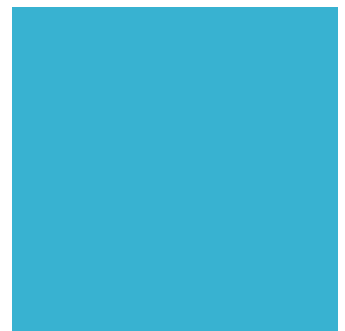
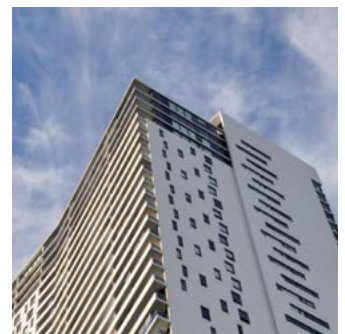


A CITY FOR ALL



FIVE GAME-CHANGERS FOR AFFORDABLE HOUSING IN SYDNEY

Sydney Issues Paper No. 8



FOREWORD

There is no more pressing or fundamental issue than how we house the growing Sydney population. Housing affordability is at the heart of how we shape the future of Sydney.

Not a day goes by where the high cost and inaccessibility of housing isn't in our media. Everyone is aware of the issue - but it seems harder to find solutions that achieve tangible outcomes without disadvantaging large swathes of the population.

The reality is that while housing that is suitable and affordable has always been difficult for people on the margins of our society to achieve, increasingly our city is locking out those in the middle, and those who our economy and society relies on.

The affordable housing sector faces significant challenges. Current housing stock is not aligned to the needs of tenants; properties are ageing and unsuitable for our older population, resulting in a heightened risk and burden to both providers and government.

It is uncontroversial to say that unlocking access to affordable housing in places close to transport and employment is good policy. What is also important to note is that this has positive impacts on our whole society - and to move Sydney from a good city to a great city, addressing this issue is a vital and urgent step.

Within this report, we present 5 innovations. We provide these innovations to kick-start the conversation - to move the conversations from despair to excitement at the possibility of change. We do not claim they are all perfect - or indeed that they are the only solutions that will work. But we know that each of these ideas is a positive step in the process of shifting our city.

Whatever solutions are finally identified, we do know this: collaboration between the public, private and not for profit sectors will be at the heart of success. Each of the suggested ways forward in their own way reflect this key proposition. It is the very premise of the paper and the purpose of the Committee for Sydney and we are proud to be part of the solution as we help identify shared elucidations to this most pressing Sydney challenge.



Dominic Sullivan
General Manager
PAYCE Consolidated Limited



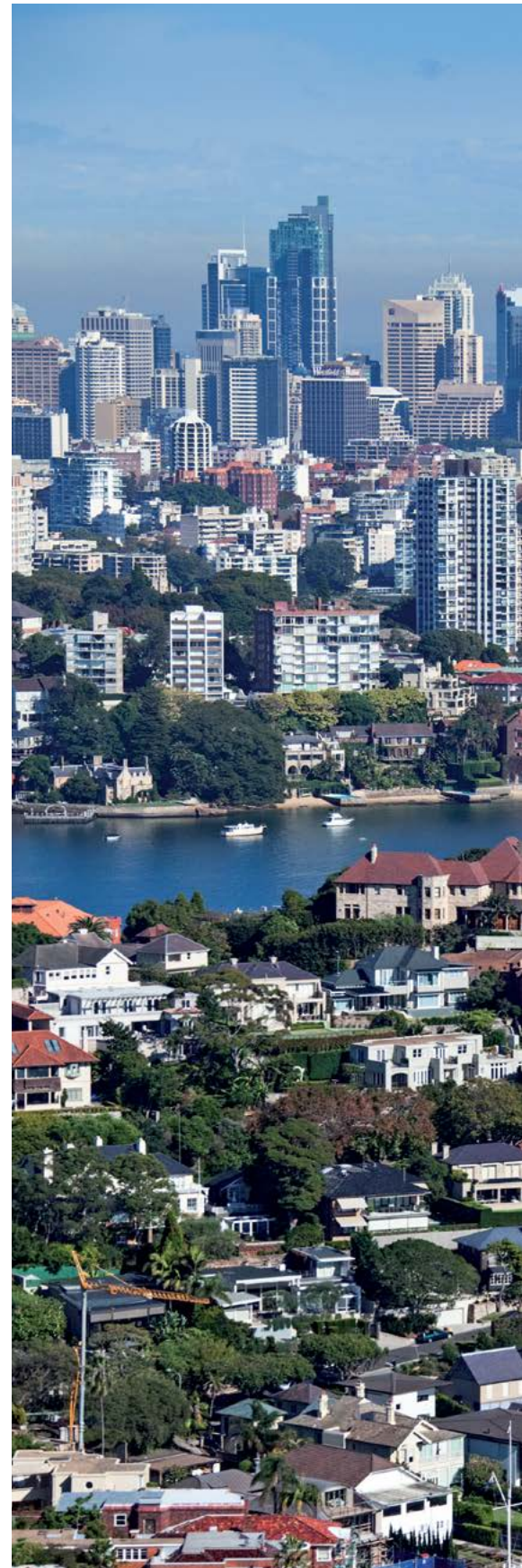
Lucy Hughes Turnbull AO
Chair
Committee for Sydney

INTRODUCTION

There are few policy objectives as fundamental as ensuring Sydney has the housing supply it needs. Cities that cannot meet this need will lose the competition for talent with cities which can and struggle to sustain economic growth. While supply has lifted significantly in Sydney since the low point of 2010, it still hasn't reached the highs achieved at the peak of delivery in the first years of this century. It is also still lower than the housing targets in a Plan for Growing Sydney, which we must achieve year-in, year-out if we are to meet the needs of future generations.

We are not meeting either the housing needs of Sydneysiders - a significant proportion of whom leave in their 20s and 30s for other more affordable cities - or serving the interests of the economy of what is currently the most productive city in Australia. Recent research from the US shows that if supply in the nation's most productive cities reached the levels of the most 'housing-friendly' cities, national GDP would be raised by up to 10%.¹ We believe a similar result would be achieved in Australia if there were a step-change in housing delivery in Sydney. Housing stress damages the productivity - as well as equity - of a city. And given Sydney's centrality to Australian wealth-generation at the moment, this is a matter of national importance.

With Sydney now acknowledged as having one of the most expensive real estate markets in the world, with supply and demand remaining deeply out of balance despite a recent uplift in delivery, with rising homelessness and increasing numbers on the social housing register and with even those on average earnings finding it difficult to find affordable homes to rent or to buy, it should be clear that 'business as usual' policies will not achieve the housing breakthrough Sydney needs. We need some new solutions if we are to provide homes for all and to ensure Sydney's economic momentum is maintained.



