, S, Costello, G, Higgins, D, and Phibbs, P. (2014) [The financing of residential development in Australia](#), AHURI Final Report 219, p.61

Internationally, “social housing has experienced an increasing diversification of its finance mechanisms and sources over the last few decades.”¹⁶¹ This has been driven by governments, faced by increasing budget constraints, which have successfully incentivised private institutional capital to invest in affordable housing. As noted by Lawson (2009):¹⁶²

This finance can take on a variety of forms, comprising grants, public loans, commercial loans as well as shareholder equity. It can be facilitated by various forms of collateral, government guarantees, mortgage insurance and tax incentives, often involving a specialist financial intermediary.

Assistance to housing providers through the subsidisation of lending has, particularly in Europe, become the most common way for government to provide support for social [and affordable] housing.¹⁶³ As described by Pawson et. al (2011):¹⁶⁴

Financing arrangements differ considerably from systems which rely completely on capital markets to fund needs, as in the Netherlands, to those where the state continues to play a key role (France and Austria) or where mixed public/private funding has been supplemented by effective subsidies levered in through inclusionary zoning-type landuse planning powers.

A common theme is that unlike in Australia, most of these European governments have established special purpose financial intermediaries to channel private investment towards the social housing system at the lowest possible cost, in addition to providing conditional public loans or grants and tax advantages.¹⁶⁵

Population and social housing as a percentage of total dwellings, selected countries 2000s								
	Austria	Denmark	England	France	Germany	Netherlands	United States	Australia
Population (million)	8.3	5.5	51.5	64.4	82.0	16.5	311.0	23.13
% of total stock	23	19	17	17	5	32	5	4.7

Source: Pawson, H, Lawson, J, and Milligan, V. (2011) Social housing strategies, financing mechanisms and outcomes: an international review and update of key post-2007 policy developments, City Futures Research Centre, p.7

The Lawson et. al (2010) AHURI report – [International measures to channel investment towards affordable rental housing](#) – provides a qualitative analysis of six well-established financing mechanisms for affordable housing in well-developed affordable housing systems (France, the US, Switzerland, the UK, Netherlands and Austria), contextualising each of these within their local market

¹⁶¹ Housing Europe. (2009) [Financing Social Housing - After the Economic Crisis](#), p.9

¹⁶² Ibid, p.14

¹⁶³ Cahill, N. (2014) [Financing of Social Housing in Selected European Counties](#), National Economic and Social Council Ireland, p.5

¹⁶⁴ Pawson, H, Lawson, J, and Milligan, V. (2011) [Social housing strategies, financing mechanisms and outcomes: an international review and update of key post-2007 policy developments](#), City Futures Research Centre, p.7

¹⁶⁵ Ibid

and institutional setting.

Brief explanations of selected mechanisms and international models are provided in the subsequent sections, along with accompanying literature for each model. It is beyond the scope of this paper to assess each mechanism based on their effectiveness and efficiency in delivering affordable housing. For more critical information on this, see the Lawson et. al (2010) [AHURI report](#), as well as other accompanying literature provided on each model.

It is acknowledged that the case studies presented in the report “cannot provide a ready-made solution” to affordable housing in Australia. However, as the Lawson et. al (2010) report notes, “the examples used help to demonstrate that mixed funding models for affordable housing can generate substantial capacity for affordable housing investment...”¹⁶⁶

Financing mechanisms for affordable housing	
Mechanism	Brief Outline
Grants	Directly able to influence housing supply, but limited to available funds and political commitment to housing. Often used to lever and secure other sources of funds
Public loans	Traditionally the primary financing strategy for social / affordable housing. Cost-effective fund-raising. Revolving liquidity (through loan repayments) can offer longer-term reinvestment potential. Recently, curtailed by public sector borrowing limits and the attractiveness of low private mortgage rates. So-called soft loans, may not require same security as for private finance.
Protected circuits of savings for specified investments	Used to achieve a dedicated flow of affordable credit for affordable housing programs. Sustained in some countries, while others have dismantled them to improve competitiveness of local banks amid foreign competition.
Bank loans	Increasingly play a role in financing affordable housing, either partially or entirely. Vulnerable to changing financial conditions and alternative investments. National approaches vary in cost-effectiveness and the appropriateness of the fund-raising and distribution mechanisms.
Interest rate subsidies	Useful in the early phase of a mortgage to reduce higher relative costs. Containing the cost to government over time relies on steadily rising wages and house prices and stable interest rates.
Tax privileged private investment	Used to channel investment towards affordable housing and to compensate investors for lower rates of return and profit restrictions.
Government-secured private investment	Government-backed guarantees to reduce risks to financial institutions investing in affordable housing, passed on at a lower cost of finance.
Tax privileges for providers of affordable housing	Many countries provide various tax privileges to registered organisations, for example income and investment deductions, depreciation allowances, reduced sales and property taxes, exemptions from capital gains tax. These allowances compensate the efforts of the preferred providers towards achieving the social policy objectives of governments, such as housing low income households or meeting high environmental standards.

