



# Transforming public housing in a federal context

Inquiry into affordable housing industry capacity

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# Contents

<b>List of tables</b>	<b>vii</b>
<b>List of figures</b>	<b>viii</b>
<b>List of boxes</b>	<b>ix</b>
<b>Acronyms and abbreviations used in this report</b>	<b>x</b>
<b>Executive summary</b>	<b>1</b>
<b>1 Introduction</b>	<b>8</b>
1.1 Purpose and research questions	8
1.2 The studies approach	8
1.3 Key concepts	9
1.3.1 An evolving social contract	9
1.3.2 Public housing	9
1.3.3 Transformation	10
1.3.4 Alternative pathways for public housing	10
1.3.5 The complex role of federal states in housing	11
1.3.6 Capacity to deliver social housing policy objectives	12
1.4 Federalism in Australian public housing policy	14
1.5 The relevance of the research to Australian housing policy	16
1.5.1 Critique of current funding model and the search for solutions	17
1.6 Examining international experience	19
1.7 Selection of countries and cases	20
1.7.1 The role of the Inquiry panel in this study	23
<b>2 Drivers and pathways of public housing transformation</b>	<b>24</b>
2.1 The big picture	24
2.2 Defining social housing in different federal states	25
2.3 Co-ordination mechanisms	26
2.4 Pathways of public housing development within broader housing systems	27
2.4.1 United States	27
2.4.2 Canada	28
2.4.3 Germany	29
2.4.4 Austria	30
2.5 The role of government in institutional change and capacities	30
2.5.1 United States	31
2.5.2 Canada	34

2.5.3	Germany	35
2.5.4	Austria	37
<b>2.6</b>	<b>Outcomes of transformation</b>	<b>38</b>
2.6.1	United States	38
2.6.2	Canada	39
2.6.3	Germany	41
2.6.4	Austria	42
<b>3</b>	<b>United States—San Diego and Portland</b>	<b>44</b>
<b>3.1</b>	<b>Trends influencing public housing authorities</b>	<b>44</b>
3.1.1	Increased targeting for PHAs	44
3.1.2	Housing Vouchers via private landlords	44
3.1.3	Redevelopment of estates using mixed finance	45
3.1.4	Experiments in flexibility	45
3.1.5	Switching from operating subsidies to housing vouchers	46
<b>3.2</b>	<b>Regulation of public housing</b>	<b>46</b>
<b>3.3</b>	<b>Organisational impact</b>	<b>47</b>
<b>3.4</b>	<b>Local illustrations</b>	<b>48</b>
3.4.1	San Diego	48
3.4.2	Portland	48
<b>4</b>	<b>Canada—Toronto and Vancouver</b>	<b>50</b>
<b>4.1</b>	<b>Trends influencing public housing corporations</b>	<b>50</b>
4.1.1	End of operating agreements	50
4.1.2	Evolving roles of the provinces and third sector	50
4.1.3	Aging stock with associated obsolescence and repair costs	51
4.1.4	Minimal funding following the end of operating agreements	51
4.1.5	Rising land value which creates opportunities for redevelopment	52
<b>4.2</b>	<b>Local illustrations</b>	<b>52</b>
4.2.1	Toronto	52
4.2.2	Vancouver	54
<b>5</b>	<b>Germany—Berlin and Munich</b>	<b>56</b>
<b>5.1</b>	<b>Trends influencing public housing transformation</b>	<b>56</b>
5.1.1	Devolution and withdrawal of federal supply role	56
5.1.2	From limited profit cost rent to market solutions and demand side assistance	57
5.1.3	Economic malaise undermining public financial capacity	58
5.1.4	Sale of public housing debt to private investors	58



5.1.5	Local activism and formation of stakeholder alliances	60
<b>5.2</b>	<b>Local illustrations</b>	<b>61</b>
5.2.1	Munich	61
5.2.2	Berlin	63
<b>6</b>	<b>Austria—Vienna and Lower Austria</b>	<b>65</b>
<b>6.1</b>	<b>Trends influencing public housing provision</b>	<b>65</b>
6.1.1	A well-established cost rent system	65
6.1.2	Dedication of transferred federal funds for housing programs	65
6.1.3	Differences in rent regimes make LPHA more effective and efficient	67
6.1.4	Partial, gradual shift towards demand assistance	67
6.1.5	Allocation rights secured through conditional subsidies and provision of land	68
6.1.6	Private finance mechanism established	68
<b>6.2</b>	<b>Local illustrations</b>	<b>68</b>
6.2.1	Vienna	68
6.2.2	Lower Austria	70
<b>7</b>	<b>The role of federal states in public housing transformation and building affordable housing industry capacity</b>	<b>73</b>
<b>7.1</b>	<b>Contours of transformation</b>	<b>73</b>
<b>7.2</b>	<b>From unguided pathways to clear vision and direction</b>	<b>75</b>
7.2.1	The centralisation—decentralisation dynamic	75
7.2.2	Long-term agreements over the transferral and use of funds for housing	76
7.2.3	Resource sharing and financing capital investment and operations	77
7.2.4	Comprehensiveness of housing policy and outcomes	77
7.2.5	Devolving supply programs with or without public resources	77
7.2.6	National shift towards demand side subsidies does not increase supply	78
<b>7.3</b>	<b>Policy ideas, tools and organisational strategies potentially relevant to Australian conditions</b>	<b>80</b>
7.3.1	Constructive co-ordination of national housing policy	80
7.3.2	Long-term mechanisms for adequate funding	80
7.3.3	Balanced access to sources of funding	81
7.3.4	Efficient and effective tools to channel private investment	81
7.3.5	Integrated and sophisticated local planning	81
7.3.6	From bureaucratic silo to community ally	81
7.3.7	Anticipating maintenance and funding it	82
7.3.8	Innovation linking demand assistance to capital investment	82

7.3.9	New funding models promoting cultural change and positive partnerships	82
7.4	Further research	85
	<b>References</b>	<b>86</b>
	<b>Appendix</b>	<b>99</b>

## List of tables

Table 1: Local illustrations of public housing transformation	7
Table 2: Key dimensions of capacity to deliver social policy housing objectives	13
Table 3: Selected federal states, transformation strategies and local illustrations	22
Table 4: Local providers operating under transformative federal-state influences	23
Table 5: Tenure allocation within five federal states: Australia, United States, Canada, Germany and Austria	25
Table 6: US Federal Supply and Demand-side Subsidies 2012–14 (total dwelling units assisted and percentage)	31
Table 7: Policy, funding, service delivery and regulation in four federal states	74
Table 8: Policy challenges, recommended strategies to date and relevant international approaches	83
Table A1: Organisations contacted and interviewed for this study	99
Table A2: Housing produced from public subsidies by GBV members across Austrian regions (GBV 2015)	100
Table A3: Total nominal housing subsidy expenditure (million euros) across Austria and the nine regions 2001–14	100



## List of figures

Figure 1: Alternative pathways for public housing provision	11
Figure 2: A New Orleans housing protest: Make this neighbourhood mixed income	27
Figure 3: Former federal public housing in Regent Park, Toronto subject to PPP redevelopment	29
Figure 4: Karl Marx Hof, Wiener Wohnen, Vienna most famous municipal housing, built 1927–30	30
Figure 5: US federal public housing funds—operating and capital expenditure 1999–2013	32
Figure 6: Annual housing expenditure Canadian government (unadjusted for inflation) 1996 to 2013	34
Figure 7: Share of public funding for housing and total funding in Germany from 1999–2012	36
Figure 8: Austrian public funding of housing subsidy schemes (€ millions) 1990–2014	37
Figure 9: Number of public housing units 1949–2012, USA	39
Figure 10: Rental housing with subsidies restricting rent levels and income based allocation	41
Figure 11: ‘Wages up! Rents down!’ Protests in Berlin against rising rents and privatised municipal housing	42
Figure 12: Growth of Austrian Limited Profit Housing Co-operatives and Corporations 1980–2013 (GBV 2016)	43
Figure 13: Total nominal housing subsidy expenditure (million euros) across Austria and the nine regions 2001–14 (IIBW 2015)	66
Figure A1: Housing costs/m <sup>2</sup> per month for LPHA, municipal and private rental apartments (IIBW 2015/Statistik.at)	101

## List of boxes

Box A1: Integrated Assessment System—Indicators	101
Box A2: US illustration of high rise renovation involving mixed funding	102
Box A3: Results of an inquiry into business models of investors in municipal housing	103

## Acronyms and abbreviations used in this report

ABS	Australian Bureau of Statistics
ACIR	Advisory Commission on Intergovernmental Relations
AHURI	Australian Housing and Urban Research Institute Limited
AHP	Alternative affordable housing providers
AIHW	Australian Institute of Health and Welfare
AHI	Affordable Housing Initiative
AMI	Area Median Income
BBSR	Federal Institute for Research on Building, Urban Affairs & Spatial Development
BC	British Columbia
CCFR	Council of Financial Federal Relations
COAG	Commonwealth of Australian Governments
CHOs	Community Housing Organisations
CSHA	Commonwealth State Housing Agreement
CRA	Commonwealth Rent Assistance
CHDO	Community Housing Development Organization
CHRA	Canadian Housing & Renewal Association
CMHC	Canada Mortgage Housing Corporation
DPC	Department of Premier and Cabinet
DHUD	Department of Housing and Urban Development
EU	European Union
EPI	Evidence based Policy Inquiry
EUREB	European Real Estate Brand Institute
FaHCSIA	Department of Families, Housing, Community Services & Indigenous Affairs
FCM	Federation of Canadian Municipalities
FCI	Facility Condition Index
FI	Financial Institution
FSS	Family Self Sufficiency (US Program)
GdW	Bundesverband deutscher Wohnungs

GESIBA	Gemeinnützige Siedlungs- und Bauaktiengesellschaft
GFC	Global Financial Crisis
GHG	Greenhouse Gas
GSW	Housing Association of the State of Berlin
HA	Housing Associations
HANO	Housing Authority of New Orleans
HFA	Housing Finance Agency
HHCEN	Housing and Homelessness Chief Executives Network
HMAC	Housing Ministers Advisory Council
HOPE VI	Home Ownerships Opportunities for People Everyone
HOME	HOME Investment Partnerships Program (HOME)
HSC	Housing Services Corporation
IAH	Investment in Affordable Housing
IMF	International Monetary Fund
JLL	Jones Lang and LeSalle
LIHTC	Low-Income Housing Tax Credit
LPHA	Local Public Housing Authority
LIHTC	Low-Income Housing Tax Credit
LLC	Limited Liability Company
LIHTC	Low-income Housing Tax Credits
LPHA	Low profit housing authorities
MRG	General Rental Law
MTW	Moving to Work
NASS-PHAS	iNtegrated Assessment SubSystem-Public Housing Assessment System
NPM	New public management
NDIS	National Disability Insurance Scheme
NAHA	National Affordable Housing Agreement
NPO	Non-profit Organisation
NRAS	National Rental Affordability Scheme
NRW	Government of North Rhine-Westphalia
OPM	Office of the Prime Minister

PHAs	Public Housing Authorities
PPP	Public Private Partnership
PRS	Private rental stock
PRWG	Policy Research Working Group
QHWRA	Quality Housing and Work Responsibility Act
RAD	Rental Assisted Demonstration
SDHC	San Diego Housing Commission
SHA	State Housing Authority
SRO	Single Room Occupancy
TCHC	Toronto Community Housing Corporation
UK	United Kingdom
USDA	United States Department of Agriculture (USDA)
US	United States
VAGO	Victorian Auditor General's Office
WW	Wiener Wohnen
WWII	World War Two

## Glossary

A list of definitions for terms commonly used by AHURI is available on the AHURI website [www.ahuri.edu.au/research/glossary](http://www.ahuri.edu.au/research/glossary).

## Executive summary

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

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

### Key findings:

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

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

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

## Key findings

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

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

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

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

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

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

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

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

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



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

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

## Policy development options

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

## Constructive co-ordination of national housing policy

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

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

## Long-term mechanisms for adequate funding

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

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

## Balanced access to sources of funding

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

## Efficient and effective tools to channel private investment

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

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

## **Integrated and sophisticated local planning**

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

## **From bureaucratic silo to community ally**

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

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

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

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

## **Anticipating maintenance and funding it**

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

## **Innovation linking demand assistance to capital investment**

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

## **New funding models and cultural change**

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

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

## **The study**

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

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

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

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

**Table 1: Local illustrations of public housing transformation**

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

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

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

# 1 Introduction

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Australia's public housing system is strongly mediated by inter-jurisdictional federal arrangements affecting policy, funding, delivery and regulation. This report examines international experience of public housing transformation in several federal states.

The report has three main foci:

- Social housing systems within different federal contexts: US, Canada, Germany and Austria.
  - Transformation of public housing organisations within a broader affordable housing industry and the role of government.
  - Key strategies and tools influencing industry capacity of relevance to Australia.
- 

## 1.1 Purpose and research questions

This project provides international insights from public housing transformation in four federal states to inform Australia's own approach to public housing management and upgrading. It is part of a wider effort to promote the development of a more diverse, robust and responsive affordable housing industry. The research analyses a range of public housing transformations where transfers to alternative affordable housing providers (AHPs) have played a key role.

Overall, the aim of this project is to investigate public housing reform/modernisation processes enacted in federal states and associated affordable housing industry development. In doing so, the project directly addresses the following research questions:

- 1 What strategies have been followed by federal states in transforming their public housing provision especially through divestment to alternative providers?
- 2 How have governments helped to facilitate institutional and organisational capacity building of an affordable housing industry?
- 3 What evidence is there to calibrate the impacts of different approaches on the structure of the affordable housing industry and key housing outcomes such as supply, eligibility and accessibility?
- 4 What lessons can Australian housing policy-makers draw from these varying strategies and outcomes and what policy ideas, tools and organisational strategies are potentially relevant to Australian conditions?

## 1.2 The studies approach

This research has involved an international literature review of four federal states where public housing has been transformed along different delivery pathways: the US, Canada, Germany and Austria. Within decentralised federal systems there is space for regionally distinctive approaches. Hence, national transformation strategies have been elaborated with two local illustrations for each country. These are San Diego and Portland in the US, Toronto and Vancouver in Canada, Berlin and Munich in Germany, and Vienna and Lower Austria in Austria.

The research quantitatively and qualitatively examines relevant transformations in public housing asset management occurring across each federation. It focuses on the mechanisms underlying changing asset management and the strategic processes and tools used by government, social landlords and the private sector. More about the methodology of this study is provided in Section 1.2.

## **1.3 Key concepts**

### **1.3.1 An evolving social contract**

The social contract concerning access to basic housing needs, defined between states, market and civil society is changing.

There are discernible trends in the evolution of the social contract surrounding housing across many housing systems in Europe, North America and Australia, where increasingly home ownership has been promoted and privileged above other forms of housing consumption. Such a trend has been closely aligned with an exponential growth in mortgage markets, enabled by monetary policy delivering cheap mortgage credit, aided in some countries such as The Netherlands and the US, by securitisation, lower prudential standards and unfortunately, weak regulation of new financial products (Lawson 2005; 2012).

An enabling approach to markets once promoted by international agencies during the 1980s and 1990s has coalesced with constraints on public sector, as well as the abovementioned preference for home ownership and in the social housing sector, cut backs to direct public supply programs and increased reliance on independent third and for profit providers. As a consequence of this coalescence, there has also been a strong but costly shift from 'bricks and mortar' supply side policies to individually targeted demand side assistance during the same period.

For social rental housing, increased targeting of scarce resources has concentrated socio-economically disadvantaged households in this tenure. Mature social housing systems, with assets occupying increasingly valuable inner city locations, have experienced a wave of estate renewal, often justified in terms of deconcentrating poverty.

Unwilling or unable to provide public loans, the privatisation of public landlords has advanced strongly in the Netherlands, the UK, Germany, with either not-for-profit or private sector providers taking centre stage. New supply has been frustrated by high land costs and a weaker public role in land markets, leading to fragmented reliance on planning measures such as inclusionary zoning.

Following the Global Financial Crisis (GFC) there has been muted recognition of the importance of stable housing markets and negative consequences of unfettered investment in existing housing and declining new supply. To boost construction of new affordable rental housing, many governments have enhanced mechanisms such as guarantee schemes and intermediaries, to channel investment towards this goal.

### **1.3.2 Public housing**

Public housing is clearly subject to this changing social contract on housing and shifting circuits of investment. The concept of public housing implies some form of government intervention to increase access to housing not provided by the private market. It differs fundamentally from market based housing, as decisions concerning allocation and rent setting are determined by government policy rather than market mechanisms. Thus, public housing is a form of social housing provided by a government agency, often by a local authority, or by a publicly owned company (Housing Europe 2012: 86). While public housing is not inherently targeted to the poor, in many countries this is now the case.



As indicated above, there are many variations of the social contract surrounding public housing systems, promoting different government, private and third sector roles in development promotion, construction, ownership, management, rent setting and allocation within a broader affordable housing sector.

Murie (2013: 168–169) categorises four groups of public housing:

- Social welfare, which addresses market failure and is used to respond to crises (US).
- As a stepping stone to home ownership, which is often built then sold (Southern Europe).
- As part of a planned economy, that has since been privatised (Central and Eastern Europe).
- Public housing as government owned economic and social infrastructure, where provision objectives fulfil a range of strategic policy objectives (new models of provision, energy efficiency, key worker, integration).

The construction and management of public housing has increasingly been transferred to the third sector in Western Europe.

It is also useful to perceive public housing in its broader industry context, which may involve a range of social and affordable housing providers such as not-for-profit housing associations, co-operatives and also for-profit landlords. These providers operate within a specific context where property rights, circuits of investment and welfare provisions are influential and differently defined over time. Thus, we see in some countries that access to developable sites, favourable investment and revenue support is facilitated to specified providers on a competitive, collaborative or preferential basis, on the proviso that they provide housing for those households not served by the commercial market.

### **1.3.3 Transformation**

Providers of public housing are by no means static organisations rather they have changed in purpose and organisational form since first established for a range of reasons.

Transformation implies a fundamental change in a public housing provider's role, strategy and culture. This may imply a move away from traditional programmatic bureaucratic delivery of housing towards more entrepreneurial practices, including a range of revenue-generating activities (Pomeroy 2015). It may also mean a slow cumulative process of adaptation to contingent (policy) conditions, in which providers are forced to adapt within a harsh operating climate in order to survive (Pomeroy 2015: vi). Providers may embrace a new world order or struggle to maintain hold of their core mission. In this sense, transformation is driven by a contingent context and change can be cumulative and sudden, both voluntary and imposed within an organisation. Seen from these perspectives, transformation is inevitably a complex process, with both positive and negative ramifications.

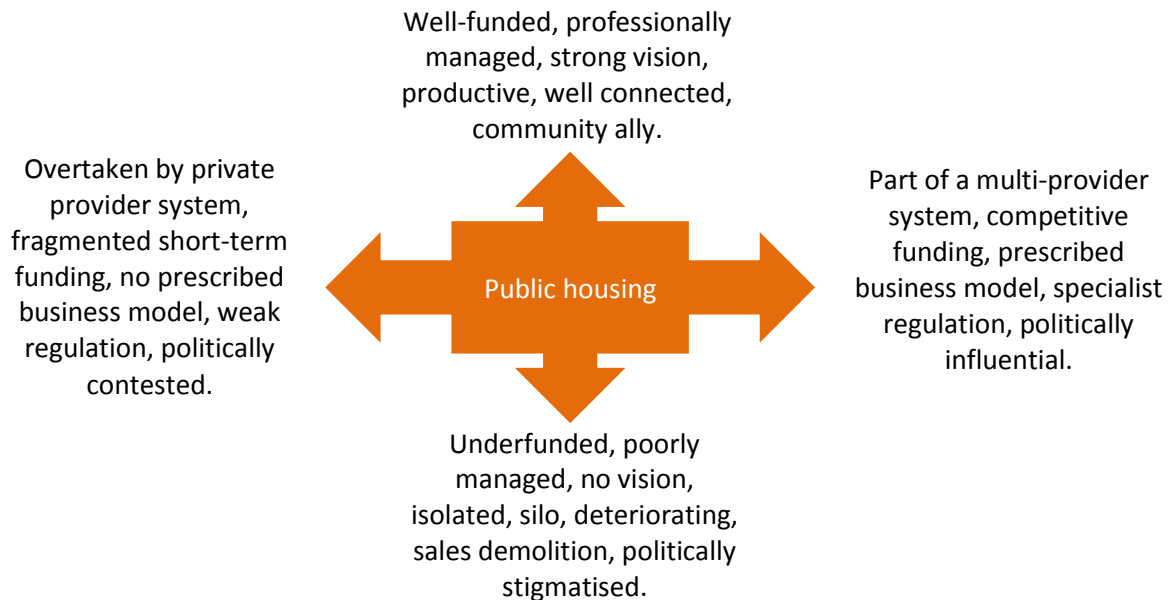
All selected countries have pursued the transformation of public housing over the past 30 years, generating varied affordable housing industry responses and provision outcomes. Many countries have seen direct public provision of housing change towards third sector models involving multiple providers. While some strategies have been motivated by the drive to reduce public debt, promoting mass privatisations but often generating disappointing results, others have supported asset transfer to a third sector and/or maintained a direct but contestable state role in public housing management and ownership, alongside a vibrant third sector.

### **1.3.4 Alternative pathways for public housing**

This concept of alternative pathways is useful when contrasting different approaches and visions for public housing development in both Australia and elsewhere. There are of course numerous alternative pathways and outcomes of public housing provision and each carries profoundly different implications for the role of housing providers and their tenants. In order to

encapsulate these contrasts in a simple but meaningful way, Figure 1 (below) abstracts four different alternatives, elements of which can be found in Australian and international trajectories.

**Figure 1: Alternative pathways for public housing provision**



Of course, in federal states, the causes underlying these potential pathways become even more complex as they must also reflect changing inter-jurisdictional relations affecting policy, funding, regulation and provision. This notion is elaborated further below.

### 1.3.5 The complex role of federal states in housing

In very simple terms, state forms can be defined as comprising either unitary or federalist structures. A unitary state exists where all powers (functions) are assigned to one level of central government, which has the authority to legislate in all domains of activity and can establish (and terminate) administrative bodies, including local government, to carry out its demands. In contrast, a federal state is more decentralised and comprises at least two tiers of government where powers and functions are divided bilaterally but cannot be re-assigned unilaterally.

Often there is a dynamic tension in federal systems, where different levels of government barter for power over certain functions, taxation arrangements and revenue sharing. This process is often evident in struggles over large shared portfolios such as education, health and housing policy. Typically, different jurisdictions jostle for control over policy, funding, delivery and regulation, via the medium of inter-jurisdictional grants, co-operative steering and reporting arrangements and tax sharing agreements. Processes of negotiation, bartering and agreement making are very important where policy responsibilities are not well defined or shared, as is often the case in housing policy (Lawson and Dalton 2010).

Australia is a federal state with two constitutionally recognised levels of government since 1901: the federal government and six states have independent responsibilities; with two territories dependant on the federal government for delegated state roles as well as numerous local governments that are subordinate to their state governments. Australia's taxation collection system is highly centralised, with equalisation payments and specific purpose federal grants provided to the states. Loans are allocated by the Loans Council which is dominated by the Commonwealth and includes the six states, as well as the Northern Territory (NT) and

Australian Capital Territory (ACT). Furthermore, the Council of Australian Governments (COAG) plays a varying role co-ordinating the funding and purpose of shared programs, including housing (which is outlined in Section 1.4).

How forms of federalism are defined and promoted shapes the allocation government roles and responsibilities with regards to housing policy. For example, Switzerland has a very deeply rooted commitment to decentralised and direct government by 26 German, French, Italian or Romansch speaking cantons. Each has a wide range of responsibilities including power to levy income and corporate tax. In this country, housing policy and programs are much more diverse, regionally organised (according to language spoken) and locally delivered (rural and urban) than in Australia. Conversely, centralised Austria has a strong tradition in federal tax transfers for regional housing programs (now loosened), which are governed by national legislation and regulations. Within the framework of national legislation and regional subsidy programs, local social housing is initiated and facilitated (Lawson 2009). The United States has centrally driven public housing programs that are delivered via numerous small public housing authorities. Conversely, Canada has established bilateral housing agreements with its provincial governments, devolving responsibility for housing differently across their federation. Devolution in Germany has seen an almost unilateral withdrawal of the federal government from housing supply programs leading to the variable take up of housing programs by regional governments and overall decline and fragmentation in social housing provision.

Beyond federal state differences in the degree of centralisation or devolution, are subtler differences in housing responsibilities. Given housing is a multifaceted policy field involving many layers of state intervention in the promotion, development, construction and allocation of housing in all countries, the layering of state interventions and their direct or indirect influence on housing demand or supply becomes more complex and the potential for policy fragmentation increases.

Like health and education, housing is a policy realm where national priorities and taxation powers often collide with local preferences and service needs. In Australia, this is termed vertical fiscal imbalance, where the federal government raises more taxes than it spends and states spend more than they raise, requiring tied or untied transfers to make up the shortfall. This conditionality often requires reporting on specific outcomes. It can also generate disputes and friction between those jurisdictions with the power to raise revenue and those obliged to deliver services.

While a coherent and comprehensive housing policy requires a certain level of aggregation and co-ordination, the variety of federal stakeholders and their different political interests often presents a major hurdle. Some countries have developed co-ordination mechanisms to allocate appropriate resources and channel efforts towards an agreed housing strategy. These mechanisms may be bedded down in federal state agreements, fostering long-term commitment to housing goals and characterised by constructive collaborative review and bargaining processes. Other systems are subject to continuing friction and instability, undermining any strategic long-term effort in the housing realm (Obinger 1998: 245 in Lawson and Dalton 2010).

### **1.3.6 Capacity to deliver social housing policy objectives**

The capacity for federal systems to effectively support the delivery of adequate and appropriate social housing is a key issue for this study and thus requires further discussion. In the broadest sense, capacity embraces important dimensions of funding and resources, organisational, industry specific, networking and political capacity (Glickman and Servon 1998; Milligan et al. 2016). Using this definition as a guide, we later expose how federal states have supported capacity at the organisational and housing industry level. In brief, key dimensions of capacity are summarised in Table 2 as follows:

**Table 2: Key dimensions of capacity to deliver social policy housing objectives**

<b>Dimension</b>	<b>Examples at organisation level</b>	<b>Examples at industry level</b>
Resource capacity	<ul style="list-style-type: none"> <li>• Long-term operating support and funding agreements</li> <li>• Resources for consolidation, capacity building and expansion</li> <li>• Development capital</li> <li>• Access to funders</li> <li>• Reasonable borrowing limits</li> <li>• Balanced portfolio risk</li> <li>• Internal cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Durability of government subsidy programs</li> <li>• Durability of relations with private funders</li> <li>• Resource providers and brokers: e.g. peaks, industry groups, consultants, and training providers</li> </ul>
Organisational capacity	<ul style="list-style-type: none"> <li>• Commitment to a clear vision</li> <li>• Definition of roles</li> <li>• Effectiveness of executive director</li> <li>• Staff competence and stability</li> <li>• Board development and leadership</li> <li>• Fiscal management</li> <li>• Information technology</li> <li>• Project management</li> <li>• Evaluation</li> </ul>	Capacity of non-provider organisations: e.g. regulators, funders, developers, peaks, consultants, training and other resource providers, and client service partners.
Industry specific capacity <sup>1</sup>	Specialist knowledge and skills in housing and cognate fields: tenancy management, tenant participation, client referral and support, asset management, housing development and place-making.	Programs, strategies, incentives, procedures and regulations for outcomes in housing and cognate fields: e.g. affordability, accessibility, health, environmental sustainability and energy efficiency.
Networking capacity	<ul style="list-style-type: none"> <li>• Relationships with regulators, funders, peaks, industry groups, peers</li> <li>• Partnerships with other client service providers</li> <li>• Access to non-financial resources</li> </ul>	<ul style="list-style-type: none"> <li>• Legibility of industry networks</li> <li>• Effectiveness of peaks and industry groups</li> <li>• Balance of competition and collaboration</li> </ul>
Political capacity	<ul style="list-style-type: none"> <li>• Community participation and alliances</li> <li>• Conflict management</li> <li>• Media management</li> </ul>	<ul style="list-style-type: none"> <li>• Education of constituents and partners</li> <li>• Political leverage</li> <li>• Conflict management</li> <li>• Ability to frame problems and link to influential agendas</li> </ul>

Source: Milligan et al. (forthcoming 2016: Table 2)

<sup>1</sup> 'Programmatic capacity' in Glickman and Servon 1998.