¹ Hsieh, C-T and Moretti, E. 2015 *Why Do Cities Matter? Local Growth and Aggregate Growth* NBER Working Paper No. 21154, May 2015



From housing that's more affordable.....

In identifying policies which will ensure the housing supply, mix and quality we need - in the right locations - we need to differentiate between those which will make housing more 'affordable' and those which will deliver more 'affordable housing'. The two are often confused with one another.

The former would appear to be a desirable outcome and certainly those wishing to enter the housing market see it as a priority: currently first time buyers make up an increasingly small percentage of purchasers in Sydney, being priced out by existing homeowners and investors. Economists also view rising house prices as posing some challenges in that they attract and lock-in investment into bricks and mortar that might be more productively focused on other sectors of the economy such as in the tech-start-ups which are the life-blood of Sydney's increasingly knowledge-based economy but which can all too easily be undermined by a lack of funding or unaffordable living costs. Companies seeking to retain and recruit staff in the face of residential values which currently make Sydney the 3rd most expensive city in the world in which to buy or rent, increasingly see things from the perspective of their younger staff. These staff struggle with living costs and long commuting distances.

However, politicians, seeing the majority of housing *haves* benefiting, have not always been persuaded to seek solutions for the housing *have nots*. This has led to insufficient emphasis on housing supply and an over-generous approach to fiscal incentives which have stoked up demand from existing home-owners to have multiple units, without any evidence this has increased overall delivery of housing. The increasing demand for units from offshore investors has drawn attention to the wider problem: whether current policy around housing is creating the supply, tenure or indeed the equity Australia has traditionally provided for its citizens.

While part of the reform agenda required to break-through on the affordability of housing is beyond the NSW Government or indeed the remit of the Committee for Sydney, progress should still be made where it can on increasing supply. While this report focuses on initiatives within affordable housing as a specific tenure or asset class, the Committee has identified a number of key factors which we think will help increase supply and bring some downward pressure on prices:

- Exploration of the role public land can play in improving housing supply through new models of partnership and joint ventures between government, the private sector and the community housing sector (CHPs): mapping all public land which could contribute to Sydney's housing supply should be a priority
- A new coordinated, cross government strategy for developing high density accommodation at key rail stations and transport interchanges: Sydney is ripe for a significant shift towards Transit Oriented Development (TOD)
- Improved efficiency of the development application process: completing the reform of the NSW planning system
- Strata title reform: to enable higher density development on currently low density sites in the crucial middle ring of Sydney, close to transport, jobs and services
- Earlier and deeper involvement of the community in strategic planning - and a recognition that higher density development needs to be of the highest quality and amenity to secure community support
- Implementation of amended SEPP 65 including reduced car parking standards close to transport nodes
- Approved and tested modern, modular, construction methods to reduce costs
- Cross-government coordination to develop a more polycentric Sydney so that there is less pressure on a few housing hot spots
- Exploration of how the current approach to stamp duty or land tax either incentivises or limits housing supply

.....to affordable housing

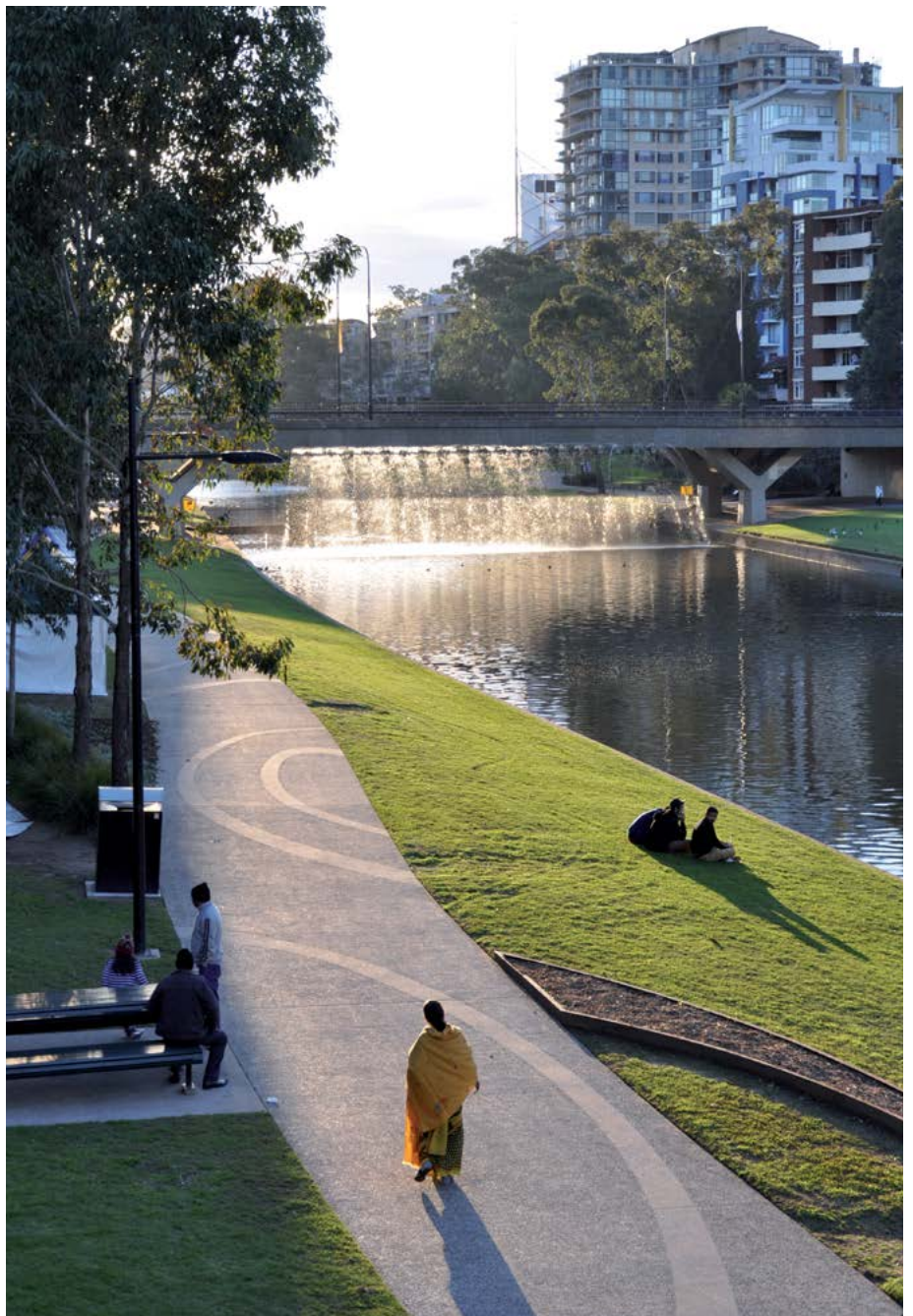
The solution to this issue is not simply more supply.