¹⁶⁶ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), Report for the Government of Western Australia, p.2

Use of own reserves and surpluses	Mature housing organisations can leverage their balance sheets, reserves and surpluses to invest in additional housing. Funds raised may be pooled to support weaker organisations or to promote innovation and competition.
Use of tenants' equity	Some funding models incorporate a small tenant equity contribution. Governments may assist low income tenants to make this contribution. Larger contributions may lead ultimately to tenant purchase of dwellings.
Source: Lawson, J., Gilmour, T., and Milligan, V., (2010) International measures to channel investment towards affordable rental housing , Report for the Government of Western Australia	

It is important to note the way other jurisdictions define and treat affordable housing differs and is subject to change. As discussed by Milligan et. al (2004):¹⁶⁷

Ownership, financing and management arrangements for the provision of housing assistance vary over time and between countries, giving historical and geographical specificity to the terms and concepts that have been used to describe various forms of provision.

For example, in many European countries social housing is almost entirely managed by non-for-profit organisations; whereas in Australia the majority of social housing is managed by State government authorities. As such, in the European context affordable and social housing are used interchangeably; while in the Australian context, the term 'affordable housing' has a much more narrowly defined scope. Generally speaking, when discussing social/affordable housing the UN (2006) in their Social Housing Guidelines provide a succinct but broad definition:¹⁶⁸

Social rental housing includes various forms of subsidized housing. Although its role and definition are different across [various regions], it may be regarded as housing stock whose access is not based on market rules (supply and demand), but is defined by a number of criteria (maximum income, target groups) and modes (allocation procedures); most often, a maximum rent is also in use.

It should also be noted that the rules and regulatory structures that are linked to the financial mechanisms discussed in this section vary considerably between countries. Another AHURI report - [Financing rental housing through institutional investment](#) – discusses, in extensive detail, the regulatory aspects associated with prospective institutional financing arrangements in Australia.

9.1 Government grants and subsidies

Traditionally, social housing in Australia has been funded through public grants and loans. Government grants are arguably the most direct means of influencing the supply of affordable housing as they can have the immediate

¹⁶⁷ Milligan, V, Phibbs, P, Fagan, K, and Gurrán, N. (2004) [A practical framework for expanding affordable housing services in Australia: learning from experience](#), AHURI Final Report No. 65, p.3

¹⁶⁸ United Nations. (2006) [Guidelines of Social Housing – Principles and Examples](#), p.45

impact of reducing the cost of affordable housing provision for developers.

However, the obvious drawback of this mechanism is that it is dependent on fiscal circumstances, which at present and for the foreseeable future are likely to be constrained. It is the case that investment through these means in Australia has been in long term decline, resulting in new supply levels falling below household formation rates.¹⁶⁹

The most recent large-scale fiscal financing initiatives in Australia to boost the supply of affordable rental housing came through two key Commonwealth Government initiatives: the Social Housing Initiative (Chapter 4.4) and the National Rental Affordability Scheme (Chapter 4.3). However, both schemes are now either completed or discontinued. As acknowledged by Lawson et. al (2010), even with both programs in operation, used in isolation they would still “not be sufficient to meet identified and projected [affordable housing] need.”¹⁷⁰

Internationally, government grants and subsidies are used as a mechanism to finance affordable housing, but are typically not used in isolation. The United Kingdom, which provides government grants through the [Affordable Homes Programme](#), also has a well-developed system of bond financing (Chapter 9.2) for housing in which non-for-profit housing associations can access bond finance through the Housing Finance Corporation. Likewise, Austria provides public grants and loans combined with low interest commercial loans, raised via tax privileged Housing Construction Bonds. The varying extent of direct government investment across European jurisdictions is summarised by Lawson et. al (2010):¹⁷¹

Direct government investment identified in this research varies from almost zero in the Netherlands (where organisations were cashed up by the government in the 1990s and privatised); to small (5% of total project costs) low interest loans from a revolving fund in Switzerland where providers are small and slow growing; to 30–40 per cent of capital public loans in the UK and Austria, where social landlords play a key role in housing markets.

9.2 Housing Supply Bonds

The housing supply bond model is “designed to provide a revolving loan facility that reduces the cost of funding available to affordable housing providers (over finance obtained in the market place), thus enhancing the capacity of providers to increase the supply of affordable housing dwellings.”¹⁷²