This multi-layered and multi-scalar definition of capacity provides an analytical frame from which to abstract relevant approaches, institutions and tools applied within the four federal states and their localities, to be used to inform Australia's own approach (Chapter 7).

## **1.4 Federalism in Australian public housing policy**

In Australia, those with responsibility for housing policy have sought to negotiate coordination mechanisms, secure resources and develop strategic coalitions. Within government, key vehicles for policy development have been the Council of Australian Governments (COAG), Housing Ministers Advisory Committee, Housing Supply and Affordability Working Group in negotiating Australia's Commonwealth State Housing Agreement (CSHA), National Affordable Housing Agreement (NAHA) and Partnership Agreements for Social Housing and the ongoing Federation Review (Australian Government 2015; 2014). This review aims to reshape federal-state relations that govern many areas of social infrastructure funding and service provision, from health care to education and including housing and homelessness assistance. It generated a Housing and Homelessness Issues Paper, which stressed the lead, shared and sometimes overlapping roles of Australian governments in housing policy, funding, delivery and regulation.

The Federation Issues Paper concerning housing and homelessness (Australian Government, 2014) appropriately draws attention to the evolution of Australia's federated housing policy that has been delivered via Commonwealth State Housing Agreements from 1945 to 2009, defining the funding, allocation and rent regime underpinning public housing, drawing heavily on the work of Troy (2012) and Pugh (1976).

However, for a brief period in the very early years of Federation, initiatives were more state driven and, to some degree, Australian states now design and pursue their own housing initiatives within ongoing NAHAs and various short-term partnership agreements, such as that defined for social housing investment and homelessness services.

Over a century ago, Queensland was the first Australian government to legislate for the subsidisation of housing (1909 Housing Act), followed by various state experiments catalysed by social movements to reduce poverty and address deteriorating housing conditions. These efforts culminated in the establishment of state housing authorities, with a charter to build urban infrastructure, clear slums and support economic development.

It is noteworthy that while CSHAs were being established, the collection of taxation was much less centralised than it is today. Income taxes were collected by both state and federal governments. However, with the commencement of WWII, the federal government took over the state's role. Without the revenue of income tax, state governments had to rely on the transfer of funds in the form of federal grants. Although possible, no state government levied income tax again and in the 1990s, the right to do so was legally abolished. In addition to federal special purposes federal grants, states rely on a range of miscellaneous taxes, such as stamp duty, payroll and property taxes as well as car registration.

Returning to the pressing housing shortages during WWII, varied state efforts were significantly bolstered by the Commonwealth Housing Commission providing rental housing at historic cost rents to returning soldiers and working households. The emphasis shifted again in the 1950s, towards national promotion of home ownership, with the concessional sale of public dwellings and the provision of funds for home loans. State governments were not reimbursed for losses incurred in renting dwellings but could supplement CSHA allocations with Loan Council borrowings (which were later curtailed by public borrowing limits).

From the 1970s, eligibility for public housing became increasingly means tested and the rent regime was also switched from historic cost rents to market rents. Differences in rents and operating costs were filled with operating subsidies.

Commonwealth funds either came with conditions (tied) or there was considerable flexibility in their use (untied). By the 1980s, CSHA permitted untied grants to be used to promote low-income home ownership or affordable rental programs and various tied commonwealth grants ensured state delivered programs for mortgage rate relief, community housing and crisis accommodation (amongst others).

The tying of Commonwealth funds began to loosen in the 1990s and matching requirements with state governments were also reduced. At the same time, public borrowing limits drastically reduced the capacity of state governments to borrow from the Loans Council to make up the shortfalls in their rent accounts. From the Commonwealth, there was also increased attention given to the efficiency of SHAs, who were expected to provide an annual efficiency dividend (1%) by the mid-1990s.

Since 1992, the mechanism to debate funding and obligations has been the Commonwealth of Australian Governments (COAG), including state, territory and local governments. It is in this forum during the 2000s, that most SHAs argued that they were under increasing financial stress. Falling rental income; limited borrowing capacity, the backlog and rising cost of maintenance and refurbishment of ageing stock, as well as the need for major adjustments to take account of demographic and social changes were all pressing issues for SHAs (Donald 2001).

The expiring 2003 CSHA was replaced in 2009 with the National Affordable Housing Agreement (NAHA): a more complex and fragmented document partially covering a range of different partnership agreements for social housing, homelessness, reform directions etc. There were also several major mechanisms outside the NAHA, such as NRAS, Homefund and tax reform and currently the National Disability Insurance Scheme (NDIS) (Gronda and Costello 2011).

While housing policy has oscillated between periods of centralisation and state led activism, a process of Commonwealth withdrawal from housing policy took place between 2013 and 2015, but very recently there has been increasing interest by central agencies (Treasury). Evidence that progress in key areas of social and affordable housing policy slowed, can be observed with the cessation of NRAS, abolition of the National Supply Council, dismantling of inter-jurisdictional fora for housing policy, long-term cuts to spending on social welfare and a decentralist drift promoted by the Review of Federation. Progress on new models for financing social housing, a long standing issue on the COAG agenda, has been frustrated by the relegation of housing policy to welfare departments and unsettling and corrosive changes in policy making capacity (Tingle 2015; Milligan and Tiernan 2011; Lawson, Berry et al. 2014). However, several private financing models have been put forward for discussion by the Treasury resourced Affordable Housing Working Group under the Council of Federal of Financial Relations (CFFR 2016).

The potential for co-ordinating efforts across state and federal jurisdictions began to diminish in 2012 with the COAG subsuming housing matters under the Transport and Infrastructure Council. This was also when the last housing focused report was presented and published online to COAG.

In 2013, the Abbott Government reduced the number of Ministerial Conferences and currently there are no formal Housing Ministers Conferences. Of course, Ministers do meet in special circumstances but not as a regular or ongoing decision making forum. Allied cross-jurisdictional forums, such as the Housing Ministers Advisory Committee, have either met partially, intermittently or not at all. Other interjurisdictional forums for research and policy development, such as the Policy Research Working Group, at the administrative level have ceased to exist. New ones have formed however, such as the Housing and Homelessness Chief Executives Network (HHCEN).



By 2015, the capacity to co-ordinate housing policy across the nation had weakened substantially as a consequence. Co-ordination also became more centralised but less transparent, as housing policy moved more closely towards Treasuries under the Council on Federal Financial Relations.

However, there remains implicit support amongst HHCEN for a more active COAG reform process and in December 2015 the role of COAG was once again re-asserted, perhaps circumventing the Federation Review process:

*... reforms to housing and homelessness services would be taken forward by relevant Ministers in the context of existing work on housing affordability. COAG will receive a report on this work at the end of 2016. (COAG 2015: 2)*

Most recently, policy leadership has come from Commonwealth Treasury's Social Policy Division, which became more actively engaged with social housing finance under Treasurer Morrison, former Minister for Social Services. The Working Group Issues paper focuses on four financial models, including tailored investment instruments and special purpose financial intermediaries (Australian Government 2016).

Of course, surrounding all these developments in public housing policy is a funding transfer and public borrowing regime that limits the capacity of state governments to invest in public housing. At Commonwealth level, the tax system strongly drives residential mortgage investment in private dwellings. Purchasers of residential property, either occupying households or investor landlords, enjoy capital gains tax exemptions and are not subject to an imputed rent tax. Furthermore, landlords are able to deduct expenses (including financing costs) and losses from their global income via negative gearing provisions. Revenue foregone through these measures greatly surpasses direct assistance to low-income households in rental housing (Yates 2009; Groenhart 2014).

## **1.5 The relevance of the research to Australian housing policy**

Australia's social housing sector comprises around 400,000 dwellings and comprises a significant stock of 330,000 public housing owned and provided by State Housing Authorities, around 72,000 dwellings were under main stream community management in 2015 (Milligan et al. 2016: Figure 1:4, SCRGSP 2016). An increasing social rental housing (18% in 2015 up from 4% in 1997) is being provided by the not for profit sector, although growth has not met policy goals of 35 per cent of public housing by 2014 (Milligan et al. 2016). Community housing organisations provide housing for a range of households including Indigenous Australians, people who with a disability or are otherwise homeless and, most recently, affordable rental to low and middle income households at below market rents under NRAS (AIHW 2012; KPMG 2012). Growth of community housing has been sporadic and subject to fragmented and short-term funding models.

The rationales for expanding social housing are increasingly based on productivity, sustainability and social cohesion. Unaffordable and poorly located housing is not only a drag on a competitive, productive urban economy. It also divides cities and distributes opportunities for wealth creation and social fulfilment unfairly over successive generations. An effective affordable housing sector contributes housing towards more productive, socially inclusive and environmentally sustainable metropolitan and rural communities.

There has been increasing attention given to the role affordable housing plays in productive cities and the production of social and affordable housing in areas of opportunity has been found to directly contribute towards to economic growth and social wellbeing (KPMG 2012). Further, social housing in high rent areas is more efficient than reliance on cash payments to



low-income tenants in the private market, for which there is no guarantee that housing is either available and accessible (Berry and Hall 2002; Groenhart 2014).

It has also been argued that cost effective social and affordable housing managed in partnership with local services can also promote better individual and household outcomes, as well as strengthen overall social cohesion (Winter 2015). From this perspective, social housing is considered an efficient and effective form of urban infrastructure that serves the needs of productive, socially inclusive metropolitan areas.

Within this context, state and territory jurisdictions and their Housing Authorities play an integral role in co-funding and providing social housing within the framework of operating and capital funding agreements, via the system of Commonwealth rent rebates as well as management contracts with CHOs as well as asset transfers, sales and redevelopments.

### **1.5.1 Critique of current funding model and the search for solutions**

However, the adequacy of SHAs funding model has been subject to increasing scrutiny over the past twenty years, notably by researchers and public accounting bodies concerned with their operational sustainability, quality of asset management and their ability to invest in necessary renovations as well as new supply. Also of concern, although less prominently, has been SHAs capacity to support vulnerable tenants in a variety of ways, including access to employment opportunities (Hall and Berry 2004; 2007; 2009; DPC 2014; Productivity Commission 2015; 1993; Victorian Auditor General 2012).

The vital importance of governing agreements such as the CSHA and the subsequent NAHA cannot be underestimated, as they directly affect the financial capacity of Australia's social housing policy to deliver desired housing outcomes. To illustrate, more than any previous agreements, the 1996 Interim CSHA and subsequent CSHA and NAHA agreements have driven public housing decline and encouraged the sporadic growth of the third sector.

A critical turning point in 1996 was the removal of requirements to invest capital and for greater flexibility given to SHA to enable use of these funds for non-capital expenditure. With declining funds and an unsustainable operating model, SHAs used freed funding as well as funds generated from asset sales to address declining rent revenue and rising operating budgets.

A second fundamental change has been the narrowing eligibility and prioritisation given to emergency applicants. With more single and fixed income tenants, revenue from tenant rents has eroded, requiring rebates to make up the difference in order to cover operating costs. Thirdly, during the same period, operating costs were rising, as wages grew and more active maintenance strategies were pursued as well as standards and efforts to support high needs tenants increased.

A series of detailed investigations of primary sources by Hall and Berry (2004; 2007; 2009) describes these rising costs and the worsening financial situation of SHAs from 1990 to 2005. During this period most SHAs slid from surplus to deficit over a 15-year period.

Various solutions have been put forward to governments to address this decline generated by the lack of capital funds, narrowing revenue base and rising costs, and it is useful to revisit them before we examine progress in other countries. Australian proposals include clarifying the community service obligation to be provided by SHAs and community housing organisations, including their tenant profile and incomes and adequately funding the difference between the commercial or market rent for a dwelling and the concessional price paid by the tenant (Hall and Berry 2004). Properly accounted for, CSOs should adequately fund the rent rebate required. The same experts have also called for the broadening of the income profile of public tenants, which would in turn reduce SHA reliance on rent rebates (Hall and Berry 2009).

Focusing on allocation and rent policy, Pawson, Milligan et al. (2013) call for an expert review of rent setting to determine the most effective way of protecting affordability for tenants while minimising work disincentives, while at the same time improving financial certainty for providers. Debate on the allocation of rent assistance continues (Audit Commission 2014) with recent work by the Productivity Commission (2015) finding that a shift from public rent rebates to Commonwealth Rent Assistance (CRA) will not improve tenant employment opportunities but will instead cause financial hardship for many.

To grow a well maintained satisfactory social housing sector would require a substantial equity injection to providers or the transfer unencumbered stock to NPOs. A cost competitive assessment of the works required to secure universal compliance with social housing property standards would also be required to address the backlog in maintenance. This would enable governments to model future resource requirements to reach a satisfactory standard and make appropriate budget allocations based on these costs (Pawson, Milligan et al. 2013).

Some researchers have also called for a return to more clearly defined transfers, such as specific special purpose grants tied to different realms of housing management, maintenance and redevelopment activities (Hall and Berry 2009). In essence, this represents a re-centralisation of administration and contrasts with looser performance based trends exemplified by the NAHA agreements. The current performance based accounting and reporting arrangements have been criticised as thin and loose, lacking body and contestable (Gronda and Costello 2011).

Defining a feasible role for private finance has also been stressed by Pawson, Milligan et al. (2013), who recommends establishing the feasible and sustainable level of private financing required to co-finance new supply and/or asset redevelopment, together with the design of a public co-payment mechanism that would be required to support social housing investment in supply and renewal. Much research has been done evaluating international experience in this realm (Lawson, Haffner et al. 2010) and designing appropriate financing instruments, intermediaries and guarantees (Lawson 2013; Lawson, Berry et al. 2014), but action from the government is still forthcoming.<sup>2</sup>

Driven by budgetary pressures the outsourcing of public housing services to not-for-profit agencies has accelerated since 2007. Unsustainable SHA operating models necessitating private investment (without burdening the public balance sheet) have many jurisdictions committed to transferring 'up to 35 per cent' of all social housing outside the public sector by 2014 (Pawson, Milligan et al. 2013).

While there is increasing emphasis on third sector performance and its regulation, progress still needs to be made in structural reform of public housing, addressing operating deficits, narrowing revenue based and capacity to investment (VAGO 2012). Facing continuing difficulties, SHA strategy has moved from direct provision towards enabling the third sector to grow (Jacobs, Atkinson et al. 2010: 2).

Most Australian jurisdictions officially support the development of a multi-provider social housing system. Yet a clear vision for the role of public housing is lacking. In its absence a highly residual, skeletal public housing sector looms on the horizon as transfers continue apace.

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<sup>2</sup> Mechanisms to channel private investment towards affordable rental housing are now a standard feature of social housing systems in many European countries, with Austria's HCCB, the Swiss BIC and Britain's THFC being the most established, productive and efficient. There are signs of Commonwealth progress following the recent CoA/Treasury Discussion Paper (2016).

## 1.6 Examining international experience

Shifting the focus beyond Australia, we can examine the role of federal state relations in regard to systems of housing and urban development in other similarly developed countries. So far limited research has been undertaken that examines housing as a field of federal mediation and co-ordination (ACIR 1981; Obinger 1998). Some comparative analysis has been undertaken by Lawson and Dalton (2010) of Switzerland, Austria, Canada and Austria, that extends work by Lawson (2006; 2009) and Dalton (2009) on the evolution of state roles in four highly developed but very different welfare states.

The transfer of public housing responsibilities to the third and private sectors has been a subject for widespread policy debate, influencing national housing strategies in Europe and North America (Suttor 2011; Holm 2010; Murie and van Kempen 2009; Gruis, Tsenkova et al. 2009; Abravanel 2004; Harloe 1995). Decentralisation, devolution and privatisation have facilitated a general retreat by national governments from social housing 'directly delivered' leading to divestment of responsibilities for the finance, development and management of formerly public housing, often involving asset transfers to alternative AHPs. In some countries such strategies have attracted considerable private investment towards stock rehabilitation and new development, catapulting AHPs into new finance and development roles, while maximising the retention of affordable housing provision. Elsewhere, however, there is evidence of successor landlords exploiting rent rolls, while selling off the most marketable properties and generally running down remaining social housing stock (Holm 2010).

Negotiations around federal agreements and partnerships allow different levels of government to barter for power over functions such as public housing and thus compete for control, via mechanisms such as conditional grants, co-operative agreements, performance benchmarks, regulatory frameworks and tax and revenue sharing arrangements. Such tools can profoundly influence the conduct of public housing reform and industry development.

For this project, we focus on the transformation of public housing as part of an emerging multi-provider affordable housing industry in four federal states: the US, Canada, Austria and Germany.

Austria's long-term federal-state agreements transferred defined tax revenues towards diverse provincial housing programs—some promoting competition between public and private landlords. In contrast, the US's centralised public housing renewal program drove the revitalisation of run-down public housing estates but left new development to non-government AHPs. Canada's variable provincial housing agreements now support numerous provision models, while Germany's national government has completely withdrawn from the arena, leaving municipal housing companies in search of private investment.

By focusing on the inter-governmental relationships, mechanisms and deals involved in such reforms, this research adds rich new material to the field of international comparative research on federal states and housing provision.

In general, comparative housing research is undertaken for a variety of reasons: to be better informed of developments elsewhere, to evaluate implications of potential policy pathways, to understand the drivers and consequences of change and to explain what generates differences in outcomes (Lawson, Haffner and Oxley 2010). Comparative housing research is also undertaken to inspire reform or catalyse change in national or local housing strategy.

The comparative research of public housing transformation in different federal settings aims to fulfill many of these ambitions: to inform the development of a multi-provider affordable housing system, evaluate the impact of changing federal relations on housing policy, understand the implications of these for public housing, explain the process of transformation in a meaningful

way and, most importantly, inform Australian housing policy choices in the midst of the Review of Federation.

Both management and asset transfers of Australian public housing have been partly inspired by European and US experience, which suggests the potential of a vibrant third sector. For this reason, closer examination of international experience of public housing transformation towards a multi provider model is highly pertinent given the increasingly rapid pace and scale of public housing transfers in Australia.<sup>3</sup>

As noted by Murie (2014), no two public housing systems are exactly alike and over-generalisations should be avoided. Rather than similarities and correlation, differences and contrast should stimulate reflective discussion and inform new ideas suitable for the Australian context.

It is important to note that the research is not aiming to simply transplant seemingly relevant policies to an Australian context.

## **1.7 Selection of countries and cases**

Australia's own transformation of public and third sector social housing is occurring within a dynamic federalist framework, which strongly mediates housing policy progress and sector development. Currently, the Commonwealth government aims to reshape federal-state relations and is driving the debate of tax reform affecting expenditure in many areas of social policy and infrastructure funding and delivery, from health care to education and including public housing. It is therefore timely and useful to examine how other federal states have mediated the transformation of their public and third housing sectors to affect a range of housing outcomes.

Analysis of international experience can suggest how potential changes can affect the capacity of Australian public housing to deliver housing outcomes. This significance is heightened by the Abbott/Turnbull government's aim to redefine Commonwealth housing responsibilities (OPM 2014). Knowledge of how other federal states mediate public housing provision can inform Australia's own reforms. It also builds on a body of work concerning federalism and housing policy undertaken by the research team in recent years (Lawson and Dalton 2010; Pawson, Milligan et al. 2013; Milligan and Tiernan 2011; Deutsch and Lawson 2013).

This report strategically examines federal states with public and third sector housing industries operating within similar levels of social-economic development but within different welfare regimes and housing systems. The federal states selected for further study are the US, Canada, Germany and Austria.

Like Australia, housing policy in each of these countries is often funded, developed and implemented across multiple levels of government. For this research project, we examine the mechanisms of transformation, including the degree of centralisation or decentralisation of housing related responsibilities, including the funding, implementation and regulation of housing policies, programs and providers across these different levels. In particular, we focus on examining how changes have influenced public housing provision, within the broader affordable housing industry as well as at the local level.

This report focuses on the contrasting public housing transformations and third sector capacity-building strategies in other federal settings, tailored for an Australian audience. It examines

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<sup>3</sup> A related research project for this EPI will investigate ongoing progress in public housing transfers in Australia (Pawson et al. [2016 forthcoming] and Milligan et al. [2016 forthcoming]), so readers should refer to these reports for more detail on the Australian case.

macro as well as micro transformations of public housing, thus incorporating not only the big picture processes such as inter-governmental transfers and federal agreements, but also management strategies within public housing organisations. These include consolidating a public mission, restructuring assets, obtaining private investment and (re)focusing human resources as well as negotiating contracts with third parties.

The research also examines the housing outcomes of this transformation for different stakeholders and reveals the policy ideas, management tools and industry strategies potentially relevant to Australian conditions.

As shown below in Table 3, the four federal cases each have public housing sectors embedded within broader affordable housing systems or industries. The roots of these public housing sectors differ, promoting varying roles in promotion, ownership, management, rent setting and allocation within a broader affordable housing system. Thus differences and contrasts are the focus of attention informing reflections for Australian policy discussion, rather than similarities and correlation.

All selected national cases have progressed public housing transformations over the past 30 years, generating varied affordable housing industry responses and provision outcomes. While some strategies have been motivated by the drive to reduce debt, promoting mass privatisations, others have supported asset transfer to a third sector and/or maintained a direct but contestable state role in public housing management and ownership, alongside a vibrant third sector.

This review quantitatively and qualitatively compares relevant transformations in public housing asset management occurring in each nation, with particular focus on the management responsibilities and strategic actions of government, social landlords and the private sector. Aspects such as the scale, condition and financial solvency of public housing systems, asset valuation and public accounting treatment, transfer requirements and third sector support, reporting arrangements and regulation, are also examined in more detail in the country chapters.

Within decentralised federal systems there is space for regionally distinctive approaches. National transformation strategies have been elaborated via local illustrations, which were investigated via online literature review and interviews undertaken either face to face or over the telephone with local stakeholders and practitioners, as outlined in Table 3 and Appendix Table A1.

**Table 3: Selected federal states, transformation strategies and local illustrations**

<b>National case</b>	<b>Transformation strategy</b>	<b>Local illustrations</b>
United States	Long-term strategy of public housing demolition, rebuild and redevelopment for mixed income diverse tenures. New program to convert public housing to rental assistance contracts and tenancies to vouchers. Reliance on non-profits for growth via public grants, municipal bonds and, most importantly, LIHTC.	San Diego and Portland
Canada	Reduction of public expenditure and devolution agreements (bilateral 'social housing agreements') signed by CMHC and most provinces in 1997–99 (and BC 2006), giving program management and long-run funding responsibility to provinces. Limited municipal social housing projects leased to non-profit co-operative operation and management, as well as housing management delegation to indigenous communities.	Vancouver and Toronto
Austria	Increased role for limited profit sector in new supply, also competition between various public, limited profit and private providers in a cost-capped, cost-rent market, strong supply side subsidies, intermediaries and tax exempt bond instruments. Continual supply responsive to demand via a diversified system.	Vienna and South Vienna
Germany	Withdrawal of federal government support necessitating diverse forms of privatisation from mass sales to private investors and selective block sales to public shareholding of privatised company. Substantial decline in public housing stock through expiring subsidies.	Berlin and Munich

Carefully selected national experts were contracted for this study: Professor Rachel Garshick-Kleit (US), Dr Greg Suttor (Can), Dr Thomas Knorr-Siedow (Germany), Dr Wolfgang Amann with Dr Alexis Mundt (Austria), guided the selection of local illustrations and our interpretation of each country case. The basis for the selection of specific localities was their capacity to demonstrate the influence of changes in federal state relations upon public housing providers, within a wider affordable housing industry. Given the variety of responses at the local, each illustration provides insight into these differences and was chosen because they illustrate how changes in federal state relations have influenced public housing provision at the local level and in some case have used typical or innovative models and strategies to mediate these changes.

**Table 4: Local providers operating under transformative federal-state influences**

<b>Local providers</b>	<b>Key transformative federal-state influences</b>
San Diego Housing Authority and Homeforward (former Portland Housing Authority)	Shift from prescriptive conditional funding to mixed funding models mediated differently between providers, with one playing a role in policy review and experimentation, the other in entrepreneurial activities.
British Columbia Housing Management Commission and Toronto Community Housing Corporation	Shift from federal co-funding to devolution of funding responsibility to states under variable agreements and preference for NPO or public providers, leading to a flourishing NPO sector in BC and a preference for municipal housing providers in Ontario.
City of Vienna's Wiener Wohnen and Lower Austria's Wien-Süd	Federal preference for nationally regulated limited profit business providers and untying of federal housing transfers for regional programs has underpinned the growth of the LPHA sector, Vienna is an exception where both public housing companies and LPHA still play an active role, whereas Wien-Süd illustrates the increasing role of LPHA in managing municipal housing companies.
Berlin Municipal Housing Company and Munich's Municipal Housing Companies.	Withdrawal of federal funds for supply of social housing and reliance on demand assistance devolution of supply responsibilities to regional governments and various local housing efforts. These two providers have responded to privatisation pressures in different ways.

Following the selection of eight local illustrative cases over 20 interviews were undertaken either face to face (in Canada and Austria) or by telephone. Interviews focused on organisational settings and challenges, sector strategies and key factors influencing measurable housing outcomes such as supply, eligibility, allocation and affordability.

National experts also assisted in providing contacts for field work interviews. Furthermore, experts in the two most informative national cases (US and Austria) were brought to Australia to participate in the first Inquiry Panel meeting and present to the National Housing Conference in Perth (October 2015).

Reflecting on the international experience above at the national and local level, key findings have been abstracted from national transformations in public housing asset management and local illustrations of organisational impact and outcomes, identifying areas for strategic knowledge exchange.

### **1.7.1 The role of the Inquiry panel in this study**

Research team members for this project have actively engaged with an expert panel of stakeholders brought together by AHURI for the overarching Inquiry to 'draw together evidence, the outcomes of the research, and policy and practice expertise to address the policy issue and to make particular recommendations for policy development and/or practice innovation' (AHURI 2015: 3).

Activities included circulating draft findings to the Inquiry panel, presenting and discussing findings with Inquiry panel members during the first meeting in October 2015 and making presentations to the 2015 National Housing Conference. Comments on the draft executive summary for this report were also invited and received from panel members.

A list of panel members is included on the second page of this report.



## 2 Drivers and pathways of public housing transformation

### 2.1 The big picture

A great deal has changed since public housing authorities were first established throughout Europe and North America in the 20th century. Much has been achieved: a massive improvement of living conditions at the turn of the century, mass supply of new homes following devastation of war in Europe and more recently the provision of housing to those whom the market has failed amidst rising inequality (Harloe 1995; Chen, Stephens et al. 2014; Murie 2014). Today public housing must also play a vital role accommodating those seeking refuge from strife in other countries, as well as leading efforts in energy efficiency and social inclusion.

Despite these similarities, each public housing system has developed its own organisational architecture and development trajectory. While there are many and varied achievements, government and popular support for the direct provision and construction of public housing in many Western countries has waned (Murie 2014). Most public bureaucracies have either stepped back from direction provision or redefined themselves as dynamic third sector players, others are in terminal decline. However, several public housing systems are pursuing what can only be described as a revival for survival or more positively 'a renaissance' in public management in a post privatisation era.

Underlying these different trajectories are tectonic tensions between complex and dynamic federal state relations. These have redefined funding of capital and operating subsidies, guided new third sector management models and reset rent and allowance regimes. Tensions affecting the mode of public housing provision, between state and (third sector) market relations, have moulded policy discourses, which are littered with terms such as bureaucratic inefficiency, top down silos, subsidiarity, localism, innovation, competition, choice and social integration. Those engaged in this dialogue, the agents of transformation, are largely government policy-makers and stakeholders in the welfare and development industry, operating in the national and local political milieu. The elephant outside the room is often the tenant, for while their image looms burdensome and even menacing, they have rarely been direct drivers of change in public housing.

In contrast to the west, public housing is certainly taking a more progressive turn in our own Asian-Pacific region. In Hong Kong, China and South Korea, public provision is on the ascendancy and legitimised as a stepping stone to household wealth, a tool of urbanisation and contributor to stable property and construction markets. Indeed, Chinese public housing is now used to reinforce a more positive image for cities competing to attract a more 'talented' labour class. Ambitious targets are being achieved with strong intervention in the land market, transforming rural and informal settlements into high rise cities with deep government commitment.

Australia however, can be considered as belonging to a group of countries with a mature public housing sector, similar in some respects to the federal states of US, Germany, Austria and Canada (as well as Norway, Sweden and the UK). The proportion of households residing in social housing, private rental housing and home ownership is described in Table 5 below.