While increasing supply is an important, and a necessary condition to improved housing affordability, alone it is not a sufficient condition to achieve access to housing for all. Traditionally in Australia, this has been the role of social housing. Because such housing only makes up about 4% of total housing in NSW - as contrasted with 16% in the UK - access to it has been targeted at people on very low incomes and those suffering from multiple disadvantages. While the Committee strongly believes that there needs to be more investment in public and social housing - both to increase supply and to improve the quality of the accommodation and life-experience of current tenants - we also believe that policy innovation in this area should include the potential to offer further housing choices to others suffering housing stress along Sydney's housing continuum.

To deliver affordable housing, we don't just need more housing supply, we need specific actions to add to an asset class and tenure that bridges the gap between the social housing system and the market housing system. Programs like HomeShare, which matches young people and older people together in order to provide low-cost housing solutions for young people and support older people to age in place, will increase the supply of housing options for marginal households through more efficient utilisation of existing stock, without requiring an expansion of supply.

We believe that the existence of such a continuum needs to be recognised so that public policy both meets the needs of diverse groups but also understands the links between them. People who cannot afford to buy look for rental accommodation and in so doing add to the market pressures which squeeze those on lower incomes out of higher value areas to the city fringe, or into less suitable homes. These then push some Sydneysiders out of the market system and onto social housing register.

The fact of this housing continuum highlights a positive about the Sydney housing challenge. Although there are pockets of concentrated poverty in our social housing sites, they are limited. This is in contrast to some comparable countries where residualisation of the social housing population has gone further. With the right policies and interventions and with a conscious ambition to improve the social outcomes and social mobility of social housing tenants, we can support people along the continuum from dependency and unemployment to greater social and economic inclusion.



Towards new products for others experiencing housing stress: key workers

We need more supply of all kinds and, arguably, some new housing products for segments of the market for which there is currently a shortage of options. This could be through, for example, shared equity products that we see in other states and internationally, or other options for those who have been termed 'key workers' needing sub-market rental accommodation at the heart of our city. The crisis of housing stress no longer just affects the very poor but impacts on those on average wages too. For example, only 5 suburbs out of 540 in Sydney are affordable for renters on minimum wage², and a graduate nurse can only afford to rent in 29³. This had led to a clustering of key workers residing in suburbs far from where they are required to service the community, many of whom are shift workers.

Government needs to think through what it can do to assist more of the housing continuum to find affordable accommodation and should consider, in the view of the Committee, targeting some of its resources at enabling key workers on average wages - those teachers, medical staff, emergency workers and others that support the effective functioning of our city - to access affordable housing or shared equity products closer to the communities they serve in Sydney.

While some will oppose housing benefits being provided to anyone other than the most disadvantaged, in reality governments already subsidise home-ownership and increasingly enable multiple home-ownership among a significant minority. In this context there is likely to be wide community acceptance of a government scheme which enables key workers, for example new entrants to the police force, to access sub-market rental or shared equity products close to where they work. This is acceptable as both socially beneficial and also making it possible for key workers to save for a deposit on a home in due course. We believe government should explore such an approach with confidence that it will command community buy-in whilst meeting an important need.

Government must play its role

Government has to understand the role it can play: not just in housing the very needy but in using its resources - its land as well as its regulatory and planning tools - imaginatively, flexibly and beyond ideology, to help provide more housing choice to more of those in housing stress in today's Sydney. By contributing some of its own land bank to this objective it can indeed 'kill two birds with one stone'. That is, by enabling existing, low density public housing land to be developed for higher density mixed tenure housing, it would be possible to invest further in the refurbishment of existing tenants' homes, add further housing stock with a diversity of tenures, and nurture a mixed community with all the associated socio-economic benefits both for people and the very performance of Sydney.

Governments can make a difference both to the number and mix of homes in Sydney and community well-being if they use their resources well in partnership with the community housing providers and the private sector. No one sector has the answer to Sydney's housing challenges.

2 Ting, I. 2015 *The Sydney Suburbs where minimum wage workers can afford to rent*, Sydney Morning Herald, June 2015, <http://www.smh.com.au/nsw/the-sydney-suburbs-where-minimum-wage-workers-can-afford-to-rent-20150608-ghjc6v.html>

3 Ting, I. & Wade, M 2015 *Where Sydney's Essential workers can afford to live*, Sydney Morning Herald, June 2015, <http://news.domain.com.au/domain/real-estate-news/where-sydneys-essential-workers-can-afford-to-live-20150610-ghk8sg.html>

Public-private collaboration the key

Collaboration is central to success. When used appropriately, the Government's tools enable the CHPs and the private sector to make their best contribution to meeting Sydney's needs. When used inappropriately, the partnership cannot deliver the best for all⁴. For example:

- when government sells public land at maximum value and then expects developers to deliver additional public benefits such as affordable housing or,
- when inclusionary zoning requirements are mooted *after* developers have already negotiated options with landowners with no regard for the key issue for developers of residual land value.

Effective collaboration involves unlocking public land and providing clear direction around inclusionary zoning expectations. This means providing the private sector with certainty and the capacity to continue to make profit while delivering socially beneficial products. It also allows CHPs to partner early in the development cycle to support development.

We collectively can and must do better via effective collaboration between the private, community and public sectors which respects each other's values and business models and that maximises the benefit that each brings to the relationship. The success of community housing providers in offering affordable housing across a range of income brackets, has shown how collaboration can work – and that Australia has home-grown examples of successful outcomes from working together.

The 5 game-changing innovations set out in this report all require effective public-private partnering and collaboration – and they require government takes a robust role with its resources and its tools. Government must not assume a business-as-usual attitude will deliver its own housing and community objectives for Sydney. We believe the Government knows this.

The Premier's Innovation Initiative is a welcome intervention with the specific aim of prompting new approaches to our challenges in affordable housing. Indeed, many of the innovations suggested in this report were inspired by Committee members across the public, private and community sectors who have participated enthusiastically in that Initiative. Add to this the dramatic announcement from the Premier of a new \$1b fund for social and affordable housing and the time is right for policy innovation. This is why the Committee, which has been promoting a civic dialogue about social and affordable housing for some time, and which has created a platform for regular engagement between public servants and housing experts from all sectors, has decided to intervene with this latest Issues Paper.

Time for action

We stress: our 5 innovations are not the only ones which need to be explored. And we don't assume that every single detail in the proposals is correct or beyond challenge. Promoting the debate and innovative thinking are the keys at the moment. Sydney needs some game-changers around affordable housing; we set out 5 to galvanise the discussion. However, as with all Committee for Sydney reports, the aim, while being to produce evidence based proposals, is anything but academic. It is to prompt action by decision-makers in government. This is a time for new initiatives around affordable housing and for government not to be hidebound by what it has always done or to be limited around its very role or purpose.