Internationally, governments have created housing supply bonds to generate

¹⁶⁹ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), p.4

¹⁷⁰ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), p.5

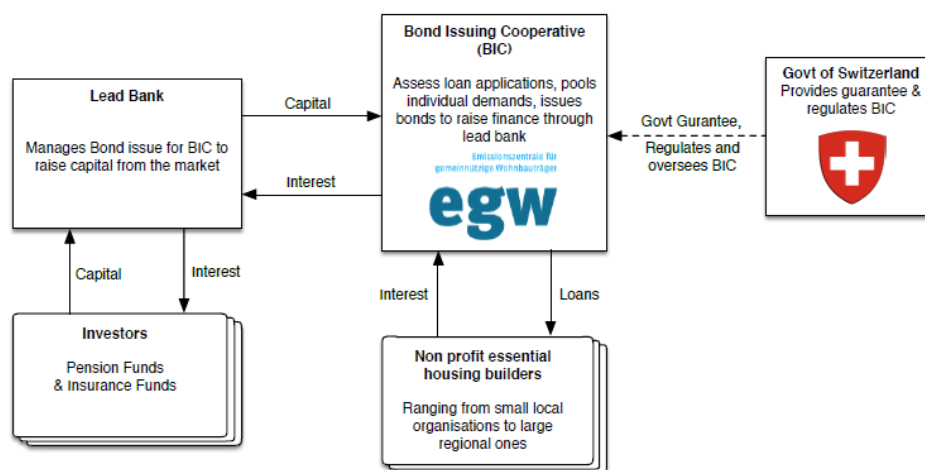
¹⁷¹ Ibid, p.9

¹⁷² Richardson, R. (2012) [Towards an Improved National Affordable Housing Agreement](#), National Affordable Housing Summit, Background Paper, p.13

capital to invest in new affordable housing.¹⁷³ Typically these bonds or securities are issued by a non-bank intermediary.¹⁷⁴

In Austria, Housing Construction Convertible Bonds – supported by government established institutional settings – provide incentives for private investment to flow to the not-for-profit housing sector through subsidies and tax concessions.¹⁷⁵ Switzerland also has a well-established bonds system – guaranteed by the Swiss Government – which is managed by the Bond Issuing Cooperatives (see figure below).

Overview of the Swiss affordable housing funding model¹⁷⁶



The Lawson et. al (2012) report – [Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?](#) – provides a detailed comparative analysis of such international models and how they might be applied in the Australian context. The report specifically found that with a \$90 million per year government investment such an instrument could leverage \$7 billion of private investment in housing. To issue bonds over five years would cost \$1.4 billion and would leverage \$35 billion worth of investment in affordable housing.¹⁷⁷

A number of participants provided evidence to the Legislative Council Select Committee that social and affordable housing should be classed as a form of

¹⁷³ Milligan, V., Yates, J., Wiesel, I. & Pawson, H. (2013). [Financing rental housing through institutional investment](#). AHURI, Melbourne

¹⁷⁴ Milligan, V., et al. (2013) [Financing rental housing through institutional investment—Volume 2: supplementary papers](#), AHURI Final Report No.202, p.4

¹⁷⁵ Lawson, J., and Milligan, V. (2007) [International trends in housing and policy responses](#), AHURI Final Report No. 110, p.9

¹⁷⁶ Hooker, L, J. (2014) [Australia's essential housing crisis – Collaborative solutions involving institutional capital and public private partnerships](#), Submission to the Senate Inquiry into Affordable Housing, p.8

¹⁷⁷ Lawson, J, Milligan, V, and Yates, J. (2012) [Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?](#), AHURI Final Report No. 188

infrastructure, so that proceeds from Waratah Bonds could be used to help address the shortage of social and affordable housing in New South Wales.¹⁷⁸

In 2011, the [Senate Economics References Committee](#) considered the merits of introducing social bonds as a means of attracting private investment into Australia's social economy. It recognised that the development of a social bond market in Australia “could bring significant finance to the social economy and thereby relieve the government of some social infrastructure costs.”¹⁷⁹

The committee formed the view that government support was required to “catalyse this market” and recommended that further exploration of ways to create incentives to invest in a social bond market be undertaken.¹⁸⁰

9.3 Real estate investment trusts

When the social housing sector is not funded by government, it has to “find resources, directly by issuing bonds, or through the finance institutions, should they be commercial banks, public finance institutions or other intermediaries.”¹⁸¹ Real estate investment trusts (or property trusts) provide a more sophisticated, alternative form of equity investment in rental housing. In broad terms:¹⁸²

...REITs combine capital from a range of investors to form a fund to acquire or provide financing for all forms of real estate and allow investors to purchase an interest in a diversified and professionally managed portfolio of real estate in the same way as they would purchase shares in a company. They reduce the cost of entry into the property market, provide investors with access to professional property management skills and allow investors to diversify and spread their risk across a whole portfolio of properties.

As pointed out by Newell et. al (2015) in the report [The opportunity of residential property investment vehicles in enhancing affordable rental housing supply](#).¹⁸³

...multi-unit residential trusts/funds or residential investment vehicles are an innovative way to address the critical affordability issue in the private rental market. Importantly, residential investment vehicles not only represent potentially an effective product and mechanism for the increased supply of residential properties, but an alternate mechanism for attracting institutional investment and raising capital.

