THE ROLE OF HOUSING CO-OPERATIVES IN THE HOUSING AFFORDABILITY CRISIS

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ABSTRACT

Housing is a basic necessity to which we should all have access. The housing affordability crisis is now a problem for many Australian households. Increasingly, public housing stock is only able to support those in most severe housing need. Housing options for many low to moderate income households are essentially restricted to the already constrained private rental sector. There is a need to investigate alternative models to expand the range of affordable housing options. Housing co-operatives and related innovations in this sector could provide a solution. This thesis explores the development of housing co-operatives in NSW, the various models that exist, their role in the social housing sector and opportunities for growth. Case studies are provided by two new projects in Sydney: the Kapit-bahayan Co-operative Limited Debt Equity project in Canley Vale, and the joint venture between Community Housing Limited, Willoughby Council and Association to Resource Co-operative Housing to develop housing in Artarmon to contribute to Willoughby Council’s Debt Equity Affordable Housing Program. The thesis illustrates how these projects, while small-scale and at the initial stages of development, may provide a useful framework for assessing the potential scope and future role that the co-operative sector can play in addressing the affordable housing crisis.
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Housing is a basic necessity to which we should all have access. To ensure that Australian households are able to achieve a reasonable standard of living there must be an adequate provision of and access to affordable and appropriate shelter. The inability to ensure that people have shelter can lead to social, health and economic constraints, which in turn results in an increased inability to achieve appropriate and affordable housing. The instability that arises from being unable to obtain secure and appropriate housing to meet a household’s needs can lead to an inability to contribute effectively in the labour force and ensure that a country’s economic and social capacity is reached.

**Problem Setting**

“Housing affordability is a tenure-neutral term that denotes the relationship between household income and household expenditure on housing costs” (Milligan and Yates 2007, p. 4). There has been a declining housing affordability in the Australian housing sector, particularly in major cities such as Sydney. A number of factors have contributed to the increasing shortage of affordable housing. The dominance of the home ownership tenure has had a significant impact on the development of the housing sector and has directed policy focus and attention primarily to a single tenure. The dominance in conjunction with the Commonwealth State Housing Agreement 2003 (Cth) (CHSA), the only major policy developed to mitigate the increased housing costs, has resulted in a decrease in public housing stock and the increased targeting of this housing to those most in need.

The result of the reduction in ability to provide affordable housing within the public housing and home ownership sectors has seen increased demand within the private rented sector. The current constraints seen in the rental market, indicated by low vacancy rates and rent increase pressures, highlights the risks associated with being
reliant on the constrained private rented sector to meet affordable housing needs and respond to concerns regarding housing affordability.

The current housing affordability situation demands the attention of researchers and policy makers. The need to explore, support and develop alternative tenures or hybrid tenures is one that is increasingly apparent. Housing co-operatives is one tenure in the housing continuum that has had limited development and support locally, considering its success in numerous markets across the world. Housing co-operatives operate under various models. In NSW the two models that exist are the self funded market-rate co-operatives and the leasing co-operatives within the community housing sector that provide affordable housing. The housing co-operatives that will be primarily explored in this thesis are the leasing co-operatives that form part of the community housing sector and the hybrid models developed in the two case studies.

The model that has existed in NSW has had relatively low levels of support and though it was designed originally to evolve and provide equity to the members, it has not received the necessary support and funding for this to eventuate. However, pilot projects within NSW are currently underway which explore other housing co-operative models and will establish hybrid models. The two case studies that will be examined as part of this thesis are the Kapit-bahayan Co-operative Limited (KCL) debt equity project and the Community Housing Limited (CHL), Willoughby Council and Association to Resource Co-operative Housing (ARCH) debt equity project.

These two case studies while in their initial stages of development will reveal the current state of the housing co-operative movement and the current attempts to drive innovation within the sector through debt equity funding projects. These debt equity models though similar perform on two different scales and will provide two different housing co-operative models in the market. The current experimentation and development of hybrid models to explore the housing co-operative tenure may be able to provide a useful framework for assessing the potential scope and future role that the co-operative sector can play in addressing the affordable housing crisis, especially with the increased provision of community housing, an alternative management model for private rental sector and facilitating access into home ownership.
PROBLEM STATEMENT AND OBJECTIVE

The ‘Australian Dream’ of home ownership is becoming a risky and increasingly unachievable option for many households. The dominance of this housing tenure has seen the lack of consideration and exploration of alternative tenures. Subsequently, other tenures have not developed to their potential and given the current housing affordability state, the potential other tenures that have received relatively little attention in the past must now be investigated. Housing co-operatives, a tenure that provides numerous social and economic advantages, is the option that will be explored in this thesis.

The objective of this thesis is to identify whether housing co-operatives could provide an alternative affordable housing option and how effective the tenure can be on a larger scale. If it is a feasible option that is worth exploring, what are the factors that are required to promote the growth? This thesis will also examine two innovative housing co-operative projects in Sydney: the Kapit-bahayan Co-operative Limited (KCL) Debt Equity project in Canley Vale, and the debt equity joint venture between Community Housing Limited (CHL), Willoughby Council and Association to Resource Co-operative Housing (ARCH) that is assisted by a grant from the Centre for Affordable Housing to develop housing in Artarmon to contribute to Willoughby Council’s Affordable Housing Program.

This thesis will explore how the housing co-operative sector can provide one alternative in the spectrum of options that will need to be developed to address the increasing shortage of affordable housing. The following chapters will identify the impediments that have restricted the growth of the sector and constricted the tenure to a relatively small segment within the social housing sector in NSW. The thesis will provide an insight into the innovations and expansions that are currently occurring within the sector, including the exploration of two projects discussed in Chapters 5 and 6 that are at the initial stages in the development process. The innovations in the funding of the projects, exploration of hybrid models within the housing co-operative tenure and insight drawn from primary research and literary review of both the national and international context may be able to provide a useful framework for
assessing the potential scope and future role that the co-operative sector can play in addressing the affordable housing crisis.

The research questions that directed the thesis are:

- Where do housing co-operatives fit in the social housing sector?
- What are the differences between the model adopted in NSW and other models that exist?
- Do housing co-operatives contribute to providing affordable housing?
- What is the role of housing co-operatives in providing a solution to the housing affordability crisis in Sydney?

**METHODOLOGY**

In the attempt to explore housing co-operatives and the housing affordability crisis primary research was undertaken and the literature was reviewed to inform the findings of this thesis. The research undertaken allowed the thesis to fulfil the objective of the thesis and ensure the thesis was able to answer the research questions outlined above.

The main form of primary research undertaken consisted of qualitative data gathered from five in-depth interviews undertaken with key stakeholders in the sector and associated with the KCL debt equity project and the CHL, ARCH and Willoughby Council joint venture. The interviewees were representatives from ARCH, CHL, Willoughby Council and KCL. The in-depth interviews were recorded, transcribed and analysed to provide valuable information towards understanding of the two case studies discussed in this thesis. The primary research undertaken contributed to the understanding of housing co-operatives and informed the case studies explored in Chapters 5 and 6. The case studies also formed a vital research approach to determining the future opportunities for housing co-operatives.

The primary research undertaken also included observations at a design meeting in the KCL project that was attended by KCL members, the project architect and project co-ordinator from ARCH. The observations made during the design meeting provided
first hand experience in the proceedings of a co-operative meeting and some of the challenges of the project.

A literature review was undertaken to guide the study into housing co-operatives, the affordability crisis and the role housing co-operatives have had to date. International and local literature was reviewed as well as the exploration of co-operatives to evaluate the past and look to the future.

**STRUCTURE**

This thesis will explore housing co-operatives and the role housing co-operatives have had and can potentially have in the future. Provided below is a brief introduction and explanation of what will be covered in each chapter within this thesis.

The next chapter will outline the methodology undertaken to inform this thesis including primary research and literature review undertaken to explore housing co-operatives, housing affordability and the relevant case studies. The scope of the research and limitations within the research will also be explained.

The third chapter provides the background for this thesis and investigates the housing tenure of housing co-operatives and their current role. The various models that exist will be explored in particular reference to their performance and success overseas. The advantages, disadvantages, limitations and opportunities of housing co-operatives are identified. The housing co-operative sector in NSW will be explored and the ability of housing co-operatives to provide affordable housing for low-income groups.

The following chapter will explore housing affordability and whether housing co-operatives have a role in alleviating housing affordability and how that will be best achieved. This chapter will give a better understanding of where housing co-operatives fit in the debate of providing more affordable housing. It will analyse the housing affordability situation and provide a context for which housing co-operatives will be explored.
In chapters 5 and 6, two relatively current case studies that are presently in the planning and development stages will be explored and will provide a useful insight into recent developments within the co-operative sector in NSW. Both projects explore debt-equity financing models to fund the development costs, however the projects have evolved via significantly different paths and will result in two different housing co-operative models in NSW in the community housing sector. Also of interest is the different housing market contexts of the two projects, the Kapit-bahayan Co-operative Limited Debt Equity Project will be built in Fairfield – a relatively affordable housing market – and the Community Housing Limited, Willoughby Council and Association to Resource Co-operative Housing Debt Equity Project will be developed in what would be considered a generally high-value market on Sydney’s north shore.