4 Wozel, J. et al 2014 *A blueprint for addressing the global affordable housing challenge* McKinsey Global Institute, October 2014 pp. 8-10

5 GAME-CHANGERS

1. Maximise the use of public land

The challenge of providing enough affordable housing for our growing city requires an increase in the supply of suitable land. A recent ground-breaking report on global housing affordability identified gaining access to unused or under-used land as the number one action cities can take to address the problem.⁵ Much of this land is owned by government.

The Committee strongly endorses the NSW Government's commitment to include affordable housing in its own urban renewal projects, and Premier Baird's promise to double the target of government-owned land releases for housing to 20,000 lots over four years.⁶ These commitments represent a good start, but there is more to be done.

An affordable housing land register

There is substantial scope to free up surplus public sector land specifically for the development of new affordable housing. The Committee has argued previously that "more homes [need to] be built - at higher densities - closer to economic activity and public transport nodes" to prevent Sydney becoming a divided city.⁷ The Committee now urges the government to initiate a public land program. The first step is to establish a register of state government land with any potential for development as affordable housing. This will include the substantial social housing portfolio: the Premier's Innovation Initiative for social housing represents an important acknowledgement that more can be done with this asset. The register will also include other public land holdings which are currently underutilised and which could be repurposed for affordable housing.

Land on the register will be mapped against existing and anticipated demand for affordable housing, which would involve new and innovative research. For example, the register would identify locations with: extreme housing stress; a good supply of less than median wage jobs; prospects for future jobs as a result of major projects such as hospital or airport developments; or transport links to employment centres. Once this register has been completed, the land could be fast-tracked for development or disposal by UrbanGrowth NSW, in partnership with a range of quality private and not-for-profit developers. The development of a significant proportion of affordable rental housing, not just new affordable dwellings for sale, will mitigate the risk of windfall gain to the initial purchaser.

The register can be enhanced by working with the Commonwealth and local governments to include their land holdings. Local governments can be required to identify appropriate land as part of their local housing strategies, and to make that land available for development as affordable housing. This approach recognises that affordable housing is essential infrastructure, and that all tiers of government have a role to play in its development.

Incentivise release of land for affordable housing

To maximise the impact of the register, the government land holder needs to be incentivised to release the land for affordable housing. One option is to shift the onus: land on the register will default to use for affordable housing unless the land holder can demonstrate why this should not be the case. In addition, the Committee recommends that government investigate higher taxation of unused or under-used land. A holding tax for land on the register would provide a stronger incentive for the land holder to release the land, rather than to hold onto it speculating on future value increase.

5 Woetzel, J. et al 2014 *A blueprint for addressing the global affordable housing challenge* McKinsey Global Institute, October 2014 pp. 6-7

6 NSW Government 2014 *A Plan for Growing Sydney* p. 77; Baird pledges he'd double land release for new housing, Sydney Morning Herald, 7 March 2015

7 Committee for Sydney 2014 *Sydney: adding to the dividend, ending the divide 2014 Update Sydney Issues Paper No.4* July 2014 p. 20

Partner with the private and not for profit sectors

Importantly, government does not need to sell land in order to maximise its use for affordable housing. While it may be most effective to dispose of some sites, there is also a community expectation that public assets are not sold unnecessarily. The Committee encourages the government to develop new models for partnering with the private and not for profit sectors. This will allow government to retain ownership of land, while unlocking it for productive purposes.

This may include partnering with developers to prioritise affordability outcomes, rather than to maximise the sale or lease price. In other jurisdictions, governments auction land for mixed market and affordable housing development with a pre-determined maximum price for the land: beyond the maximum, bidders compete not on price but on the proportion of affordable housing they will deliver as part of the development. The Committee believes this type of process would send a strong signal of prioritising affordable housing over other land uses, as well as providing the impetus to the private sector to respond innovatively to maximise the amount of new affordable housing.



Taking the lead from London

As we finished this Paper an example from the UK came to our attention. The Mayor of London Boris Johnson has tasked his transport agency, Transport for London, to form a series of long-term joint ventures with developers to unlock social, affordable and private housing supply at up to 50 sites owned by Transport for London, adjacent to Tube stations and railways. This reflects the findings of the McKinsey Global Affordable Housing report that identified the need for housing development around rapid-transit routes and hubs.⁸

One of the most iconic of the sites is 55 Broadway in the heart of Westminster. This is the former HQ of London Underground – and one of the most valuable pieces of real estate in the capital. Under the scheme proposed by Boris Johnson and supported by the local council, 22% of the residential units built will be either social – with some 3 bedroom apartments for needy families on the housing waiting list – or affordable, with a cap on rents for the latter at an average of 65% of the average for the area.⁹ The social and affordable units will be let and managed by a CHP in partnership with the private developer of the remaining units.¹⁰ Government can make a difference in the provision of affordable housing when it works flexibly in partnership with the private and CHP sectors and is willing to use its land and its powers pragmatically but with imagination. We need a similar approach here.

8 Woetzel, J. et al 2014 *A blueprint for addressing the global affordable housing challenge* McKinsey Global Institute, October 2014 p. 8

9 Transport for London 2015 *Introduction to plans for 55 Broadway*, <https://www.tfl.gov.uk/cdn/static/cms/documents/introduction-55broadway-plans.pdf>

10 Transport for London 2015 *Future of Broadway*, <https://www.tfl.gov.uk/corporate/about-tfl/culture-and-heritage/art-and-design/station-architecture/broadway>



Why isn't this happening already?

Public concern about asset sales

Governments respond cautiously to any proposal to dispose of assets, as it is often perceived as a once-off strategy. The Committee urges the government to start a conversation with the private and not for profit sectors about the best ways to partner to unlock land holdings for the development of new affordable housing. Public concerns over asset sales can be allayed by ensuring that the government retains ownership, by demonstrating that the returns on investment flow fairly to the public and private, and by involving trusted community organisations in the long term management of the housing.

Low priority for affordable housing

Until recently, the need for affordable housing has not received the attention it deserves: governments and the public have prioritised other infrastructure and services. With the recent increase in public awareness of the scale of the housing affordability challenge, the time is right to dedicate public land to solving this issue. In global cities like Sydney, access to land is highly competitive and commercial interests often prevail as the value of land for commercial use is higher than for residential use. Government must act to re-balance the equation.