**Table 5: Tenure allocation within five federal states: Australia, United States, Canada, Germany and Austria**

Federal state	Social housing	Private rental	Home ownership
Australia <sup>a</sup>	4.5	23.5	67
United States <sup>b</sup>	2	34	64
Canada <sup>c</sup>	5	26	68
Germany <sup>d</sup>	5	53	42
Austria <sup>e</sup>	20	28	52

Sources: a. Yates 2015 special request tabulations from ABS Census data; b. US Census Bureau 2013 and American Housing Survey National Summary Data 2011 in Schwartz and Flanagan 2013; c. Statistics Canada 2011 d. Dol and Haffner 2010; e. Tables 3.5 and 3.6 in Scanlon, Whitehead et al. 2014.

## 2.2 Defining social housing in different federal states

Social housing may involve a variety of housing providers such as governments, not-for-profit organisations as well as private landlords. Distinguishing features include the non-market criteria applied when allocating housing services to households and non-commercial methods for setting and indexing rents. Within this broad definition, there are a variety of systems across the four federal states, providing between 2 and 20 per cent of housing stock. A brief outline is provided below of each system, which is concisely outlined and elaborated with reference to local illustrations in the following Chapters 3 to 6.

To summarise, in the United States social housing refers to public housing provided by city and county based Housing Authorities charging income based rents, as well as private landlords in receipt of Housing Vouchers who accommodate eligible households and for profit and not-for-profit organisations in receipt of funds derived from Low-income Tax Credits, for the provision of below market rate housing to eligible households. In Canada, social housing is typically rent geared to income housing provided by provincial housing corporations, a municipal housing corporation and third sector non-profits and co-operatives for eligible households. New social housing applies a variety of rent models, including affordable rent and below market rent. German social housing is provided by a wide range of providers, the largest category being municipal housing companies, housing co-operatives and private companies. The focus on low-income households and rent setting varies according to subsidy conditions, but increasingly reflects comparable market rents with rises regulated. Austrian social housing is provided by municipal housing companies, limited profit housing associations and co-operatives increasingly on a cost rent basis, which is broadly allocated according to income and household size and type and in relation to dwelling size and rent model.

In this chapter we take a brief look at these four western federal states and contrast their different directions to gain policy insights and catalyse new thinking in Australian public housing management. In brief, these differences are summarised below:

- The United States has 50 states and territories, with the Federal Government's Department of Housing and Urban Development (HUD) as well as the Public Housing Authorities of city and county governments being the main players, alongside a rapidly growing and diverse affordable housing industry of not-for-profit developers.
- In Canada, the 10 provinces and three territories are increasingly responsible for public housing policy, funding and provision, while the federal government has played a strong funding role in the past.

- In Germany, with 16 provincial governments since re-unification, municipalities are responsible for housing welfare and also the primary providers of public housing alongside many other subsidised non-government providers. They are now funded by a handful of provincial supply programs and joint state and federal funds for demand assistance.
- Austria has nine regional governments, which operate housing programs under federal legislation jointly funded with federal transfers. Dedicated funds sustain supply driven by the LPHA sector. Municipalities are both program implementers and traditionally providers of public housing, alongside an increasingly active limited profit sector.

This simple description belies the fact that public housing is a resource intensive and multifaceted policy field, involving many layers of state intervention and private participation in the promotion, development, construction and allocation of housing in all countries.

## 2.3 Co-ordination mechanisms

Within federal systems the layering of state policy interventions via joint funding, programs and agreements becomes more complex and the potential for fragmentation increases (Lawson and Dalton 2010). Often agents with responsibility for public housing have sought to establish coordination mechanisms, secure resources and develop coalitions to implement reforms, as described below:

- In the US, the Federal Department of Housing and Urban Development (HUD) has prescriptive regulations governing the use of public housing assets that it funds. States have the right, not the obligation, to establish public housing authorities to implement HUD programs, which are governed by a local board and local housing charter. Only recently has HUD begun to loosen regulations, enabling PHAs to utilise Housing Vouchers as a revenue stream to attract much needed investment for renovation. This has led to a wave of asset restructuring to attract investment, but in turn has pushed public stock into the private sector albeit managed by limited liability companies owned by local government.
- In Canada, agreements between federal and provincial governments have transferred housing program administration and funding responsibility to the provinces and territories, phasing out future federal operating subsidies. Most provinces have retained a role in direct provision, while also fostering a third sector and in most cases engaging municipalities in the ownership and management of stock. Despite some federal-provincial funding initiatives for new social housing, an increasingly diverse social housing sector is struggling to address the ongoing decline in federal funding.
- The devolving German government, as part of its larger federal reforms, has increasingly withdrawn from the housing arena and also abolished limited profit law which once regulated subsidised providers. Devolving the task of supply to state and municipal governments, has resulted in the cessation of their supply programs. A heavy burden now falls on local government, at the coal face and obliged to respond to those in housing need. Yet, under-resourced with rising debts, many local governments sold their municipal stock to global hedge funds and national real estate investors. A post-privatisation era has emerged and many lessons have been learned in the process. Municipal housing companies have re-found their social value in some cities and undergoing something of a renaissance.
- Centralist Austria has also undergone a process of devolution, untying dedicated funds for housing programs for particular tenures and income groups, but the federal government still steers efforts in new supply and renovation to promote energy efficiency and reduce carbon emissions. Under national legislation defining limited profit business models, cost rent setting and regulation, a range of regional programs have invested in the limited profit sector which has overtaken public housing in the 21st century as the main provider of social housing.

The brief overview above strongly suggests that the allocation of resources and steering capacity in social housing policy: defining models of provision, use of subsidies, allocation and rent setting models, together play a very influential role in the development of a comprehensive social housing sector. In most cases dedicated and conditional programs for capital and operating costs and their monitoring and evaluation, have been transferred to regional governments with narrower tax bases. Implementation responsibility often falls on the local level of varying capacity and commitment.

## 2.4 Pathways of public housing development within broader housing systems

Since the turn of the last century, public systems have emerged from different socio-political settings, subject to periods of ambitious growth, modernism, fiscal crises and adaptation to austerity. Their development trajectories are briefly outlined below. A more detailed history can be found in subsequent country chapters.

### 2.4.1 United States

Public housing has been funded in the US by the Department of Housing and Urban Development since the 1930s and is still built and managed by Public Housing Authorities (4,000) operating according to prescribed HUD regulations and local charters at the city or county level. PHAs continue to build public housing for low and very low-income households and since the mid 1970s also administer HUD's Housing and Section 8 program, which subsidises private landlords that provide decent private rental housing to recipients of Vouchers. Since the 1990s, HUD and implementing PHAs have shifted their focus towards demolishing and redeveloping public estates for mixed tenure and income developments.

Many publicly funded HOPE VI redevelopments led to the demolition of the most troubled large housing estates and led to a substantial loss of public housing and criticism (Vale 2013). In some cities there have been protests from those who were relocated, as in New Orleans where those displaced by the Housing Authority of New Orleans (HANO) protested against mixed-income redevelopment where only 10 per cent of former lower income tenants could return.

**Figure 2: A New Orleans housing protest: Make this neighbourhood mixed income**



Source: Morse 2006

Close analysis of trends in federal public housing funds shows a continual decline in capital expenditure from 1999 to 2013 (with exception of the 2009 stimulus), incorporating funds for new supply and redevelopment, while for same period operating funds have doubled.

In the context of dwindling federal capital funds, meeting the rehabilitation needs of 'distressed' public housing increasingly relies on the establishment of new ownership structures which can access private investment while not affecting public borrowing limits. Limited liability companies can attract equity from private equity and are able to receive LIHTC funds. Most recently, Housing Vouchers can also be used as an ongoing revenue stream to repay private debt in public housing. However, this process requires public assets to be transferred out of the HUD regulated system and thus, the terms of temporary Voucher contracts replace long-term rent setting and allocation requirements of HUD.

### **2.4.2 Canada**

A very different form of federal relations has emerged to the north. Most Provinces and Territories are responsible for social housing; about one-third of it is owned and operated by provincial or municipal housing corporations and two-thirds by non-profit organisations. From the mid-1940s to the 1990s, federal governments provided the bulk of subsidies with long-term financing arranged through the Canada Mortgage and Housing Corporation. Since the mid-1980s provinces have developed stronger capacities in designing housing programs, continuing the promotion of a non-profit social housing sector and in some cases co-operative housing. However, nation-wide development of a social and affordable housing industry has been uneven. Provinces vary moderately in the public versus NPO share of pre-1990s social housing.

In 1993, the federal government began withdrawing from the housing arena. This was carried out under bilateral Social Housing Agreements, which put in place a process that would lead to the end all federal subsidies by 2040. The federal government still spends over \$1 billion annually on subsidies to older social housing, but this is rapidly declining. The SHAs also transferred to the provinces the 6 per cent (40,000 units) of social housing that was federally or jointly owned.

The CMHC now delivers its financial services to a range of public and social housing providers. Many aging public housing assets are in need of substantial repair and thermal improvement but under new financing arrangements, provincial corporations and their governments face significant challenges in financing them. To date, no comprehensive funding model for such ongoing requirements has emerged across Canada. However, some larger cities with progressive social housing politics and a growing affordability housing industry, such as Vancouver, Montreal and Toronto, are hotbeds of experimentation and innovation. New models increasingly involve inclusionary planning, community partnership, private sector players in new build, maintenance and retrofitting and partial commercialisation of tasks.



**Figure 3: Former federal public housing in Regent Park, Toronto subject to PPP redevelopment**



**Regent Park North**

Source: Moskalyk 2008

### **2.4.3 Germany**

The long roots of public and social housing in Germany go back to several different social reform movements of the late 19th and early 20th centuries, such as the garden city, co-operative movement and the involvement of local governments in private limited dividend companies and joint stock companies providing housing. Local governments were encouraged to establish or take shares in the latter to address housing shortages (Power 2013: 106). In major cities such as Berlin, extensive municipal housing was built to modernist ideals, during the Weimar Republic in the 1920s. Yet, under the Third Reich such housing was either disbanded or were taken over by the Nazi state (ibid: 106). Co-operative and municipal housing re-emerged following the devastation of WWII to become effective providers renewed housing. With the subsequent division of Germany into communist east and capitalist west, two different models of social housing were pursued until reunification in 1990. Little remains of the GDR's program 'housing for all' as extensive privatisation and demolition has removed more than 500,000 apartments from social provision.

Today, unified Germany relies heavily on the conditionality of subsidy instruments to promote and renovate affordable rental housing and enforce allocation and rent setting regimes of social contracts amongst not only municipal providers but also many private landlords, all operating under the West German Trade Law. Over the past three decades, the federal government has largely withdrawn from providing supply subsidies, instead relying on regional and local governments to fill this policy making and financing gap. This has generated a fragmented range with approaches increasingly dependent on commercial landlords and accelerated by a wave of substantial but not pervasive municipal privatisations in the 2000s involving global investment funds and domestic real estate investment consortia.

Ongoing supply of social housing depends largely on fluctuating regional programs and the differing priorities and capacities of municipalities, who bear the brunt of welfare demands and

must strive to meet their housing obligations. In cities such as Berlin, rising rents have fuelled a growing tenant protest movement.

#### 2.4.4 Austria

A very different picture has evolved in Austria, where public housing is also managed by companies where local governments holds the majority share, alongside limited profit housing associations and co-operatives. Typically, municipal housing is less expensive (being older on average) and tends to cater for households with incomes lower incomes than LPHA housing (Amann, Lawson et al. 2009).

Furthermore, Vienna owns the largest portfolio of rental housing in Europe, via its joint stock company Wiener Wohnen (Viennese Living). This City takes considerable pride in its municipal housing, promoting its efforts worldwide and many pre-WWII estates in Vienna are also valued for their cultural heritage. This is despite growing opposition from populist parties, which are eroding the traditional social democratic support base of Wiener Wohnen.

Since 2004, most municipal companies including Wiener Wohnen have tended to take the back seat with regards to new production, leaving most supply of new residences to the affordable rental LPHA sector. While the share of municipal housing is very slowly declining across Austria due to low production and some stock transfer outside of Vienna, the limited profit housing sector is steadily growing in size and market share and also taking over the management of municipal stock in some areas.

**Figure 4: Karl Marx Hof, Wiener Wohnen, Vienna most famous municipal housing, built 1927–30**



Source: Stad Wien 2016

## 2.5 The role of government in institutional change and capacities

The federal states covered in this report play an important role shaping the development and capacity of the affordable housing industry with a range of public and non-government providers. This is briefly described below and in more detail in following chapters.

## 2.5.1 United States

Public housing in the United States is largely overseen by the Department of Housing and Urban Development (HUD), which is managed to their prescriptive regulations by numerous (over 4,000) PHAs varying greatly in scale, professional capacity and effectiveness.

Typically, PHAs are centralised government bureaucracies, dependent on HUD grants and regime defined by HUD. They are managed by boards of local representatives, which may be dominated by local municipal councillors or professionals, community organisations and industry leaders, influencing their management approach within locally defined housing charters.

The most important task for PHA staff is the implementation of HUD funded programs, listed in the table below. The two largest programs are the public housing program and the Section 8 Housing Vouchers program. The Home Ownerships Opportunities for People Everyone (HOPE VI) program has provided grants since the 1990s for the redevelopment of public housing. A number of small but influential initiatives such as the Movement to Work, Movement to Opportunity and importantly the recent Rental Assisted Demonstration (RAD) program have also provided more flexibility in the use of subsidies and fostered new models of delivery away from traditionally prescriptive public housing.

**Table 6: US Federal Supply and Demand-side Subsidies 2012–14 (total dwelling units assisted and percentage)**

Type	Agency	Program	Count	Percent
Supply -side	US HUD	Public Housing	1,150,867	22.9
		Moderate Rehabilitation	19,148	0.4
		Section 8 New Construction/Substantial Rehabilitation	840,900	16.7
		Section 236	126,859	2.5
		Multi-Family Other	656,456	13.0
	US Treasury	Low-Income Housing Tax Credit	1,974,163	39.2
	USDA, Rural Development	Rural Multifamily Rental Housing (Section 515)	15,000	0.3
		Labor Housing (Section 514)	1,000	0.0
		Rural Rental Assistance (Section 521)	252,000	5.0
	Total Supply Side			5,036,393
Demand- side	US HUD	Housing Choice Vouchers	2,386,237	
	USDA Rural Devel	Rural Housing Vouchers	4,007	
Total Demand Side			2,390,244	

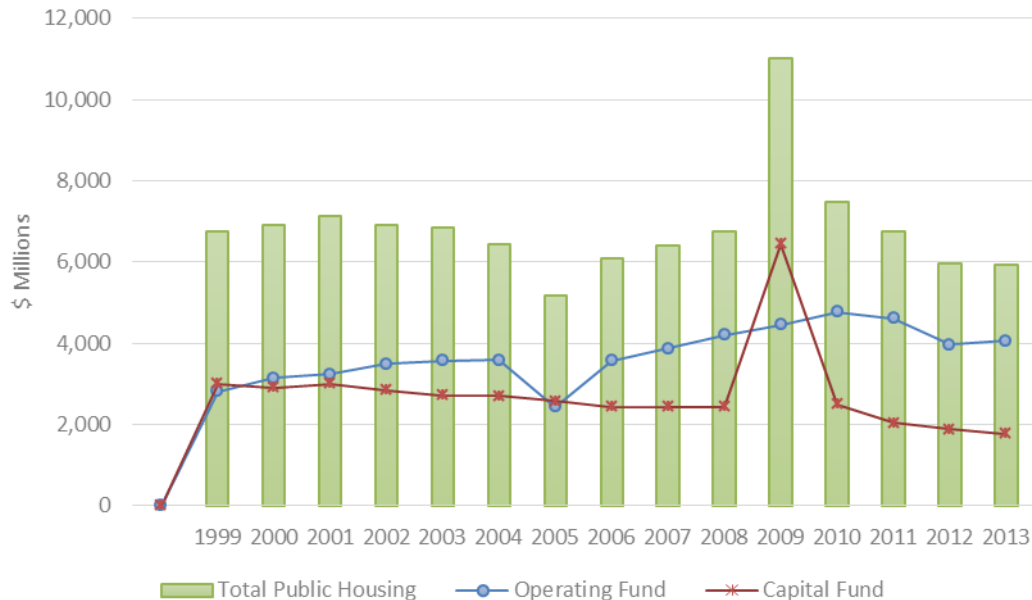
Source: A Picture of Subsidised Households 2013.<sup>4</sup>

<sup>4</sup> Found at <http://www.huduser.org/portal/datasets/picture/yearlydata.html>, viewed 28 May 2015 and Housing Assistance Council (2015). Note: It is not possible to add the numbers of demand-side and supply-side units to create a total, as Housing Choice Vouchers may be used in conjunction with the LIHTC, and it is unclear how frequently this occurs. The US Department of Agriculture provides subsidised



Under HUDs Public Housing Program, PHAs are tightly constrained by allocation requirements and rent setting formulas and penalised when not adhered to. They must charge income based rents and allocate dwellings to increasingly poor households (now 30% of Area Median Income [AMI]). Obviously this makes PHAs highly dependent on operating subsidies from HUD. Expenditure on operating costs been steadily increasing relative to capital investment for some decades, contributing towards a fall in total stock, as illustrated in Figure 5 below.

**Figure 5: US federal public housing funds—operating and capital expenditure 1999–2013**



Source: McCarty 2014

Focusing on the supply side, federal government capital expenditure has continued to decline since the early 1990s (Vale 2013; McCarty 2014), despite the growing backlog in rehabilitation needs. Conversely, over the past four decades, funding has steadily increased for project and tenant based Section 8 assistance. This provides Housing Vouchers to top up the below market rent revenue of private landlords.

A public housing funding spike in 2009 can clearly be seen above in Figure 5, when 4 billion was made available to repair and modernise public housing and remove lead paint as part of the American Recovery and Reinvestment Act. However, the decline in capital spending continued from 2011. Increasingly PHAs are stepping out of the HUD regulated public housing system. Having undertaken substantial demolition and redevelopment under the HOPE VI program, they are now shifting units into the Housing Voucher sector via the emerging Rent Assistance Demonstration (RAD) program, which provides project based rent assistance.

While public housing has suffered from a lack of support by the US Congress, the non-profit sector has sustained cross party support and in some senses has been less subject to political risk. This is because since 1986, the Internal Revenue Service has been responsible for allocating federal Low-income Housing Tax Credits (LIHTC) to owners and investors in low-income rental housing, via state governments.

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loans through the Section 515 program. Currently, Section 515 funds are used for the renovation of properties. Since its inception in 1963, Section 515 has funded over 513,000 units in rural areas.

As shown in Table 6, LIHTC underpin the largest supply side intervention in affordable housing provision in the US today (39% of supply side funding), contributing funding to more than 2.5 million housing units (Schwartz 2015: 135). The affordable housing produced is rented to households with less than 60 per cent of Average Median Income for a local area for 15 years. Thus, it is far less constrained in terms of the income levels of the tenants it supports, than public housing. Non-government providers not only have access to tax credit equity but can also take on much higher levels of debt than PHAs.

The most transformative programs affecting the management of the affordable housing stock are the HOPE VI program's public housing redevelopment, the enabling of mixed-finance development, the Low-Income Housing Tax Credit (LIHTC) and the Rental Housing Demonstration (RAD). Each of these programs involves the leveraging of the private market in the renovation, production, or redevelopment of affordable housing rather than continue a governmental ownership of the affordable housing supply.

Established in 1992 and ending in 2010, the HOPE VI program has played an important role in transforming 'distressed' estates into more mixed-income and -tenured communities, by allowing for the demolition and replacement of public housing with housing for low-income families with developments that contain a mix of incomes and housing tenures. According to Kleit and Page (2008: 36) the HOPE VI program arose from the Final Report of the National Commission on Severely Distressed Public Housing (1992) and established a 10-year goal to redevelop 6 per cent (about 86,000) of units in severe distress (Abt Associates 1996 in Kleit and Page 2008: 36). Participating PHAs were expected to leverage private revenues to complement HOPE VI funds, resulting in mixed financing and partnerships with for-profit and non-profit organisations as well as state and local governments (McCarty 2005 in *ibid* 2008: 36).

Local public housing authorities competed for federal HOPE VI grants to redevelop social housing into mixed-income developments. As a result of redevelopment, the number of public housing units was often dramatically reduced and mixed in with other housing that was either market rate, or of shallower subsidy and thus aimed at more moderate-income residents (Goetz 2013: 332). Some local governments completely demolished their older PHA estates (Las Vegas, Memphis and Atlanta) and even replaced residential uses with commercial development.

The transformation of US public housing has had a disproportionate impact on African-Americans (Goetz 2013). Displaced residents were typically given Housing Vouchers to access alternative rental housing in the private market under the Choice Neighbourhood Initiative, however many faced severe discrimination when seeking appropriate Voucher eligible accommodation (Schwartz 2015: 197).

Another strategy for PHAs has been mixed financing. Beginning with the Quality Housing and Work Responsibility Act (QHWRA) of 1998, PHAs could borrow or raise bonds against their current and future federal government grants to pay for improvements. Experience with HOPE VI inspired the inclusion of mixed-finance in legislation that was meant to reform public and assisted housing. Loans over a maximum term of 20 years were able to be backed by ongoing federal grants, but the borrowing ratio was limited to 30 per cent of grant income. Nevertheless, this generated substantial levels of much needed investment in deteriorating public housing stock (AU \$8.4 billion by 2013).

A new route to investment for PHAs has been opened by the RAD program. This provides a project based revenue stream from Vouchers for transferred public housing. Units are transferred to limited liability companies, often owned by the City or County, enabling access to tax credit funding. This has enticed an increasing number of PHAs to transfer stock out of direct government ownership.

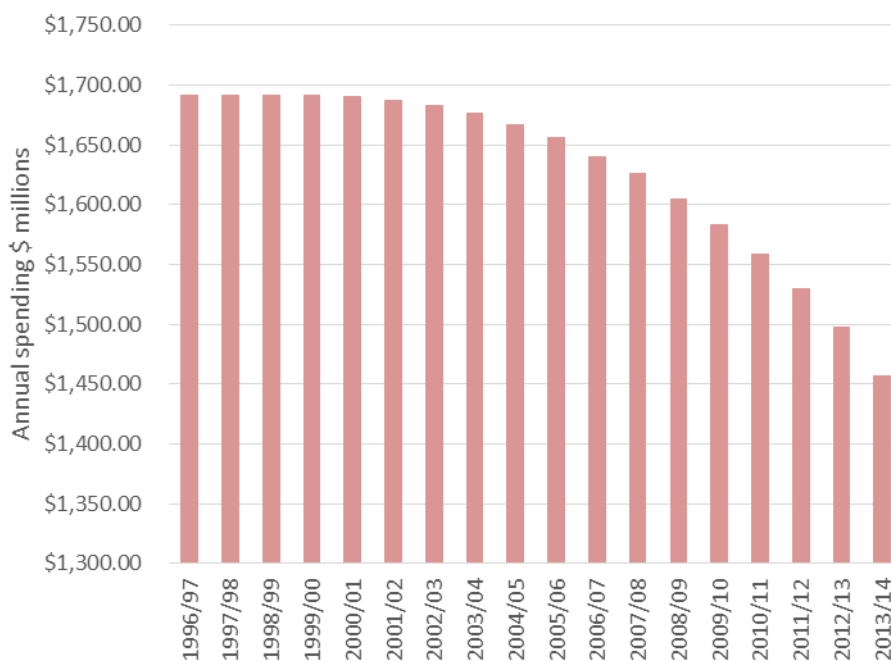
There are now more LIHTC co-financed dwellings than public housing in the US. However, these dwellings are generally too expensive for PH eligible tenants and their below market rent restrictions only apply for a limited (although lengthy, up to 40 years) time period. The impact of these changes are illustrated in Chapter 3 by two transforming PHAs in San Diego and Portland.

### 2.5.2 Canada

Unlike in the US, the Canadian federal government has implemented a steady withdrawal from direct funding and prescription of social housing responsibilities, transferring its share of housing stock to provincial governments, making way for provincial program development and substantially reducing its expenditure on housing since the 1990s.

Social Housing Agreements with most of the 13 provinces and territories now require these governments to become completely responsible for social housing by 2040, administering social housing programs, overseeing maintenance and setting targets. In most cases the provincial housing corporation plays a central role in this, except in Ontario where it is delegated to designated municipal governments. The most drastic federal cuts have occurred over the past four years, as a function of decisions made in the 1990s. This is shown in Figure 6 below.

**Figure 6: Annual housing expenditure Canadian government (unadjusted for inflation) 1996 to 2013**



Source: Pomeroy 2015<sup>5</sup>

According to Pomeroy:

*The risk is not that RGI units will immediately be lost; it is whether provinces and territories (and municipalities in Ontario) have the fiscal capacity and political will to sustain increasing expenditures. It does, however, represent a significant shift in*

<sup>5</sup> Data compiled by Steve Pomeroy, Focus Consulting Inc in Pomeroy (2015) sourcing Schedule 'E' to Provincial-Territorial Social Housing Agreements (as provided under an FOI request to CMHC); and CMHC Canadian Housing Statistics 1998, Table 57 (Public Funds Authorised under the National Housing Act).

*funding responsibilities, with a substantial decline in federal support, with lower orders of government, despite less fiscal capacity, expected to take on a greater burden. (2015: 13)*

Alongside SHAs, a new housing expenditure framework (AHI-IAH) for investment in affordable housing was created to support new supply and renovation of dwellings, but without ongoing operating subsidies from the federal government. These loosely defined multilateral agreements included successive rounds of AHI and then IAH spanning from 2001 to 2019, as well as 'Housing Trust Funds' transferred in 2006–07 and a stimulus program in 2009–11. The main agreements have required equal contributions from federal and provincial governments and most of them allow the provinces to define their use. This joint but fragmented approach has delivered a patchwork of agreements and delivered various 'lumps' of funding, which has provided space for priorities varying by province and period. New rental housing has been by far the largest priority (over 90,000 units since 2001), but with renovation and energy retrofit in the picture and very big in the stimulus round, and affordable home ownership also included. The federal government has directly operated specific programs for Aboriginal reserves (First Nations) under this general framework and has provided large per-capita funding to the arctic territories.

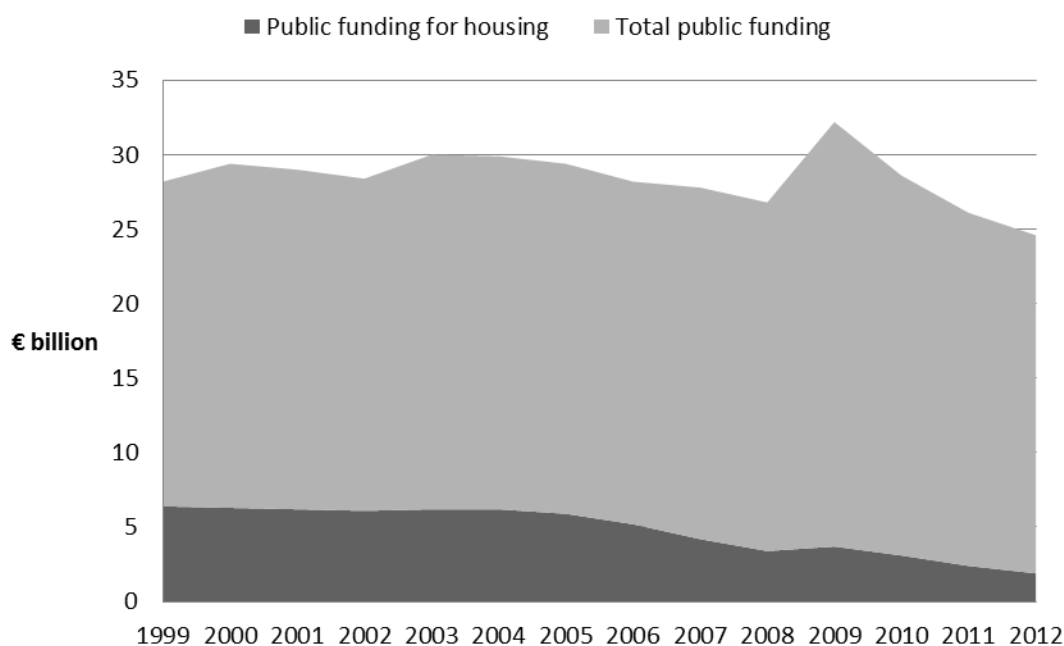
In this new era of rapidly devolving responsibility and short-term contracts, transfer agreements and one off funding, is the looming issue of expiring federal operating agreements, affecting many thousands of units, which are often in poor repair and at risk of being lost to the market. Provincial, territorial and municipal governments will have to confront this shortfall in operating subsidies and also find sufficient capital subsidies to address a significant backlog in repair of aging formerly federally owned stock. So far, only piecemeal solutions have emerged in some cities, especially those with a strong support base for social housing such as Vancouver and Toronto, but the solutions are far from comprehensive and unfortunately do not address core structural issues. Two local illustrations in the following chapter on Canada, Vancouver and Toronto demonstrate how public housing provision has taken radically different pathways.