¹⁷⁸ NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.255

¹⁷⁹ Senate Economics Reference Committee. (2011) [Investing for good: the development of a capital market for the not-for-profit sector in Australia](#), p.156

¹⁸⁰ Senate Economics Committee, [Investing for good: the development of a capital market for the not-for-profit sector in Australia](#), November 2011, p. 156

¹⁸¹ United Nations. (2006) [Guidelines of Social Housing – Principles and Examples](#), p.49

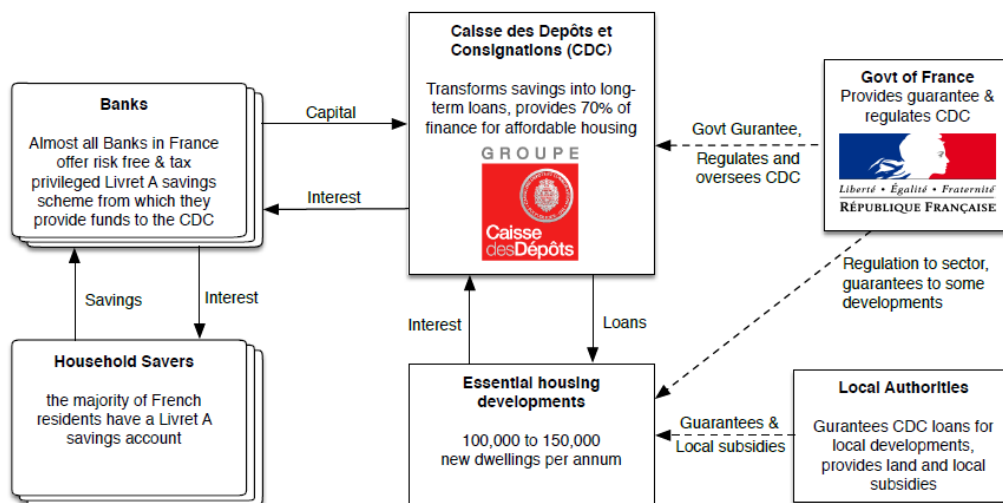
¹⁸² Milligan, V., et al. (2013) [Financing rental housing through institutional investment—Volume 2: supplementary papers](#), AHURI Final Report No.202, p.2

¹⁸³ Newell, G, Lee, C, and Kupke, V. (2015) [The opportunity of residential property investment vehicles in enhancing affordable rental housing supply](#), AHURI Positioning Paper No.166, p.9

France's funding system of Caisse des dépôts (see figure below) provides a rare example of private savings – promoted through tax relief – being pooled to finance social housing. Short-term deposits are used to fund loans of up to 50 years. As described by Housing Europe (2009):¹⁸⁴

Every French household is entitled to open a 'Livret A' savings account. Interest in these accounts is tax free; there is a limit on the amount each household can place in these accounts. The interest rate is based on inflation and the Euribor three-month interest rate. These accounts are offered by several banks and a substantial share (65 per cent) of the savings in these accounts is allocated to the State-owned bank, Caisse des Dépôts et Consignations (CDC). The CDC in turn lends this money to social-housing organisations and also for urban redevelopment.

French affordable housing system – pooled savings scheme¹⁸⁵



Newell et. al (2015) examined residential investment vehicles that are utilised in Australia and overseas. Two key points can be drawn from this study:¹⁸⁶

- Residential real estate investment trusts have had limited traction in Australia because “expected yields (rental incomes) from residential properties are deemed insufficient compared to other sectors such as retail, industrial and office properties.”
- US residential REITs have successfully attracted large-scale institutional investment and enhanced the supply of dwellings (primarily apartments). However, affordable rental housing has largely been ignored by US REITs.

¹⁸⁴ Housing Europe. (2009) [Financing Social Housing - After the Economic Crisis](#), p.22

¹⁸⁵ Hooker, L, J. (2014) [Australia's essential housing crisis – Collaborative solutions involving institutional capital and public private partnerships](#), Submission to the Senate Inquiry into Affordable Housing, p.6

¹⁸⁶ Newell, G, Lee, C, and Kupke, V. (2015) [The opportunity of residential property investment vehicles in enhancing affordable rental housing supply](#), AHURI Positioning Paper No.166, p.6

9.4 Government loan guarantees

Financing loans to affordable rental housing providers by commercial banks or specialised lenders pose a number of problems “as these loans are specific; they are long-term (often more than 30 years) which makes it difficult to raise matching funds; in addition, in some countries they have a high LTV (loan-to-value) ratio, both factors that increase the risk premium.”¹⁸⁷ To offset such concerns, guarantees can be provided by public entities as an alternative to providing direct equity support.

The use of a government guarantee to unlock construction finance provides significant cost savings as direct, actual costs for governments are lowered. Under this model, debt is accounted for by the housing provider or developer, while the government takes on the contingent liability for the project (i.e. should the housing provider default on the loan).¹⁸⁸ This can be achieved either by:¹⁸⁹

...directly guaranteeing the rental stream (or loan repayments) or indirectly by the establishment of a reserve fund or liquidity facility (held in trust) to cover short-falls in payment of rent or loan repayments and/or establishment of a principal reserve fund to ensure that capital is repaid to bond holders on maturity.

