

# Affordable Housing Sector in Australia: Good Foundations Will the Investment Follow?



Panel Presentation  
Affordable Housing Summit  
Wellington  
October 30 2006

Dr Vivienne Milligan  
Director  
AHURI Sydney Research Centre  
University of Sydney

# Today's Presentation



- Context and emergence of affordable housing developments in Australia
- Overview of current main delivery agencies and models
- Two examples
- Findings about general experience of providers so far
- Policy challenges and possible solutions



# Australian Context

- Traditionally (like NZ) we have favoured a system of public housing (5%). In our case C/W & State funded; State owned /managed
- From 1980s gradual growth of community housing - mainly in a tenancy management role
  - Now 7% social housing
  - Specialist & generalist providers
  - Well developed third sector infrastructure and tenancy skills
  - Small asset base and limited property development experience
- Parallel Indigenous community housing sector developed over same period (5%)
- 'Affordable' label being used to distinguish new forms of sub market / market regulated housing
- Some characteristics of new forms
  - Mixed public and private funding sources
  - Mix and range of target groups, though not in all cases
  - Mainly initiated and owned by NGOs so far
  - Main product below market rental housing
  - Integrated with private housing

# Emergence of Affordable Housing in Australia

- Residualisation of public housing from 1980s, intensified 1990s
- Decline in public housing funding (32%), dwellings (6%) and new allocations (41%) since mid 1990s
- Widespread and deepening housing affordability problems for lower income purchasers and renters over last decade (13.4% all households in housing stress)
- Sustained broadly based advocacy for government action on 'affordable housing' since late 1990s
- No C/W investment since 1996. States: total Aus\$500m additional investment over 7 years. One off and demonstration projects in most jurisdictions. Victoria and South Australia have established a 'policy / program' base
- 2003 – 2008 CSHA: Commitment to develop an integrated long term national vision for affordable housing and to attract private finance
- Housing Planning & Local Govt Ministers/Officials: National Affordable Housing Project ongoing – focus
  - evaluate potential of diverse policy levers
  - build capacity and infrastructure in not-for-profit sector
  - Improve housing market performance, including more active steering through planning system
  - consider possible National Affordable Housing Agreement

# Main not-for-profit housing developers



## Queensland

Brisbane Housing Company 2002

## New South Wales

City West Housing  
1994

## ACT

Community Housing  
Canberra 1998

## Western Australia

Foundation Housing  
(Formerly City Housing Perth  
- began asset acquisition role  
mid 1990s)

## South Australia

Adelaide City Council 2004

## Victoria

Common Equity Rental Housing 1980s  
Port Phillip Housing Association 1986  
Community Housing Ltd 1993  
Supported Housing Ltd 1993  
Melbourne Affordable Housing 2000  
Loddon Mallee Housing Services (2005)

# 5 Main Approaches to Delivery



City West Housing

- Creation of capitalised new special purpose vehicles by government
- Capital funding directed to a selection of existing community housing providers identified as 'growth' providers
- One off funding for innovative projects allocated to existing NFPs on a competitive basis
- Projects initiated by existing provider without government subsidy
- Govts. incubating projects with a view to transfer

- Less than 2000 new dwellings developed so far
- Largest providers
  - City West Housing (Sydney) 381 units; target 600 by 2026
  - Brisbane Housing Company 184 units; target 700 by 2008

# Two Examples



## City West Housing



## Community Housing Canberra



# City West Housing

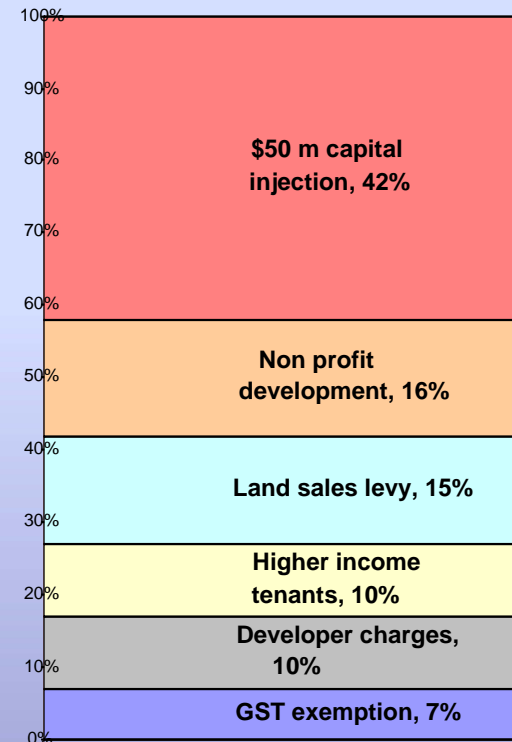


- Not-for-profit property developer and manager of mixed income rental housing
- Capitalised with funding from C/W, NSW Govt and developer levy 1994
- Completed 381 dwellings in 11 projects in inner Sydney
- Leveraged multiple sources of funds
- Achieved 25% saving on development costs, doubled value of asset base in 10 years
- Charges income related rents
- Annual revenue surplus for 283 properties - \$1.1m pa (if low income only, falls to \$0.4m)