The two projects together provide a range of insights into the operation of the current sector, how they differ from the current housing co-operative model adopted in NSW, how the new models will benefit individual members and the sector as a whole, how they will provide affordable housing and how they will provide a framework for future growth of the tenure format and whether it can be joined with other tenure to form hybrids. These chapters will illustrate the innovations occurring within the sector and how the sector is undergoing revitalisation.

The final chapter will evaluate and identify the growth opportunities for this sector within NSW and what is its role as one of a spectrum of initiatives that will need to be and are being developed to address the housing affordability crisis. It will draw upon the research and findings from the previous chapters and provide an overview and the way forward for the sector. It will determine the extent, if any, that housing co-operatives can contribute to the social housing sector and the private rental sector. If the housing co-operative model is able to assist in providing affordable housing it may be able to support the expansion of alternative tenure choices and may also facilitate access into home ownership.
CHAPTER 2
METHODOLOGY

In the attempt to explore housing co-operatives in the context of heightening housing affordability concerns in Sydney, a number of primary and secondary resources have been utilised to explore the following research questions and contribute to the findings discussed in this thesis:

- Where do housing co-operatives fit in the social housing sector?
- What are the differences between the model adopted in NSW and other models that exist?
- Do housing co-operatives contribute to providing affordable housing?
- What is the role of housing co-operatives in providing a solution to the housing affordability crisis in Sydney?

The primary research that was undertaken provided insight into the research questions and included in-depth interviews and observations from a meeting held in relation to one of the case studies. The secondary research undertaken in the form of literature review and information gathered from correspondence with professionals working in the housing industry provided the context and background which directed the thesis.

LITERATURE REVIEW

A literature review was undertaken to guide the study into housing co-operatives and evaluate the role housing co-operatives have had to date. This encompassed literature in relation to housing co-operatives in NSW, Australia and within the international arena. Data sources that were utilised included predominantly journal articles and reports that look at the evolution of and operation of housing co-operatives and the current housing affordability crisis. Information available in relation to the formation and regulations placed on housing co-operatives were also evaluated. The State and
Federal housing policies were also reviewed to provide useful information in evaluating the issue of housing affordability crisis and subsequent responses.

**PRIMARY RESEARCH**

The main form of primary research undertaken for this thesis involved in-depth interviews. The purpose of the in-depth interviews was to interview professionals working within the housing industry who had a good understanding of housing co-operatives and to confer with the various stakeholders involved in two case studies that will be discussed in further detail below. The process involved included Ethics Approval 75094 granted on the 25th September 2007 from the Faculty of the Built Environment’s Human Research Ethics Advisory Panel.

The prospective interviewees were selected through initial investigations and correspondence with their respective organisations; the aim was to gather data from all the stakeholders involved in the development of the two case studies. The prospective interviewees and the reasons why these organisations and subsequent representatives were selected are detailed below. The successful interviews undertaken are as follows:

- **ARCH representative** who had a thorough understanding of the operation and the development of the sector and who could provide insights into the two case studies. ARCH is the peak resourcing body that assists housing co-operatives and provides training and education to co-operative members. They currently have 37 co-operative members.

- **Willoughby Council Housing Policy Officer** due to her understanding of the CHL/ARCH and Willoughby Council Debt Equity Project and the state of housing affordability in the Willoughby Local Government Area (LGA). Willoughby Council is one of the Councils that are included under State Environmental Planning Policy 70 – Affordable Housing and actively tries to create affordable housing options.

- **CHL representative** due to his understanding of the CHL, ARCH and Willoughby Council Debt Equity Project and his understanding of where housing co-operatives were located in the community housing sector. Community Housing Limited (CHL) was formerly a Victorian based housing
association. However, due to the broad scope of its capabilities and innovative structure in comparison to other social housing providers, it has seen the opportunity to expand its services to include NSW.

The two organisations contacted where an interview did not ensue were Office of Community Housing and Centre for Affordable housing. These two government organisations contribute to the social housing sector in NSW and form part of the Department for Housing, which operates under the Housing Act 2001 (NSW). They were contacted for the following reasons:

- Office of Community Housing representative who would be able to provide insight into the performance of housing co-operatives and their role within the community housing sector
- Centre for Affordable Housing representative who would be able to inform the thesis in regards to the funding available for the CHL, ARCH and Willoughby Council Debt Equity Project and the arrangements within that project to ensure affordable housing was achieved through that initiative

**In-depth interviews undertaken**

The primary research undertaken in early October 2007 was able to provide insight into the housing co-operative and community housing sector. Specifically, the first research question was informed by the in-depth interviews conducted with the ARCH and CHL representatives and the literature review. The second research question was explored in the in-depth interviews conducted with ARCH and CHL representatives and the literature review. The third research question was informed by all the in-depth interviews, the literature review and case studies. The final research question was enlightened by the understanding obtained through the exploration of the case studies and conclusions drawn from both the primary and secondary research. The in-depth interviews that were undertaken that provided valuable information into the research questions included:

- Karine Shellshear – Executive Officer of ARCH who has worked extensively within the housing co-operative sector and on the CHL, ARCH and Willoughby Council Debt Equity Project. She also has an extensive understanding of the Victorian models as she is a Director of CHL.
- Stacey Miers - ARCH representative who was the project officer for the KCL project and who was a former housing policy officer at Willoughby Council when the CHL, ARCH and Willoughby Council Debt Equity Project was developed. Her primary role with ARCH is to facilitate the development initiatives of a few of the co-operatives.

- Lara Nguyen - Willoughby Council Housing Policy Officer who was not present when the project was established, however has a good understanding of the Willoughby Affordable Housing Program

- Patrick Yeung – Manager of NSW branch of CHL and former CEO of St. George Community Housing, which grew to be the largest community housing provider in NSW under his leadership. Patrick has a thorough understanding of the NSW community housing sector and the CHL, ARCH and Willoughby Council Debt Equity Project.

- Rueben Amores – former and recurring President of KCL who is highly involved in as a leader of the co-operative, a community leader of the Filipino community and a promoter of housing co-operatives. Originally this interview was to be undertaken as a focus group with various members of KCL, however insight gained through the design meeting negated the need to undertake the focus group.

The prospective interviewees were initially contacted by phone and if they were interested in participating, a Project Information Statement (see Appendix A) was forwarded to the participant via email with further correspondence to designate the time and place of the interview. These interviews primarily were held in their respective offices except for Rueben Amores where the interview was held in his personal living room as the office was in use at the time of the interview. The undertaking of an in-depth interview in place of a focus group was due to the observations that were made while attending a design meeting in relation to the KCL debt equity project which will be discussed in further detail below.

The interview schedules that directed the in-depth interviews are included as Appendix B. The questions were designed to draw out key issues relevant to the organisations concerned. Given the semi-structured nature of the interview approach,
discussion took on a variety of formats. In one case the participant had pre-prepared information based on areas of discussion, one followed a meeting that had already divulged the answer to many of the questions, and constant interruptions disturbed one of the other interviews. However, together the interviews provided valuable insights into the housing co-operative sector and the case studies.

The audio from the interviews were digitally recorded and transcribed. The data were then analysed and relevant information has guided the case studies as well as information on the community housing sector. Relevant information has been referenced throughout this thesis; in particular the information gathered has informed the chapters relating to the case studies due to the lack of information currently available as both projects are at the initial stages. The insights of those involved in the project are vital to the understanding of how the projects could provide a useful framework for future developments in the housing co-operative sector.

While trying to establish prospective interviewees and through undertaking initial correspondence it was revealed that the CHL, ARCH and Willoughby Council Debt Equity Project was in the very initial stages and apart from the finance in relation to the funding there was little additional information that the Centre for Affordable Housing representative would add to the research so it was mutually agreed that the interview would not be necessary as the key aspects in relation to ensuring affordable housing has not been established.

The initial correspondence with the Office of Community Housing representative also revealed that the information that they could provide could be gathered from ARCH or from the relevant housing co-operatives as the information they held was held in confidence. Any information they could provide would be limited as other organisations had a better understanding of the sector. Therefore, it was mutually agreed that an interview was not necessary as interviews had already been scheduled with representatives from the other organisations.