Guarantees are increasingly used by governments internationally to speed up economic activity and ensure the provision of necessary infrastructure at minimal government cost.¹⁹⁰ For example, in December 2012, the Coalition Government in the UK announced it would guarantee bonds issued by not-for-profit housing associations in order to reduce their interest costs and stimulate more affordable housing starts. Already established as the UK’s first guarantee-based housing supply model, the Scottish Government’s National Housing Trust scheme was launched in 2010.¹⁹¹

¹⁸⁷ United Nations. (2006) [Guidelines of Social Housing – Principles and Examples](#), p.49

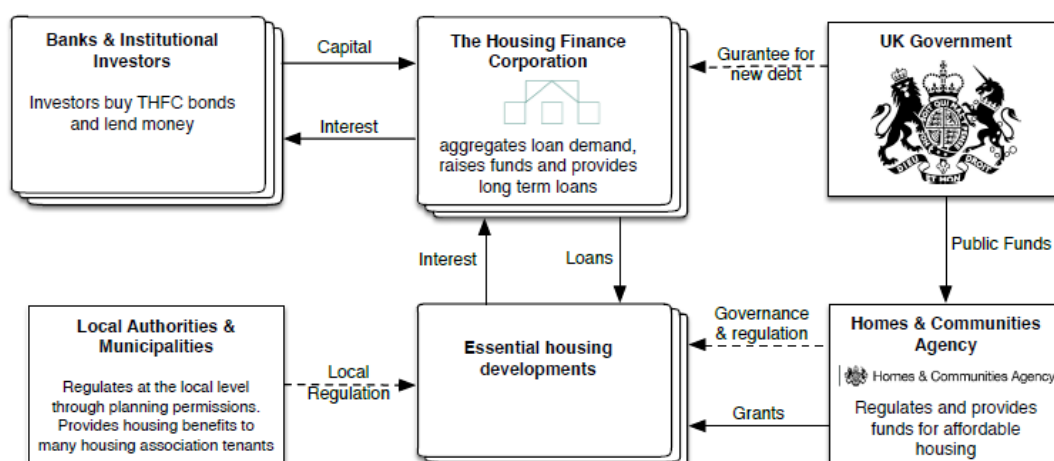
¹⁸⁸ Community Housing Federation of Australia et. al. (2015) [An Affordable Housing Reform Agenda, Goals and Recommendations for reform](#), p.20

¹⁸⁹ Milligan, V., et al. (2013) [Financing rental housing through institutional investment—Volume 2: supplementary papers](#), AHURI Final Report No.202, p.10

¹⁹⁰ Irwin, T. (2007) [Government guarantees: allocating and valuing risk in privately financed infrastructure project](#), The World Bank, Washington.

¹⁹¹ Milligan, V., et al. (2013) [Financing rental housing through institutional investment—Volume 2: supplementary papers](#), AHURI Final Report No.202, p.16

The UK's mixed public grant/private funding model¹⁹²



Lawson et. al (2014), found that “so far, [government guarantees] have not been used to enhance investment in affordable rental housing [in Australia].”¹⁹³

A framework to progress the design of a guarantee suitable for affordable rental housing is provided in Chapter 5 of the AHURI report [Enhancing affordable rental housing investment via an intermediary and guarantee](#). John Hopper, investment manager for Australian Super which manages \$42 billion of funds, said the government guarantee proposed by the [2012 AHURI report](#) would lower the risk profile of an investment by making it appear more like a government bond, lowering the return required.¹⁹⁴

If structured the right way this could find a logical home in our portfolio, Mr Hopper said. ‘This is a pretty good step in that direction. I think now we just need to see more detail so we can make a proper investment assessment.’

A review of international best practice provided by the Positioning Paper, [The use of guarantees in affordable housing Investment—a selective international review](#), offers a discussion of key concepts and design principles for guarantee mechanisms and intermediary agencies and reviews successful practice which attracts investment towards affordable rental housing in the UK, France, Switzerland, Ireland, the US and the Netherlands.

9.5 Taxation incentives

Tax privileges to registered affordable housing providers can come in a variety of forms, including income and investment deductions, depreciation allowances,

¹⁹² Hooker, L, J. (2014) [Australia’s essential housing crisis – Collaborative solutions involving institutional capital and public private partnerships](#), Submission to the Senate Inquiry into Affordable Housing, p.6

¹⁹³ Lawson, J., Berry, M., Hamilton, C. and Pawson, H. (2014) [Enhancing affordable rental housing investment via an intermediary and guarantee](#), AHURI Final Report No.220, p.4

¹⁹⁴ Lawson, J., Berry, M., Hamilton, C. and Pawson, H. (2014) [Enhancing affordable rental housing investment via an intermediary and guarantee](#), AHURI Final Report No.220, p.14

reduced sales and property taxes, as well as exemptions from capital gains tax.

The National Rental Affordability Scheme (NRAS), introduced by the Commonwealth Government in 2008, offered for the first time a large-scale funding mechanism with the potential to generate a new investment strategy for affordable housing. The [US Low-Income Housing Tax Credit](#) (LIHTC) model – which was established in 1987 - is, to some extent, the pre-cursor for the NRAS in Australia.¹⁹⁵

The LIHTC program provides tax incentives – in the form of an indirect federal subsidy – to encourage individual and corporate investors to invest in the development, acquisition, and rehabilitation of affordable rental housing. The tax credit is calculated as a percentage of costs incurred in developing the affordable housing property, and is claimed annually over a 10-year period.¹⁹⁶ Milligan et. al. (2013) describe the model as follows:¹⁹⁷

Having identified a site and been allocated tax credits, a developer raises capital by selling the credits to investors, typically through a syndicator. The tax credits have generally been considered by investors as proven low-yield, low-risk investment, which also discharges corporate obligations on banks to invest in community development in under-served markets under the 'Community Reinvestment Act.'