Density fears

The development of affordable housing often triggers local community concerns. We need to shift the public debate away from fears about overdevelopment and unsuitable development, towards a conversation about high quality, high density living. Many people express a preference to live in large, freestanding homes; this translates into perceived community expectations of low density housing. However, a Grattan Institute survey identified that people's housing preferences are far more nuanced, taking into account realistic constraints such as budget and travel times as well as aspirations for housing type.¹¹

The time is right to ask Sydneysiders: under what conditions will high density living be able to work well in our city? Governments and property developers need to be ready to take the answers seriously. Governments may need to focus on the provision of social infrastructure, such as parks and other community spaces, as well as hard infrastructure such as public transport and road links, in order to support greater density. Developers may need to lift the priority given to high quality design of residential, commercial and other spaces, to meet the expectations not just of residents but also of neighbours. Both parties may need to take action to demonstrate that the value uplift in allowing high density residential development is being shared fairly with the community.

¹¹ Kelly, J-F. 2011 *The housing we'd choose* Grattan Institute Report No. 2011-5, June 2011

2. Government action to trigger private investment

The need for additional affordable housing supply is acute. New public investment to address the shortage is always welcome, and the Committee is encouraged by the Premier's announcement of a Memorandum of Understanding to dedicate \$1 billion from the planned disposal of the electricity network to the supply of additional social and affordable housing.¹² The scale of NSW's housing shortfall is too great for the State Government to address alone. Shelter NSW documented a shortage of 100,000 rental units both affordable and available to lower-income NSW families.¹³ At a conservative \$350,000 per dwelling, addressing the shortfall would cost \$35 billion.

Options for leveraging private investment

The good news for government is that it does not need to foot the bill alone. Through its work with its members, the Committee is aware of significant appetite from the private sector to invest in affordable housing. Recent academic work has also successfully brought together executives from the big four banks, ratings agencies, capital markets and the property industry, and superannuation funds increasingly demonstrate an interest in understanding how they could play a role.¹⁴ A key role for government, therefore, is to use its own investment in ways which facilitate the entry of substantial private finance into the market by reducing risk or increasing returns.

For example, all or part of the \$1 billion dollar investment in social and affordable housing can be deployed:

- As seed funding to establish an investment fund – to leverage institutional investors such as superannuation funds, social impact investors and infrastructure funds.

The full amount of funding need not be committed, for example, through offering part-paid shares. This could provide the basis for large scale investment in new or renewed social and affordable housing. Scale is critical, not only to deliver the quantum of affordable housing required but also to secure access to new markets, such as capital markets with a longer term investment timeframe suitable for housing investment.

- In the UK there is now a mature social/affordable housing bond market accessed by the British CHPs. Either by going to the bond market individually – which Places for People, the UK's biggest social housing provider, has done – or collectively, with small CHPs sharing a bond issue, this source of funding has become significant. Key to enabling UK CHPs of a similar scale to the NSW equivalents to access the bond markets is the Housing Finance Corporation, a not for profit 'bond-wrapping' agency which has a board on which nominees from the private sector and government sit. The Housing Finance Corporation enables CHPs that want to source quite modest funding to literally 'bond' together, so that 5 or 6 CHPs might gain the benefit of a \$60m bond issue for example. Creating such an agency in Australia would help this happen here and reassure the lending market. Such an agency could fund itself through the issue of bonds to private investors and by borrowing from banks. The Premier has made a commitment to provide \$1b for affordable housing; such an agency should be part of the delivery architecture for the effective use of that investment and could also ensure that the extra resource is leveraged more effectively through on-lending to CHPs or other providers.
- As an occupancy guarantee for new affordable housing developments. Developers may be able to access finance more cheaply if the government warrants that a certain proportion of the dwellings will be occupied. This helps the developer manage sales or rental revenue risk, at low or no cost to government as the market for affordable housing is strong. The government is exposed only to the extent of supplementing any underoccupancy up to an agreed level, which can be mitigated by its own policy settings. Experience with student housing indicates that project feasibility is enhanced where the university provides an occupancy or rental guarantee to developers.

12 *Mike Baird brokers \$1 billion social and affordable housing deal*, Sydney Morning Herald, 13 March 2015

13 Shelter NSW 2015, *NSW Election 2015: 10 Key Issues*, <http://www.shelternsw.org.au/publications-new/factsheets-new/443-nsw-election-2015-10-key-issues/file>, pp. 2-3

14 Milligan, V. et al 2015 *Next moves? Expanding affordable rental housing in Australia through institutional investment* University of NSW; "Enhancing affordable housing investment via a social housing guarantee" Lawson et al 2014 <http://www.ahuri.edu.au/publications/projects/p53019>; "Housing Supply Bonds: a suitable instrument to channel investment towards affordable housing in Australia?" Lawson et al. 2012 <http://www.ahuri.edu.au/publications/projects/p30652>; see also "Financing and institutional arrangements for the provision of affordable rental housing in Australia (Investigative Panel)" <http://www.ahuri.edu.au/publications/projects/p71016> and

- As a debt guarantee to lower the cost of debt finance raised by private or not for profit sector developers for developments including a required proportion of affordable housing.
- As a time-limited income supplement to stimulate private investment – along the lines of the former National Rental Affordability Scheme (NRAS). NRAS demonstrated that a relatively small subsidy is sufficient to bring private investment into affordable housing.
- As a revolving construction fund for community sector developers – to supplement private finance.
- In conjunction with other government funding or transfer of assets. For example, the fund could be linked to government land release for affordable housing, as set out above, or to the redevelopment of the social housing portfolio.

The research indicates that government may not need to provide these supports in perpetuity. As the market matures, government can progressively step back from support, although there will always be a role for government in supporting people on very low incomes access the housing system.

A new investor class?

By using public investment and policy settings to trigger private investment, the government can not only expedite and amplify the development of new affordable housing; it can also establish a new role for the private sector as institutional investors in residential property. Sophisticated institutions now understand the private rental market to be the focus for a new asset class. Rental housing represents roughly 2.7 million dwellings Australia-wide with a value of approximately \$680 billion, giving it infrastructure scale.

However, Australia's tax settings continue to privilege private investors in the residential property market, through negative gearing and concessions on capital gains tax. To level the playing field, scale institutional investment funds require a comparable form of risk reduction from government.

Even lower cost rental can attract private finance, with the right settings: the institutional investment market would be attracted by stable, long-term yield (rather than speculative property gains) which in turn

drives more stable housing tenancy and less needless churn for families. CHPs have started to access the substantial pool of private finance, and with the right set of tax incentives this offers a fantastic opportunity to provide stable investment with a social benefit. The Committee recommends that the government review its infrastructure projects to consider whether there is an opportunity to include private sector delivery of housing for key workers. For example, the development of a new hospital could incorporate construction of additional low cost housing, on or near the site. Linking housing to employment in this way not only relieves transport costs and congestion, but offers the investor stable income streams with virtually nil vacancy risk.