Although not specifically conducted as part of this work, previous primary research which involved a focus group with professionals working within the housing sector has provided valuable contextual insight into the current state and history of the public
housing sector. This research was valuable in providing an insight into the development of the social housing sector in NSW and the contribution to the housing affordability crisis. This insight was significant as it was derived from experience and understanding developed by professionals working within the sector and has subsequently contributed to providing the direction this thesis has taken.

**KCL Design Meeting**

While organising the in-depth interviews with Stacey, an invitation to attend a design meeting to observe the current progress and aspects of the design phase of the debt equity project was received and accepted. The meeting was held at the KCL registered office after the co-operative had finished conducting their Annual General Meeting. This resulted in the majority of the members being present where informal discussions were undertaken with members and where the interaction of the co-operative members was observed.

The meeting revealed valuable information in relation to the history of the project, challenges faced within the design phase, member participation and the goals of the project. The attendance at this meeting and observations made resulted in no need for a focus group as information gathered within this meeting met the purpose of undertaking a focus group.

Permission was also requested of the architect and received, to take pictures of the draft designs of the project including a model and elevations of the proposed dwellings.

**CASE STUDIES**

This thesis explores two case studies that offer interesting insight into contemporary developments within the affordable housing co-operative sector in NSW. The two projects are similar in that they will be funded through a debt equity process however that is predominantly where the similarities end. The KCL project is an expansion of an existing housing co-operative and is located in what is considered to be an affordable area of Sydney whereas the CHL, ARCH and Willoughby Council venture
(which was established in response to a grant) is located in what would be considered an unaffordable suburb in Sydney.

The two case studies will be evaluated from the funding, formation, location, affordability, ability to maintain affordability, challenges and how the operation differs from existing co-operative structures perspectives. From these findings the case studies should be able to provide valuable information into the current innovations in the housing co-operative sector and reveal hybrid and revitalised models that may provide a more feasible option then the current model that has been neglected.

**SCOPE AND LIMITATIONS**

The volume of information that is available in regards to housing co-operatives is diverse when exploring the housing co-operatives models of other countries. However, the local literature on housing co-operatives reflects the development of the sector, limited. The scope of this thesis is to explore the affordable housing co-operative sector in NSW and its role.

A limitation to the study of housing co-operatives and their future role is that apart from broad group characteristics such as women’s co-operative or Filipino families co-operative or students co-operative, etc. there is little data available on household characteristics of housing co-operative members. In the absence of this information it is difficult to speculate what the future possibilities are for tenant selection for new co-operatives as information on member make up is generally categorised. Members are made up of those primarily on public housing waiting lists.

A limitation on the research is also evident in the limited information available in regards to the performance of co-operatives individually instead of as part of the community housing sector. However, the model and the concept behind the case studies will be able to contribute to the evaluation of the sector and the possibilities for the sector.
CHAPTER 3

HOUSING CO-OPERATIVES

Housing co-operatives are not a new housing model and have existed with varying levels of success through a number of countries. Housing co-operatives form a sub-sector of co-operatives. “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (International Co-operative Alliance 2007). Housing co-operatives are a legal entity that consists of members that work together to manage the dwellings either owned or leased by the co-operative. These dwellings are subsequently leased to the members of the co-operative who holds ownership or the headlease. Shares within the co-operative may also reflect your occupational rights to a dwelling.

The earliest form of housing co-operatives recorded was in France in 1720 (Levy & Seigler 1986). Other countries that had early recordings of housing co-operatives in the 1800s include Britain, Switzerland, New York and Sweden. Numerous European countries have had relative successful outcomes with the housing co-operative tenure, including Sweden where it has had arguably the greatest success with over 15 per cent of the housing sector being in this tenure in the 1980s (Sazama 2000). However, it has also had relative success in the USA and Canada which have similar housing sectors to Australia with a high preference for home ownership with almost two-thirds of their populations owning their homes (Dreier and Hulchanski 1993, p.43).

This chapter will explore the principles of housing co-operatives, the different models that exist, the provision of affordable housing in NSW through housing co-operatives and the opportunities and constraints for the future role of housing co-operatives in NSW. Housing co-operatives exist in various models across a spectrum essentially determined according to the distribution of rights and obligations between the organisation and individual. The models that include equity have greater individual focus and provide a means of building individual equity, whereas other leasing and
tenant management co-operatives have a greater communal goal, including providing affordable rent provision and preservation of that affordable provision. The models that exist include market rate co-operatives, limited equity co-operatives, common equity or non-profit co-operatives, leasing co-operatives and tenant management co-operatives.

In NSW, the affordable housing co-operatives that have formed are based on the leasing co-operative model where to become a member a nominal share is paid, normally one dollar. However, there are self-funded housing co-operatives that are based on the market rate co-operative model and provide equity and home ownership. The housing co-operative model that is explored in this thesis is the standard affordable leasing housing co-operatives in NSW that forms a part of the community housing sector and subsequently the social housing sector. Alternative and hybrid models will be explored in Chapters 5 and 6 which explores innovative approaches to the NSW co-operative housing sector.

**Evolution of Housing Co-operatives**

Housing co-operatives are formed as a co-operative which is a legal entity that represents its members. Co-operatives are built on the foundations of the ‘Rochdale Principles” initially developed in 1844 in England(ICA 2007) which recognises the co-operative nature in which co-operatives are meant to operate. The seven principles are:

1. 1st principle: voluntary and open membership
2. 2nd principle: democratic member control
3. 3rd principle: member economic participation
4. 4th principle: autonomy and independence
5. 5th principle: education, training and information
6. 6th principle: co-operation among co-operatives
7. 7th principle: concern for community” (ICA 2007)

These principles represent the performance objectives of all co-operatives including housing co-operatives. Co-operatives should be democratic and voluntary
organisations controlled by their members who have equal rights with one vote per member. The members must actively participate and direct the actions of the housing co-operative as well as in decision making. The one vote one member principle does however vary in the differing models and varies within each housing co-operative, however in general each aims to provide a democratic organisation where all members have a role in the decision making process.

Housing co-operatives developed in NSW are primarily non-trading co-operatives and are designed and established on the basis of acquiring and providing housing for their members, be it through establishing leasing arrangements or through the purchase of housing or land to develop housing, with members receiving shares with equity if the model utilised is market rate or limited-equity co-operatives. Housing co-operatives require a minimum of five members for the co-operative to be established; each is governed by the *Co-operatives Act 1992 (NSW)* and is subsequently registered with the Office of Fair Trading as a legal entity.

The affordable housing co-operatives that are developed in NSW in conjunction with the Office of Community Housing (OCH) are designed to provide affordable housing and are non-trading co-operatives that are unable to distribute profits and have limitations on what any surplus can be used for. They are also governed by the *NSW Office of Community Housing Co-operative Guidelines 1998* as they fall within the community housing sector.

**Housing Co-operative Models**

Housing co-operatives are formed based on a number of the models. They are able to provide, to varying levels, an affordable form of housing within the public rental, private rental and home ownership sectors. Increasingly, hybrid models are emerging where two of the models are merged or a model is merged with another housing tenure to produce a more appropriate housing co-operative given the particular circumstances and the subsequent demands. The five main models that exist are:

- Market rate co-operatives which provide members with individual equity that responds to market demand for the shares;
• Limited-equity co-operatives (LECs) provide members individual equity that has limited growth capacity;
• Common or non-profit co-operatives where the co-operative has common equity that the co-operative holds however no individual has equity;
• Leasing co-operatives where the co-operative is able to provide tenant security and empowerment with control over finances, however as the title suggests the co-operative headleases the property and does not own the property; and
• Tenant management co-operatives where tenants form a co-operative that manages the properties and provides greater security and empowerment with no control over finances (as they do not own or headlease the property). Each member is an individual tenant.