Developers holding tax credits are required to achieve specified affordability targets for a minimum of 30 years, with either:

- at least 20 per cent units being affordable for households earning up to 50 per cent area median family income; or
- at least 40 per cent of units being affordable for households earning up to 60 per cent area median family income (equivalent to key workers—e.g. teachers).

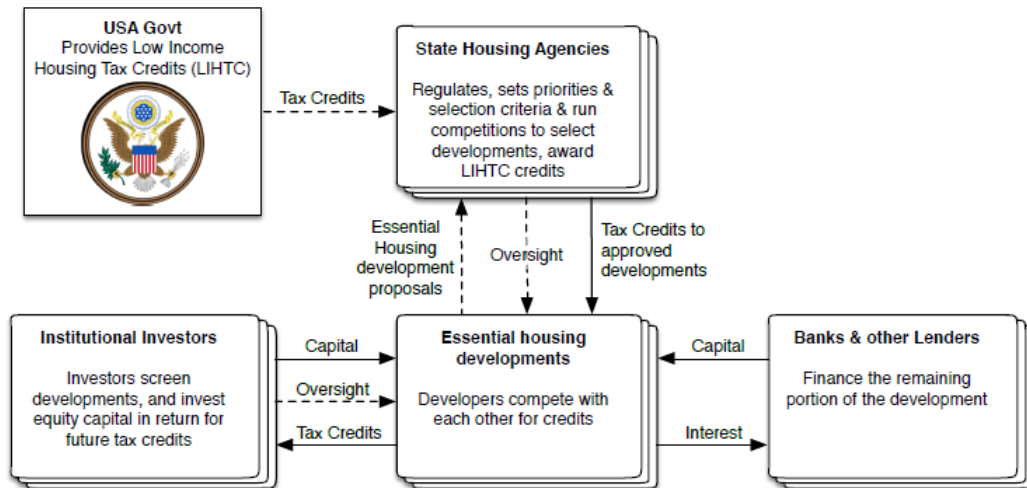
The US LIHTC program has facilitated the development of 2.4 million units of affordable housing in the period 1986–2012.

¹⁹⁵ Yates, J. (2013) [Evaluating social and affordable housing reform in Australia: lessons to be learned from history](#), International Journal of Housing Policy, Vol. 13, No. 2, p.117

¹⁹⁶ US Community Affairs Department. (2014) [Low-Income Housing Tax Credits: Affordable Housing Investment Opportunities for Banks](#), p.2

¹⁹⁷ Milligan, V, Yates, J, Wiesel, I, and Pawson, H. (2013) [Financing rental housing through institutional investment, Volume 1: outcomes from an Investigative Panel](#), AHURI Final Report No. 202, p.32

US low income housing tax credit model¹⁹⁸



Other schemes internationally have used tax-credits, typically in association with other financing mechanisms to facilitate growth in affordable housing. For example, in Austria, purchasers of Housing Construction Convertible Bonds are required to hold them for a minimum of 10 years. In return, they receive favourable tax relief on the first 4 per cent of returns. After 10 years, the initial expense of the bonds can also be partially deducted from taxable income at progressive rates for particular income tax brackets from year 11. It has been estimated that for every €1 of foregone tax revenue, €19 of commercial investment has been committed to affordable housing production.¹⁹⁹

Also, under the French Livret A' savings account scheme, interest in these accounts is tax free to encourage households to channel funds through these accounts instead of other competing options. Funds from these saving accounts are then lent to social-housing organisations and also for urban redevelopment.

9.6 Shared equity model

A shared equity structure model typically requires an equity injection from both the home owner and a government body or financial institution, with the balance of the purchase price funded by a loan. As described by Berry et. al (2005), under this shared equity arrangement:²⁰⁰

...the household is the managing partner and the investor the limited or sleeping partner. The former decides when to sell, to whom and for what price. The household also decides on how the property is maintained, renovated and

¹⁹⁸ Hooker, L, J. (2014) [Australia's essential housing crisis – Collaborative solutions involving institutional capital and public private partnerships](#), Submission to the Senate Inquiry into Affordable Housing, p.7

¹⁹⁹ Housing Europe. (2009) [Financing Social Housing - After the Economic Crisis](#), p.22

²⁰⁰ Berry, M., Whitehead, C., Williams, P., and Yates, J. (2004) [Financing affordable housing: a critical comparative review of the United Kingdom and Australia](#), AHURI Final Report No. 72, p.61

used. The sleeping partner 'wakes up' only when the dwelling is sold in order to receive its agreed share of the sale proceeds. The household saves on housing costs each year because the sleeping partner foregoes any ongoing rental payment on its share in favour of receiving all its return at the end, when the house is sold. In effect, the investor is swapping rental income for a share of the realised capital value of the dwelling.