### **2.5.3 Germany**

Devolution and withdrawal are even more advanced in Germany, where expiring social housing subsidies and a wave of municipal housing privatisations have reduced the number of units that are subject to rent and allocation restrictions. Since the 1990s, the overall level of funding for housing programs has gradually declined (Figure 7) and the federal government has largely withdrawn from direct housing supply, relying on regional and local governments to fill this policy making and financing gap. This has generated a fragmented range of approaches increasingly dependent on commercial landlords, accelerated by a wave of municipal privatisations in the 2000s.

Driving changes in social housing policy and funding has been constitutional reform which took place in the mid-2000s (*Föderalismusreform*). Through devolution, regional governments (*Länder*) were made primarily responsible for the housing policy. National government retained governance of demand assistance and limited subsidies to stimulate construction. A short-term program of co-financing regional governments involved an optional program (0.5 billion per year until 2019). Variable take up of these funds has meant that only half of the regional governments used them to upgrade existing housing stock and much fewer new dwellings were subsidised. This is despite the 'melting away' of 100,000 dwellings per year under social contracts, due to the expiration of subsidies (Cornelius and Rzeznik 2014: 6).

**Figure 7: Share of public funding for housing and total funding in Germany from 1999–2012**



Source: Figures based on figures from Public funding of the federal government in form of subsidies and tax incentives acc. to the 18th to 23rd public funding report of the federal government in Lieberknect 2012 German housing markets—facts, figures and structures for the CECODHAS Housing Europe Conference, 26 April 2012, Brussels, Committee of the regions.

In principle, the system for financing social housing in Germany, where it still exists, can be considered as a multi-level full-cost based system, comprising several sources:

- 1 Grants from the social housing budget of regional and local governments (usually small building grants) to landlords.
- 2 Interest support from the above social housing budget to landlords.
- 3 In some cases, so-called ‘capital replacement funds’ from the same social housing budget to landlords.
- 4 Individual housing benefits (varying according to income and family status) from the various social budgets of local government (transferred from federal and regional government).
- 5 The rent paid by the tenant (including any social security benefits, such as Unemployment and Disability Insurance, which cover the rent for a *decent home according to need*).

Combined, the above comprises the full-cost rent to cover all financing costs such as interest payments on mortgages etc., but excluding services (repair, road cleaning, garbage collection etc.) and consumables (heating, water etc.). Notably, the full cost rent calculation also includes provision for a profit of around 4 to 6 per cent return on the developers own capital invested in the project. This rate of return does not apply to the mortgage debt they may have taken on, but is counted as part of the management costs incurred as well as any savings for future repair.

Under these reforms, federal housing assistance has strongly shifted from supply side assistance (via public grants, loans and interest subsidies to both private investors and municipal housing companies) towards market rents made affordable to target households via demand side assistance. However, rising rents have sparked protest movements in large cities, reinvigorating debate on the role of federal building subsidies for housing to the provincial government level. The costs of allocation and assistance policies are shared via federal and

regional obligation to house those in need but coal face demands fall most heavily on local government, where demand can outstrip available funds.

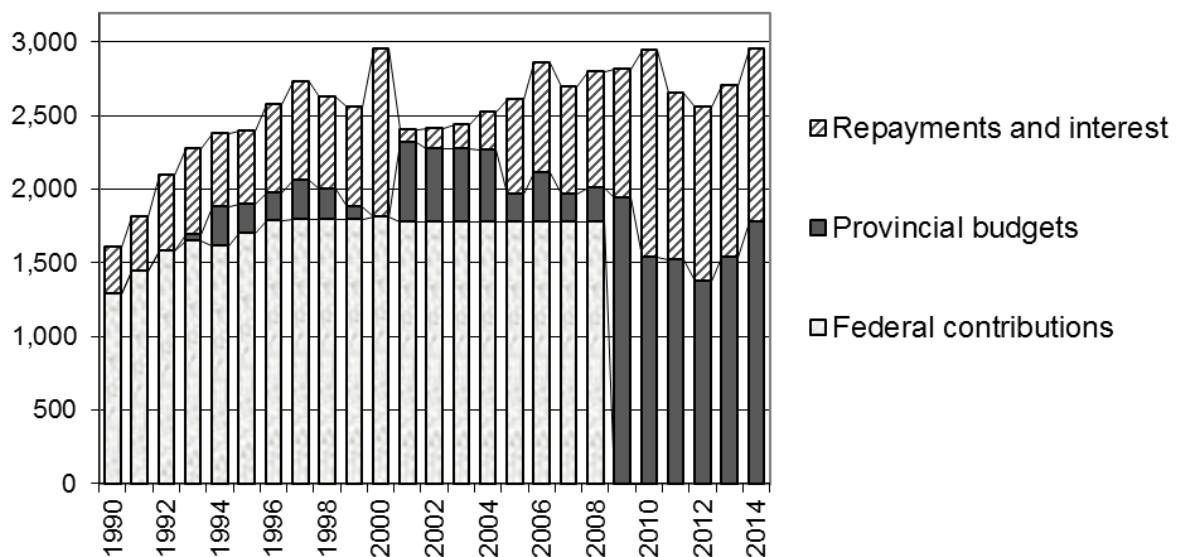
### 2.5.4 Austria

The Austrian social housing system illustrates perhaps the most promising federal pathway to a balanced portfolio of public and affordable housing, which offers a range of housing choices to households at various stages in their housing careers. It is underpinned by a tradition of tied federal transfers, a multi-provider sector, clear rules for the use of subsidies and the promotion and enforcement of a *limited* profit cost rent business model with enjoys access to both public and private long-term investment.

In past decades, housing policy was perceived as core area of central government, industry and civic interest, involving relevant players influencing broad policy settings, including the construction industry and labour unions. With federal transfers capped then untied, national supply impulse has become muted and regional governance more influential in defining subsidised outcomes (ownership or rental). However, the national legislative architecture prescribing the limited profit rent regime and rent setting requirements for subsidised projects remains firmly in place, as do federal initiatives to support energy related renovations and innovation to channel private investment continues to adapt to new market challenges.

Austria has a long 60-year tradition allocating tied federal funds to each province for the purposes of funding regionally specified housing programs. Since 1996, this was capped at €1.87 billion each year until 2008. Since 2009 the amount has not been specified. Conditions for more generalised tax transfers have focused on energy efficiency and reducing carbon emission, rather than affordable supply programs.

**Figure 8: Austrian public funding of housing subsidy schemes (€ millions) 1990–2014**



Source: IIBW 2015

Following considerable 'leakage' of loan repayments from regional housing supply programs to non-housing priorities within eight of the nine regions, there has been strong calls from a coalition of construction and labour interests for transferred funds to be specified and conditional on new supply once gain. It is notable that Vienna actually increased spending on housing during this period and will expand direct construction of SMART housing via its construction subsidiary GESIBA in 2016.

As the share of public loans and grants in new projects declines, new projects increasingly require private finance as well as equity contribution from the tenant towards overall project finance. The role of special purpose intermediaries, tax incentives and Housing Construction Convertible Bonds has been covered in detailed in previous research (Lawson, Milligan and Yates 2012; Deutsch and Lawson 2013). Mention should be made of the substantial contribution made by tenants to overall project costs. This amount can be as high as €30,000 to €50,000, but is typically on the proviso that tenants can eventually purchase a dwelling in the same project, usually after a period of 10 years.<sup>6</sup>

Municipalities play an important and varied role in the Austrian social housing system. They share responsibility for planning and zoning regulation with the provincial governments, develop and implement policies on the use of land and its allocation for housing purposes and determine the allocation of subsidised dwellings. Many municipalities are also direct owners and managers of social housing stock but this is changing.

Municipalities can create their own allocation schemes and provide special emergency dwellings for households at risk of homelessness, mostly within the municipal housing stock.<sup>7</sup> Municipalities' main concerns include promoting social integration across different income levels, addressing overcrowding, supporting young and growing families, preventing cultural segregation and addressing social-psychological or physical stress. Public assistance for housing typically comes with conditional income limits for both tenants and owner occupiers, when they move in (not throughout tenancy). Formal income limits vary by region and are high enough to cover 80–90 per cent of the population (Amann, Mundt et al. 2012: 158; Deutsch and Lawson 2013; Reinprecht 2007: 39).

## 2.6 Outcomes of transformation

The following paragraphs describe quantitatively and qualitatively the impact on both the industry and housing outcomes over the past two decades of federal dynamics and public housing transformation.

### 2.6.1 United States

In the US, as shown in Figure 9, the number of public housing units has rapidly declined between 1994 and 2012 (-17%, HUD 2013) due to demolition of stock and mixed tenure reconfiguration of redeveloped estates under the HOPE VI program and more recently transfers of public housing to the Section 8 program under the increasingly influential RAD program.

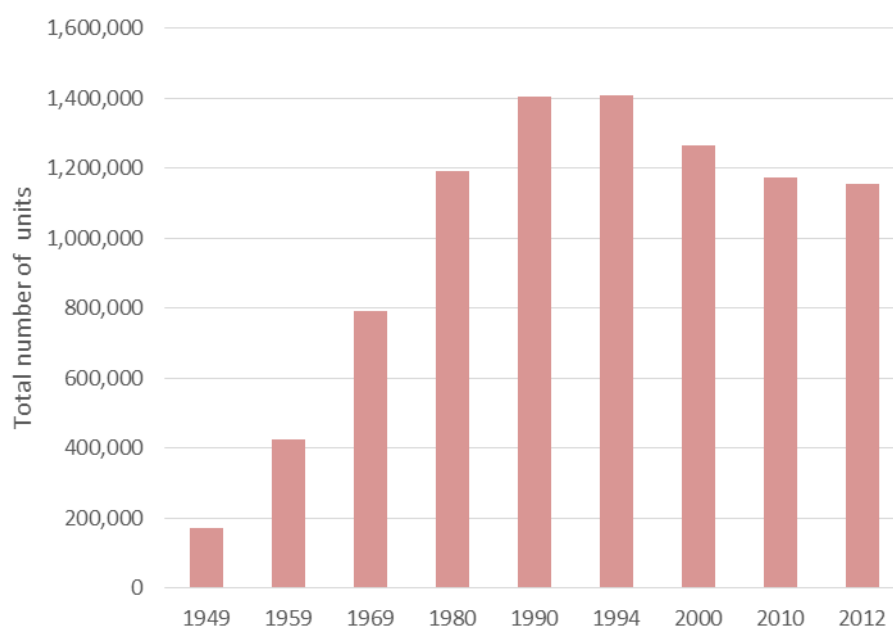
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<sup>6</sup> The capital contribution is payed back when the tenant moves out, but diminished by 1 per cent per year of residence.

<sup>7</sup> While municipalities are closest to local needs and can play a key role in promoting social integration, a survey of the use of their allocation rights amongst members of the Austrian Association of Cities and Towns found that while 60 per cent of localities applied allocation guidelines (Oberhuber, Schuster and Krampf, 2012: 79–82), almost 40 per cent had no written guidelines.



**Figure 9: Number of public housing units 1949–2012, USA**



Source: Stegman 1989, Table 13.3. 1990–2000 Committee on Ways and Means 2008, Table 15–8. 2010–12 HUD 2013 in Schwartz 2015: 164.

Public housing was the subject of management reforms via competitive tendering and contracting out of tasks, including independent management. This was achieved on a massive scale via the HOPEVI program which involved redevelopment of public housing and projects often included housing financed by LIHTC and included market rate rental and home ownership (Schwartz 2015: 185). Construction standards and thus costs were often higher than that of former public housing.

Some cities were very aggressive in the demolition of their public housing stock, for example Chicago and New Orleans. Run down and poorly managed, large estates were demolished in Chicago and replaced with far fewer public housing units than previously and primarily contained homes only accessible to middle income households.

Later in Chapter 3, two illustrations will be provided of PHAs attempting to maintain and expand their portfolios in Portland and San Diego, through the establishment of arms-length companies that are able to attract more private investment while promoting strong social goals.

In the contrast to declining directly capital investment in public housing, indirect public investment via tax credits, has been channelled towards the non-government affordable housing industry, including not-for-profit community development organisations as well as commercial landlords. Today LIHTC finance over 2.5 million units of below market rent dwellings for eligible households, which is more than double the number of public housing units.

## **2.6.2 Canada**

There are approximately 560,000 units of social housing distributed across Canada co-funded by the federal and provincial governments under operating agreements, plus a further estimated 140,000 funded under unilateral provincial programs or post-1990s ‘affordable housing’ initiatives. These units are provided by a mix of provincial housing corporations, municipal providers, and numerous not-for-profit organisations. About 70 per cent of the units are provided on a rent geared to income housing basis, targeted to low incomes. The housing is



predominantly multi-unit apartment complexes dispersed in residential areas of post-war (up to the 1970s) suburbs and inner city.

The quantitative outcomes of Canada's devolution, described above in terms of the volume and nature of the stock provided are now more difficult to determine, given the fragmentation of administrative forms and roles across the different regions. However, it is likely that housing supply outcomes have diverged under differing provincial models and the variable take up of co-investment by federal governments under various Affordable Housing Initiatives on a short-term basis.

However, the qualitative outcomes of devolution can be reported here. Firstly, provinces have given differing priority to public or third sector solutions. British Columbia (BC) has 51,600 units, over which 800 non-profits manage the stock and seed money has been provided to experiment with new more entrepreneurial approaches. Many of these providers serve distinct special needs households, from single parents to people with disabilities. Recently BC launched a new asset transfer scheme with different arrangements for setting rents, operating arrangements and income requirements. Other provinces have continued to evolve more public routes of provision, such as Ontario, which prescribes the conditions under which municipalities fund, oversee and operate social housing, including the large Toronto Community Housing Corporation with 90 per cent of its 58,000 units being RGI. However, with budgets under strain, there are mounting calls from the provincial and municipal governments for the federal government to sustain or increase the CAN\$1.3 billion annual transfer to the provinces to cover the costs not only of dwindling amortisation costs, but of ongoing RGI subsidies and rising repair needs.

Secondly, as federal operating subsidies expire, provinces and municipalities in Ontario must fill a widening gap if they are to continue providing dwellings at low RGI levels. While provinces and Ontario municipalities are left to bridge this void with their own revenue sources, over time the burden is likely to prove unsustainable unless other sources are found. Hence, the exploration of new sources of revenue, such as stock transfers to third parties. In January 2016, a Mayor's Task Force on Toronto's Community Housing recommended major changes on a broad range of strategic issues including funding and transfers to NPOs. It is notable that only a few provinces use their strong revenue position raising more favourable terms of wholesale finance to fund housing investments.

Thirdly, devolution has also promoted greater awareness of the condition of the asset base, which is now scrutinised at a more local building level. An emphasis on stock management has also driven demands for greater administrative efficiency. Improved monitoring of stock has also revealed just how substantial the maintenance backlog is and also how insufficient current levels of investment are. Aging stock and a significant maintenance backlog has become an issue across Canadian public housing, placing a major strain on now responsible provincial governments.

Fourthly, there is also greater concern for greater energy efficiency of these buildings and in cities, the need for estate revitalisation. More active asset management has heightened awareness of the rising land values underlying public housing assets, which potentially creates opportunities for redevelopment. In a few cities, land use planning mechanisms such as inclusionary zoning have also been successfully implemented to ensure access to sites for affordable and social housing, with strong political support.

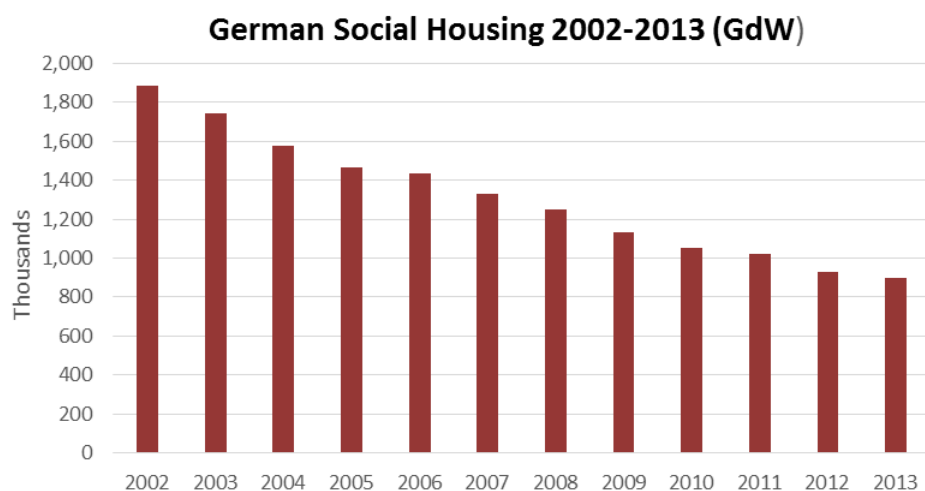
Finally, accountability channels have diverged, as some provinces pursue partnerships with NPOs, the private sector or delegate management to the municipalities. Regulation is fragmented and under developed, with very limited potential for cross fertilisation or a national approach.

### 2.6.3 Germany

As outlined above, social housing in Germany is provided by a great diversity of private entities that have time limited conditional subsidies establishing income and allocation requirements. The number of dwellings with such restrictions is declining rapidly. In 2002 there were roughly 2.6 million units, which had declined in 2008 to 1.9 million and 1.5 million dwellings by 2014. If the expiration of subsidies continues at this rate, without replacement with new provincial loan programs, there will be almost no legally dedicated social housing in Germany within 20 years.

It is difficult to establish precisely how many units are provided in Germany with social allocation and rent setting criteria, as many municipal companies continue such policies even when subsidised loans have been repaid (de-facto). Many landlords are members of the Federal Union of German Housing and Real Estate Associations (GdW), covering 64 per cent of the subsidised market. They report steadily declining stock levels since 2002, as shown below in Figure 10.

**Figure 10: Rental housing with subsidies restricting rent levels and income based allocation**



Source: GdW 2015

However, unlike subsidised private landlords, municipal housing companies do not tend to maximise their rents to market levels on expiry of subsidies and these dwellings still provide an important resource of low rent dwellings, especially in cities such as Berlin and Munich.

Municipal units are certainly not immune to commercialisation. In the 2000s, many public housing companies sold part or even all of their stock to institutional investors. These privatisations involved very large bulk sales of 20,000 to 100,000 units at a time to global investment firms and hedge funds such as Fortress, Cerbus/Goldman Sachs, Morgan Standley/Corpus and Blackstone. In some cities entire municipal housing stocks were sold to a single investor, such as Dresden's sale to Fortress, a global asset based investment management firm. The 'streamlining' of portfolios by large real estate investment firms has led to the 'uplifting' of rents to reflect market levels, sales of more marketable units for either individual ownership or the active buy to let market and in some cases, deterioration of units with remaining social contracts. There have also been a number of well publicised legal disputes, scandals and protests surrounding rent rises and evictions (Figure 11, below).

A social movement against further privatisation of municipal stock has substantially slowed the pace and a number of cities willing to promote them and some are even taking back at least part of the portfolios that had earlier been sold to investors. However, these are typically the

least commercially viable dwellings, accommodating the lowest income tenants. In this sense, privatisation and re-socialisation has actually accelerated the residualisation of stock.

The process has also increased tensions between landlords and tenants, steadily pushing housing issues up federal, regional and municipal agendas. In Hamburg, an alliance between government and non-government stakeholders has committed to finding a more sustainable funding to solution to affordable rental housing. This multi-stakeholder approach has also inspired a national alliance, which was launched in 2014, involving relevant federal ministers and will aims to make housing policy recommendations in the coming months. The following chapter will examine the contrasting local experience of Berlin and Munich in public housing transformation under devolution and its reassessment.

**Figure 11: ‘Wages up! Rents down!’ Protests in Berlin against rising rents and privatised municipal housing**



Source: DPA 2011

## 2.6.4 Austria

Standing out from these trends is the Austrian experience, which has also undergone devolution which has not led to reduced output in the LPHA sector. On the contrary, the number and market share of LPHA units has actually increased in recent decades. In 2013, 25 per cent of housing (up from 10% in the 1980s) can be considered social housing, despite a modest decline in municipal housing (GBV 2016).

Public subsidy decline has necessitated an increasing role for private finance in order to meet the demand for affordable rental housing. During the late 1990s and early 2000s, this cost was mitigated by falling interest rates on borrowings over the same period and a special purpose bond instrument to channel low cost funds towards the limited profit sector.

However, since 2009 the federal government has removed conditions from its capped transferred funds, allowing provincial governments to use funds for a broader range of purposes and also re-allocate loan repayments on loans towards non-housing expenses. Given the significance of these funds, this autonomy is likely to influence the level and focus of regional housing programs. For this reason, key stakeholders, such as the umbrella organisation for limited profit housing (GBV) are monitoring developments closely. Whilst Vienna has sustained

and recently increased its efforts, a few other regions are actually reducing housing promotion (e.g. Styria, Corinthia).

Today, provincial programs differ considerably in how they direct support towards either subsidising ownership or rental housing and via municipal companies or limited profit housing associations. In general, they offer grants and long-term low cost loans for new supply and channelling subsidies for energy related renovations.

Unlike most Austrian cities, the city state of Vienna has retained a strong role in direct municipal housing management via Wiener Wohnen. Through its construction subsidiary Gesiba (which is also a City owned LPHA), Vienna also remains active in renovation and new construction of innovative medium density housing.

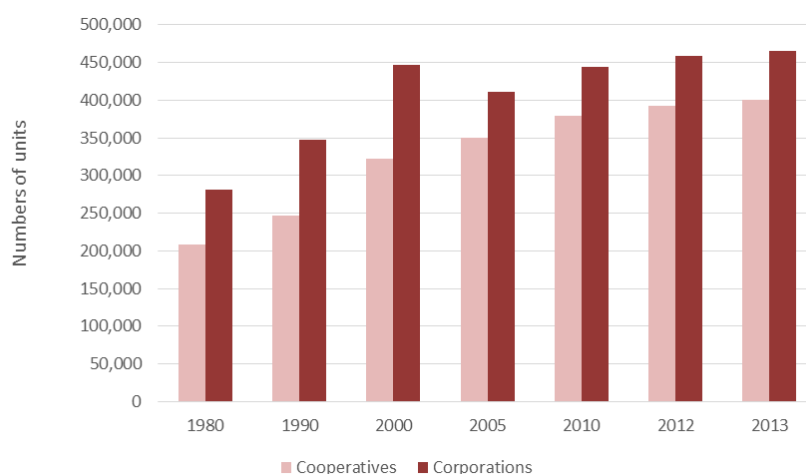
However, in general Austrian municipal housing experienced a small decline nominally and in terms of market share (- 1%) since 2001. To some degree this has been forced by a lack of dedicated local government revenue for refurbishment and deficient public finance to address the shortfall in rent revenue. This is because municipalities who invest in social housing directly are not subject to legislation with regards to the setting of cost rents. Rather, rents are governed by the generally applicable rent laws (MRG) and related to market developments and CPI.

In many cases municipalities have not pursued an active rent policy, their stock is often older than LPHA housing (see Appendix) and rent levels have been allowed to slip well below market rates. Consequently, the financial burden of new supply and renovation has become much less sustainable, especially in small rural municipalities but also some cities. In such cases, municipal providers have ceased new production altogether and their management has been handed over to locally active LPHAs with a stronger financial and increasing market position.

Conversely, the City of Vienna has retained a very strong market presence and maintained a firm rent indexing policy, pegging rents to market developments and CPI. Outside of Vienna, an increasing number of smaller municipalities are transferring the management of their stock to locally active LPHAs. By 2016, almost 38,000 municipal units were being managed by LPHA (GBV 2016). Thus, a modest decline has occurred in municipal housing alongside growing output from cost rent limited profit affordable housing associations and co-operatives.

Overall, production of new LPHA housing is quite stable, despite considerable economic instability in Europe and internationally during the 2000s, and has oscillated around 15,000 dwellings per year for the past three decades (see Appendix).

**Figure 12: Growth of Austrian Limited Profit Housing Co-operatives and Corporations 1980–2013 (GBV 2016)**



Source: GBV 2016

### **3 United States—San Diego and Portland**

In the US public housing authorities are a creature of state-level enabling legislation, which allows local governments to establish quasi-governmental agencies with the mission of managing and sometimes constructing affordable housing in local communities at the state, county or city government level. PHAs not only manage public housing stock but also allocate Housing Vouchers for tenants to rent housing in the private rental market. They also play a role in facilitating other housing related products and services with a range of local partners.

Over the past 40 years the political and policy climate has favoured below market rental private landlords and not-for-profit Community Development Organisations over strongly targeted public providers. This shift has been enacted via redevelopment grants for mixed housing projects (Hope VI) and tax credits for affordable rental provision (LIHTC) as well as deep revenue support (Housing Vouchers) for private landlords to house low-income households.

Public Housing Authorities are reliant on prescriptive capital and operating subsidies for deeply targeted housing to very low-income households (30–80% of AMI). However, their increasing capacity to mix public and private sources of funding has transformed their organisational cultures, asset management strategies, building a range of partnerships and broadening tenant profiles.

In this chapter, the first of four country-specific investigation chapters, we examine the impact of changing federal public housing policies on the growth of a multi-provider social housing system via local illustrations of two organisations: San Diego Housing Commission in California and Homeforward in Portland, Oregon.

#### **3.1 Trends influencing public housing authorities**

##### **3.1.1 Increased targeting for PHAs**

Across the US, PHAs are constrained by Federal Department of Housing and Urban Development (HUD) allocation requirements and rent setting formulas, which require income-based rents. While in their early years of public housing provision, income based rent revenue from tenants of low and moderate income was sufficient to support operating costs, priority began to be given to the poorest households by the late 1960s, hence over time rental income was insufficient and PHAs became increasingly dependent on operating subsidies from HUD.

Today, PHAs are required to rent their units to low-income households defined as 80 per cent of the Area Median Income (AMI) and 40 per cent new families serviced must be extremely poor (30% of AMI).

##### **3.1.2 Housing Vouchers via private landlords**

A second fundamental change has been the shift from capital investment in public housing to revenue assistance to private landlords. Demand side assistance, known as Section 8 Certificates and Housing Vouchers are capped by Congress but locally administered by the PHA.

Since 1974, Housing Vouchers have provided substantial levels of investment in the PRS and now serve almost 2 million households. This revenue stream for landlords aims to improve the quality of housing in this sector as well as increase the purchasing power of tenants and enhance their choice of housing. Most recently also to encourage public tenants to move to areas of greater employment opportunity and social advantage.

It is important to note that Vouchers are not entitlements, rather their volume is limited by Congress and must be rationed via lottery by public housing authorities responding to local

market conditions. Given that demand outstrips supply, only one in four eligible households obtains a Voucher.

Successful recipients have 60 days to find a property within the guidelines or the Voucher must be returned. Once a property and agreeable landlord is found, significant proportion of the tenants rent is paid (up to 80%) directly to landlord by the PHA. The tenant pays a rent between the fair market rent (including utilities) and affordable rent, being not more than 30 per cent of their household income. Vouchers are not only subject to initial compliance but also annual inspections by the PHA.

### **3.1.3 Redevelopment of estates using mixed finance**

A third major change affecting PHAs has been the emphasis on demolition of large estates. Public subsidies could be blended with private investment to redevelop large estates with a range of housing tenures for a wider range of households. This forced PHAs to embrace new public-private organisational forms.

The federal agency HUD designed and administered the HOPE VI program (Housing Opportunities for People Everywhere) from 1993–2010 to redevelop distressed public housing. Over that time, over 200,000 units were redeveloped, not all of them affordable (Cisneros and Engdahl 2009; Vale 2013).