The differences and similarities between the models are highlighted in the table below. The similarities and differences that clearly distinguish the models are co-operative equity (that is where the co-operative owns the dwellings in which the members are purchasing or renting) and individual equity (which is where members’ shares reflect the right to a particular dwelling and those shares have the ability to increase in value at a standard rate or as a result of the demand for those shares). As evident in the table a similarity between co-operatives is the ability to select new members whereas only tenant management co-operatives do not have that right as they are tenants of the landlord. The other benefit that can be clearly seen from the table is that apart from market rate co-operatives, which are very similar to home ownership models, the other models have the ability to include affordability provisions. The table also outlines where each model sits on the housing continuum shown in Figure 1.
Table 1: Comparison of the different housing co-operative models that exist

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Market Rate Co-operative</th>
<th>Limited-equity Co-operative</th>
<th>Common / Non-profit Co-operative</th>
<th>Leasing Co-operative</th>
<th>Tenant Management Co-operative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Shares reflect dwelling/unit size</td>
<td>Share is at a more affordable price and is capped/limited ability to increase</td>
<td>Co-operative owns the properties</td>
<td>Property is headleased and co-operative provides subsequent leases to members</td>
<td>Landlord</td>
</tr>
<tr>
<td>Co-operative Equity</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Individual Equity</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Affordability Provisions</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Similarity to other tenures</td>
<td>Home Ownership – Company, Torrens, Community and Strata title</td>
<td>-</td>
<td>Private renting</td>
<td>Public renting</td>
<td>Public / Private renting</td>
</tr>
<tr>
<td>Control over future tenants</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No dependent on arrangement with the landlord</td>
</tr>
<tr>
<td>Security</td>
<td>Long-term</td>
<td>Long-term</td>
<td>Long-term</td>
<td>Subject to headlease arrangements</td>
<td>Subject to individual tenancy arrangements</td>
</tr>
<tr>
<td>Co-operative control over equity/ funds</td>
<td>Complete control</td>
<td>Complete control</td>
<td>Co-operative has complete control over funds and are able to utilise to expand the co-operative</td>
<td>Control over fund including surplus however restrictions may apply as part of the headleasing agreement</td>
<td>Only for maintenance and repairs</td>
</tr>
<tr>
<td>Continuum</td>
<td>Home ownership with or without mortgage</td>
<td>Market rental as the equity has limited growth</td>
<td>Below market rental</td>
<td>Community housing supported and non supported tenancies</td>
<td>Public Housing most common form, however can be situated elsewhere dependent on the landlord</td>
</tr>
</tbody>
</table>

Source: Compiled by Author
“The occupant of cooperative housing … is simultaneously a shareholder, a member, and a leaseholder. These rights and roles are inseparable” (Davis 2006, p.24). The varying factor between the co-operatives is the value as a shareholder. The two co-operative models that allow for individual equity include market rate co-operatives and limited-equity co-operatives where members of these two models enjoy the greatest control in the spectrum of housing co-operative arrangements as equity is achieved and the shares reflect equity.

The affordability of housing provided within these two co-operatives are markedly different. Co-operatives that do not provide individual equity are much more suited to and used to provide a form of affordable rental housing while also imposing responsibilities and assisting in the development of housing skills within low and moderate income households. The models used ensure residents participate in the
management of their housing and are responsible for their actions, to varying levels depending on the model employed. The co-operative model ensures that members experience the direct consequences of their actions in the reflection of costs and quality of their housing. The similarities and differences and the ability to provide affordable housing in each model is discussed below.

**Market rate co-operatives**

Market rate co-operatives operate similar to that of home ownership where shares reflect the market value of the unit/dwelling occupied by the member. Therefore, the ability to retain a level of affordability in market rate co-operative is minimal as it is influenced by market demand in much the same way as home ownership. The shares are subject to market demand however can be restricted by the ability of members to approve new members which can have either a positive effect or negative effect as the exclusivity of the dwelling may push up demand and subsequent value of shares. However, the member is able to enjoy equity and some of the advantages of home ownership, while not having to take on the full scope of the responsibilities.

Through ownership in a market rate co-operative they may be able to improve their housing management skills and may choose to move on to outright home ownership as they retain the equity to do so. The other benefits that market rate co-operative members enjoy as a co-operative is belonging to a community and having the ability to decide on the social make up of that community, which has partly driven the market rate co-operative sector in the USA as they can create exclusivity in their housing co-operative.

**Limited-equity co-operatives**

The LECs model, primarily found in the USA, was designed with a key principle of ensuring affordability and providing assistance to low and moderate income families. (Miceli et al. 1994, Rohe 1995). The provision of affordable housing is evident in LECs which are able to sustain affordability, as the foundation of a LEC requires “a regulatory agreement between the financing agency and the cooperative which places some affordability restrictions on the resale of initial membership shares” (Sazama 1996, p.1). Restrictions that ensure sustainability include limiting the resale of co-
operative shares to moderate or low-income households, and/or restrict increases in the resale value of the shares. This model provides affordable home ownership for many low and moderate income households who would have limited opportunities to ever enter into home ownership (Miceli and Sazama 1998). This model also promotes a greater social-mix with most providing housing for both low and moderate income households which creates stronger communities.

Common / non-profit co-operatives

Common and non-profit co-operatives models allow the co-operative to benefit from the equity, while individual members are primarily tenants as they have no individual equity. These co-operatives are able to remain affordable as they are predominantly formed on the basis of being a non-profit organisation or are subsidised or acquire the equity in the properties on the premise of providing affordable housing for low to moderate income households. The requirement to provide affordable housing may form part of the constitution of the organisation or the rules by which the co-operative operates.

The members are generally able to enjoy security in their tenure as the co-operative has equity over the units/dwellings. Within the models that do not provide individual equity, this model provides co-operatives with the ability to expand their operations through finance leveraged on equity that the co-operative holds. The co-operative also has complete control over the housing as the co-operative owns the units and/or dwellings which also provide members with long-term security in their housing.

Leasing co-operatives

Another model which does not provide equity for individual members is leasing co-operatives which also have limited ability to obtain equity as a co-operative as they operate within leasing agreements. These co-operatives tend to have greater restrictions on the housing that is available to them and may not provide the security others are able to as they are subject to headleasing agreements, which may only be made on short term bases.
Leasing co-operatives enter into headleases to obtain housing from the government, private or community sectors which subsequently impose a greater level of restrictions within a leasing arrangement. The co-operative is then responsible for all aspects of the management of that housing including financial management and ensuring the rent is paid and the properties are maintained. This model has been adopted by the NSW affordable housing co-operative sector and the co-operatives enter into headleases to occupy government owned housing.

This model however is able to provide greater security than its main counterparts of public and private rental as essentially you are a member of a community organisation which has the main function of acquiring and providing its members affordable housing, through relationships with the community housing sector and government regulators. In the case of NSW, the headleases that are established are subject to 5 year renewals and the level of security is not as high as other co-operative models. Most leasing co-operative models provide affordable housing as they enter into partnerships with the government or community sector, as is the case for NSW, on the premise that the co-operative will provide housing for low and moderate income groups.

Leasing co-operatives aim to have a social mix as it makes the co-operative more financially viable and improves community and social outcomes. A set quantity of how many low or moderate income households may become members may form part of the headleasing agreement or the part of the co-operative rules before they are eligible to enter into an agreement with the government or community housing organisation. This model will be explored further in the discussion of NSW housing co-operatives.

**Tenant management co-operative**

Tenant management co-operative is the final co-operative model that exists and provides an alternative model in which the members do not have control over the housing or any surplus created as they are still directly leasing through the landlord. The tenant co-operative is given either limited or full control over the management aspects of the tenancy such as maintenance (Johnston and Lumsden 2004).
As this model primarily provides a form of empowerment and involvement of tenants in their housing while the tenants still pay rent directly to the landlord, its ability to provide affordable housing is subject to the landlord and their operations. In the case of the majority located in Britain it is public housing, therefore affordable. The potential for creating more affordable housing with this model is the ability to reduce housing costs through reduction in costs for management and maintenance and improvement in skills of the tenants (Silver 1991). The responsibility given to residents may also provide tenants with a greater awareness of how their actions impact on housing costs.

HOUSING CO-OPERATIVES AND OTHER TENURES

The ability to participate in the decision making of the housing is what makes housing co-operatives a valuable tenure format as the only other group that has that level of control are home owners. The differences between the main tenures that exist in NSW are outlined in the table below. One of the key principles of a co-operative is to ensure that members have equal control over the undertaking of the co-operative, which is reflected in the one member one vote principle that the co-operative model is based upon. However, this can vary as “the directors of a limited equity housing co-operative are elected on the principle of one member, one vote, with each housing unit representing a single membership. Most market-rate cooperatives, by contrast, assign votes on the basis of the number and value of shares” (Davis 2006, p.24). This is similar for company title properties in NSW as they operate as a company and dwellings are equivalent to shares in a very similar manner to market rate co-operatives.

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Torrens title ownership</th>
<th>Strata title / Community title ownership</th>
<th>Company Title</th>
<th>Private Rental</th>
<th>Co-operative</th>
<th>Public Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Complete</td>
<td>Complete however subject to body corporate</td>
<td>Shares reflect property size</td>
<td>Nil</td>
<td>Varies depending on model</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Leasing and tenant management co-operatives give greater control, especially in Australia in comparison to private and public renters who have a high level of restrictions on their tenancy agreement or little control of their housing arrangements. However, the market rate co-operatives would in comparison to home ownership have more restrictive measures and less freedom in the control of their housing while also contributing more of their time to the co-operative. However, they like all co-operatives have a great power in being able to approve future members.