An unusual feature of social-housing finance in Austria is that tenants contribute to the financing of their own housing in the form of a loan (on average 9% of the cost) that is repaid in the form of lower rent. If the tenant leaves the property, the loan is repaid to them less a deduction of 1 per cent per year. The provision of tenant equity gives tenants the right to buy under certain conditions.²⁰¹

Home ownership has been expanded through the [Right to Buy Scheme](#) in the UK which provides tenants with the opportunity to purchase social housing at a discounted rate from local authorities.

The viability of a shared equity scheme was raised in the Legislative Council Select Committee Inquiry into social, public and affordable housing. Discussed were a number of schemes in place in other Australian and international jurisdictions.²⁰² Shared equity schemes currently operating in Australia are listed below:

- [Keystart](#) (WA) provides unique home ownership loans with low deposit, no ongoing account fees or lenders mortgage insurance, and the option of shared ownership
- [Affordable Homes Program](#) (SA) offers homes to purchase for individuals and families on low to moderate incomes
- Queensland offers a shared equity loan product ([Pathways Shared Equity Loan Product](#)) to assist social housing tenants to purchase a share in the property they are renting from the department.

In the last few years, Regional Development Australia Sydney facilitated a [Shared Equity Scheme Working Group](#) with the aim of developing a business model for a shared equity scheme for low to moderate income earners in New South Wales.²⁰³

The AHURI Report - [Innovative financing for home ownership: the potential for shared equity initiatives in Australia](#) – provides a detailed discussion of the capacity for such a model in the Australian context.

²⁰¹ Housing Europe. (2009) [Financing Social Housing - After the Economic Crisis](#)

²⁰² NSW Legislative Council. (2014) [Social, public and affordable housing – Final Report](#), Select Committee Report, p.226

²⁰³ Legislative Council, [Inquiry into Social, Public and Affordable Housing](#), Submission 57 - Regional Development Australia Sydney, p. 8-9.

10. RENT SETTINGS FOR AFFORDABLE HOUSING

As discussed in Chapter 7, the aim of the policy options related to affordable housing is to optimise the financial balance in the investment and operation phases of social and affordable housing provision. Chapter 9 of this paper was primarily concerned with the investment phase of provision.

However, the viability of new investments is typically underpinned by the ongoing financing strategies associated with affordable housing. Financing strategies may be asset-based or revenue-driven models. For example, as explained by Lawson et. al (2010), in asset-based strategies, “the portfolio of existing properties acts as a means of generating investment funds, sites for redevelopment and cash flow, and for securing debt.”²⁰⁴

Alternatively, meeting the cost of private financing may be revenue-based and linked directly with rental settings in a jurisdiction. Conflicts emerge between asset-based and revenue-driven models. The most immediate objective of affordable housing is providing rental housing at levels which are affordable (i.e. less than 30% of gross household income). In order to do this, it typically involves providing a discount on market rents. The higher the discount, and subsequently the lower the rent, the harder it is to raise finance for further asset-based investment in affordable housing. As noted by the UN (2006).²⁰⁵

The question of financial resources for social housing is also linked to the rent policy and the respective share of object and subject subsidies, through the economic balance of the programmes. Indeed, the financial dimension of a social housing policy consists in finding the best possible combination between private and public funds, object and subject subsidies and so on.

So while it is pivotal to establish mechanisms to channel private and institutional investment into affordable housing, without a viable rate of return, such channels are more or less redundant.

For example, in Australia, affordable housing rents are set according to income and adjusted so as to maximise the benefit obtained from Commonwealth Rent Assistance. Rents in the public housing system are also indexed to income, which in almost all cases, is composed mostly of direct government allowances. The implication of this is that because government allowances tend to increase at a lower rate than the costs associated with maintaining the property, most housing operations tend to run at a loss without direct subsidies. This is a fundamental structural flaw in the social housing system in Australia that had undermined the financial viability of the system.

Beyond Australia, in those jurisdictions considered in this paper, rents are set differently for affordable and social housing. As Lawson et. al (2010) point

²⁰⁴ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), , p.11

²⁰⁵ United Nations. (2006) [Guidelines of Social Housing – Principles and Examples](#), p.45

out.²⁰⁶

They may be based on original production and ongoing operation and finance costs as in Austria and Switzerland; they may reflect neighbourhood income levels, as in the US; or they may be related to the quality and location of the dwelling, as in the Netherlands. Tenants may be expected to pay all or some of the rent. For those unable to pay there may be rent assistance, transferred directly to eligible tenants as in the Netherlands, or paid to the landlord who houses them, as in some cases in the UK.

A brief summary of selected jurisdictions eligibility and rent setting policies is provided in the table below. For a detailed discussion of individual jurisdiction rent setting policies see the Lawson et. al (2010) [report](#).