## Issues

- High rate of upfront capitalisation, no long term debt financing
- Asset base underutilised
- Government shareholders – cautious approach has constrained innovation
- Lack of public capital prevents replication

Simulated impacts of affordability levers (using City West Housing data):  
 Relative impact on reducing market rents  
 Milligan et al (2004)



# Community Housing Canberra (CHC)

- Set up by ACT Government as an umbrella property management company for fledging community housing sector
- No capital or asset base
- Skills based Board drove innovation and harnessed further expertise in local community
- Experimented with cross subsidizing affordable housing development from proceeds of private development
- Achieved good financial success in 2 projects in strong Canberra market –1 redevelopment, 1 new build
- Projects integrate all tenures in one complex

# Gungahlin Project

## Example of CHC model



- No government subsidy; debt financing for development only (secured from balance sheet acquired through previous project)
- Developed 28 units; 22 sold at market, 2 sold for public housing
- Good commercial and risk management skills demonstrated
- Retained 4 units for affordable housing—owned and managed by Company
- \$400K working capital retained for future projects from development profits
- Charge 74.9% of market rent to meet operating costs and protect tax exempt status. Affordable (at 30% income benchmark) for incomes above about \$34,000



### Issues

- Growth potential of model limited
- Insufficient scale for retention of development skills in organisation
- Without some form of subsidy
  - Cannot service borrowings from revenue stream
  - Cannot house lower income clients at rents below 30% of income

# General Experience So Far

- Completed projects - excellent success rate and high quality
- Many projects had intensive feasibility & development phases and long lead times
  - Development approval process often difficult; appeals key risk factor
  - Securing sites has been a major issue for several providers
- Many projects one off - opportunistic or site specific
- Innovation / initiative has been constrained by lack of policy framework, cumbersome govt. approval processes, intermittent govt. programs, poor understanding of operational environment of NGOs in government
- Little private finance secured yet – lack of asset base, no strategic engagement of capital markets. Asset control, subsidy support and government imprimatur remain as outstanding issues
- Mostly young agencies with enthusiastic/skilled participants that are very results oriented; ongoing stability maybe a risk

**Initiatives so far have had good demonstration potential**

**Useful learning for governments and providers**

**Finance and property development skills & capacity growing in NFP sector**

**However, scale insufficient to justify effort and be sustainable**

# Policy Challenges

# Possible Solutions



Lack of public investment

Need certainty and scale of public funding for planned growth and private sector engagement

Expectations of private investment driving government interest but resistance to recurrent subsidy to support debt finance

Early projects suggest only modest borrowings possible  
Public subsidy in some form essential

Access to sites

Use government land and planning system to assist

Skilled brokers may also help

Trade off between affordability and viability for projects

Clarity of policy objectives and target groups linked to realistic subsidy arrangements

Government confidence in NFP sector

Need for strong risk oriented regulatory framework but must allow operational flexibility and room for innovation

Early development of performance benchmarks will assist providers & govt.

Milligan, V., Phibbs, P., Fagan, K. and Gurrán, N. 2004 *A Practical Framework for Expanding Affordable Housing Services in Australia: Learning from Experience*, Final Report. Melbourne: AHURI Ltd. Available: <http://www.ahuri.edu.au/publications>

Bisset, H. and Milligan, V. 2004 *Risk Management in Community Housing: Managing the Challenges Posed by Growth in the Delivery of Affordable Housing*, National Community Housing Forum, Sydney, Available: <http://www.nchf.org.au/publications.html>

Milligan, V. 2005. 'Directions for Affordable Housing Policy in Australia: Outcomes of a stakeholder forum.' Background paper for NRV3, Housing Affordability and Lower Income Australians. Melbourne: AHURI Ltd. Available: <http://www.ahuri.edu.au/publications>

Milligan, V. and P. Phibbs. 2005. 'Post Delivery Review: Affordable Housing Development Gungahlin for Community Housing Canberra Ltd.' Final report to stakeholders. Canberra: CHCL. Available from CHCL.

Milligan, V. and P. Phibbs. Forthcoming 'Approaches to evaluation of affordable housing initiatives in Australia'. Report for NRV3, Housing Affordability and Lower Income Australians. Melbourne: AHURI Ltd