## COMMUNITY HOUSING AND HOUSING CO-OPERATIVES IN NSW

The community housing sector in NSW is composed of non-profit housing associations and housing co-operatives which has a much smaller role within the sector. The affordable housing co-operatives in NSW are leasing co-operatives and the program that initiated co-operative development in the community housing sector was established in 1985 (Fowkes 2001). Other housing co-operatives have developed through self-funding, however they have developed predominantly along the lines of

<table>
<thead>
<tr>
<th>Provisions for affordable housing</th>
<th>No</th>
<th>No</th>
<th>No</th>
<th>Limited</th>
<th>Varies, one model does</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Varies depending on model</td>
<td>No</td>
</tr>
<tr>
<td>Security</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Community</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No except in some cases of large estates</td>
</tr>
<tr>
<td>Social mix</td>
<td>No (suburbs can be considered affluent, poor, etc.)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No (primarily consists of only low-income)</td>
</tr>
<tr>
<td>Control</td>
<td>Yes</td>
<td>Subject to body corporate</td>
<td>Subject to board decisions</td>
<td>No</td>
<td>Greater depending on model</td>
<td>No</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Full</td>
<td>Full</td>
<td>Full</td>
<td>Limited</td>
<td>Greater</td>
<td>Limited</td>
</tr>
</tbody>
</table>

Source: Compile by Author
market-rate co-operatives. The latest co-operative to be registered as an affordable housing co-operative was Villa Alegre Housing Co-operative which was registered in October 2002 (2007 Office of Fair Trading pers. comm., 1 Nov.). The housing co-operative sector has been rather sporadic and has had co-operatives form normally through word of mouth (Shellshear, K. 2007, pers comm., 11 Oct.).

The community housing sector forms a relatively small housing sector and has been seen as an extension of the public housing sector as many of the properties that the community housing sector has access to former public housing units and dwellings transferred to management by non-profit community organisations which are regulated by the Office of Community Housing. Community housing has always provided for low income households and with the declining affordability of housing particularly for low-income and moderate income groups who have few options, a need to increase the capacity of the non-profit social sector has been recognised. The community housing sector provided roughly 11,544 (Australian Institute of Health and Welfare 2007) dwellings for rent as at June 2006. These dwellings have been distributed between 230 community housing providers (Australian Institute of Health and Welfare 2007). This provides each organisation on average 50 dwellings per provider. However, given that housing co-operatives provide for roughly 400 households (Miers, S. 2007, pers. comm., 11 Oct.) with 37 co-operatives the average for co-operatives is approximately 11 dwellings per co-operative. Housing co-operatives make up a smaller proportion of the community housing sector in NSW, which can be seen in the following Figure.
Housing co-operatives in comparison to housing available through housing associations has mainly two differences. Firstly, housing co-operatives are managed by the members who are the tenants and have direct control over their housing whereas housing associations have tenants like most other landlords. Secondly, housing co-operatives have the allowance of being comprised of 65 per cent public housing eligible tenants and 35 per cent other households. This option ensures a greater diversity in members and a greater ability for the housing co-operative tenure to provide a cost efficient tenure. The tenants, if any are ineligible or become ineligible for public housing pay market rent like all public housing tenants. The remainder like all community housing tenants are subsidised and pay no more then 25% of their income and are eligible for Commonwealth Rent Assistance as they are leasing from a private organisation.

The tenant mix that exists within housing co-operatives makes housing co-operatives a more viable form of housing tenure as low-income households are supported by moderate income households. Low-income households are also more productive in mixed social communities, whereas congregations of low-income groups have tended to remain at that level if the environment they are in consists of all low-income groups. The moderate incomes households are also supported with greater security in their housing and not having to navigate the private rental sector. The majority of
Housing co-operatives within this sector have been able to maintain a high standard and ensure low rental arrears (Fowkes 2001). They have also been able to maintain a high standard with 50 per cent of the NSW housing co-operatives in the community housing sector obtaining A grade status (which reflects good performance) and 33 percent with B grade (and sound performance) against agreed outcomes with the Office of Community Housing under its new Performance Based Registration System.

Housing co-operative development in NSW has generally developed to accommodate cultural or disadvantaged or niche groups that have a common culture or experiences. There are 37 affordable housing co-operatives in NSW that support approximately 400 households (Miers, S. 2007, pers. comm., 11Oct.). These co-operative have all been created for specific groups including singles within an area, artists, disadvantaged groups within an area, youth, people with disabilities, ethnic and cultural groups, seniors, women, students, families and sole parent families or a combination of these groups. These groups are also supported by services and training provided by ARCH who develop and ensure adequate training is provided to co-operative members. They ensure the members are adequately equipped to manage their co-operatives. ARCH has also contributed significantly to the two case studies discussed in chapters 5 and 6.

The groupings that have formed ensures greater harmony is achieved within the group as the members have similar goals, experiences or beliefs and are able to contribute and participate equally within the co-operative. The services beyond housing may also be catered for with groups based on cultural or community needs. Other co-operatives have developed in an existing community where working relationships and dynamics already exist and hence the co-operative has a greater chance of survival. This has followed the general trend of development in other countries such as USA. This may be due to the general perception and belief that “the best chances for co-ops existed among a homogeneous fraternal or racial group” (Leavit 1995 cited in Sazama 2000, 578).

The leasing co-operatives in NSW enter into headlease arrangements with the Office of Community Housing to lease their dwellings and subsequently leases are entered into by members within the co-operative to occupy the unit/dwelling provided to the
co-operative. The advantages and disadvantages of this arrangement and housing co-operatives are discussed in the table below.

Table 3: The advantages and disadvantages of the affordable housing co-operative sector in NSW

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>cost effective with mix of incomes and reduced management costs</td>
<td>Problems arising from tenants not getting along</td>
</tr>
<tr>
<td>the ability to be formed with a mix of 65 per cent public housing eligible tenants and 35 per cent other low-moderate income members</td>
<td>Some members do not participate as required forcing other to take on more</td>
</tr>
<tr>
<td>higher degree of training and education to equip members to undertake duties related to management aspects</td>
<td>Require training and skills before able to maintain the co-operative</td>
</tr>
<tr>
<td>reduced housing costs as management and tasks are delegated within the co-operative and outsourced only when the co-operative or its members are unable to perform the task,</td>
<td>financial issues</td>
</tr>
<tr>
<td>increased skills through participation in management of housing,</td>
<td>tenure has been neglected</td>
</tr>
<tr>
<td>increased sense of community and participation in the community</td>
<td>Requires a motivated group to be successful</td>
</tr>
<tr>
<td>Housing co-operatives also “empower low- and moderate-income families, since under the cooperative structure they own and control their own housing” (Sazama 2000, p.574)</td>
<td>Tenant selection and the ability to discriminate</td>
</tr>
<tr>
<td>Provides affordable housing</td>
<td>In general should provide greater security in tenure as the co-operative tenure is based on ability to control and manage co-operative housing, however the security is not achieved in NSW with only 5 year leases</td>
</tr>
<tr>
<td>Social –mix with low and moderate income groups</td>
<td>Member burnouts where active members over the years have expended more then their fair share towards the co-operative and subsequently feel the effects</td>
</tr>
<tr>
<td>Can provide other services for special needs groups as majority of co-operatives form along ethnic or disadvantage groups</td>
<td>The equity envisioned for each co-operative to develop alternative equity tenures as part of the program was never achieved (Fowkes 2001)</td>
</tr>
<tr>
<td>Greater responsibility</td>
<td></td>
</tr>
<tr>
<td>Greater awareness of their actions and subsequent housing costs and maintenance requirements</td>
<td></td>
</tr>
<tr>
<td>Democratic organisation, one member - one vote</td>
<td></td>
</tr>
</tbody>
</table>

Source: Complied by Author
GROWTH OF THE HOUSING CO-OPERATIVE TENURE OVERSEAS

Housing co-operatives have primarily developed in response to the need to provide households with an alternative form of housing that is affordable. This has been a common factor that has spurred the growth across countries. For example in the USA “the objective of the movement is constant: to obtain for low-moderate-income families decent housing, at an affordable price, with effective resident control” (Sazama 2000, p. 573-574).

The social housing that is available or private housing that is available to low and moderate income groups is often of poor quality or heavily restricted. Housing co-operative tenure has developed in a response to provide empowerment to lower income groups to be able to obtain better and more suitable housing. Some models are even able to provide the individual households or at least the co-operative a level of ownership which as individual low and moderate income households they would never have the opportunity to obtain.

Housing co-operatives in the USA and Canada have had a relatively high level of success considering they are countries that value home ownership and similar to Australia discontinued public housing development in the 1970s and 1980s (Dreier and Hulchanski 1993, p.43). This has created a need for a larger social housing sector to be able to provide housing for low-income and moderate income groups. The success of housing co-operative tenure in European countries post World War 2 reveals a potential tenure that has both economic and social benefits that could be adopted in the expansion of the social housing sector. As Dreier and Hulchanski (1993) suggest the expansion of a permanent social housing sector was adopted in Canada whereas the USA had a more sporadic growth and that has been less sustainable. However, both countries have had significant support of housing co-operatives and growth through different avenues. Both the avenues taken provide valuable insight into how the co-operative sector could be expanded in NSW.