International comparison of rent setting policies	
Country	Description
France	Typically, the calculation of social rents varies according to the subsidy program and the conditions set out in related contracts between the governments and social landlords. Allocation of social tenancies is broader than purely welfare-orientated systems, such as Australian public housing, but most subsidy programs are limited to tenants with incomes below a maximum ceiling.
United States	Eligibility requirements for subsidised properties are set nationally. Schemes must set aside at least 20 per cent of units for tenants earning below 50 per cent of the area median income, or alternatively, a minimum 40 per cent of units for tenants earning less than 60 per cent of the area median income. Rents are fixed at 30 per cent of either 50 or 60 per cent of area median income, depending on whether the project is aimed at very low or low income groups.
Switzerland	In a cost rent regime, such as Switzerland, rents can only be adjusted with changes in operating, maintenance and financing cost. Given the importance of debt financing, lowering interest on mortgages is an important means to promote affordability.
Netherlands	The rent setting regime is regulated and maximum rents are nominated by the government in accord with quality standards.
UK	In Britain, the use of welfare payments to low income households to make rent affordable dates from 1919. However, the system was reformed before the advent of private financing in 1982 with the introduction of 'housing benefit'. Local authorities normally pay this direct to landlords, whether they are renting from social or private landlords. Rent setting varies between different social landlord types. Local authorities can choose the basis and level of rents, although they are constrained by the limitations of national government funding.
Austria	Rents are cost-based in Austria and defined per square metre which can be increased each year with the consumer price index. Typically rents are fixed annually and balanced at the end of the year, with tenants either receiving a return or making additional payments to cover financing and operating costs.
Source: Lawson, J., Gilmour, T., and Milligan, V., (2010) International measures to channel investment towards affordable rental housing , Report for the Government of Western Australia	

Generally speaking, in Western Europe rents are usually calculated according to cost rent principles, which means the calculation is based on the total cost of a program. Thus the cost of rent is according to the UN (2006), in principle, "the rent which balances the investors' account over time if it is non-profit or, in other cases, provides them with the return they expect." This is why it is sometimes

²⁰⁶ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), p.12

called “equilibrium rent”.²⁰⁷

Restructuring rents based on these cost rent principles, not only in the affordable housing context, but more broadly in other social housing, is a key consideration if the Australian model is to become sustainable over time.

11. CONCLUSION

While there have been reforms at the State and Federal level to improve affordable housing supply, “the diverse policy approaches [implemented to date] have generated a plethora of small-scale programs and projects and created a fragmented policy landscape.”²⁰⁸

Policy momentum appeared to have been gained at a national level through the implementation of the National Rental Affordability Scheme, Social Housing Initiative and the signing of the National Agreement on Affordable Housing. However, many of these and other associated policies have either been discontinued or completed. From this point of view, the momentum gained on the affordable housing policy front – particularly at a Commonwealth level - has stalled.

This comes at a time when the evidence suggests that there is still a “gaping hole to fill in housing supply which requires a coordinated governmental approach.”²⁰⁹

At the NSW Government level, no direct policy action appears to have flowed from the 2012 Affordable Housing Taskforce report. Nonetheless, the Baird Government is developing affordable housing initiatives, including the [Macquarie Park plan](#) announced in September 2015.

As with so many other policy areas, affordable housing must be considered in the context of Australia’s federal system of government. State Government policies can and do make a difference, but it must be acknowledged that, “in the Australian federated system, State governments acting alone do not have the powers and resources to create a large scale [affordable housing] financing model.”²¹⁰

There are a myriad of policy options – particularly at the planning level – available to all levels of government that may contribute to improved efficiency of affordable housing delivery. However, as concluded by the Senate Committee into Affordable Housing, “these various schemes and incentives are

²⁰⁷ United Nations. (2006) [Guidelines of Social Housing – Principles and Examples](#), p.47

²⁰⁸ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), p.5

²⁰⁹ Community Housing Federation of Australia et. al. (2015) [An Affordable Housing Reform Agenda, Goals and Recommendations for reform](#), p.11

²¹⁰ Lawson, J., Gilmour, T., and Milligan, V., (2010) [International measures to channel investment towards affordable rental housing](#), p.5-6

not intended to work in isolation but to come together as a concerted effort to boost the supply of affordable housing.”²¹¹

It is also widely acknowledged²¹² that the provision of rental accommodation at a scale to meet the forecast shortage requires large scale institutional investment; on a scale beyond which the government may supply alone.²¹³ Internationally, government involvement in the supply of affordable housing has shifted from direct subsidies and grants to incentivising private sector involvement both in terms of provision and financing.²¹⁴ In Australia, the considerable private growth potential remains largely unutilised.

²¹¹ Senate Economics Reference Committee. (2015) [Out of reach? The Australian housing affordability challenge](#), p.409

²¹² Community Housing Federation of Australia et. al. (2015) [An Affordable Housing Reform Agenda, Goals and Recommendations for reform](#), p.17

²¹³ Department of Families, Housing, Community Services and Indigenous Affairs. (2010) [Regulation and Growth of the Not-For-Profit Housing Sector](#), Discussion Paper, p.10

²¹⁴ Housing Europe. (2009) [Financing Social Housing - After the Economic Crisis](#), p.10