Policy certainty comes free

Beyond the commitment of public funding, private investors look to government for non-funding support. For example, there are tens of billions of dollars in motivated impact investment capital in Australia, with very few investment-grade opportunities available to satisfy this demand.¹⁵ Affordable housing is uniquely positioned to provide asset-backed social investment opportunities to capture this market. However, investors seek consistency in government policy settings before getting involved. Westpac, for example, announced in 2013 it would make available up to \$2 billion for investment in social housing by 2017¹⁶, but only a fraction of this has been placed, largely due to policy uncertainty such as delays in transfers of ownership of social housing to CHPs under the Nation Building program. Work has been done this year on linking this source of capital to housing.¹⁷

15 R Addis, J McLeod and A Raine, *IMPACT-Australia: Investment for social and economic benefit*, JBWere and Australian Government DEEWR, 2013. See Appendix 4: Estimation of Market Dimensions. 'Included in this [ESG] total is Impact/Community Investing in a combined category which totaled US\$89 billion.'

16 Westpac Annual Report 2013, <http://www.2013annualreport.westpacgroup.com.au/shared/innovative-financing-to-address-social-disadvantage>

17 "The potential role of social enterprises, philanthropy and social bonds to increase supply of affordable housing and provision of housing services." Carrie Hamilton, Report for ShelterNSW, June 2014

Why isn't this happening already?

Lack of policy certainty is bad for business

At all levels of government, policy settings around social and affordable housing have been notable for their inconsistency and lack of clarity. This deters rather than encourages private sector involvement. The release by the NSW Government of the social housing discussion paper¹⁸ in late 2014 was a welcome step towards clarity on housing policy, however the private sector needs much greater detail about the pipeline of opportunities available, the roles for private parties, and the structure of the deal. Clarity at this level allows companies to build a business model, and to enter the field with confidence.

The Committee urges the government to finalise and make public its policies on social and affordable housing. This will form the basis for a new conversation with the private sectors about affordable housing investment opportunities. In particular, major investors require scale, which means that the government must move beyond identifying individual, one-off projects, to articulate a program with a clear pipeline.

The governance challenge

All three tiers of government have an influence on housing policy and investment in housing. In addition, housing markets are local so the best solution for one city or suburb will be different from the best solution in another city or across town. This contributes to the level of uncertainty and inconsistency. The Committee urges the State Government to take the lead on developing an effective governance model for Sydney's affordable housing challenge. This will include engaging with the Commonwealth Government on key housing supply and investment issues, including taxation policy settings. It is also important to work closely with local government, to leverage the actions they are pursuing, such as the work of the City of Sydney.¹⁹ The Committee has previously endorsed the announcement of the Greater Sydney Commission by the Premier, as a vehicle for Metro scale governance for Sydney. The Committee urges the government to continue to strengthen metro and sub-regional planning, to highlight affordable housing as a matter of urgent priority for the Commission, and to use the Commission to achieve better alignment between all tiers of government. The Committee further urges the government and opposition to work together, and to engage with all tiers of government, to develop a bipartisan approach to affordable housing. When this issue becomes one of political consensus, policy and funding uncertainty and inconsistency are greatly reduced.

The aim is to forge a shared agreement on the importance of private investment, a shared appreciation of the role of the community in shaping outcomes, and a shared understanding of the roles each government can play in unlocking this potential.

18 Family and Community Services 2014 *Social Housing in NSW: A discussion paper for input and comment* November 2014

19 *Housing Issues Paper*, City of Sydney, 2015 <http://sydneyyoursay.com.au/housing-issues-paper/documents/21574/download>

3. Build the market

The scale of the housing affordability challenges requires a scale response. Whether funded by government, the private sector or a combination, new affordable housing will need to be managed by organisations with the right range of expertise: management of properties and tenancies, management of subsidies, transparent accountability to stakeholders, and creation of successful communities. Government needs to be confident that the market for the management of affordable housing is strong and capable across the state.



Community housing providers – stepping up

It is the Committee's view that community housing providers (CHPs) are the ideal vehicle to take on this role for the government and for the people of NSW. The community housing sector has been providing rental housing to people on low and moderate incomes for over 30 years. Providers are not-for-profit and have a reputation for involving and engaging their residents in decision making. The sector manages 38,000 tenancies in NSW alone, and has a growing expertise in the development of new affordable housing. The sector is regulated under a national system, providing assurance to tenants, government, partners and investors.²⁰

NSW CHPs are substantially engaged in the revitalisation of public housing in Queensland and Tasmania: this expertise can be better used in NSW. CHPs also have access to Commonwealth Rent Assistance as well as other federal grant opportunities and taxation concessions. CHPs have the innovative capacity of private social enterprises, but have close government relationships and regulation that mitigate asset control issues including being classed as Public Benevolent Institutions.

The CHP sector has now consolidated its impressive growth as stimulated by Nation Building leverage and NRAS innovation. It has the capacity to put innovative and costed business proposals to government which will stack up both financially and socially – for the long term. Their skills-based boards and thoroughly-reviewed governance regimes make creditworthy counterparties.

Importantly, CHPs are able to raise finance through private markets to invest in new affordable rental housing and the borrowing does not appear on the government's balance sheet.

²⁰ *The community housing industry: Delivering for NSW*, NSW Federation of Housing Associations Inc. <http://www.communityhousing.org.au>

Property transfers from public housing

A first step in shaping and building the market is to commit to the next phase of growth for community housing providers through the establishment of a major program of property transfers from the public sector. This is not growth for its own sake, but is a necessary step in triggering an increase in the sector's capability. Greater scale for individual providers will enable the sector to operate at the level required by private sector counterparties. Greater scale across the sector will enhance resilience and ensure that management options are available for a diversity of housing types. The property transfer program can support the renewal of public housing, by contributing to the development of new properties and the redevelopment of existing properties. It can also bring flexibility and local knowledge to the housing management role, helping to raise the overall standard of social housing in NSW. In particular, where housing is governed by and developed with people who either live or work in the area, there is a powerful incentive to maintain and improve their quality and appearance. Community-led housing has the potential to identify local solutions to local issues, as well as building a greater sense of ownership within communities.

Transferring properties with title amplifies the sector's ability to borrow to leverage additional housing, as it provides additional security to lenders and allows for more active portfolio management. However, even transferring management on long term leases will increase the capacity of the sector. At the moment, there is a reluctance by government to grant long-term management contracts, meaning that providers can only plan for the short to medium term. Whilst the standard length of contract is 3 years, longer term arrangements of 20 to 30 years would help to build confidence and capacity in the sector, and would facilitate further borrowing. Evidence from abroad demonstrates that CHPs are able to manage longer term arrangements. This approach allows the NSW Government to recast its role away from direct service delivery and focus on funding, monitoring and regulation.