The funding directly injected into housing co-operatives or non-profit organisations that are able to develop housing for housing co-operatives is vital to the success of the sector, which is evident in both USA and Canada. Without the provision of the initial
funding or equity via government support the housing co-operative movement would have stalled, as evident in NSW. The funding came in a number of forms including direct funding, low-interest mortgages, tax breaks, and transfer of government housing to co-operatives.

**USA Co-operate Sector**

The co-operative sector within the USA has had more sporadic movements and had periods of strong growth coupled with periods where all government funding was withdrawn. However, as a base had been built community organisations ensured that the sector was able to maintain growth. This however differs from the growth in the Canadian housing sector which has seen the significant growth of the sector as the support of the non-profit sector evolved after the funding for the public housing sector was withdrawn in the 1970s.

In the USA the “movement started with ethnic and union groups developing self-help co-operatives in the twenties. It evolved into federal funding of low-income cooperatives in the sixties and seventies, and then into local non-profit organizations using ad hoc packages of funds to organize affordable cooperatives during the eighties and nineties” (Sazama 2000, p. 574). This reveals not only the evolution of the housing co-operative sector, it reveals the provisions for the social housing sector in the USA.

A significant amount of the housing co-operatives were developed in the 1950s as a result of mortgage insurances provided through programs developed by the USA Department of Housing and Urban Development (HUD) through Section 213 of the 1949 USA Housing Act (Davis 2006). Numerous other programs involving below market interest rates and HUD insured co-operatives were developed through national government support. A number of state governments, notably New York State also assisted the development of co-operatives. Low-interest loans and property tax exemptions were the support mechanisms employed under the Mitchell-Lama program to attract developers to develop affordable co-operative housing (Davis 2006).
A number of the funding programs that were developed in the USA “were designed to entice private builders to build low-income housing” (Dreier and Hulchanski 1993, p.47). The assistance in the USA began to take on a similar form to that in Australia where the focus of assistance had shifted from supply side funding to demand side assistance. This was introduced in the Housing Act of 1974 (USA) and CSHA in Australia in 2003. Section 8 certificate programs and rent assistance programs in the USA and Australia respectively, has seen the focus of funding directed to allowing people to afford more options while not providing adequate supply of affordable housing. However, given the restrictions and varying levels of support 425, 000 affordable housing co-operative units have been established in the USA (Davis 2006).

**Canadian Social Housing Sector**

Canada was able to establish a strong third sector (community based non-profit sector) (Dreier and Hulchanski 1993) that has driven the development of sustainable affordable housing co-operatives. The Canadian sector has received favourable mortgages through the Canada Mortgage and Housing Corporation (CMHC), which is Canada’s national housing agency and grants to establish a greater housing co-operative sector under amendment to the National Housing Act (Canada) in 1973 (Davis 2006). The co-operatives established are required to provide a certain percentage of housing to low and moderate income households and CMHC subsidises the co-operatives in return (CMHC 2007). Canada co-operatives are based on the community and non-profit co-operative model.

Co-operatives are able to acquire equity through obtaining mortgages through grants provided by CMHC which stipulate that housing must be provided for low and moderate income households; these restrictions ensure affordability. Members rent from the co-operative and purchase a share upon entering the co-operative and pay either rent or 25 to 30 per cent of their income if they are classified low-income. The cost of the share to join is similar to one months rent and is in practice equivalent to a bond. If you leave the co-operative the bond is refundable as long as the dwelling/unit occupied remains in a reasonable condition upon exit. “Housing co-ops cost less to operate – about 14 percent less than municipal or private non-profit housing” (CHF Canada 2007).
SUMMARY

The housing co-operative movement has been a small segment of the community housing sector and the development of the co-operatives has been sporadic and developed primarily along “common affinity or special need that brings them together” (Shellshear, K. 2007, pers. comm., 11 Oct.). The number of co-operatives since 1985 that have developed is a relatively small number, with small co-operatives. They primarily function in a similar way to other social housing providers that preserve affordable rental for low and moderate income families. The purpose in exploring the sector is to identify what role it may have, given the projected and increased role of the community housing sector which includes the expansion from supporting 13,000 households to 30,000 households (NSW Department of Housing 2007).

The affordability that is provided in these housing co-operatives over other housing tenures in home ownership and rental is the stability and security provided to tenants over the public and private rental sectors. The innovations occurring within the sector, including innovative funding models, warrant further investigation into a sector that has been primarily overlooked and regarded as onerous on housing co-operative members. Given the success in other countries with similar housing aspirations and the government support the tenure has received, it has resulted in the development of a number of models which can provide a framework of what is required to see the development of the sector locally.
"Housing affordability is a tenure-neutral term that denotes the relationship between household income and household expenditure on housing costs" (Milligan and Yates 2007, p.4). The increasing decline in housing affordability for lower-income households, as the percentage increase in housing costs outweighs the increase in household incomes, is one that has been widely recognised as a major urban challenge that many cities now encounter. The gap between the supply of and demand for affordable housing is becoming greater.

Housing Affordability has and continues to be an increasing problem for Australian families, especially those households living in metropolitan cities. In Australia, Sydney faces the biggest challenge in providing its population with affordable and appropriate housing. Sydney is ranked the most unaffordable city to live in out of Australia’s metropolitan cities and 8th overall in the cities surveyed in the Demographia annual housing affordability survey which includes major cities from the United States of America (USA), Canada, England and Ireland (Demographia 2007).

The consequence of the declining affordability has both an adverse economic and social impact on the community. Particular groups will be more severely affected and are at greater risk of being located in inappropriate housing, or finding suitable housing, while foregoing other needs, or being in severe financial stress. Housing must be in a location that ensures appropriate access and availability of adequate employment opportunities, training and community services (National Housing Strategy 1991). Everyone should have equal access to affordable housing (Yates 1994).

Housing Co-operatives is a tenure that has provided affordable housing and has been identified in the earlier chapter as a tenure with various models that have not been
adequately explored. This chapter will explore the housing affordability situation in the Sydney context and identify how co-operative housing can contribute to alleviating that affordability crisis. This chapter will explore where it has played a role and in which areas within the housing sector it may still play a role. Housing co-operatives have numerous models which can be adaptable and complement other initiatives developed to provide affordable housing. Ultimately, all housing tenures are interlinked and increasing affordability in one sector may lead to a positive affect on other housing tenures.

**HOUSING AFFORDABILITY IN AUSTRALIA**

The traditional housing ladder (Figure 3) and the ‘Australia dream’ has focused policy attention on home ownership or acquiring equity (Bramley and Morgan 1998). There has also been policy attention to those most in need and located within the dwindling public housing sector. However, apart from those who have reached the highest rung in the ladder and achieved security and equity in home ownership or those located in the security and affordability of government supported social housing, many households, in the other tenure states are encountering housing stress.

**Figure 3: Housing Ladder / Career**

```
Living with parents

Renting

Home purchase

Outright ownership
```

Housing stress has been used as a key indicator in determining the severity of the problem and identifying those groups most at risk as the affordability of housing
declines. Housing stress is described by the National Housing Strategy (1991) as the situation when a household is paying more than 30 per cent of their household income in rent or mortgage payments and located within the lowest 40 per cent of the income distribution range (Beer et al. 2007). “Currently around 15 per cent of all households pay twice as much as this – that is, they pay at least 30 per cent of their income in meeting their housing costs. This percentage has remained relatively stable over the past decade. For lower-income households this proportion (at 28 per cent) is almost double the Australia-wide average” (Milligan and Yates 2007, p. 4). In 2002-03, it was estimated that 860,000 lower-income households in Australia were in housing stress and over 150,000 moderate-income households were also at risk (Milligan and Yates 2007, p. 4).