An additional objective of HOPE VI was to attract significant private sector investment that would help to improve neighbourhood conditions—not only on the site itself, but also in the surrounding area. After the first few years, the program involved redevelopment that included housing financed by LIHTC and included market rate rental and home ownership and designed complement the aesthetic qualities of surrounding non-public housing areas and promote safer public spaces (Schwartz 2015: 185). Thus, standards and hence construction costs could be higher than that of former public housing. The program also aimed to revise PHA management via competitive tendering and contracting out tasks, including independent management.

The 1998 Quality Housing and Work Responsibility Act (QHWRA) also allowed public housing authorities as a matter of course to engage in mixed-finance—that is, they could, for the first time, use public housing subsidies and capital to lever private investment in affordable housing.

Increasingly PHAs have stepped out of the HUD regulated public housing system, undertaking substantial demolition and redevelopment (mixed tenure and income) with HOPE VI federal grants or mixed-finance, or shifting units into housing vouchers. These actions have enabled PHAs to garner new private investment, but have eroded the stock of permanently affordable public housing by more than 250,000 dwellings since 1993 (Goetz 2012; Schwartz 2015).

### **3.1.4 Experiments in flexibility**

HUD continues to support public housing with capital and operating subsidies. The cost of operating public housing has been defined by the Harvard University Operating Costs Study that Congress commissioned in 1998 and published 2003. HUD has used this as a basis for allocating subsidies, but critics claim that this formula and its partial application have actually eroded resources, making it difficult to continue to operate public housing.

Some PHAs have been motivated to free themselves from HUD's onerous stringent regulations and oversight. Others have been inspired by the experiments of the Moving to Work (MTW) demonstrations, begun in 1996, which permitted the relaxation of regulations, and gave PHAs the ability to mingle funds from different programs (mixing public housing operating funds with Section 8, for example). MTW also involved experiments with self-sufficiency and savings, more flexibility in rent setting formulas and dwelling allocation.

Only 38 of the over 4,000 PHAs were participating in MTW at the time of this writing, some PHAs have used MTW's relative freedom to exit the public housing program all together.



### 3.1.5 Switching from operating subsidies to housing vouchers

A fourth and new approach to attract private finance was attempted in 2013 with the Rental Assistance Demonstration (RAD) program, which allows PHA and not-for profit housing agencies to use their capital and operating subsidies to provide 80 per cent backing for private loans and also make use of Low-income Housing Tax Credits (LIHTC).

Participating in the RAD program allows much for much higher investment and thus debt levels. However, it also requires the transfer of housing from PHAs to CHDOs under project-based Section 8 arrangements. The program has been very successful in obtaining new private investment and facilitating immediate renovation. It has been over-subscribed, but remains subject to tenuous Congress approval for continuance post 2014. By the end of December 2014, 60,000 units had been approved and another 120,000 were on a waitlist for conversion (National Housing Law Project 2015).

## 3.2 Regulation of public housing

When PHAs begin to 'act like a non-profit', they tend to embrace the asset management strategies that arrived with the early 2000s enforcing the 1998's Quality Housing and Work Responsibility Act mandate. This means that PHAs must report the federal or local government on the affordability and allocation of each unit for each program funding source.

As public housing becomes more privatised, the role of federal oversight has changed. This has been driven both federally and locally. Locally, many communities lack confidence in their public housing authorities because of their legacy of deteriorating the housing stock, the perception of social disorder, and their reputation as large bureaucratic organisations. In recent years reporting and regulatory demands have grown.

PHAs fall into several areas for federal oversight. For PHAs that manage either public housing or vouchers, two systems prevail. Firstly, PHAs have reporting requirements concerning on the information gathered from public housing residents and their annual recertification of income which governs the calculation of rents for both public housing and Section 8 vouchers.

As a centralised, prescriptive federal organisation, HUD creates a composite performance assessment for each PHA under the Public Housing Assessment System<sup>8</sup> that combines a series of scores in four areas: physical conditions, financial conditions, management operations, and capital fund health. While previously PHAs could self-report some of these measures, in 2011 HUD began to employ on-site inspections every one, two or three years depending on the performance rating of the PHA (Substandard, Standard, and High Performer).<sup>9</sup>

For PHAs using Section 8 Vouchers, HUD employs a separate system<sup>10</sup>, based upon 14 indicators with a strong emphasis on rents, eligibility and quality, see Box A1 in the Appendix. It is important to note that up to 20 per cent of a PHA's voucher income may become project-based—that is attached to a particular unit rather than an individual.<sup>11</sup>

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<sup>8</sup> HUD assesses public housing according to an Integrated Assessment System (NASS-PHAS) which is described in the reports on:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/public\\_indian\\_housing/reac/products/prodphasinrule](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/prodphasinrule)

<sup>9</sup> To implement the Assessment reporting regime, HUD offers PHAs training materials which can be found at:

<http://portal.hud.gov/hudportal/documents/huddoc?id=nass-training.pdf>.

<sup>10</sup> The regulatory system for PHA administering Housing Vouchers is detailed here:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/public\\_indian\\_housing/programs/hcv/semap/semap](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/semap/semap).

<sup>11</sup> Administrative guidance from HUD concerning Voucher based project funding can be viewed here

[http://portal.hud.gov/hudportal/documents/huddoc?id=DOC\\_9157.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_9157.pdf).

### 3.3 Organisational impact

In response to continuing federal funding decline as well as the requirement for increased targeting, detailed research reveals the trajectories five different of 13 PHAs in Washington and Oregon (Kleit and Page 2014)<sup>12</sup> research has found that PHAs have taken one or more of five different courses of action (Kleit and Page 2014: 9–20), described below.

- *Implementing strategic efficient asset management for agency survival.* Focus on efficiency, active site-based asset management, creative blending of formerly siloed federal funding sources, use of equity to borrow funds, shift away from operating as regulated income based rents under PH, conversion to Voucher dwellings, sale of scattered dwellings, redevelopment of PH as mixed tenure in high-land-value locations, loss of very-low-income housing units.
- *Mixed financing for development.* Combining a range of public and private funds (HOME, LIHTC, housing bonds, local funds, Vouchers) enabled PHAs to develop, acquire, rehabilitate and deliver housing with various levels of affordability. Deep public subsidy still required to service lowest income households but political support varies for this. Among PHAs, the view of the Commissioners varies regarding the role of PHAs in the housing market: as competitors or outside private and non-profit market. Cross-subsidisation aims at funding more deeply affordable housing, yet refinancing costs posed risks and reduced surplus income.
- *Diversifying funding to maintain housing for the poorest of the poor.* Flexible developers of housing with strong social mission, expanding funding base beyond traditional PH and HUD, aggressive funding strategy (Vouchers, LIHTC and bond financing), part of the non-profit industry with co-operation of local government, partnering with non-profits to expand and deliver services, selling maintenance and management services to other PHAs to expand revenues.
- *Housing resources for poverty alleviation, offering service-enriched housing.* Focusing on constructing and maintaining units in combination with social services, participate in programs to promote greater tenant self-sufficiency and ultimately movement to areas of greater opportunity enabling unit re-allocation to most needy.
- *Enhanced relationships with partner organisations.* In response to fluctuating resources, joining with other entities, such as government redevelopment agencies and non-profit organisations, to increase funding opportunities and establish a portfolio of housing outside the HUD regulated system. This broadens the roles and strengthened the social embeddedness of the organisation.

With these changing organisational strategies come different forms of ownership: usually either ownership by the PHA with HUD subsidies or the creation of a Limited Liability Company (LLC) for the ownership of a particular property along with private investors.

Acting 'like a non-profit developer' has some PHAs joining a trend that was codified in the National Affordable Housing Act of 1990. The Act required local governments to create Comprehensive Housing Needs Assessments and plan for non-profits to construct needed affordable housing. Since then, the federal government has depended on the third sector for the provision and construction of affordable rental housing.

PHA experience with HOPE VI, mixed-finance, and vouchers is encouraging them to behave more like non-profits, even though their sources of funds for construction and operations may include HUD program funds.

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<sup>12</sup> Kleit will expand this research to cover PHAs in all US states during 2015–16.



PHAs can form LLCs that enable them to access LIHTC<sup>13</sup> to rehabilitate housing as private, mission-driven, non-profit owners of the property. Depending on the structure and assets held by the companies, several subsidy streams may continue: public housing program funds, Section 8 project-based funds, or portable vouchers used by tenants. If federal housing subsidies are involved in maintaining affordability, then the owner must respond to HUD's regulatory conditions.

### 3.4 Local illustrations

The following paragraphs examine the impact of these trends upon specific localities via two local illustrations in San Diego and Portland. For the San Diego Housing Commission in California and Homeforward in Portland, Oregon, the operating and capital subsidies provided by HUD were insufficient to maintain and invest in good quality public housing, both took the step of forming LLCs and began 'acting like a non-profit'.

New flexibility in HUD rules enabled them to form LLCs and utilise Voucher payments as a project based revenue stream to underpin private investment and renovate housing stock. This has implied a move transfer of public housing units to LLCs for which the PHA is majority shareholder. The units are now offered to households with a wider housing income range at higher maximum rents for the duration limited to the terms of the Housing Voucher contract.

#### 3.4.1 San Diego

The San Diego Housing Commission (SDHC) is one of the youngest PHAs. Created in 1979 it manages recently constructed low rise dwellings. In 2009 SDHC chose to move away from direct provision of public housing in favour of a more private sector model. Under this new regime, public units are no longer subject to the HUD formulas for rents and operating subsidies. Instead, public tenants have access to Housing Vouchers and can use these to access public or private rental housing. Simultaneously, SDHC received Housing Vouchers for the like amount of operating subsidy of the transitioned PHA units. HUD also allowed SDHC to add 350 additional affordable housing units to its portfolio so that current residents of public housing would remain fully supported.

In 2009, the SDHC transferred 1,366 HUD regulated PH units to a LLC operating under the Housing Voucher PRS model. In doing so they exchanged PH property based operating subsidies for ongoing Housing Vouchers and used the equity and revenue stream to access private finance by issuing bonds (A+ SP rating). The inclusionary planning regime of the City of San Diego has also delivered vital sites and equity, enabling the construction of 810 new affordable dwellings. As an entity, SDHC transformed its leadership team and re-orientated assets management strategies to be more efficient, knowledgeable and customer orientated as well as media savvy.

#### 3.4.2 Portland

The Housing Authority of Portland was originally established in 1941 to serve the housing needs of the City. It currently has 34 buildings with a range of 1,345 units including HUD funded public rental units, mixed finance LIHTC properties and units funded under Section 8 Housing Vouchers. Renamed Homeforward in 2014, it continued to manage most of these properties directly, but also contracts management companies for 40 different properties (Homeforward

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<sup>13</sup> As described in Chapter 2, LIHTC as a funding mechanism which channels private investment via a tax credit system. Details about this system of financing can be found in Lawson, Gilmour and Milligan (2010).

2014a: 4). The public housing authority has taken advantage of new flexibility in HUD funding to transfer public and Section 8 housing to project based Section 8 buildings and is currently seeking investors to renovate its high rise towers leveraged via this new form of funding. This is discussed in more detail in Box A2.

Like San Diego, the traditional rigid public housing model was considered a cause for disinvestment leading to the deterioration of its housing stock. Thus, undermined political support amongst the community and city governors and Portland's high rise public housing towers were a lightning rod for social stigma.

Portland's PHA (1941) renamed Homeforward manages an older stock of 1,345 units, including a number of high rise buildings. Traditionally it has implemented HUD programs, including public housing, HOPE VI, Housing Vouchers and LIHTC. In recent years it has also invested in critical research and innovative program development of its own and has established a reputation as a trusted industry reformer. Recent efforts to finance the renovation of several high rise towers deserve closer and perhaps continuing attention (Appendix).

Homeforward undertook a detailed review of the impact of HUD public housing regulations on investment, rent and allocation conditions and piloted a more flexible approach to the use of these subsidies.

Homeforward aims to develop more consistent allocation criteria between public housing and Housing Voucher programs, with rents between Section 8 and public housing units becoming roughly the same and care taken to ensure that new rents do not increase other tied costs, such as for health and childcare.

This creative and fine grained focus has generated a number of specific innovations in housing management and delivery, which are summarised below:

- Creation of nine payment standards for median market rents across their territory, based on clusters of post codes, providing a more locally appropriate estimation of rents levels.
- Creation of six to seven management companies to undertake projects drawing on Housing Voucher funds and LIHTCs.
- Conversion of public housing and Section 8 units to project based Section 8, attracting much needed investment for renovation.
- Competitive bidding between property companies for the construction and maintenance of housing.

These innovations have contributed towards the development of national programs, such as the Rent Assistance Demonstration program.

It argues that much more would have been possible with the aid of inclusionary zoning, which after a decade of deliberation, was finally approved by the City of Portland in October 2015.

## 4 Canada—Toronto and Vancouver

The federal transformation of public 'story' in Canada contrasts in significant ways with that of the US, as it involves substantial devolution rather than centralised prescriptive reforms. Overall there has been considerable, long-term withdrawal of the Canadian Government from housing policy, implemented via a series of bilateral agreements since the 1990s. The agreements all involve the long-term decline of federal operating subsidies for existing public housing, necessitating increased reliance on the expansion of provincial funding for continued and expanded provision of social housing. However, patchy provincial leadership, varying commitment to investment and different delivery strategies has led to patchy fragmentation rather than local innovation, and in some provinces public housing faces an uncertain future.

This is illustrated in this chapter by the transformation of public housing in Toronto and Vancouver, driven by different bilateral agreements diverting housing management via not-for-profit or municipal housing providers, in the absence of a long-term funding program or a secure mechanism to attract private investment.

As discussed in Chapter 2, in most cases the provincial government now remains the primary agency responsible for social housing construction, maintenance and management. In Ontario, devolution to municipalities requires that municipalities respond to rising demands in this sector through innovation, stock transfer and the development of new training and skills programs. In British Columbia social housing is largely managed by third sector NPOs and co-ops and in Ontario by a mix of municipal housing corporations and NPOs. In this chapter we offer these two contrasting illustrations of social housing transformation in Canada.

### 4.1 Trends influencing public housing corporations

The sub sections below explore these main 'drivers' of transformation which include the following:

- End of operating agreements and the legal framework under which these agreements sit.
- Evolving roles of the provinces and third sector.
- Aging stock with associated obsolescence and repair costs.
- Minimal funding following the end of operating agreements.
- Rising land value which creates opportunities for redevelopment.

#### 4.1.1 End of operating agreements

As discussed in Chapter 2, a major more recent and acute driver of transformation is the decline in and approaching cessation (2040) of federal operating subsidies. This is a significant financial issue because, although the federal subsidy terminates when the project mortgage is fully amortised, there remains a need to cover RGI subsidy and rising repair needs. In some cases, provinces and territories are filling the growing gap as these subsidies decline. However, some housing commentators consider that this will only be a short-term solution as rising costs will prove politically unacceptable for provincial governments and fiscally impossible for Ontario municipalities. Peak bodies such as the Canadian Housing and Renewal Association argues that retaining federal investment is critical (Pomeroy 2015; CHRA 2014: 1).

#### 4.1.2 Evolving roles of the provinces and third sector

Another driver of transformation concerns the relative perception of public administration via the third sector in its performance in managing social housing. Motivations and preferences have changed over space and time. The initial shift in the 1970s and 1980s, favouring third-sector

providers, was driven in some provinces by a reaction to large, all-low-income social housing projects. Community-based housing providers championed smaller mixed-income and mixed rent projects (market and RGI) that would improve neighbourhood integration. This shift was also part of a general social policy shift favouring 'mixed economy of welfare' involving both state agencies and third-sector delivery, crossing numerous services from employment and training to child care, homeless services and nursing homes. Third-sector housing provision emerged when provincial governments were perceived less favourable not only a social housing operator.

One consequence of the rise of community housing was the greater priority given to special-needs applicants and tenants. By comparison to the state-led social housing of the 1960s and 1970s, a relatively high proportion of third-sector sponsor agencies were created by or associated with existing agencies serving populations such as homeless people, those with serious mental illness, young single mothers, people with physical disabilities, etc.

In the central-city municipality of the largest urban areas (Toronto, Montreal, Vancouver, also Ottawa), the 1970s to 1980s shift to third-sector sponsor groups also fostered active roles by municipal housing corporations (as distinct from provincial ones) as part of the 'urban reform' politics of the era, and as a vehicle to reinvest in neighbourhoods, protect rental housing, and sustain urban social mix.

BC's stronger reliance on the third sector than Ontario stems from the long period of conservative rule that dominated provincial governments from the 1950s to the 1980s (except for brief period in 1972–75). By contrast, the 'Progressive Conservative' government of Ontario in that period (1943–85) was more centrist. It took an active role in housing provision, considered integral to Toronto's growth, and expanded social programs.

However, much of this system-management capacity was lost during the period of devolution and retrenchment in the 1990s—at the same time that housing agreements increased provincial responsibility for housing policy and programs. The impact of this loss in public sector capacity varies by province. While it was relatively slight in BC where third sector expertise was growing, the impact was much more profound in Ontario. BC simply continued to fund new third-sector housing, while Ontario's 1995–2003 neoliberal government devolved provincial public housing to 'service manager' municipalities. Therefore, overall planning and management of the social housing system must now be undertaken within the constraints of limited municipal fiscal capacity and their limited statutory powers.

#### **4.1.3 Aging stock with associated obsolescence and repair costs**

When the operating agreements expire, most public dwellings will be 35 to 50 years old. To reduce costs associated with maintenance, some providers draw upon the services of contracted property management services. For example, about 12,500 of TCHC's 58,000 units are in projects where property management is contracted out (how this takes place in other provinces is unknown). Third-sector providers more often use contracted-out property management than do public providers. The long-term shift toward a relatively large third-sector role has therefore tended to foster relatively more contracted-out property management.

Construction of social housing in Canada has virtually always been done by private-sector contractors, with rare exceptions. The prevalent practice is to contract out major maintenance/repair to private-sector firms. But practices may vary from provider to provider.

#### **4.1.4 Minimal funding following the end of operating agreements**

Across the third sector, non-profit housing providers have merged their traditional social service programmatic functions with more entrepreneurial, revenue-generating activities. Pomeroy refers to this process as hybridity, which is described as the 'merging of traditionally non-profit social service delivery with more business oriented management of operational structures'

(Pomeroy, Stoney and Flavo 2015). These providers are motivated by a lack of government funding available and the ending of the operating agreements (Pomeroy, Stoney and Flavo 2015).

Following the termination of federal funding for new social housing development in 1994, CHRA led a CMHC funded initiative called Homegrown Solutions, providing small grants (up to \$20,000) to organisations seeking to implement new ideas and options. The funding was minimal—effectively seed money—but it did help to document efforts to create new housing (Pomeroy, Stoney and Flavo 2015).

#### **4.1.5 Rising land value which creates opportunities for redevelopment**

The federal government has had some initiatives to make available surplus land to social housing, at no cost or below-market prices. Some provinces take an active role in this regard. The more active municipalities, usually larger urban ones, have policies to:

- 1 provide surplus municipal land
- 2 sometimes acquire land for social housing
- 3 acquire sites/units via inclusionary land use policies.

### **4.2 Local illustrations**

Examining the transformative practices undertaken by BC Housing in the province of British Columbia and the Toronto Community Housing Corporation (TCHC) in the province of Ontario, we present two cases that have had to rely heavily on partnership building and entrepreneurial practices to generate additional revenue streams and the development of a more professional sector.

In British Columbia, BC Housing has 51,600 units but most of these are now managed by one of 800 different non-profit organisations. A very different approach has occurred in Ontario, where a three-fold devolution has taken place to designated municipalities. The effect was to greatly expand the municipally-owned stock and end all ownership of social housing at the provincial level.

#### **4.2.1 Toronto**

Ontario has devolved responsibility for managing social housing to municipalities. The large Toronto Community Housing Corporation (2002) created by the City of Toronto following the amalgamation of seven municipalities. It has 59,700 units in fair to poor condition and operates under a prescriptive provincial framework with 90 per cent rent geared to income housing allocated to low-income households. It is financed by Canada Housing Mortgage Corporation loans, some of which are very high and fixed interest long-term loans (11%).

The provincial Ministry of Municipal Affairs and Housing, under the Act, sets the detailed legal, funding, eligibility and accountability framework for the 47 municipal service managers that would be responsible for administering the centralised waiting lists, and overseeing the operations of non-profits, cooperatives and public housing providers (HSC 2013: 11). There is concern whether provincial legislation actually stifles innovation and constrains activity (City of Toronto 2015b: 11). The regime was put in place to ensure the viability of the system under devolution to municipalities to maintain consistency and equality across the province and to protect safeguard obligations to CMHC under the Social Housing Agreement.

TCHC is also accountable to the City and is governed by a 13-member Board of Directors which are appointed by the City, who monitor its performance against a strategic plan (City of Toronto

2015a: 6). However, there is a strong sense of constraint around what the TCH can actually achieve given the lack of public funding.

The City now faces fiscal pressures in the tens of millions of dollars annually to cover accelerating expiry of federal funding and a recently cancelled provincial mechanism of municipal fiscal equalisation for housing, and there is little or no political appetite to raise subsidies beyond this.

Very recently, the transferal of municipal stock to the third sector has been embraced as a potential way forward by the City of Toronto Task Force (2016). However, Pomeroy, Stoney and Flavo (2015) argue that a lack of professionalisation (at the scale needed) within the sector and appropriate training has undermined the development of required skills and leadership to transform the sector.

To prepare for the end of federal operating agreements, the City of Toronto is building a new partnership model with affected housing providers (City of Toronto 2015b: 13). When the agreements expire, housing providers will own their buildings and in the absence of a partnership arrangement the City loses the capacities and resources of the housing providers (City of Toronto 2015b: 13).

The focus of the new partnerships will be on the mechanisms that can be leveraged to 'bring capacity to the table' and possibly influence the creation of a new regulatory environment (see for more information regarding the development of this program City of Toronto 2015b: 14).

In recent years the TCHC has more closely evaluated the condition of the stock it manages, institutionalising Building Condition Reports, developing a comprehensive knowledge base of assets and setting minimum and maximum targets for improvements. Such reports are vital in planning for capital repairs; they also involve feedback from residents and the wider community regarding required building works and service needs. Capital repairs are also being facilitated by shifting resources to support building improvements, in part by making administration and management more efficient. TCHC conducts training to support engagement with their tenant community, and it also includes a focus on managing and operating within reduced financial support.

Redevelopment of existing stock is a strong focus, with the average age of the TCH stock being 40 years old and only 64 per cent of the stock in good or fair condition (Canadian Centre for Economic Analysis 2015: 6). Buildings are prioritised through the Facility Condition Index (FCI)—an asset management tool used to measure an asset's condition by dividing the value of the repairs by the total value of the asset. The FCI helps determine the proportion of spending required for repairs versus new building (Canadian Centre for Economic Analysis 2015: 16). Most (90%) of TCHC's housing stock is subject to a 10-Year Capital Financing Plan, which outlines the \$2.6 billion investment required by the three tiers of government to meet infrastructure needs (ibid 2015: 6).

Today, efforts have moved beyond maintenance costs to broader considerations of revitalising social housing neighbourhoods, with TCHC utilising the value of existing land to fund these undertakings (TCHC 2014: 24). Fund raising on the basis of the RGI revenue model and municipal tax base is very constrained hence mixed tenure redevelopment of high land value estates such as Regent Park has been pursued. Unlike BC, Ontario does not provide wholesale financing for new social dwellings. It has co-funded an initiative that injected 30 to 50 per cent capital replacement costs for 3,500 units, but this is insufficient and short term.

New mixed models are emerging, where the municipality funds new streets and community facilities, while private developers provide capital for the new ownership dwellings, and joint federal and provincial programs fund the replacement of social housing.



The number of households still waiting to access this and other social housing in the greater Toronto region is just over 90,000 and is expected to grow (Canadian Centre for Economic Analysis 2015: 6). Toronto recognises that serving this need will require resources beyond their capacity to generate. For TCHC, there has been some addition of stock through participation in the joint federal-provincial Affordable Housing Initiative (AHP/AHI-IAH) but these funds are not ongoing. Toronto has also joined BC in calling for a return of long-term funding from national governments for housing and stressed that a national strategy on housing was urgently required (Kuitenbrouwer 2014).

#### **4.2.2 Vancouver**

Unlike the Provincially prescribed municipally provided social housing system dominant in Ontario, British Columbia Housing Management Commission (BC Housing) illustrates a very different approach to regional-local roles in social housing provision.

BC is one of few provinces where housing policy has held a consistently high profile and is well integrated with other portfolios. Political leadership, consistency and trust has enabled and facilitated a partnership approach. BC Housing has benefited from a very long-term and strong Housing Minister, who not only understands his portfolio, but integrates housing with other portfolios.

The province established BC Housing, a Crown organisation, in 1967 to develop and manage subsidised housing options. BC Housing reports to the Minister through a Board of Commissioners (HSC 2013: 7) and works in partnership with 800 non-profit and housing co-operatives, provincial health agencies, municipalities and other necessary organisations (BC Housing 2015).

In 2006, the federal government transferred the minority share of BC's approximately 59,000 social housing units to the province (BC Housing 2015). Of these units, BC Housing only operates and manages 7,200 while the third sector manages about 52,000 units (HSC 2013: 9).

Within the third sector there has been a series of mergers, with some of the smaller non-profit providers being absorbed by the larger ones, which has been encouraged by BC Housing. Furthermore, there is a training program that not only focuses on property management but also tenant support. BC has actively brought people into the sector that have an asset management background in order to build professional capacity. With regards to regulation, BC Housing is moving toward an outcome and performance-focused reporting structure for non-profit and co-op housing providers (HSC 2013: 9), with operational reviews of tailored intensity to build capacity.

BC housing drives a strong environmental agenda, funding improvements through retrofitting to reduce GHGs. It also invests in new rent geared to income housing, constructing around 1,500 units per year. BC stands out from the other provinces for consistently using the AHI-IAH for what is clearly social housing (i.e. with clear low-income targeting, RGI rents, and long-term operating agreements).

The province operates a wholesale financing scheme to raise lowest cost finance for new social housing and mortgage renewals in a comprehensive way for construction financing for new social/affordable housing and capital repair financing.

There is acute recognition from within the social housing sector that provincial funding is not sufficient and federal funding will unlikely re-appear in a way that can fully address the level of need and repair associated with the aging social housing stock. Therefore, there is a general understanding that the social housing sector needs to be more entrepreneurial to attract investment. There are signs of new revenue generating practices: partially commercialising space to generate revenue, building and selling market rate condominiums and strategic land

management. Willingness on the part of the government to relinquish some control over land assets has facilitated this entrepreneurial activity (Pomeroy 2015).

To facilitate, the province has moved from a directive role to more collaborative partnerships with NPOs, supporting a variety of entrepreneurial practices that help to make up for the shortfall in federal funding. However, so far no comprehensive 'model' has emerged. Given the limits on provincial spending BC continues to campaign for a greater federal role in housing programs.

In 2014, BC launched a Non Profit Asset Transfer Scheme for organisations providing fair market rent housing under operating agreements with a range of tenant income, transforming land leases into ownership in order to facilitate investment. The NPO purchases the site at fair market value, discounted for the fact that it is leasehold. With a purchase price lower than market value and planning permission to build at higher density, the NPO takes out new financing to cover this capital cost, with BC Housing backstopping this with its commitment to future operating subsidies. In the first year, 350 properties were transferred to the non-profit sector allowing individual non-profit providers to own the asset as well as the land.

At the local level, municipalities in BC are concerned about the rehabilitation of stock in their jurisdictions, but are far more fragmented than in Toronto. However, Vancouver has substantial experience in mixing market and nonmarket housing outcomes. For instance, social housing targets are well established and communicated upfront in the development process and thus cannot be appealed. The City has employed inclusionary zoning, contributing sites and equity from fees collected towards affordable rental housing.

The SRO (Single Room Occupancy) Renewal Initiative is also supported by a partnership model with the private sector (see BC Housing 2013: 2). In 2015, a SRO PPP will ensure the renovation of 13 provincially-owned single room occupancy hotels located in Vancouver's Downtown affecting 900 residents (BC Housing 2015).



## 5 Germany—Berlin and Munich

Devolution in Germany has led to the central government retaining a role in demand assistance and rent setting policy, but largely withdrawing from supply policy. Expiring conditional subsidies and the cessation of federally co-funded regional programs has led to a 'melting away' of social housing stock.