Getting the roles and risks right

The second element is to shape the market to ensure that each party plays the right roles. This means that CHPs may be rewarded for partnering with the private sector, for example, with facilities managers or developers. CHPs may play a variety of roles, including:

- Tenancy and property management
- Development or procurement of new housing – including pre-sales in private developments to secure project feasibility
- Portfolio management for properties owned by the CHP or on behalf of public or private owners
- Linking tenants to services and opportunities, including employment and training
- Place-making and community regeneration.

In building and shaping the market, the government may wish to encourage consortia or joint ventures (JVs) between CHPs to bring together diverse expertise and to establish the appropriate scale for large property transfer programs. The sector has demonstrated its willingness to use this approach; for example, the JV between CHPs which won the tender for the renewal of Logan in south east Queensland, or the consortia created in response to the Premier's Innovation Initiative with the integrated service delivery model at Bonnyrigg.

The government may wish to consider facilitating the entry of new providers. For example, new CHPs may be established through mergers; interstate CHPs may be attracted to NSW; providers may be attracted from related industries such as aged care or disability accommodation; or sector-based intermediaries may be established to deliver certain functions such as portfolio management or to increase borrowing power.

Why isn't this happening already?

Lack of policy certainty is bad for community sector business too

The community housing sector receives inconsistent support from government, which delays the sector's growth and development. There is ample evidence, from the sector's track record of growth and from overseas experience, that the sector can successfully achieve scale. The government must commit to a program of property transfers from public housing to community housing to demonstrate confidence and build the market.



4. Commit to major renewal of social housing

Social housing is a vital public service. In NSW, across Australia and in similar jurisdictions around the world, social housing is under severe strain. In 2013, the Auditor-General of NSW published a Performance Audit into the New South Wales social housing system,²¹ which identified serious challenges relating to resourcing, rising maintenance costs, decreasing rental income, and a growing mismatch between property types and tenant cohort.

Around 40 percent of the social housing portfolio is located in “estates” of highly concentrated social housing: these estates are often characterised by high levels of social disadvantage. There has been inadequate investment in the portfolio over several decades, due to state government financial constraints, reducing Commonwealth funding and an unwillingness to borrow. The stock of social housing is poorly matched to need – many large houses compared to apartments required for one-parent families or single people (often aged and/or disabled). At the same time, the number of people on the social housing register continues to grow – now representing almost 60,000 applicants in NSW alone.

While concerned about the length of the register, the quality of social housing properties, and the capacity of the system to support good outcomes for tenants, the NSW Government continues to attempt to solve the problem within existing resources. Both the Auditor-General’s report and the government’s own social housing discussion paper assume that no new resources will be allocated to the portfolio area. This will lead to an acceleration of the problem, as properties in a smaller and more residualised system are increasingly targeted only to those most in need.

Existing resources are insufficient

It is time for the government to shift its thinking, and invest in a major renewal of social housing. This will lead to greater fairness, as well as greater economic participation: it is fair for tenants who remain in, or move into, social housing that their dwellings are appropriate and good quality; it is fair for tenants who leave social housing that the system supports them to do that successfully via realistic pathways, more flexible subsidies, and policy settings which reward tenants for taking up opportunities rather than avoiding them.

The social housing portfolio is a significant asset, however it is deteriorating due to inadequate investment. The Premier’s Innovation Initiative for social housing acknowledges this challenge, and seeks ideas and investment from the private and not for profit sectors. The Committee endorses this approach, but urges the government to commit to investment of its own. This may include funds from disposal of other government assets, or greater public sector borrowing taking advantage of the state’s AAA credit rating and historically low interest rates.

Borrowing is warranted where the evidence shows it will benefit the long-term interests of NSW and its residents. There are near-term economic stimulus effects from the construction activity leveraged from targeted, strategic redevelopment of underutilised public housing sites. The construction of 20,000 social housing dwellings under the Nation Building program was not primarily to achieve housing supply, but to support the construction industry and generate jobs. A recent study by Bond University on the economic impact of the National Rental Affordability Scheme showed a total of 329,000 jobs will be created by that program by 2016²².

21 *Making the best use of public housing*, New South Wales Auditor-General’s Report, 2013

22 *National Rental Affordability Scheme – Economic and Taxation Impact Study*, Bond University, December 2013

Social housing as the foundation for opportunities

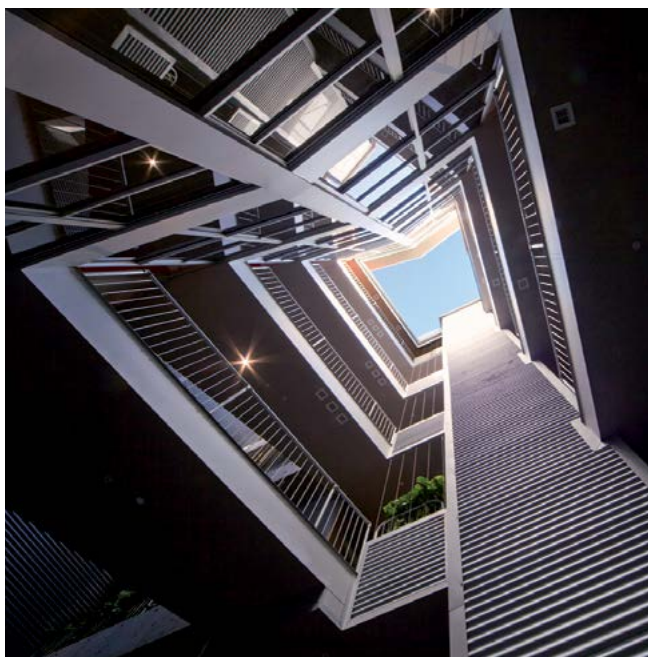
There are also medium term productivity benefits as a more nimble Sydney populace can finally pursue mobility. A renewed social and affordable housing system would allow tenants to follow job and training opportunities. It would also contribute over time to broader social and economic benefits of designing and developing homes that are fit for the future, that design out maintenance and minimum asset maintenance liabilities. These costs and benefits impact not only on housing portfolios but on health, aged care, disability services and infrastructure.

Over the long term the renewal of social housing will benefit Sydney by making our communities more liveable, and more diverse. Innovative dwelling configurations yield less reliance on expensive transport for economic participation and deliver greater social mobility through linking up the elements of the housing system to allow transitions between social housing, affordable key worker housing, private rental, shared equity and outright ownership, and back and forth again as circumstances change.

Crucially, the social housing portfolio is best understood not as an asset but as a part of the government's service delivery: it offers a stable home to those who cannot afford to live in the private market, and to high need or vulnerable people. It can do much more than that, but only if the government chooses to invest in its renewal.