During 2001 to 2006 according to census data (Table 4) the Sydney median household income increased by 15% while median housing loan repayments increased by 40% and median rents increased by 15%. In comparison the Australian median household income increased by 31% while median housing loan repayments increased by 50% and median rents increased by 31%. This shows that rents in both markets have increased in line with increases in household income. However, given that the increase in household income in Sydney is 15%, half the national growth, and in Sydney the increase in loan repayments is 40% compared to the national growth of 50%, the housing affordability crisis for home ownership can be considered to be far more pronounced in the Sydney market. This is also evident in the table below where the proportion of home loan payments has increased considerably more in the Sydney market (25.8%) than the equivalent increase in the Australian market (15.7%).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Median household income</td>
<td>$782</td>
<td>$1,027</td>
<td>$1,022</td>
<td>$1,176</td>
</tr>
<tr>
<td>Total dwellings</td>
<td>7,790,079</td>
<td>8,426,559</td>
<td>1,341,875</td>
<td>1,443,027</td>
</tr>
<tr>
<td>Dwellings owned outright</td>
<td>2,810,917 (39.7%)</td>
<td>2,478,264 (32.6%)</td>
<td>484,314 (38.5%)</td>
<td>395,929 (29.4%)</td>
</tr>
<tr>
<td>Dwellings being purchased</td>
<td>1,872,132 (26.5%)</td>
<td>2,448,205 (32.2%)</td>
<td>288,986 (23.0%)</td>
<td>412,665 (30.7%)</td>
</tr>
<tr>
<td>Dwellings rented</td>
<td>1,858,324 (26.3%)</td>
<td>2,063,947 (27.2%)</td>
<td>377,708 (30.1%)</td>
<td>412,006 (30.6%)</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------</td>
<td>--------------------</td>
<td>-----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Median housing loan repayment</td>
<td>$867</td>
<td>$1,300</td>
<td>$1,308</td>
<td>$1,833</td>
</tr>
<tr>
<td>Median Rent</td>
<td>$145</td>
<td>$190</td>
<td>$218</td>
<td>$250</td>
</tr>
<tr>
<td>Median housing loan repayment / median household income</td>
<td>110.9%</td>
<td>126.6%</td>
<td>130%</td>
<td>155.8%</td>
</tr>
<tr>
<td>Median Rent / median household income</td>
<td>18.5%</td>
<td>18.5%</td>
<td>21.3%</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

Author prepared with numbers compiled from 2006 census statistics
NB: Sydney based on Urban Centre/Locality data
    Based on weekly figures

“The home ownership and rental markets are closely linked, and factors affecting one ultimately will have an impact on the other” (Milligan and Yates 2007, 12). The ability to move up in the ladder requires stability and financial security. However, with the current state of housing affordability, households are increasingly finding themselves trapped in one tenure state or falling back down the ladder. There are fewer first home buyers as they are unable to afford the mortgage due to the inability to save as they are finding themselves in housing stress in lower rungs of the ladder, namely the private rental sector. Conversely, many who seek the assistance of the community and public sector in obtaining social housing are also contributing to the long waiting lists, while still situated within the private rental sector.

**DECLINE IN ABILITY TO ENTER HOME OWNERSHIP**

In Australia there has been a high preference for home ownership; many low-income and moderate-income households would chose to enter such an arrangement even if they were to face housing stress (Robinson & Smith 2005). However, many households are finding it increasingly harder to enter into home ownership. The affordability issues that relate to the inability to enter home ownership are directly related to the real increases in house prices (Berry and Dalton 2004).

The main initiative that has been developed to assist home ownership is the First Home Buyers Grant Scheme which revolves around a cash grant to first home buyers and reduction in stamp duty costs to assist home buyers into the market. A new model
of support that is being investigated and has been hailed as a solution is the shared equity model (Berry 2003, Berry and Hall 2006) which decreases the burden of home ownership by entering the market at a more affordable level and supports the ability to build assets or increase household income allowing the household to accrue savings and purchase the remaining proportion or take on a larger mortgage (Bramley & Morgan 1998). The establishment of a limited-equity model of home ownership may also be able to provide a form of more affordable home ownership. However, a limited equity model would require significant tax breaks or capital investment into the project. The initiatives discussed would be able to assist home ownership however the inability to enter into home ownership can also be attributed to the lack of ability to save which is a result of the increasing costs within the private rental sector and the lack of access to low income affordable options.

SOCIAL HOUSING SECTOR

The impact of the decreasing state of housing affordability has most severely affected low-income groups. In countries that have well developed social housing sectors they would have an array of options; in comparison, “Australia, along with New Zealand, has one of the least developed alternative delivery systems” (Fagan et al. 2004, p.20). Australia’s social housing sector, for the purposes of this thesis, will include public housing and community housing. The focus of the main Federal policy in operation, the Commonwealth State Housing Agreement, and its reliance on providing demand side solutions instead of addressing supply side solutions, has resulted in a relatively small social housing sector and an inability to support the need for higher provision of supply of affordable housing (Darcy 1999, Holloway & Randolph 2002). Community housing has the ability to provide a housing tenure between private rental and public rental, however in its current operation it primarily operates as public housing managed by non-profit community organisations.

Changing role of Public Housing

In the past public housing had a major role to play by providing a significant level of affordable housing post 1945 and providing working families and low income groups a housing tenure that allowed many households to save and eventually move up the ladder and into home ownership. Public housing’s role since the 1980s has
increasingly been to provide support for those most in need (Beer et al. 2007), which has removed one of the key functions the tenure used to perform as a facilitator for home ownership, which is the aspiration of most Australians.

Public housing is increasingly targeting and providing support for those most in need primarily welfare recipients including the long term unemployed, persons with a disability and the elderly who are unable to participate in the labour force (Darcy 1999). This consumes a large percentage of affordable rental housing in the sector and results in a significant shortage for low-income households who will be forced to compete in a severely constrained and expensive private rental market, as higher income households are also forced to enter the private rental market as they do not have the support to enter into home ownership.

**Growth of community housing sector**

Housing co-operatives discussed in Chapter 2 and community housing providers currently operate under the guidelines of the Office of Community Housing and will be further investigated in Chapters 5 and 6 through case studies. These guidelines place restrictions on the tenants and their eligibility. Housing co-operatives due to their management requirements and operating principle of creating social capital through the ability to form a social-mix, require a mix of incomes and skill levels and subsequent ability to form the co-operative with 65/35 per cent public housing eligible/moderate income members. This flexibility has ensured greater financial viability and actual growth, as shown in Chapter 5.

Community housing providers operating outside of the leasing arrangement for Department of Housing stock could potentially have a greater role in supporting low and moderate income households. They are able to utilise tax incentives to ensure housing remains affordable while the tenants are also eligible for rent assistance. Community housing could facilitate saving and subsequent home ownership or provide long term secure housing. However, in recent times in NSW community housing providers have had some of the tenants with greatest and special needs transferred to their housing as the community housing sector is better equipped to provide services and management to these tenants needs (ShelterNSW 2006).
Until recently there has been very little public support for growth of the community housing sector (Miers, S. 2007, pers comm., 11 Oct.). The recognition of the sector in the NSW Planning for the Future: Community Housing Strategy that projects an increase from the current 13,000 community housing stock to 30,000 by 2012 demands further investigation into the housing tenures that exist within the sector and those that could be developed to form part of the sector. Community housing providers have also recently been supported by new debt equity funds offered through the Centre for Affordable Housing and the Affordable Housing Innovations Fund which will see the Federal government provide $50 million in assistance in developing affordable housing programs. The case study explored in Chapter 6 of this thesis utilises one of the grants and consists of partnership between three organisations to develop a debt equity project to provide 28 units of affordable housing. The housing co-operative model however, not the existing model in NSW, will be utilised in this project.

**RENTAL SECTOR**

Rental accommodation has traditionally been seen in a negative light and just a step in the housing ladder. Accordingly, there has always been a market for rental accommodation and a relatively stable sector as people move in and out through different life stages (Berry 2000). However, the rental sector itself is becoming a preferred choice of tenure with changing lifestyles and Maher and Wulff (1998) have identified that over 40 per cent of private tenants rent for a period of 10 years or more and this represents a significant shift to the traditional understanding of this sector.

Private rental housing has traditionally been designed as a transitional tenure and subsequently benefits short-term renters. “Short term renters can maximise the flexibility and easy access and exit from the tenure. For the long-term renter, however, the disadvantages (including lack of security of tenure, high housing costs, lack of control over use of property, and unequal tax treatment) tend to become more pronounced” (Dalton and Maher, 1996 cited in Maher and Wulff 1998, pp. 85-86). As a result of the transitional tenure status and greater focus on other major tenures Australia has a unique system of primarily rental investors with only a single property

There is a lack of investment in low rental stock due partly to the risks and the greater return on higher end rental properties which has been exacerbated by “an upward shift in the distribution of rental stock towards higher-rent properties and that higher-income households have displaced lower-income households from more affordable housing in the private rental market” (Milligan and Yates 2007, p.12). Rental yields are not adequate to attract investors at the lower end rental market (Yates 1994). This is evident in the following figure which shows the lack of affordable rental housing towards inner Sydney. This increase in “the need for low rent stock, as measured by the number of low income households, almost doubled” (Wulff and Yates 2007, p.7) and has added to the problems faced by low and moderate income groups.
The declining level of housing affordability in rental markets exacerbates the decreasing affordability of home ownership as households are unable to move up the ladder as their ability to save for the deposit diminishes. The demand for affordable housing has and continues to exceed supply while policy interventions have predominantly “moved away from supply side measures (through the direct provision of public housing) to demand side responses (offering rent assistance to social security recipients)” (Wulff and Yates 2000, p. 45) and subsequently have not addressed the structural issue of lack of supply.
“Traditionally, private renters have received on average less government assistance than either home owners or public renters. But this situation is expected to change as more and more low-income households turn to private rental accommodation in the absence of sufficient public housing” (Wulff 1997, p.203). The primary form of assistance for private renters has been the Commonwealth Rent Assistance (CRA) program which attempts (with relative success) to alleviate housing stress and risks in relation to housing affordability pressures. However, this assistance has been developed as a demand response and does not promote structural change (Berry et al. 2007). Supply at the low end of the rental sector has not increased resulting in a severe shortage and contributing to a certain extent to the severe shortage in low rent housing stock in the period when CRA expenditure rose significantly (Wulff and Yates 2000).