Like Canada, a very uneven regional response has emerged with many closing down their housing supply programs, some continuing and a few active cities taking heroic local measures. Demand assistance is co-funded (federal/state) but delivered locally and a very heavy burden has fallen on municipalities at the coal face providing support services.

In the 2000s, municipalities and public savings banks experiencing financial problems undertook mass privatisations of their housing assets. New investors, being global financial institutions and domestic real estate consortia, have streamlined their real estate portfolios, raising rents, selling marketable properties but largely neglecting low rent units on social contracts. This neglect led to legal disputes by municipalities with new investors and rent rises generated broad based tenant protests.

The wave of privatisations has now passed and some municipal buybacks of social housing stock has taken place. Cities such as Berlin and Munich are now actively returning to a more direct role in affordable housing to address rising housing shortages and increased housing costs and these cities are featured in this chapter.

### 5.1 Trends influencing public housing transformation

There remains a wide variety of providers of social housing, but commercial landlords have a greater market share. These investors are seeking higher rates of return and hold variable commitments to retaining social conditions after subsidies expire. Access to affordable rental housing by low-income households was narrowed as a result of the commercialisation of rents and stagnant wage growth amongst lower income households, especially in areas of economic opportunity.

Despite an estimated backlog in construction of four million homes in Germany and a 40 per cent decline in the construction of affordable homes 2002 and 2012 (BBSR 2013; Hendricks 2014), Germany currently lacks a comprehensive national housing supply policy to address this significant gap. The housing needs of young, single and or migrant families are heavily reliant on the capacity and willingness of lower levels of government to act.

The trends influencing public housing can be summarised as:

- devolution and withdrawal of a federal supply role
- from limited profit cost rent to market solutions and demand side assistance
- economic malaise undermining public financial capacity
- sale of public housing debt to private investors
- local activism and formation of stakeholder alliances.

#### 5.1.1 Devolution and withdrawal of federal supply role

Throughout the federal reform process, the 16 provincial governments have successfully campaigned for greater powers and the reduction of federal influence on regional politics. Consequently, the national government no longer regulates schools, universities and, since 2006, social housing. Under these reforms, federal housing assistance has strongly shifted from

supply side assistance (via public grants, loans and interest subsidies to both private investors and municipal housing companies) towards market rents made affordable to target households via demand side assistance.

Currently, the costs of allocation and assistance policies are shared via federal and regional governments to house those in need but it is municipalities that allocate. Recently, the sudden rise in rents in the growth areas and demands for rent assistance has led to a reoccurrence of debates about a revival of increased building subsidies for housing on the provincial level (see Section 5.1.2)

Between 2000 and 2006, diminishing federal supply subsidies had to be matched by contributions from the provincial government. While the industrial regions continued their large social housing programs (North Rhine Westphalia, Hamburg and Bavaria) other regions began to play a declining role. Since 2006 there have been no substantial earmarking of federal supply side subsidies for housing promotion, with the final withdrawal of federal subsidy (€500 million annually) anticipated in 2019. Currently, most regions have not applied for federal co-funding (Droste and Knorr-Siedow 2014: 189, 193).

### **5.1.2 From limited profit cost rent to market solutions and demand side assistance**

Related to the shift from supply to demand is the business model of social housing. A system of cost rental housing, similar to that which exists in Austria and Switzerland, prevailed in Germany until the late 1980s. This regulated both rents and access. Dwellings were typically financed via a small direct subsidy towards reducing the building cost (varying considerably over time and region) as well as various forms of interest reducing subsidies on the annuity mortgage loans. There have also been other forms of targeted subsidies for providing special accommodation for special needs-groups.

These costs were once largely covered by the federal public budget, with the cost of management and maintenance covered by heavily reduced rents and deep public subsidies under a legally defined limited-profit regime (*Wohnungsgemeinnützigkeit*) governing small and large public, other municipal and cooperative actors.

After much debate over the value of supply policies and criticism concerning rental market distortions, over subsidisation of investors and ineffective targeting of households over time, limited profit legislation was abolished in 1989. Financing shifted towards construction costs being covered by a mix of public budget (federal and regional) means as well as capital market loans and equity. Under this regime, the cash flow to cover operating and maintenance, reduced capital costs and profits comprised a mix of (reduced) rent, capital subsidies and individual subsidies.

The system had largely moved towards no public investment in construction by the 2000s, with market rents and individual subsidies covering the cost of management and maintenance, full capital costs and investor profits (Brenke 1995). Hence the budget for housing allowances grew enormously.

This preference for individual welfare assistance has seen the social housing sector continuously decline as supply subsidies disappear. There has been a rhetorical focus on improving deprived neighbourhoods, strategic investment in energy efficiency and social and urban infrastructure delivered by municipalities but no significant or ongoing programs to support these supply outcomes.

While the main federal effort has been individual housing subsidies, the actual share of the population receiving them has declined. In 1992, the proportion of all households receiving housing allowances was 6.1 per cent in Western Germany and 25.7 per cent in East Germany (Brenke 1995). By 2012, around 783,000 households received a Housing Allowance (903,000

households in 2011) being 1.9 per cent (2.2% in 2011) of all private households (Destatis 2014: 196). Total expenditure on housing benefit in 2014 amounted to around 1.4 billion euros nationwide and for 2016 parliament has envisaged an average rise of 39 per cent, due to slower income growth relative to rent increases.<sup>14</sup> As mentioned, expenditure on supply programs will cease altogether in 2019.

### **5.1.3 Economic malaise undermining public financial capacity**

The supply burden has fallen most heavily on the 12,000 municipalities which have traditionally been closest to the provision of social housing and allocate housing assistance. Local governments are obliged to offer shelter to anybody in need or danger of homelessness, as part of the German safety net (Brenke 1995) and have a long history of involvement in municipal housing companies.

Local government is the primary implementing authority allocating housing allowances, it is also responsible for land use planning and delivering available subsidy schemes for the production and maintenance of social housing. Municipalities have traditionally played a major role in housing management, by owning the dominant share in municipal housing companies (Droste and Knorr-Siedow 2014: 183–202).

Active local governments must find additional funds or low cost land in order to reduce housing costs and increase social housing in their local areas. This has placed many municipalities at the upper limits of public debt and deficit and many are struggling to fulfil their obligations. According to the national association of municipalities, many of Germany's local authorities are now financially struggling under federal legislation that obliges them to pay welfare allowances to poorer residents out of stretched municipal budgets. Municipalities are under increasing pressure to deal with affordability and discrimination, with many new migrants to be housed in the private rental market. (StadtLandBund—Congress of municipalities 2015):

This quandary has emerged alongside much broader structural issues facing the German financial system following the GFC and Sovereign Debt Crises. During these financial crises banks, private and institutional investors as well as municipalities held debt in US-European lease-back projects. Public savings banks were hit very hard during the GFC, many of which held mortgages in municipal housing companies. Municipalities lost heavily forcing the sale of social housing and public infrastructure such as tram networks and even town halls. Several public banks had to be rescued and in this process their assets were scrutinised.

### **5.1.4 Sale of public housing debt to private investors**

Loans to public housing companies were singled out for sale by the European Commission and some banks were required to sell their stake in municipal housing companies to institutional investors.

The experience of German municipal social housing privatisation during the past three decades deserves specific attention and has been the subject of a number of government inquiries and scholarly evaluations in recent years (BBSR 2013; Elsinga, Knorr-Siedow and Stephens 2014; Held 2012; Lorenz-Hennig 2011; Aalbers and Holm 2012).

The privatisation of public housing assets held by former not-for-profit housing companies and state owned enterprises, such as Thyssen-Krupp, commenced and accelerated rapidly in the 1990s under the direction of the conservative Kohl government. It is noteworthy that soon after reunification (1993–97) there was a programme to sell publicly owned dwellings to sitting

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<sup>14</sup> In 2012, the average monthly housing benefit claim was €114 and was expected to rise to €186 euros (Destatis 2014: 201)

tenants in the Eastern regions, but the option to buy was rarely taken up. Rather than become condominium owners, tenants continued to rent or migrate to the West in search of opportunity in the newly unified Germany.

Unger (2006) categorises different forms of public housing privatisation which have since taken place in Germany and their impact on governance structures as follows:

- Sale of the whole public housing company (total shares) to a single private investor, (the dominant approach before 2012).
- Sale of large parts of the shares to private investors leading to a fundamental weakening of the public in company governance structures (many cases).
- Sale of the shares (or parts of it) to other public companies (banks, service companies) weakening direct public influence.
- Block sale of important (or all) housing stocks to one or diverse investors (fragmenting management and often preceding ownership conversion).
- Sale of parts of the housing stocks to private investors (primarily to address unsustainable debt within the municipal companies).
- Sale of single flats or houses to the tenants or small entrepreneurs often combined with condominium-conversion (as a normal part of social housing asset management).
- Sale of shares or housing units from the municipality to the company itself (to refinance with market loans) (Unger 2006).

In the 2000s, privatisation involved very large bulk sales of 20,000 to 100,000 units owned by former public housing companies, such as the German Railways Housing and the Housing Association of the State of Berlin (GEHAG, GSW). Some cities were particularly active in selling their entire stock of municipal housing, such as Dresden who sold all dwellings to a single private investor. The results of an inquiry by NRW into the motivations for sale of municipal housing in that state are outlined in Box A3 of the Appendix.

Unlike privatisations in the UK and the Netherlands, no 'right to buy' applied to sitting tenants. Rather assets were sold to global investment and hedge funds such as Fortress, Cerbus/Goldman Sachs, Morgan Standley/Corpus, and Blackstone.

When these sales took place, municipalities attempted to establish social charters with the new owners. These charters, differing in detail, provided a form of intended regulation to protect tenants and promote quality improvements. Obligations included agreements to limit rent increases, often a lifelong right of abode for elderly and investment in apartments for rent. Such charters were usually for a binding period of ten years (but a wide variety exists) and required positive management policies by investors. Their implementation was monitored and enforced by the municipality, but breaches have proved common (Held 2012; e.g. Dresden, Kiel, Magdeburg, LEG North-Rhine Westfalia) and enforcement with successive purchasers has proven very difficult.

Traditional investors were once regional public banks, who financed loans for most municipal housing. However, some of these banks came under severe stress during the 2000s and received state aid. This led to the sale of public housing debt and heralded the entry of successive waves of investors seeking different rates of return and pursuing different asset strategies (Institutional investors interviewed for this study by Lawson 2015).

Initial prices paid for public housing units in the years 2001 to 2005 were very low, between €30,000 and €53,000 (See Table 22.1 Ten Largest bulk sales of public housing in Elsinga, Knorr-Siedow and Stephens 2014: 404–405). Initially, there was little interest from domestic

institutional investors in Germany, who were seeking higher returns than the modest 4 to 6 per cent assumed possible for limited profit housing companies.

However, foreign investors were interested and included consortia of multiple foreign funds such as US, Swedish and Japanese pension funds as well as Swiss hedge funds, seeking double digit returns (10 to 12%). They leveraged their newly acquired housing assets (80 to 90%) in order to reap these relatively ambitious returns. However, failing to achieve these, many foreign investors sold out and a second wave of investors entered the (formerly public) rental housing market. These included longer term less opportunistic, German based real estate investment companies. In contrast, these firms pursued more modest moderate leverage strategies (50 to 60%) based on their stronger knowledge of German housing market and consequently offered a more modest rate of return (approximately 4 to 8%) (Interview with large investor by Lawson 2015).

The over-riding strategy of commercial investors has been one of active, asset based revenue management: 'streamlining' and 'cherry picking' the social housing portfolio. Formerly, many public housing companies managed their units as 'de-facto' social housing applying social allocation and rent policies to dwellings no longer subsidised. However, commercial landlords driven by shareholder demands and under no obligation to do so, raised de-facto social rents to maximum market ceilings. Some landlords sold their most marketable rental stock for condominium ownership. What remained was moderate quality dwellings alongside those still subject to social contracts (de-jure social housing), which offered little or no potential for investment return. A more commercial approach to investment meant that these dwellings attracted little or no investment in quality or maintenance and consequently fell into disrepair (more about Dresden, which sold 100% of its housing to a single investor, can be found in the Appendix).

In some cities, there has been a government buy back of parts of the privatised housing. However, this has tended to occur after the investor has made a substantial profit (Interviews with institutional investors and municipal senior executives 2015).

### **5.1.5 Local activism and formation of stakeholder alliances**

Large cities such as Berlin, Munich and Kiel have bought back deteriorating social stock, as investors have either gone bankrupt or seriously mismanaged dwellings. These municipalities have been motivated to re-purchase these privatised dwellings in order to protect vulnerable tenants. This action often follows civic protests, legal conflicts between institutional investors former municipal owners as well as several bankruptcies amongst new owners of social housing.

Today, the wave of mass sales of public housing has largely subsided. In this post privatisation era German public housing has entered a new more entrepreneurial phase, closely aligned with local partners in the third and private sector. In some cities municipal housing is experiencing a modest come back. This is being pushed, propelled and enabled by a new generation of public servants employing PPPs and a more critical civil society.

This organisational transformation and re-orientation of public housing companies has been partly demographic and partly cultural. Formerly there was a clear commitment from long-term senior public managers to addressing supply issues, via the implementation of subsidy programs, carried by a strong sense of civic duty (and identification with) social renters. However, in the absence of programs these managers often lacked the commercial experience to fill the growing financing gap and they were also less open to market solutions. Conversely, younger managers perceived commercial profit as a means to cross subsidise and reduce rents of some dwellings. Such an approach made sense given the dearth of public subsidies.

Since 2010 there has been a return to efforts to grow more low-income accessible and rent controlled housing in the urban agglomerations. Several cities are taking a more active local housing policy, illustrated below by Berlin and Munich, setting the scene for some other cities to follow. However, with an unevenly growing economy with weaker and stronger housing markets, cross subsidisation cannot produce sufficient quantities of affordable units to outpace expiring subsidies.

In the absence of federal government leadership and commitment, new governmental structures have emerged in a small number of larger cities such as Hamburg. This city established an alliance for affordable housing, comprising various stakeholders and chaired by the Mayor of Hamburg, which emphasised planning mechanisms to release land for affordable housing. Their success in building a broad based coalition of interests committed to progress in housing policy also catalysed the formation of a national alliance of key stakeholders, including responsible federal ministers (Interview with federal housing policy experts, Lawson 2015).

In 2014, a national alliance for affordable housing and construction established comprising federal, state, local governments and associations and chaired by the national Minister Hendricks. It aims to meet the growing demand for housing in certain regions and at the same time, take account of social, demographic, and energy requirements.<sup>15</sup> Key areas of action include the construction of new homes, revival of social housing, affordable rents and the social security of housing. Energy efficiency and climate protection in the building stock are also on their agenda, as well as responding to demographic trends and housing for the elderly. A national congress is planned in March 2016 and it is hoped that a parliamentary strategy will be endorsed.

## 5.2 Local illustrations

So far this chapter has made numerous but brief mentions of the efforts in Berlin and Munich to address the need for affordable housing. The following sub-sections take a closer look at the funding and management strategies affecting social housing provision in these cities.

### 5.2.1 Munich

Munich is a wealthy southern German city, capital of Bavaria, with a strong business base delivering tax revenue directly to the city. This allows it to be more financially independent from federal government and less reliant on transfers than other poorer cities. Company tax is paid directly to the City and delivers around 1 billion euros per annum, twice as much as federal income tax transfers. By combining federal, regional and city resources Munich is able to finance a substantial five-year housing program. Declining federal contributions have been compensated by the City, because a municipal response to the high cost of housing and limited supply of affordable dwellings has enjoyed strong cross political support from the Christian Democrats, Social Democrats and the Greens.

According to senior policy-makers in Munich (Interviewed in June 2015) the City views social housing an essential service and for this reason did not pursue privatisation strategies in the 2000s. It still owns 100 per cent of its housing companies, which provide social housing at rents between a third and slightly over a half of market-value rent. Munich also owns 8 per cent of the total housing stock in the City.

However, the state of Bavaria was forced to sell its public housing company GdW in 2013. GdW was financed by the Bavarian State Bank, which had expanded from a regional bank financing

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<sup>15</sup> <http://www.bmub.bund.de/themen/stadt-wohnen/wohnungswirtschaft/buendnis-fuer-bezahlbares-wohnen-und-bauen/>



housing programs to international investments including US sub-prime mortgage securities, investments via Austria and the Balkans. Suffering heavy losses during the GFC and Sovereign Debt Crisis, the European Union ordered the Bavarian State Bank BayernLB to sell its 92 per cent stake in GBW as a condition of taking state aid during the financial crisis.<sup>16</sup>

The City of Munich tried unsuccessfully to bid against a consortium of real estate investors (Patrizia), which paid €2.45 billion for 32,000 dwellings (about €75,000 per unit) and offered a relatively modest 4 to 4.5 per cent yield to investors. Purchased flats are scattered all over Bavaria, but 8,000 are located in Munich.

Interviews conducted with Munich and Patrizia confirm much tenant hardship and breaking agreed social charters has occurred, since the purchase rents have risen (considerably affording to Munich). By 2015, Patrizia offered some tenants the right to buy. Munich stepped in and bought these dwellings to prevent further losses of social housing in the City (Interview senior executive, City of Munich).

In addition to the 'buy-back' of social housing, the City is well known in housing policy networks for its Munich Model (MM); a planning based approach to new affordable housing supply.

The MM was established several decades ago, when regional programs were already considered insufficient to address middle income needs. The Model has generated €51 million of investment from developers to serve a broad range of households with differing incomes levels. It targets middle income households<sup>17</sup> who have lived in Munich for more than three years. A waiting list applies and successful applicants are offered rents at €11 per square metre which is typically twice that of social housing (€5.65 per square metre) but less than market rents (€15 per square metre).

So far the scheme has delivered contributions towards 25 developments per year comprising about 7,000 dwellings. These developments are constructed by municipal and private development companies. Half of these dwellings (3,500) are managed as affordable flats governed by social contracts with a duration of 25 years and managed by the City. Of these, 1,200 to 1,800 are considerably social rental dwellings, with 50 per cent dedicated to needs groups prioritised by the social charter.

Contributions to the scheme are (in principle) voluntary, and the success of the scheme largely depends on the power of the City of Munich in planning approval process, the strength of the land market and the relative attractiveness of taking on secure but lower rental returns with tenants arranged by the city over free market rents with an open market for tenants or indeed home purchase. The difference between mortgage finance for rental investments versus availability of mortgages for home purchase is also critical, as interest rates have been historically low for home purchases in recent years.

Despite MMs well established success, proponents of the scheme are not optimistic that it can keep pace with the growing need for affordable housing in the City. Shortages of accessible housing in good locations are worsening as a result of gentrification, especially in the city's centre. Older rural residents cannot move to more central locations and new residents are forced to live many miles from opportunities and resources on the fringe of the city.

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<sup>16</sup> As reported in the Wall Street Journal 'Munich's Boom Time Property Market' <http://www.wsj.com/articles/SB10001424127887323820304578412624143123496>.

<sup>17</sup> With an annual household income below €80,000.



### 5.2.2 Berlin

Berlin is Germany's capital, largest city and epicentre of re-unification. With a modest growing economy and a population dominated by small households (54% single person), Berlin has relatively high rates of unemployment (10% in 2015, down from 15% earlier in the century). It is also known as a city of tenants, as only 12 per cent of households own their dwellings (Aalbers and Holm 2008). A significant but declining share of the housing stock is in public hands (15% down from 30% in 1990) (ibid 2008).

Berlin has also been a hub for the sale of public housing assets to private investors, with a very large number (over 200,000) of dwellings sold to large institutional investors in the 2000s, including entire housing companies. This was undertaken in a bid to reduce public deficits, cancel outstanding loans and fulfil national government policy. Sales included one of the largest municipal transactions with 65,700 dwellings managed by GSW (a municipal company owned by the City of Berlin) to Cerberus and Goldman Sachs (90%).

Berlin stands in contrast to Hamburg where transactions of large municipal Housing stocks were made exclusively to municipal subsidiaries or companies which were majority state-owned. Berlin has also retained 290,000 dwellings in six municipal companies and in some senses is regaining its involvement in the market. This return contrasts with cities such as Kiel, Dresden and Wilhelmshaven, which no longer have any direct ownership of the remaining de-jure and de-facto social housing in their communities (Held 2012).

However, the gains from sales of Berlin's public dwellings with low-income sitting tenants were vastly insufficient to address more structural fiscal imbalances and, some would argue, cost the city dearly in terms of its social housing infrastructure. In their Berlin case study, Aalbers and Holm (2008) reveal that more than 200,000 public housing units have been privatised since the German reunification, being an average of 13,000 housing units per year for as low as € 20,000 per unit. Typically, dwellings were sold to foreign hedge and pension funds and later national real estate investment companies. Very few dwellings were sold to sitting tenants (5%). The commercial approach to asset management has been partly speculative, with assets re-valued and selectively upgraded for sale, while rents are maximised where possible.

De-jure social housing is rent-regulated until the end of the lock-in period specified in the subsidy contract, with compliance monitored by the City. However, they can no longer rely on the social mission of the municipal provider to reinforce adherence with commercial landlords in charge. These new investors are driven to deliver acceptable rates of return. The impact on rents and tenants is not immediately observable but could be quite significant in the long term, often following selective renovation.

Lechevalier Hurard (2008) notes that the rents of apartments purchased by capital investment fund Risk had not increased significantly and that the rights of tenants remained unchanged, despite the sale. However, for de-facto social housing, that which has had low rents despite the expiry of subsidy can be raised to the full extent permitted by the rental law. More often, renovation and modernisation accelerates this process, when tenants who cannot bear additional costs must move.

More recent research by property research company (Jones Lang and LeSalle 2015) provides a very different picture of an active, turbulent apartment market involving large scale mergers and involvement of foreign investors in buying apartments. Surprisingly, the largest single investor on the apartment market in 2014 was Berlin's own public housing companies (HOWOGE, the self-professed most powerful municipal housing company in Berlin<sup>18</sup>), buying back many of the

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<sup>18</sup> See HOWEGE official website <http://www.howoge.de/unternehmen/ueberblick.html>

properties they had earlier sold, albeit at considerably higher prices and transferring a windfall profit to real estate conglomerates.<sup>19</sup>

Consequently, profits are not necessarily derived from rent revenue by investors, rather by the up lift in value between public sale and private re-sale. Gaining market control is key to this process and private monopolies from are now forming, as investors merge portfolios and build up market power. Currently, Vonovia and Deutsche Wohnen are forging a joint company of half a million flats in a deal of €14 billion, the largest ever transaction on the German housing market. The consequences of this merger are a concern for municipalities in trying to steer local housing provision and the regions in trying to restructure their social housing programmes alongside these powerful market players and their beneficiaries. The power of tenants in such a market, where mega landlords dominate, is likely to be reduced and monopoly driven rent-rises are feared.

Thus, the City of Berlin has undergone an about-face in its strategy of selling public housing in the 2010s. It is now considering a return to municipally owned housing companies under direct public control, making them part of the city's own administration.

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<sup>19</sup> Howoge purchased 2,600 apartments in Marzahn from TAG, generating a reported 6 million euro profits for TAG on its sales in Berlin to public housing companies <http://www.refire-online.com/features/companies/tag-lightens-up-on-berlin-holdings-in-end-of-year-sale/>.

## 6 Austria—Vienna and Lower Austria

Our final country chapter features Austria, which demonstrates the success of a federally legislated limited profit cost rent model, financed via regionally differentiated supply programs, attracting low cost long-term investment and supplemented by demand assistance. Limited profit cost rental housing is that which sets rents to cover capped costs for land, finance, construction and management. LPHA can accumulate limited surpluses but these must be reinvested in new supply within a defined timeframe. Government provided grants, low interest loans and rent assistance ensures the affordability of rents for low to middle income tenants. This model supports an efficient and growing LPHA sector that stabilises the construction of new housing supply and increasingly plays a direct role municipal housing management. This work builds on earlier AHURI reports on the Austrian LPHA system (Lawson, Haffner et al. 2010; Lawson, Milligan et al. 2012; Deutsch and Lawson 2013) by providing two detailed local illustrations.<sup>20</sup>

### 6.1 Trends influencing public housing provision

There has been a marked shift in social housing construction and, recently, housing management from modest but market rate municipal rental housing to higher quality LPHA housing (in some cases rent-to-buy). Furthermore, LPHA increasingly manage small municipal housing portfolios as their professional and market presence strengthens.

While municipalities own 8 per cent of Austria's housing stock (principal residences, Statistik Austria 2014), new construction by municipal housing providers largely ceased in the 2000s and thus the overall share of municipal dwellings is now very gradually declining (1% over the past decade), with limited profit cost rent housing provided by LPHA increasing both nominally and in market share (18%).

The key drivers of this shift have been the establishment of a well-functioning limited profit cost rent housing system, weak rent indexing policies of municipal managers and dedicated public funds and regulations providing sufficient public and private investment.

#### 6.1.1 A well-established cost rent system

Governments have fostered the shift towards LPHA provision in the context of dedicated public funds for housing promotion, an established regulatory framework, facilitative urban planning and the promotion of competitive processes in tendering for available subsidies via the LPHA sector and commercial competitors. To some degree this has been forced by a lack of dedicated revenue for refurbishment and deficient public finance to address the shortfall plaguing municipal housing. This has forced as increasing number of smaller municipalities to transfer the management of their stock to locally active LPHAs.

#### 6.1.2 Dedication of transferred federal funds for housing programs

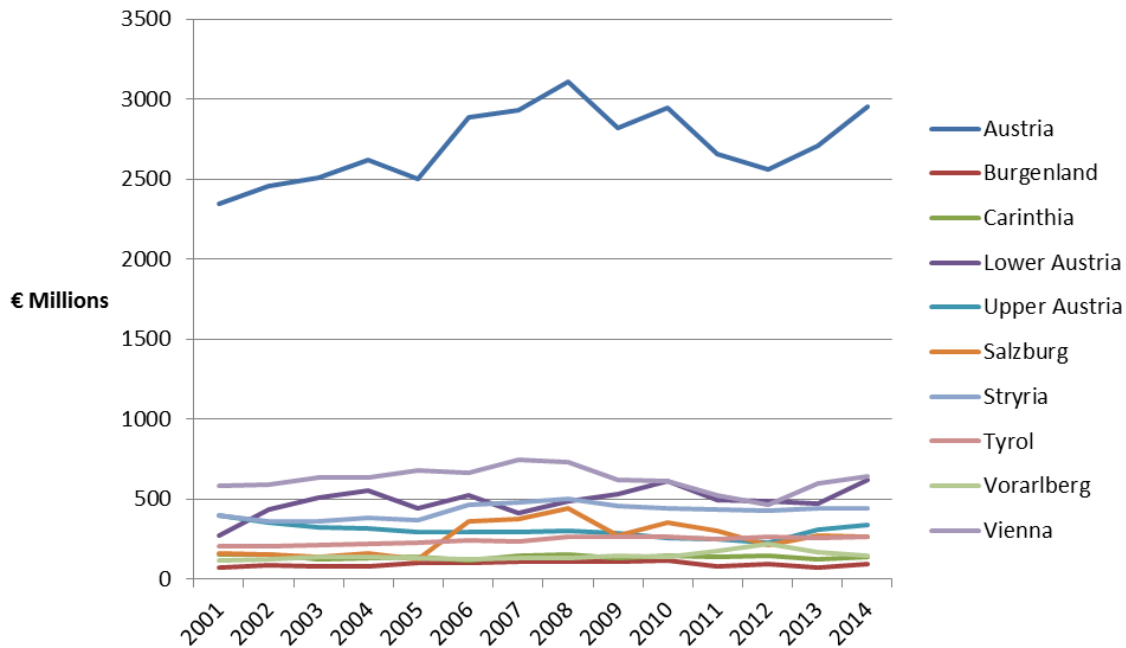
Unlike Germany and Canada, housing subsidy schemes in Austria comprise a variety of sources, of which federal transfers (however untied and unspecified) to regional governments still play a very important part. These schemes are not just about housing supply, but also the benefits of affordable and sustainable housing to the broader economy, society and environment.

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<sup>20</sup> The authors are grateful to Dr Edwin Deutsch EOS, TU Vienna for his contribution to the AHURI report Deutsch and Lawson (2013) [www.ahuri.edu](http://www.ahuri.edu). and Dr Wolfgang Amann and Alexis Mundt IIBW for their explanations of the Austrian Finance System and allocation of government competences (2008 and 2015)

The total funding dedicated to housing programs, including regional contributions, oscillates around €2.8 billion per annum (average 2010–14). For details see tables A3 in Appendix. Relative to the size of the Austrian economy, this direct expenditure amounts to around 0.8 per cent of GDP (in discounted present value, considering repayments of loans), which is in the middle range for Western Europe. Most European countries, however, have much higher indirect (tax-based) housing policy expenses, such as for tax deductions of mortgage interest payments, which Austria does not (Wieser and Mundt 2014).