An expanded social housing system would include a wider variety of affordable housing options; it would not just house more people but a greater diversity of people, in better quality homes. This would turn social housing into a foundation where people can get a start or make a home, leading to more productive engagement for individuals, greater wealth for individuals and households, and higher productivity for the city. This aspiration is expressed in the social housing discussion paper: what is needed is the investment to make it happen.

To achieve this, social housing needs to be matched to the needs of tenants, and especially needs to be well located. The current strategy of selling properties in higher value locations in order to invest in new supply in cheaper locations does not support the development of a social and affordable housing system which offers opportunities



to tenants. Rather, it further residualises the system, and limits tenants. Instead of measuring the performance of the social housing system by reference to the number of houses or tenancies, the Committee urges the government to set performance indicators with a focus on productivity: How many residents have been assisted into employment? How many children living in social housing have been supported to succeed at school? What proportion of the portfolio is located close to employment or transport links? What expenditure does the social housing system allow other government agencies to avoid? When engaging CHPs or other organisations to deliver social housing, the government can then contract specifically for these outcomes.

This innovation should be backed by better regulation to improve the standards of social housing in NSW. We urge the State Government to introduce a new NSW Decent Homes standard governing the quality of homes to be provided by housing providers of all kinds. This type of performance measure is likely to drive up standards as additional providers step in to replace providers who cannot reach the new standards.

Why isn't this happening already?

Forget the AAA – social housing is a service

It's time to bust the myth that the state's AAA rating relies on the continued ownership of the social housing portfolio. Rating agencies perceive social housing assets as part of the government's service delivery, with virtually no capacity for sale.

The Committee also urges the State Government to understand that a larger and more diverse social and affordable housing system will deliver much greater benefits to tenants, the community and the economy, and to invest in the system on this basis.



5. Private development to enhance the affordable end of the market

The private sector is a crucial player in the development of affordable housing. This is a new asset class of sub-market housing, subsidised through one of several mechanisms. Private and CHP developers currently use planning provisions including the State Environmental Planning Policy (Affordable Rental Housing) and voluntary planning agreements. However, with NSW planning legislation under review, developers find it difficult to build an effective business model.

The NSW planning system can do much more to trigger private sector supply of affordable housing. This is acknowledged in *A Plan for Growing Sydney*. The Committee welcomes the government's commitment to require councils to include housing affordability in their local housing strategies.

Inclusionary zoning – it's time to talk

Rather than continue to rely on voluntary planning agreements, the Committee believes that it is time to understand the circumstances under which inclusionary zoning will work. This planning provision sets aside a share of affordable housing in a new construction project – for example, 5, 10 or 20 percent of all dwellings to be affordable housing for purchase or rental. In the first instance, this should always involve Government leading by example on large open tender projects it initiates. A suggested approach is for the next tranche of urban regeneration projects to include achievable targets upfront which should be developed in discussion with industry experts and take clear account of the commercial market realities of competing projects in the same catchment that are not providing affordable housing.

Evidence from South Australia and ACT, two jurisdictions which have rolled out inclusionary zoning on a greater scale than NSW, is that it can increase the amount of affordable rental housing supply as well as help first-time buyers who otherwise could not gain access to the housing market. It is very much one tool in a multifaceted approach to creating more affordable housing, not a solution in itself, but an idea that deserves greater consideration by the NSW Government.

For inclusionary zoning to work, the private sector must play a key role in creating and delivering the policy. Government must heed the private sector's need

for certainty, and ensure that they work in genuine partnership with developers to create a framework underpinned by stability. Any expectations on the private sector to deliver affordable housing must be identified prior to the commencement of projects – any change of circumstance after work has started will unreasonably impact on the capacity of developers to deliver projects.

This will allow developers to take inclusionary zoning requirements into account from the start when planning projects, and incorporate it into their calculations of residual land value and project feasibility. Developers also want to be sure that inclusionary zoning is not layered on top of other planning requirements or developer obligations.

Where Government is disposing of its own land, it can of course incentivise the development of affordable housing by not insisting on highest and best value. When disposing to an appropriate developer and/or CHP, reducing the cost of the land can offset any losses on market value that the development of affordable housing will result in.

Further, the government's new proposed \$1 Billion could take the form of a fund that could provide soft loans in appropriate circumstances to support the production of affordable housing as part of mixed residential development.

Evidence from London suggests that local authorities have been successful in delivering up to 40 or 50 percent of affordable housing as part of a new building project, precisely because the charges laid on developers have been proportionate, clearly earmarked and introduced in consultation with the private sector. There are already clear examples of this kind of partnership helping to increase supply. For example, an agreement between the City for Sydney and Mirvac for a development in Sydney's Harold Park has led to the creation of 1,000 square metres of land for affordable housing and 500 square metres allocated for community use. The Committee for Sydney believes that the private sector is more than equipped to deliver more of these agreements and demonstrate that they can be at the forefront of solving Sydney's affordable housing crisis.



Investment in the affordable end of the market

The private sector is also well positioned to increase housing affordability by developing lower cost market housing. This is market housing which responds to the lower end of the market, for example, through specific dwelling types. The planning system can facilitate this shift in the market through approving smaller lot sizes and dwelling sizes in appropriate locations. The Committee welcomes the government's commitment to facilitating smaller dwellings and smaller lots in Sydney's growth centres, and to retain minimum apartment sizes under pressure from some councils for increases.²³

The private sector can also generate lower cost housing by developing or investing in "build to rent" housing. This is housing which is specifically designed for long term rental by moderate income households, to minimise maintenance and administration costs and maximise occupancy. CHPs are well positioned to manage such housing, and can also be involved as developers, bringing their expertise in the long term maintenance requirements of rental housing.

By delivering greater housing diversity, the planning system can help developers provide choice for people. To achieve this "smaller homes, bigger lifestyles" aspiration, both housing and public infrastructure must be well designed.

Why isn't this happening already?

Working against the industry rather than with it

The Committee agrees with the Social Housing Minister, the Hon. Brad Hazzard MP, that there is an opportunity for a new conversation between the State Government, development industry and councils, to understand the circumstances or preconditions under which inclusionary zoning can be made to work. But we are also clear that those conditions need to be met.

During the development of this paper, the Committee has had conversations with members in the development sector who are already innovating to ensure that there are more housing choices for a range of incomes. They stress that the key issues surrounding inclusionary zoning and the ability to provide affordable housing as part of a development are residual land value, the proportionality of any levies imposed and a need for certainty from local and state governments so as to plan effectively.

²³ *Housing diversity policy unlocks affordable new doors* Minister Goward Media Release, 10 August 2014; *Minimum apartment sizes to be confirmed*, Minister Stokes Media Release, 15 May 2015



The Committee for
Sydney

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