**Figure 13: Total nominal housing subsidy expenditure (million euros) across Austria and the nine regions 2001–14 (IIBW 2015)**



Source: IIBW 2015 (for details see Appendix Tables A2 and A3)

Public funds for programs are designated by the nine regional governments for the housing supply and modernisation in both the ownership and rental sectors, meeting a wide range of housing policy objectives: social solidarity by the promotion of decent housing reducing housing costs and thus wage demands, economic growth and stability of labour markets, particularly construction, and improvement of housing quality and thermal protection to reduce the emission of greenhouse gases.

Specifically, programs promote the construction and renovation of housing, enable individuals to raise funds to purchase a dwelling, provide mortgage interest relief for home purchasers and dedicate specific funds for housing rehabilitation and renovation (Mundt and Springler 2016; Lugger 2007: 62). They use a variety of tools including public loans grants, low-interest loans, interest subsidies and demand assistance. In turn, loans are recycled as repayments and interest are reinvested into revolving funds for housing purposes in the region.

Until 2008, housing budgets were endorsed for a defined period (five years) by a financial equalisation agreement ('Finanzausgleich') between the provincial government and the federal government. Since 2009 transfers of funds between the state bodies has no earmarking for housing any more. The provincial government adjust their housing subsidy budgets to the expected demand—which largely comes from LPHA building activity and individual home builders. However, their tendency to do so varies across the country, with some governments strongly in support of affordable rental housing and others supporting the promotion of home ownership. Further, some regions have the capacity and willingness to respond to

developments in the housing market and actively adjust their programs to promote stability and prevent either over or under supply. Others are constrained by weak public finances. See Tables A2 and A3 in the Appendix for data on the housing expenditure and housing produced across Austria and its nine regional governments.

### **6.1.3 Differences in rent regimes make LPHA more effective and efficient**

The rent regime has favoured the LPHA sector.

Municipal housing is older than other social housing and typically requires more intensive capital repairs. Rents are also typically lower than in the LPHA cost rent housing stock (see Figure A1 in Appendix which illustrates the differences). This is partly because municipal housing often was financed from local budgets instead of loans and rents under the cost rent system are more subject to political interference rather than dwellings legally cost based and indexed.

While municipal housing must conform to the stipulations of the General Rental Law keeping pace with market developments, most municipalities only charge low rents. However, Vienna now continuously increases the rents to market levels but only in new contracts.

Sales of municipal housing are occurring not only due to budgetary constraints but also because in some small and shrinking municipalities housing demand has decreased. Many smaller municipalities have also outsourced the management of their housing stock to local or regionally based LPHA.

While municipalities still own their stock, LPHA are considered more cost efficient and professionally capable to manage it.

Vienna did not transfer its municipal stock in the 2000s to the limited profit sector, but rather retained public ownership. Management of the stock is undertaken by its special agency, Wiener Wohnen (WW), owned by the City of Vienna and refurbishment and new construction is undertaken by its own limited profit building company *Gesiba*.

### **6.1.4 Partial, gradual shift towards demand assistance**

In general, the main factor determining the affordability and accessibility of housing for different household types is the founding financial arrangements, based on subsidy conditions or a capped cost rent system and national rent setting and indexing laws (Deutsch and Lawson 2013: 21).

LPHA dwellings tend to be newer and adhere to higher energy standards and thus, are more expensive under the cost rent system. Specific projects may also aim to address special housing goals and needs, such as promoting ethnic inclusion, combining residential and working spaces, or offering low energy no-car lifestyles.

Affordability has been promoted by reducing the cost of housing through low interest public loans and grants to ensure appropriate supply outcomes and relies far less on demand assistance than other systems. Mention should be made of the substantial contribution made by tenants to overall project costs. This amount can be as high as €30,000 to €50,000, but is typically on the proviso that tenants can eventually purchase a dwelling in the same project, usually after a period of 10 years.<sup>21</sup>

Gradually, the role of demand assistance is increasing in Austria and each province has now developed demand assistance strategies to ensure access to decent housing for different

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<sup>21</sup> The capital contribution is paid back when the tenant moves out, but diminished by 1 per cent per year of residence.

household incomes. This makes up around 8 per cent of total housing program expenditure (Amann, Lawson et al. 2009). There are also low cost loans for tenant equity contributions.

Means tested rental allowances and subsidised loans and grants to purchase (also a form of supply subsidy) primarily aim to improve affordability for low-income individuals but are not integral to the financing of LPHA supply (as in the UK) (Deutsch and Lawson 2013: 22).

### **6.1.5 Allocation rights secured through conditional subsidies and provision of land**

Municipalities play an important and varied role in the Austrian social housing system. They share responsibility for planning and zoning regulation with the provincial governments, develop and implement policies on the use of land and its allocation for housing purposes and determine the allocation of subsidised dwellings. Many municipalities are also direct owners and managers of social housing stock, but this is changing.

Municipalities can create their own allocation schemes and provide special emergency dwellings for households at risk of homelessness, mostly within the municipal housing stock. Municipalities' main concerns include promoting social integration across different income levels, addressing overcrowding, supporting young and growing families, preventing cultural segregation and addressing social-psychological or physical stress. Where municipalities provide land to LPHAs, they may also require the right to nominate future tenants. In Vienna, for example, the municipality arranges 25 to 33 per cent of tenants in the LPHA housing stock through its housing service.

Public assistance for housing typically comes with conditional income limits for both tenants and owner occupiers, when they move in (not throughout tenancy). Formal income limits vary by region and are high enough to cover 80–90 per cent of the population (Amann, Mundt et al. 2012: 158; Deutsch and Lawson 2013; Reinprecht 2007: 39).

### **6.1.6 Private finance mechanism established**

As the share of public loans and grants in new projects declines, new projects increasingly require private finance as well as equity contribution from the tenant towards overall project finance. The role of special purpose intermediaries, tax incentives and Housing Construction Convertible Bonds has been covered in detail in previous research (Lawson, Milligan and Yates 2012; Deutsch and Lawson 2013).

## **6.2 Local illustrations**

### **6.2.1 Vienna**

Wiener Wohnen (WW) is a standout exception in the world of municipal housing, as elsewhere it is in decline. In contrast to Vienna, the three nearest provincial government in Austria own just 4 per cent of their housing stock: Styria, Carinthia, Lower Austria.

WW is the largest landlord in Europe with 216,000 dwellings, all owned by the City State of Vienna. This provides WW with an influential role in Vienna's rental market, moderating market rents, promoting quality improvements and energy efficiency.

As an organ of government WW is part of a very comprehensive housing policy approach, alongside supportive land banking, urban planning, construction funding, tenancy management and social integration policies.

The dwellings WW manages have been built over many decades, using many different designs, materials and standards. Older stock requires upgrading and modernisation, such as adding new balconies, terraces, lifts, roof top apartments and more efficient heating. The City has



focused on a major program of subsidised refurbishment of municipal dwellings over the past two decades, applying 'soft' renewal techniques renovating a total of more than 330,000 dwellings.<sup>22</sup>

A considerable part of these funds were derived from regional THEWOSAN program administered by Wohnfonds and most funds have been invested in municipal housing (rather than newer LPHAs).

WW has actively adapted rents to match the Rental Law Maximum Limit (MRG). Municipal housing providers, unlike their cost rent LPHA cousins, cannot collect contributions for renovation in advance and must adhere to market rent developments and the MRG. Rents have risen in the last decades and are now high enough to cover operational costs and also partly refurbishments. There is also some cross-subsidisation across the very large portfolio of Viennese municipal housing stock, which helps to spread costs of renovation and refurbishment. For large scale refurbishment of municipal housing estates subsidy loans are also required.

Reducing carbon emissions and improving energy performance has been a focus for housing construction in Austria since 2000. Grants and conditional regional government loans aim to substantially reduce heating demands, running costs and carbon emissions as well as improve air quality and indoor comfort. Subsidies were provided to social and private landlords as well as end users and generated a great deal of innovation and shared best practices amongst the LPHAs.

By 2015, Vienna had returned once again to direct construction of municipal housing, via Gesiba, the City's own LPHA. New municipal projects aim to target young households, will not require tenant contributions towards capital and will have rents marginally above those applicable to municipal housing.

This effort has been made financially feasible by the City's contribution of €25 million from the Vienna Special Fund and also provision of building plots from land owned by the City.<sup>23</sup>

Wiener Wohnen (WW) allocation priorities have evolved over the years and are currently differentiated by a point system favouring longer term residents and using the following basic requirements:

- Minimum age of applicant is 17 years.
- Maximum income is €42,250 net per year.
- Vienna is registered main place of residence for the past two years. This restriction applies to both WW and LPHA (new bonus for less than five years Vienna resident for WW housing).
- Applicants must have Austrian or EU citizenship, Swiss or EEU passport, unlimited permanent residence or right to asylum.
- Live in an apartment that must be vacated for health or quality reasons and applicant is in urgent need of accommodation (does not apply to LPHA housing).

Municipal housing has been managed and subsidised to play a stronger welfare role in recent decades (than LPHAs). Furthermore, since 2001, an additional 2,000 dwellings (almost 10% of municipal stock) have been allocated to people who are homeless and also in fulfilment of the EU directive against racial or ethnic discrimination, 600 additional apartments have been

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<sup>22</sup> See <http://www.wien.gv.at/rk/msg/2015/05/21011.html>.

<sup>23</sup> A pilot project with 120 dwellings in the 10<sup>th</sup> district is also proposed. If successful, long term Mayor Häupl plans to build 2000 dwellings per year from 2016 under this regime. (see: <http://kurier.at/chronik/wien> also <https://www.wien.gv.at/>).



assigned to long-term migrants who have no EU passport (City of Vienna 2016; Wiener Wohnen 2014).

Greater attention has also been given to community cohesion on larger estates, involving both WW initiatives and co-operation with partner organisations (e.g. Wohnpartner, Faire Regeln, etc.).

WW's tenant services have also undergone a major re-organisation since 2012. Formerly, each building had a caretaker who cleaned the building and responded to minor repairs. The legal basis for this service was abolished in 2000 on the federal level, but it was possible to continue on voluntary basis. In many cases, cleaning was outsourced to private companies. Wiener Wohnen closed its nine service centres employing 3,000 service employees and combined and centralised their housing management with their accommodation services.

Beyond direct provision, Vienna continues to develop a comprehensive role in affordable housing promotion via a wide number of providers and employs a 'market by design' approach to urban planning. To illustrate what this means in practice, in 2014 the City of Vienna provided subsidised loans to support the completion of 7,275 units of new affordable housing (excluding student housing and elderly units and dwellings from refurbishment subsidies). It also altered its land use plan to incorporate temporary fundable housing zones, to promote the timely development of affordable housing and prevent land speculation. Being responsible for transport planning and also owning the City's public transport network, the City also opened new stations in preparation for a new community being developed (e.g. Seestadt Aspern) to accommodate 6,000 households.

Vienna's two professional decision making forums regularly judged competing subsidy applications for affordable rental housing developments and launched several new models for promoting affordable housing in 2014, including the Vienna Housing Initiative and Tailored Living—SMART Housing Program. The former uses low cost loans to partly finance private housing and ensure that rents and equity contributions are sufficiently low for tenants. The Tailored Living program promotes innovative and good quality compact design for small households, such as the young or elderly, which are offered at very low rent to those eligible and on their list of applicants.

### **6.2.2 Lower Austria**

Nearby Vienna, in the province of Lower Austria, is the top ranking building company Wien-Süd: a limited profit building co-operative. With declining provincial subsidies, it is increasingly reliant on its own equity, land bank and private finance, which is partly provided via the Housing Bank with the proceeds of Housing Construction Convertible Bonds. The co-operative has institutionalised building based tenant evaluation and, like WW, focused on energy efficient building techniques and management practices. It has had to adapt to changing subsidy levels and directions and thus offers the non-profit construction of neighbourhood related social infrastructure. It is also internationally active in Germany and Eastern Europe, promoting not-for-profit approaches to building housing. Closer to home it has been contracted to manage smaller municipal housing companies, yet there are often hidden challenges in this task. Overall, the LPHA sector has strong cross party support but opposition is rising from far-right populist parties who fear 'migrant friendly' organisations.

Wien-Süd manages a total of 16,800 units via a holding company of five LPHAs, with 100 to 2,500 dwellings. It has total assets of approximately €1 billion in 2012 and an average construction and refurbishment capacity of approximately 1,350 residential units per year (Wien-Süd 2015). It is governed legislation concerning the use and ownership of assets and re-investment of profits for housing purposes and has been considered one of the top ranking residential building companies in Austria (EUREB 2013).

In recent years, using various government subsidy programs, it has specialised in energy efficient housing, completing a number of major projects in urban areas with low-energy houses using thermal energy from exhaust air and wastewater, solar panels and the treatment and reuse of certain waste (Wien-Süd 2015). It also facilitates the provision of social infrastructure on a non-profit cost basis, such as schools and kindergartens, which are commissioned by local authorities.

Rental housing is financed with or without tenant contributions and right to buy. Most dwellings involve some form of subsidy but some are also market financed. Wien-Süd relies on the provision of grants and subsidies to produce new and renovate old dwellings and these depend on the political will of municipal and regional governments, which have varied considerably over time. With subsidies capped amidst increasing construction costs, Wien-Süd must increasingly rely on commercial loans.

Being a mature organisation Wien-Süd also has substantial reserves to re-invest, as well as its own small land bank.

As with all LPHA, Wien-Süd is subject to the annual auditing processes by the Audit Federation of the Austrian Federation of Limited Profit Housing Association (GBV), which reports on their performance to the Government of Vienna, which only provides grants and loans to well-regulated LPHA. Inspection involves a three week visit every year by specialist auditors to examine their accounts, activities and investment plans. Furthermore, Wien-Süd has introduced its own two-year project level evaluation process to inform renovation strategies.

Like all LPHA, Wien-Süd is subject to strict limitations on generating profits, they are also subject to caps on administration and construction costs and must employ a system of cost rents to manage their revenue, under which rents are low in the early phase of low interest public loans, then rising after five years with CPI. Wien-Süd is now specialising in rent to buy housing and typically charges €5 to €7 per square metre rising with CPI, requiring up to €30,000 in tenant equity. Whilst wealthier tenants are able to pay, others must rely on family support, commercial loans and there are zero interest equity loan programs available from the City of Vienna. Wien-Süd argues affordability is threatened, as incomes have not kept pace with rising housing costs or CPI.

The LPHA and municipal housing sector has been described by senior managers of LPHA as 'two different worlds', subject to different motivations and with a different political basis for support. The LPHA sector appeals to political ideas of smaller government, increased competition, greater proximity to tenants and independence from political interference. It has striven to offer better value for money, higher quality and innovative design than municipal housing. Wien-Süd strives to have good relations across all political parties and is currently operating in Wiener Neustadt, a city that has elected the first conservative Mayor since 1945.

However, LPHA is more price sensitive as subsidisation conditions and legislated cost rent system enforces a more pragmatic approach. Indeed, it was considered that there are many constraints and conditions enforced via the subsidy system, such as high energy efficiency standards, which in turn have increased prices. In 2015, senior managers of LPHAs were concerned that new projects would not be able to conform to these high standards if they were to remain affordable.

For the past two decades Wien-Süd has specialised in the production and 'low impact' refurbishment of low energy and historic dwellings and has institutionalised a system of tenant based evaluation for every apartment complex. It is nationally a leader in the field and has also pursued international development opportunities in Germany, Central and Eastern Europe, to export their development and management expertise in low energy affordable housing via a consulting subsidiary.

Some municipalities, such as Wiener Neustadt, have contracted Wien-Süd to take over the management of their housing stock; when the cost of suitably skilled personnel made direct management too expensive. The City was not able to fulfil the increasing and dynamic demands from regional and federal government to improve housing standards, particularly those concerning energy efficiency.

However, there are risks for Wien-Süd in taking over the management of municipal stock. Municipal accounts are not always well kept and records can provide an inaccurate picture of stock condition, renovation needs, operating costs and actual and potential rent levels. Sometimes low rents and high costs undermine viability and require much greater government subsidy to be successfully managed. Administration of municipal apartments also requires a completely different approach than Wien-Süd's LPHA stock management since it is not based on the book-keeping guidelines for cost-rent apartments defined in the Limited-Profit Housing Act.

Wien-Süd currently provides housing management services for around 2000 dwellings owned by Wiener Neustadt. The management contract (2013) was subject to a European wide tender based on the price, standard, reliability, reputation and knowledge of the local market and stock conditions. The management fee is paid via a rental fee, in which the majority goes to Wien-Süd and the remainder to the City of Wiener Neustadt. The contract requires regular reporting to the Mayor of the City.

A number of municipal staff (nine) transferred their work to Wien-Süd. They were offered training in a supportive workplace and given one year to decide if they wanted to stay. It was perceived that most transferred employees enjoyed the working atmosphere and had greater pride in their work. Wien-Süd undertakes building based surveys of tenant satisfaction and it was claimed that the transfer of management had led to visible improvements in tenant satisfaction.

## **7 The role of federal states in public housing transformation and building affordable housing industry capacity**

The experience of public housing transformation in four federal states at the national and local level has been informed above by an extensive literature and policy review, structured survey of national experts and in depth interviews with local providers.

In addition to transformation, one of the key concepts emerging in this study is that of capacity: the ability of social housing systems to supply and renew housing in order to meet housing policy goals.

In Australia, there is a policy to diversify the provision of social housing by facilitating the growth of the non-profit sector alongside the public housing sector, in part through the transfer of their public housing assets.

This report has examined how public housing has been able to transform in different multi-provider federal settings. These experiences provide both cautionary tales and sources of inspiration.

The findings raise many interesting and challenging issues for Australian housing policy concerning inter-governmental relations, comprehensiveness of housing policy, transferral and tying of resources. Providing clarifying business models to consolidate desired approaches and sustaining progressive social contracts when third parties have competing interests.

### **7.1 Contours of transformation**

Overall, the shift from supply to demand side assistance, untying of national funds for housing programs and devolution of responsibilities to more local levels of government has facilitated a general retreat by national governments from social housing 'directly delivered'. However, the transfer of public housing responsibilities to more local jurisdictions and the third and private sectors has taken significantly different pathways in each case.

As detailed in Chapter 2, the main contours of recent system transformation in each of our four country case studies can be summarised in the following table:

**Table 7: Policy, funding, service delivery and regulation in four federal states**

Field	US	Canada	Germany	Austria
<b>Policy</b>	<p><i>Centralised</i> prescriptive demand and supply programs.</p> <p>States have discretion over establishment of PHAs.</p> <p>PHAs governed according to local housing <i>charters</i> and HUD <i>program conditions</i>. Recent <i>flexibility fosters transfers</i>, attracts investment.</p>	<p>Federal <i>withdrawal</i> from housing policy and transferred assets to provinces.</p> <p>Policy <i>devolved</i> under varying SH agreements, activated by <i>sporadic federal initiatives</i>.</p>	<p>Central government retains housing allowance and rent setting role but has largely <i>withdrawn</i> from supply programs, only <i>some regions</i> and larger cities remain active in subsidising supply programs.</p>	<p><i>Nationally legislated</i> LP and cost rent model, traditionally transferred funds, current focus environmental and energy, allow for <i>variable design regional programs</i>, implemented locally.</p>
<b>Funding</b>	<p><i>Congress caps HUD</i> operating and capital subsidy programs, declining &amp; tightening for public housing, IRS collects LIH Tax Credits for affordable sector &amp; allocates to states, some municipalities raise tax exempt bond finance, some collect inclusionary development fees. Housing Vouchers capped by Congress, rationed amongst PRS tenants.</p>	<p>Long-term <i>decline of federal operating subsidies</i>, increasing reliance on expansion of fragmented provincial programs, efforts catalysed by sporadic federal initiatives (AHI). <i>Public mortgage corporation</i> CMHC, lends for supply. Rent rebates but no national system of housing allowances.</p>	<p>Optional federal co-funding for regional supply programs, declining programs and <i>expiring conditional subsidies</i>, commercial loans, modest local development impact fees. Demand assistance co-funded (Fed/State) but delivered locally.</p>	<p><i>Untied federal transfers and investment programs (energy)</i>, <i>varying emphasis in regional housing loan</i> (revolving) and grant programs implemented locally, nation-wide facilitation of private investment via specialist intermediaries, tenant equity contribution common, contributions of municipal land.</p>
<b>Service delivery</b>	<p>City and County <i>PHAs</i> and increasingly <i>LLCs</i> owned by PHAs, <i>NPOs</i> and <i>private developers</i> deliver AH.</p>	<p>State and municipal (Toronto) housing corporations and third sector NPOs and co-ops.</p>	<p>Any landlord receives conditional subsidies including Municipal housing companies.</p>	<p>Municipal housing companies and increasingly Limited Profit Housing Associations.</p>
<b>Regulation</b>	<p><i>Legislated and prescribed</i> by HUD and IRS via funding conditions and assessments attached to various programs: PH, Section 8, HOPE VI, RAD. HUD and state agencies allocating LITHCs.</p>	<p>CMHC governed by <i>federal FI regulations</i> and investment requirements, ongoing operating federal <i>agreements, conditions</i> of federal initiatives (AHI) variable provincial program conditions, no national NPO regulation.</p>	<p>Municipalities, conditional regional subsidies, <i>time limited social contracts</i>, enforced by local government. National NP legislation abolished.</p>	<p>National legislative framework on Limited Profit business model, use of subsidies and rents setting, all subsidy recipients audited and compliance regulated by regional and local governments.</p>

## 7.2 From unguided pathways to clear vision and direction

Returning to the initial Figure 1 of alternative industry pathways from Chapter 1, it could be argued that each of the federal states reviewed, the public housing sector has experienced elements of each pathway.

Public housing is no longer the dominant social landlord in some countries, but part of a multi-provider system alongside other not-for-profit and private players. In the US, public landlords are subject to a bureaucratically defined model applicable to no other landlord. In Germany, the role of social landlord can be performed by any private company. In Canada, delivery varies by province. In Vienna, public housing is well-funded and has a market leading role, but this is not replicated elsewhere in Austria.

Changing roles in public housing sector provision often emerge from much broader shifts affecting not only the wider affordable housing industry but the role of government in markets more generally. A clear vision of the desired role is rarely articulated in housing policy and thus their transformation is often reactive to broader forces, gradual and cumulative.

In federal systems of government, a collaborative leadership style that co-ordinates such a clear vision is required by all parties, given the fiscally centralised tax base where costly services are primarily delivered by regional governments. Dedicating an adequate transfer of federal funds and also allowing sufficient room for regional responsiveness and 'ownership' of program design is paramount. However, as international experience shows, devolving responsibility without the adequate transfer and steering of resources is a recipe for fragmentation and ineffectual housing outcomes.

In complex multi-jurisdictional policy fields such as social housing, the steering capacity of government is carried via legislative frameworks regulating desired forms of housing provision, long-term intergovernmental agreements on the transfer and use of resources, the design of conditional subsidy programs and appropriate market competition and regulation.

National agreements do not necessarily have to impose homogenous inputs or programs, rather they can be tailored to suit regional conditions to promote market stability, address unevenness, lift poor performance and improve efficiency.

### 7.2.1 The centralisation—decentralisation dynamic

Federal governments such as Germany, Canada and Austria are undergoing a process of decentralised devolution, therein relegating responsibilities for social housing to lower tiers of government. For some, this has also become a process of partial re-centralisation (Austria and potentially Germany and Canada). The experience of Canada strongly suggests that the budgetary transfers, designed to cover the shortfall in operational and capital costs of a narrowly targeted and aging portfolio, are often poorly defined early on and quickly prove inadequate. Consequently, lower levels of government are either forced to rely on their narrow local tax base or withdraw from direct provision, stalling investment and (in the case of Germany) generating mass privatisations. This forced transformation has given rise to several unintended consequences. This includes the declining participation of regional governments in costly housing programs, rapid rent increases (Hamburg and Berlin), sales of public housing giving rise to speculative rental investment (Berlin) and the costly buy-back of often inferior residual municipal dwellings.

At the regional level, some governments have used their own resources and future loan repayments to support demand driven supply programs as in Austria, offering grants and long-term loans to maintain stable construction markets, improve quality and grow affordable rental housing in line with demand. However, when long established tied transfers are loosened, the

majority of regions (outside Vienna) diverted once dedicated housing resources to more politically expedient ones (e.g. flood mitigation and road upgrading).

To make up for shortfalls in public investment, some providers have designed better structures to package and lever their housing assets, forming limited liability and joint stock companies to raise funds and protect public accounts (US and Austria). Social policy outcomes (allocations and rents) can be sustained where social contracts governing transferred stock are robust and ideally long term, as in the US and Austria, but not Germany.

However, it is at the national level that the big drivers of private investment are ultimately sustained and promoted most comprehensively. In the US and Austria, special purpose financial instruments such as Housing Construction Convertible Bonds and low-income Housing Tax Credits successfully channel private finance towards *affordable* rental housing, including most recently to US *public* housing when differently structured.

It is in this space, of public funding shortfalls generating reliance on private investment, that the experience of stock transfer is most revealing. As public funds decline, Austria has shifted most production towards limited profit affordable rental and shared ownership housing, which is now so successful that municipalities outsource their housing management to professional LPHAs. In the US, the over-subscribed RAD program has the potential to shift more public units out of the sector faster than any previous program. Germany's harsh experience of municipal housing privatisation has under scored the importance of sustainable social contracts involving third sector players and re-asserted the value of municipal housing companies.

### **7.2.2 Long-term agreements over the transferral and use of funds for housing**

Housing agreements can set structural ambitions for reform, the strategic requirements for using public funds and outline realistic housing provision targets. To raise standards and ensure effective and efficient outcomes, the conditional use of funds can be outlined to ensure measurable accountability.

With the cessation of the CSHA, short-term partnership agreements under an ongoing NAHA have become the primary (but not the only) mechanism for allocating housing program resources. These agreements have been criticised for their lack of accountability and short-term nature.

Precision is required in setting cost standards for operating public housing, investing in new supply and renovation. There are examples of long-term operating support and funding agreements internationally, some with clear standards for social provision, which ensure the consolidation of an affordable housing industry and build capacity for expansion.

As can be seen in Canada and Germany, the perils of loosely targeted funds and un-costed devolution are the running down of social housing assets and fragmented regional responses. In the US, a national assessment and evaluation of the capital and operating resources required to deliver social housing within an agreed rent and allocation regime was undertaken by independent experts in the late 1990s (Harvard Housing Cost Study 1998). However, this conservative estimate of real operating and capital costs, was never fully integrated into HUD's funding regime. In Canada medium term resource sharing agreements, with expiring federal coverage of operating and capital costs in 2040, have fragmented the housing policy agenda and the affordable housing industry faces an uncertain future.

In Austria however, a national legislative framework outlining the limited profit business model, rent setting and the use of subsidies ensures transparency, efficiency and sustainability. Despite the untying of national housing transfers for regional housing programs, funding levels have been sustained via the re-circulation of revolving loan proceeds and providers preferential access to tax exempt private investment. Thus, public investment is strategically supplemented via a competitive long-term lending market.



Obviously, such a model requires skilled financial management and capacity building is supported via the national auditing body, to which all subsidised providers must belong, that intensively and constructively monitors members' finances and also reports on their performance to regional program managers.

### **7.2.3 Resource sharing and financing capital investment and operations**

Several cases stress the importance of detailed operating agreements governing the use of (former) public housing assets, as these are clearly one of the strongest tools regulating public policy outcomes. On the positive side, these can ensure that assets are used as intended, accommodating specific households etc. However, they can also make or break an organisation's viability, undermining the capacity of partner providers to ensure affordability, maintain quality and reinvest in new supply as in the case of US public housing, where HUD operating subsidies have fallen below agreed cost standards for many years. Careful evaluations of operating agreements and the legal frameworks that bind them and monitor their compliance are vital to ensuring housing resources can realistically fulfil their goals in the long term.

The declining quality and supply of public housing assets has been a long-term process in the US, Canadian and German cases, and is clearly an outcome of declining capital funds, short-term operating agreements and a narrowing revenue base. Again, findings from Austria demonstrate the importance of ongoing but competitive capital loans and grants and a sophisticated legislative and regulatory framework underpinning a sustainable social business model. Notable is breadth of tenant base, cost rent basis of rent setting and generous provision (made by tenants) for refurbishment and equity (which in turn provides for later purchase). Affordability and supply is ensured by the use of deep but conditional subsidies, promoting contemporary energy and carbon emission goals. With rising construction costs, there has also been a growth in demand side assistance (covering both rent and equity payments), which is now provided by most but not all, provincial governments in Austria.

### **7.2.4 Comprehensiveness of housing policy and outcomes**

Despite the rhetoric of localism and subsidiarity, comprehensiveness of public housing provision can also be severely challenged by devolution. The review demonstrates that many regional governments do not embrace and develop their housing responsibilities once tied transferred funds are loosened. Indeed, given the opportunity, many states in Germany and Canada are now without dedicated public housing programs. A devolved system can certainly produce front runners, but often leaves many lagging behind and even absent from the scene.

Local market and political conditions are also vitally important and some governments are able to employ innovative planning mechanisms to ensure affordable housing development takes place thanks in part to favourable market conditions. Such cities have tapped rising markets, requiring affordable housing through dedicated land use zones, competitive time limited development approvals and progressive land banking activities. Most successfully in Munich and San Diego, local governments have employed inclusionary zoning, tax increment financing and land banking to secure sites and funds to address local housing needs. However, these instruments are not successful in weaker property markets and cannot be considered as an adequate replacement for comprehensive supply programs.

### **7.2.5 Devolving supply programs with or without public resources**

Australian housing policy is mediated by a constant centralisation-decentralisation dynamic between states and federal governments generating unresolved tensions concerning the scale of revenue transfers and their conditionality. Currently, Australian state governments contribute most of the capital investment towards affordable housing supply being approximately \$3.9 billion, of a total budget of \$5.2 billion. This expenditure figure requires considerable

qualification, as it refers to all outlays for social housing and housing assistance and includes expenditure on recurrent operations, bond and rent assistance. Some states have been reducing their expenditures, especially since 2009 when matching obligations from the Commonwealth government ceased. States also receive income from tenant's rents.

The Australian Government spends approximately \$1.2 billion co-funding state based supply and support programs, but as indicated above well-defined and dedicated supply programs are lacking. Given the vertical fiscal imbalance between Australian jurisdictions and the states limited powers over progressive forms of taxation, more purposeful and fairer long-term agreements over transferred resources are required to cover costs, drive efficiency reforms and purposefully expand supply.

This international review finds that the allocation of national level resources and the institutions it establishes, including dedicated funds, legislated models of provision and their regulation, play a very influential role steering the scale and nature of social housing development. They are also crucial in attracting private investment on a scale that is required. The high level of uncertainty and lack of continuity in Australian social housing policy has undermined the development of durable and sustainable financing mechanisms.

In the US, the Department of Housing and Urban Development (HUD) has prescriptive regulations and operating cost benchmarks governing the use of public housing assets that it funds and are managed by almost 4,000 local housing authorities. Recently these have loosened enabling HFAs to utilise demand assistance payments as revenue stream to attract investment and renovate housing stock, but this in turn has pushed public housing into the private sector alongside a vibrant LIHTC funded not-for-profit sector. In Canada, agreements between federal and provincial governments have transferred housing assets to lower levels of government, cancelling outstanding loans but also future subsidies, leaving a fragmented and uneven social housing industry behind. The German government, as part of its federal reforms, has increasingly withdrawn from the housing arena, devolving the task of supply to state and municipal governments, with variable results and placing a heavy burden on local tiers of government, forcing many privatisations and increased reliance on market mechanisms. While Austria has also undergone a process of devolution, untying dedicated funds for housing programs for particular tenures and income groups, it is able to steer efforts to promote energy efficiency and reduce carbon emissions. As public funds have been capped, new private finance mechanisms have been facilitated (intermediaries, tax exempt bonds). Under national legislation, subsidy programs, financial intermediation and regulation, the limited profit sector has overtaken public housing, as the main provider of social housing.

Thus, the transfer of federally collected revenue resources and the institutions it establishes to channel investment, have a very strong impact on the orientation and capacity of public housing sector, within the broader housing system.

If we are to move towards a comprehensive and robust affordable housing industry, with a well-funded professionally managed public housing sector, the Australian Commonwealth government will have a key role to play in transferring and tying adequate resources and building an appropriate financial architecture to channel investment to desired and well defined provider models.

### **7.2.6 National shift towards demand side subsidies does not increase supply**

The Australian federal government spends around \$3.6 billion on Commonwealth Rent Assistance (CRA), which is available to private tenants who are dependent upon state pensions, but not public tenants. In Australia, there has been active debate over whether CRA payments should be made available for public housing tenants. Some have argued that the costs of doing so should be borne by the remaining federal supply effort (Audit Commission

2014). This would also imply the exit of the national government from social housing supply policy.

Australia's federal shift in emphasis from supply to demand assistance at the central government level has been more profound than in other federations. Indeed, demand side assistance has overtaken all other forms of federal housing expenditure (67% for CRA) and this share surpasses that in the US (39% for Housing Vouchers), Canada (16% patchy coverage, based on BC 2015) and Austria (8%). Only the federal government in Germany has a demand side only role, giving Länder governments the option to fund supply programs. This has generated negative consequences for the comprehensiveness and adequacy of social housing supply, as new regional funds have not kept pace with demand or are not able to replace expiring conditional subsidies. Most regional governments have ceased their involvement in social housing supply, placing a heavy burden on municipalities with unmet housing needs. Rising costs of renting housing has vastly increased reliance on demand assistance payments, which have since been cut back and their eligibility narrowed due to budget blow outs, placing more renting households in stress.

In Australia, the issue of CRA payments to public tenants remains unresolved and on the table. The focus here is who should make policy, fund and allocated it? Four illustrations in Figure 1 demonstrate different paths.

In the US, Housing Vouchers were introduced in 1974 to improve the quality of privately rented housing, increase the purchasing power of tenants and enhance their market choice beyond public housing. They provide funds to landlords who accept voucher eligible tenants. Housing Vouchers were also intended to encourage public housing tenants to move to better quality areas with potential opportunities for employment, although the evidence of success is thin. Vouchers are not provided to public tenants, furthermore they are not an entitlement but capped by Congress and thus have to be rationed locally according to waiting lists.

The number of Housing Voucher assisted households now greatly surpasses public housing tenants, with almost 2.1 million Voucher recipients in 2013 and 1.2 million public housing units in 2012 (unpublished HUD data in Schwartz 2015: 165; Schwartz 2010 in Deng and Xiaodi 2014: 187). Since 1994, public housing stock has continued to decline, marked by a 17.9 per cent drop to 2012 (Schwartz 2015: 164).

In Germany, housing allowances are available to all eligible tenants and home owners, typically the working poor, elderly and retired (Haffner, Hoekstra et al. 2009: 171) but only a small proportion (11%) of those households eligible actually apply and receive assistance (Destatis 2015). The funds for allowances are shared equally between federal and regional governments and applied for and allocated locally. Municipalities are responsible for housing welfare, regardless of the amount of housing allowance resources transferred. This has severely strained local budgets in high-need locations.

Unlike the US and Germany, Canada does not have a national system of housing assistance and housing is constitutionally a provincial responsibility, although given the vertical fiscal imbalance (except oil-rich Alberta) housing policies have been federally co-funded for decades. The federal government offers nation-wide rent supplements, where the housing authority contracts landlords to provide affordable housing to eligible tenants. Coverage is extremely patchy and only four provinces provide housing allowances: British Columbia, Quebec, Saskatchewan and Manitoba. Notably Ontario does not offer housing allowance, however its capital Toronto does (Steel 2007).

In Austria, housing assistance has generally been directed towards housing supply (bricks and mortar) subsidies rather than demand (individual payment subsidies) and makes up a modest share of overall housing assistance. The strong supply emphasis has long been supported by the limited profit housing industry (Ludl 2004). However, the breadth of individually targeted

assistance has grown in recent decades as housing costs have risen. Demand assistance is now available in all Austrian regions to tenants in private, subsidised and ownership housing. Noteworthy is the availability of zero interest public loans supporting tenant equity contributions for LPHA developments.

### **7.3 Policy ideas, tools and organisational strategies potentially relevant to Australian conditions**

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

#### **7.3.1 Constructive co-ordination of national housing policy**

Australia's pressing need for the constructive co-ordination of national housing policy across multiple jurisdictions and increasingly numerous private and third sector players necessarily requires the re-prioritisation of housing policy as key COAG reform and (re-)establishment of industry and policy-maker working groups dedicated to informing and implementing this task. It is clear that government alone cannot achieve social and affordable housing policy goals and thus new forms of governance need to be embraced and supported. Such an approach can build on Australia's past experience with the National Supply Council and the Housing Summit and learn from Germany's efforts in forming and institutionalising a role for a National Alliance of all relevant stakeholders responsible for implementing affordable housing policy goals and targets, which emulates successful multi-stakeholder approaches from active city governments there (Hamburg).

#### **7.3.2 Long-term mechanisms for adequate funding**

Australia's need for social housing requires the recognition and costing of the service public housing provides. This would also entail a *stable mechanism dedicating transferred public resources* complemented by the establishment of instruments and intermediaries for channelling *private investment*. This dual and integrated funding approach is exemplified by the Austrian Federal Government where national transfers on a per capita basis support regionally designed programs reflecting local needs to co-finance revolving loan programs. The US system of distributing federal tax credits to state governments and ability to issue tax exempt bonds for the competitive and needs based allocation of funding can also inspire similar approaches here.

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

### **7.3.3 Balanced access to sources of funding**

The ability of public housing authorities (in addition to NPOs and private landlords) to access and pool various sources of funding determines their market position in a multi-provider system. Access to public grants and loans, demand assistance, tax credits, tax exempt bonds and commercial loans and their regulation differs by type of landlord and this can undermine a healthy balance and competitive drive within social housing systems. Australian PHAs to date have stood outside the ambit of not only private finance initiatives but also proposed regulatory systems.

### **7.3.4 Efficient and effective tools to channel private investment**

A consensus is emerging that Australian housing policy can certainly improve the effectiveness of current tax incentives on housing via purposeful and appropriate reform to improve affordability and supply outcomes, as successfully illustrated in the US by LIHTC and Austria with Housing Construction Bonds. AHURI has adapted successful overseas instruments and intermediaries to Australian conditions in the development of Housing Supply Bonds, Affordable Housing Finance Corporation and related guarantees (Lawson and Berry, 2016; Lawson, Berry et al. 2014; Lawson, Milligan and Yates 2012) recommended by the Senate as a basis for further development (Commonwealth Senate ERC 2015). The role of specialist intermediaries and tax incentives in providing well targeted long-term lower cost private finance continues to support a growing limited profit sector in Austria. In the United States, declining public funds have been greatly supplemented by Low-income Housing Tax Credits, more than doubling affordable housing output. Furthermore, project based demand assistance now attracts private investment towards US public housing and this process is having a major impact on public housing leadership, strategy and development.

### **7.3.5 Integrated and sophisticated local planning**

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

### **7.3.6 From bureaucratic silo to community ally**

Australian public housing authorities, while the focus of critique by public auditing agencies, have not been the focus of organisational reform and regulation unlike the NPO sector. In order to reduce bureaucratic isolation and integrate social housing more effectively into the broader social housing vision and local communities, lessons can also be drawn from our local level illustrations. In Australia, the narrowing revenue base of public housing is clearly an outcome of increased targeting and rising operating costs, coupled with stagnant social benefits and insufficient rent rebates. Some have argued that broadening of the tenant income profile could ameliorate this problem, but this can also lead to an overall reduction in housing resources

available to the very poor, as illustrated by mixed tenure redevelopment of public housing in the US and the requirement for cost rents (under declining subsidies) in Austria.

### **7.3.7 Anticipating maintenance and funding it**

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

### **7.3.8 Innovation linking demand assistance to capital investment**

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

### **7.3.9 New funding models promoting cultural change and positive partnerships**

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

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

The challenges facing the Australian public housing and research based recommendations are summarised in Table 8 below. From these alternative approaches, strategic insights have been highlighted.



**Table 8: Policy challenges, recommended strategies to date and relevant international approaches**

<b>Policy challenges</b>	<b>Recommended strategies to date</b>	<b>Relevant international approaches</b>
Lack of funds	High level recognition, costing and funding of community service obligation.	Long-term dedicated transfer of funds for regional housing programs from the federal government (Austria). Tax credits channelling investment in affordable rental housing (US). Intermediary and incentives established to reduce cost of private debt (Austria).
Co-ordination of national housing policy	Re-prioritisation of housing policy as key COAG reform. Formalisation of HMAC meetings tied to COAG agenda. Re-establishment of HPRWG.	National Alliance involving all relevant stakeholders develops a vision for housing policy (Germany). Requirements for the use of transferred housing funds and revolving loan schemes (Austria and US). Key role of City, County government in PHA board, steering charter, networking with partners (US).
Long-term agreement over funding for public housing	Special purpose grants tied to management, maintenance and (re)development.	Established and feasible rent revenue regime covering operating and capital costs, with subsidies to ensure affordability (Austria) Requirement for build-up of equity and for the set aside for funds for maintenance (Austria).
Narrowing revenue base	Broadening of tenant income profile Adequate funding of community service obligation.	The ability of PHA to access and pool various sources of funding, such as Housing Vouchers, tax credits, tax exempt bonds, commercial loans etc.(US). The potential to transform publicly regulated units into those attracting pooled rent assistance payments, which can be used to lever private investment on a building basis (US). Active and locally attentive asset management, reducing turnover, mixed income developments, active rent policy (move from RGI to cost rents plus demand assistance Austria). Facilitative local government planning for housing needs, improving access to sites and equity funding (US). including inclusionary zoning contributions (US, Germany, Austria).
Rising operating costs	NA	Benchmarking as in US Harvard Operating Cost Study. Cost caps for key costs (land, financing, construction, management) in non-profit housing provision, where subsidies applied (As in Austria under Limited Profit housing system). Efficiency focus in administration and asset management (US).



<b>Policy challenges</b>	<b>Recommended strategies to date</b>	<b>Relevant international approaches</b>
Backlog in maintenance	Cost competitive assessment of maintenance works required.	Asset maintenance data base and capital investment plans (TCHC and BC Housing).
Limited ability to expand	Substantial equity injection, unencumbered transfer of dwellings to NPOs.  Feasible level of private finance determined & facilitated and supported by government.	The existence of inclusionary zoning in a strong land market, providing additional funds and sites for affordable housing development (US and Germany).  Substantial cultural change in public housing management, redefining mission, importance of leadership, skills development and staff selection, strong emphasis on revenue management, active site management and positive customer relations (US).

## 7.4 Further research

A number of issues for further research have arisen from this study, all of which bear significant relevance to Australian housing policy-makers:

- Towards more effective asset management and service delivery, what precisely are the capital and operating costs for constructing, maintaining and operating affordable and public housing for different households in different housing markets?
- Towards more effective affordable housing businesses, are current funding and revenue sources able to meet these costs?
- What is the best manner to address the operating deficits and capital investment needs of SHAs?
- How can federal transfers be appropriately tied to ensure they deliver additional public housing supply and maintain quality stock?
- What business model would best meet the costs of providing public housing for households with different incomes and support needs?
- What would be the impact of broadening the tenant base of public housing to include a higher range of incomes both socially and in terms of revenue?
- What is the potential for a national framework of limited profit cost rent housing as in Austria and how can it consolidate and drive capacity in currently diverse and fragmented Australian system?
- What are the implications of LPH for affordability and demand assistance?
- Towards more effective housing management, what are the training needs and gaps in public sector housing providers and what is the best way to build capable providers?
- Towards contestability, what regulatory and funding allocation regime would promote an effective and efficient role for public providers in a multi-provider system?
- Towards comprehensive housing industry policy, how can the industry building strategies and co-ordinating capabilities of state and commonwealth jurisdictions be strengthened and mobilised, such as via COAG, HHCEN, HMAAC and PRWG?
- What are the practical hurdles to overcome in order to introduce planning mechanisms that improve opportunities for developing and redeveloping public housing in appropriate areas?

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## Appendix

**Table A1: Organisations contacted and interviewed for this study**

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<b>US</b>	Department of Housing and Urban Development Centre for Budget Policy and Priorities San Diego Housing Commission Homeforward Ohio State University, City and Regional Planning University of Illinois at Chicago, Department of Urban Planning and Policy
<b>Canada</b>	Community Forward Fund Brycgstowe Strategy Toronto Community Housing Corporation City of Toronto BC Housing BC Non-Profit Housing Association
<b>Germany</b>	Federal Institute for Building Research BBR City of Munich Patricia Immobilien AG Berlin Tenants Association Brandenburg University of Technology Berlin owned Housing Company HOWOGE
<b>Austria</b>	City of Vienna Gesiba Wien Sud Wiener Wohnen Institute for Real Estate Construction and Housing IIBW Eerste Housing Bank Limited Profit Housing Association GBV Austrian Tenants Organisation

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**Table A2: Housing produced from public subsidies by GBV members across Austrian regions (GBV 2015)**

<b>Dwellings produced</b>	<b>1981/1985</b>	<b>1986/1990</b>	<b>1991/1995</b>	<b>1996/2000</b>	<b>2001/2005</b>	<b>2006/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014*</b>
Burgenland	270	450	640	620	780	1,058	1,110	1,070	890	890
Carinthia	1,160	970	1,360	1,320	840	957	810	830	590	840
Lower Austria	1,210	1,530	2,020	2,870	2,610	2,736	3,550	3,420	3,440	3,540
Upper Austria	2,640	2,010	3,270	3,330	1,880	1,993	2,410	1,500	1,570	2,040
Salzburg	1,420	960	1,200	1,350	980	1,513	1,640	870	1,100	1,050
Styria	1,940	1,760	2,190	2,580	1,960	1,454	1,360	176	1,660	1,750
Tyrol	830	1,060	970	1,240	1,110	1,186	1,470	1,390	1,290	1,230
Vorarlberg	350	310	510	310	180	258	450	350	190	130
Vienna	5,290	4,930	5,440	6,110	3,590	3,960	4,000	2,430	2,990	5,270
<b>Austria</b>	<b>15,110</b>	<b>13,980</b>	<b>17,600</b>	<b>19,730</b>	<b>13,830</b>	<b>15,116</b>	<b>16,800</b>	<b>13,620</b>	<b>13,720</b>	<b>16,740</b>

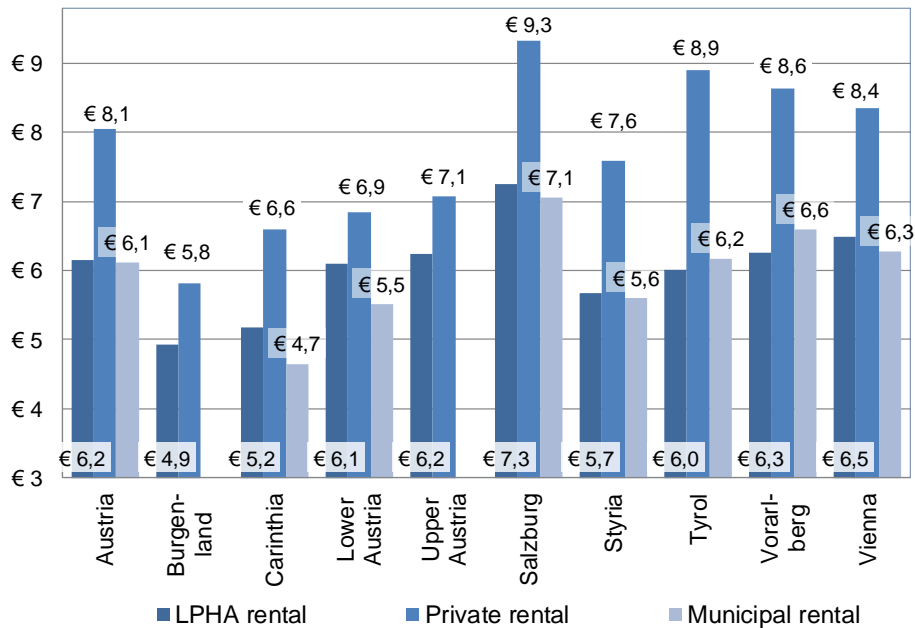
\* Prognosis

**Table A3: Total nominal housing subsidy expenditure (million euros) across Austria and the nine regions 2001–14**

	<b>Austria</b>	<b>Burgenland</b>	<b>Carinthia</b>	<b>Lower Austria</b>	<b>Upper Austria</b>	<b>Salzburg</b>	<b>Styria</b>	<b>Tyrol</b>	<b>Vorarlberg</b>	<b>Vienna</b>
2001	2,348	71	152	269	398	158	396	203	115	584
2002	2,456	89	150	432	354	155	359	205	123	591
2003	2,510	77	121	510	326	141	357	210	138	631
2004	2,617	78	133	551	313	161	386	223	139	633
2005	2,499	100	135	440	296	121	367	231	131	678
2006	2,887	98	117	521	296	363	465	239	121	666
2007	2,931	109	146	415	296	373	479	232	132	749
2008	3,109	109	152	484	299	441	500	263	131	729
2009	2,817	107	132	531	288	275	456	263	149	618
2010	2,946	117	145	613	260	351	443	264	138	615
2011	2,659	82	137	496	253	298	438	253	177	526
2012	2,562	96	149	490	229	215	430	265	221	467
2013	2,706	70	123	470	310	272	441	255	168	598
2014	2,953	94	135	622	339	262	444	268	146	643

Source: IIBW 2015

**Figure A1: Housing costs/m<sup>2</sup> per month for LPHA, municipal and private rental apartments (IIBW 2015/Statistik.at)**



HUD assesses public housing according to an Integrated Assessment System (NASS-PHAS) covering the following issues.

**Box A1: Integrated Assessment System—Indicators**

- 1 Proper selection of applicants from the housing choice voucher waiting list.
- 2 Sound determination of reasonable rent for each unit leased.
- 3 Establishment of payment standards within the required range of the HUD fair market rent.
- 4 Accurate verification of family income.
- 5 Timely annual re-examinations of family income.
- 6 Correct calculation of the tenant share of the rent and the housing assistance payment.
- 7 Maintenance of a current schedule of allowances for tenant utility costs.
- 8 Ensure units comply with the housing quality standards before families enter into leases and PHAs enter into housing assistance contracts.
- 9 Timely annual housing quality inspections.
- 10 Performing of quality control inspections to ensure housing quality.
- 11 Ensure that landlords and tenants promptly correct housing quality deficiencies.
- 12 Ensure that all available housing choice vouchers are used.
- 13 Expand housing choice outside areas of poverty or minority concentration.
- 14 Enrol families in the family self-sufficiency (FSS) program as required and help FSS families achieve increases in employment income.

Source: HUD 2015, 2011, 2011a

## Box A2: US illustration of high rise renovation involving mixed funding

*Homeforward 85 Stories project involving preservation of high rise housing*<sup>24</sup>

Known as the 85 Stories project, Homeforward aims to preserve four high rise towers which are now 30 to 50 years old. These towers are well located being close to parks and other down town amenities; they are structurally sound but require renovation and to rebuild would be more costly. Of 1,400 residents the average annual resident is elderly and their income extremely low, ranging from US\$8,044 to \$9,423 per year. To support these residents, many different community partners provide health care, meals, community outreach and engagement.

Reduced HUD operating subsidies necessitate alternative long-term operational relief, which is now possible by switching from public housing subsidies to Project Based Section 8. This enables the preservation work to be funded by a combination of 4 per cent Low-Income Housing Tax Credit equity, tax exempt bonds as well as Home Forward equity investments (Homeforward 2014a). All units in the buildings are expected to be low-income housing tax credit units with tenant-paid rents restricted to 60 per cent AMI for 60 years. To qualify for the Project based Section 8 subsidy, household incomes must be at or below 50 per cent AMI.

In the process, the four high rise buildings will be transferred to two limited partnerships prior to construction. Home Forward will be the general partner of both partnerships and will retain ownership of the land through ground leases. This structure allows Home Forward to retain ownership and generate acquisition Low-income Housing Tax Credit equity. It also involves revenue from a communal laundry and location of cellular towers.

In order to lever the funds required to rehabilitate these buildings and improve overall financial performance, a plan for subsidy change had to be proposed and approved by Homeforward's Board of Commissioners in 2011 and applications made to HUD. HUD awarded new Housing Choice Vouchers (HCV) in 2013 to convert the subsidy for these four buildings into 100 per cent project-based Section 8. Households residing in HUD approved units then became participants in the Section 8 program via the newly awarded Project-Based Section 8 subsidy.

With this project based subsidy, Homeforward began the process to procure design and construction partners. Costs involved construction, general conditions, contractor overhead and profit, performance bonds, builder's risk insurance and owner's construction contingency.

The rehabilitation of these properties will be done in 2016 with the residents remaining in place. Resident impact will differ at each location based upon the scope of work, construction schedules and resident needs. Home Forward relocation staff will work with the construction companies resident coordinator before, during and post-construction. Temporary resident relocation would not be for more than 30 days and, in many cases, residents will be able to remain in their units. Construction is expected to be completed late 2016.

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<sup>24</sup> See Homeforward's fact sheet 'Preserving Hopes and Dreams'  
<http://www.homeforward.org/sites/default/files/85-Stories-Fact-Sheet-0514.pdf>.

### Box A3: Results of an inquiry into business models of investors in municipal housing

#### *Germany—the privatisation of municipal housing*

The government North Rhine-Westphalia conducted a commission of inquiry into the business models of new financial investors that acquired large public housing portfolios in this region over the last 15 years (NRW 2012).

The study examined the impact of privatisation of municipal stock involving international financial investors in six areas in Dortmund (Stad Raum Konzept and University of Wuppertal 2012). It found that while investors were strongly orientated towards a high rate of return, corporate strategies depended on the profitability of the portfolio. Stock was often in a poor condition upon purchase, of a standard design and many of subject to de-jure tenancies, drawing low rents. Dwellings were occupied by households with a low-income and or reliant on welfare payments. The study found that in the six case study areas, the housing situation in areas acquired by new financial investors deteriorated over time.

For investors, low-income occupancy was perceived negatively, while the tenants viewed the new service regime as worse than the previous local or regionally based companies. While there remained caretaker (often on a much smaller scale) and / or tenant contact local offices, there were complaints from tenants about poor accessibility (call-centres, unclear responsibilities etc.), as well as delayed or temporary repairs. The municipalities considered that the reduced presence of the landlord and the absence of binding commitments for action with financial investors undermined their commitment to improve stock and co-operate with key stakeholders at a neighbourhood level. This varied by the size of their housing stock and the development history of the area.

In neighbourhoods with marked socio-economic and urban development disadvantages, such problems were exacerbated. While stable areas had greater resilience in dealing with changes, some came to be perceived as problem areas through changed investment and occupancy policies and high levels of tenant dissatisfaction.

According to the study (ibid 2012) local strategies for dealing with the financial investors are very diverse, but of limited effectiveness. They included: institutionalized dialogue with key players, incentives and legal coercive measures to invest in the stock.

The study called for greater support strategic municipal action at the neighbourhood level, equipped with an adequate information base to support public awareness and facilitated by a constructive exchange between the various actors, including the housing industry, and a political support. It also recommended that provincial (sub regional government in NRW) and federal information and advisory services should be provided to the affected communities and that municipalities be supported to acquire housing for social purposes in tight markets. This could be complemented by planning gain instruments with real 'teeth' to help generate funds and suitable sites.

#### *Example: The privatisation experience of Dresden*

By 2006 Dresden had sold 100 per cent of its 168,000 public housing units to a single investor: Fortress. Soon after purchase, evidence emerged of Fortresses' non-compliant management of social contracts. The municipality sued the new owners for their failure to maintain the social charter governing the allocation and rent setting of the dwellings. The city tried to reclaim €1 billion from Fortress on the basis of misconduct including illegal rent-rises. Their claim was settled in an out of court settlement in 2012. However, the German parliament has since raised the spectre of social charters breaching EU common market regulations (Droste and Knorr-Siedow 2014: 407–408).

Dresden's negative and costly experience in selling social housing to a single foreign investor and the broader difficulty experienced by municipalities in enforcing social contracts and their potential conflict with European competition law has fuelled media criticism and a public backlash.

Successful local referendums have stalled further sales of public housing in Freiburg and promoted a general shift in policy away from privatisations across Germany.

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