There is a need to provide a greater supply to reduce the pressure of demand and the increasing rental prices. With the increased amount of private rental housing, improved management practices will need to be developed to accommodate the larger market (Milligan and Yates 2007, Maher and Wulff 1998). An option “could focus on putting into place institutional and subsidy arrangements to attract institutional investment into well-located, affordable rental housing and on boosting the capacity of the not-for-profit sector or other regulated landlords to allocate and manage affordable housing” (Wulff 1997, p.7).

This institutional investment proposed to increase housing in the sector has the potential to be supported by leasing or tenant management co-operatives which would mitigate some of the concerns Berry (2000) and Berry and Hall (2005) identified in why there has been the lack of investment to date. The concerns ranged from:-

- low return,
- risks associated with vacancies, poor maintenance, tenant management
- high management costs
- illiquidity
- lack of market information to identify risk
- lack of successful historical evidence suggesting good investment practice.
While a number of these concerns may not be addressed by utilising a co-operative housing model the social sustainability of providing this investment and social capital that will be generated through such a task (and potential government subsidies) could support the argument to undertake such a project. By utilising a co-operative model to manage the investment it should ensure some of the concerns over predominantly management related aspects would be negated and/or risks mitigated. Social-mix and cost effective management and the operation of the co-operative as a community not for profit organisation with potential tax benefits could ensure good returns.

**SUMMARY**

There is no doubt that there is a crisis and that most sectors are feeling the adverse impacts. The way forward is to identify initiatives that will support the expansion of affordable housing. Given the greater focus being diverted to community housing it is logical that housing co-operatives which form a branch of community housing will have a role to play. This is further qualified in the innovations currently occurring within the sector which will be outlined in the KCL case study in chapter 5 and the CHL, ARCH and Willoughby case study in chapter 6.

Housing co-operative models or hybrid models have been used or are being developed to provide affordable housing within this sector. This sector has traditionally operated through leasing public stock with limited support for growth. However, as discussed in the previous chapter, potential opportunities to expand have been developing and greater security is being investigated through self directed projects and review of the leasing format. The housing co-operative sector which forms a branch of community housing is the most cost effective method in the social housing sector as it builds social capital and reduces management costs, hence providing a more affordable tenure form.

The co-operative model that could be employed in the public housing sector to reduce management costs and foster community development and involvement, would be the tenant management co-operative that has been utilised in UK, Canada and the USA (Quarter and Sousa 2005, Fowkes 2001, Davis 2006, Dreier and Hulchanski 1993).
This model could be adopted for large public housing estates such as Northcott in Surry Hills which has turned the devastating housing conditions around through strong community involvement and ‘ownership’. This model could also be explored in the private rented sector especially if significant investment can be attracted to the housing market with the security and management concerns addressed by the formation of housing co-operatives. This would facilitate greater security and responsibility in this tenure which has traditionally been unstable and has given tenants little power in their housing choices.

More importantly though are the developments currently occurring within the sector which include the exploration of growth through existing well managed co-operatives that have proven to be cost effective and affordable housing providers. The case study explored in chapter 5 will establish a working framework for the development of this sector as a greater community housing provider within the community housing sector. The role beyond that would be dependent on government action and private investment.
CHAPTER 5

KAPIT-BAHAYAN CO-OPERATIVE LIMITED DEBT EQUITY PROJECT

This chapter will examine the development of the Kapit-bahayan Co-operative Limited (KCL) housing co-operative and the development of the debt equity project which is a result of self-funded expansion. KCL was formed initially to assist Filipino families in finding affordable housing and to provide a support network for Filipino immigrants. The co-operative model has provided the mix of incomes and the good management required to support the establishment of a surplus excluding all management and maintenance costs. KCL is the first co-operative in NSW to act upon the option to utilise surplus funds for self-funded expansion. Other co-operatives that have explored ideas of expansion have yet to commit their surplus funds to a development.

The innovation and determination of the individual co-operative has driven the project and expansion of the co-operative. It has not gained the support envisioned at the initial development of the housing co-operative sector in NSW. However, the project is a joint venture between KCL, and ARCH the peak resourcing body for affordable housing co-operatives. ARCH will play a vital role in providing the adequate professional services and assistance to ensure the project proceeds. KCL are responsible for the financial aspects and the ongoing management of the project. The project will see the expansion of the co-operative from supporting 11 households to the ability to support and provide affordable housing for 19 households.

PROJECT CONTEXT

The KCL co-operative is similar to other affordable housing co-operatives in the NSW sector and is based on a leasing co-operative model. The equity envisaged for the co-operatives at the outset of the establishment of the sector to create either shared equity or common equity housing co-operative was never realised (Fowkes 2001;
Yeung, P. 2007, pers. comm., 8 Oct.; and Amores, R. 2007, pers. comm., 7 Oct.). The co-operative currently headleases their properties from Office of Community Housing and must meet the 35/65 per cent ratio of moderate/low income households. Given that requirement

> when there are vacancies, when we get in new members we still consider those criteria that they have to have their tenant number from the Department of Housing and have to be qualified as low income (Amores, R. 2007, pers. comm., 7 Oct.)

The responsibilities that are bestowed upon members of a housing co-operative can be extensive, however, members of co-operatives may choose this tenure as they wish to be directly involved with their housing and community. The main responsibilities include organisation and management in regards to the following areas:-

- Responding to unscheduled maintenance and repairs;
- Planned cyclical maintenance and upgrades;
- Housing allocations;
- Establishing, managing and ending tenancy agreements
- Assessment of applicants and maintaining a waiting list
- Secure and maintain insurances
- Training
- Rental collection and ensuring finances are managed including all utility services are payed for
- Ensuring they meet the Community Housing Performance Based Registration System key performance indicators to retain status as a community housing provider.
  (OCH Registration Framework April 2006; Fowkes 2001; and Shellshear, K. 2007, pers. comm., 11 Oct.)

KCL is able to provide affordable housing as it falls under the community housing sector and tenants if eligible for Department of Housing / Office of Community Housing are also eligible for the rent subsidies and only pay up to 25% of their income. As they fall within the community housing sector, members are also eligible for Commonwealth Rent Assistance (CRA) as they are leasing from the co-operative, a private and non-profit organisation. According, the two primary funding
mechanisms assisted through the 2003 Commonwealth State Housing Agreement (CSHA) are utilised to assist members in the co-operative in obtaining affordable housing.

The tenants that are not eligible for DoH and OCH housing pay market rent and consist of moderate income households either entering through the 35 per cent share of the social mix that is permissible or as the household improves its circumstances including children working and contributing to household income (Amores, R. 2007, pers. comm., 7 Oct.). These households are able to enjoy the security in tenure and stability and do not have to navigate the unaffordable private rental sector discussed in Chapter 3. An argument that the housing should be reserved for those most in need exists, however the social mix that is promoted in housing co-operatives has also proven to be beneficial for the general community. In the case of KCL, this was evident in the ability of 5 households that were members of KCL moving onto private housing (Amores, R. 2007, pers. comm., 7 Oct.) through the stability and security achieved in co-operative housing.

The other factor that has ensured affordability for the KCL members is the location of the dwellings they inhabit which are located in Auburn, Berala and Pendle Hill. These suburbs are considered to be more affordable suburbs in Sydney. This can be seen in the table below which compares some of the key numbers across the suburbs where the KCL housing is located and the Sydney region. Market rents required by DoH are more affordable as these suburbs are equal or lower than median rents in Sydney. The 3 bedroom median rent has been selected to compare suburbs as 10/11 units are 3 bedrooms (Miers 2007) and the co-operative primarily supports families. The proposed project will also include 5/8 proposed dwellings as 3 bedroom dwellings (Project Report 2007). As is evident below the picture is bleak for residents without the support of the housing co-operative as they would be spending from 30 to over 40 per cent of their household incomes on rent.
### Table 5: Comparison of rent and households incomes in the existing KCL housing areas, proposed project location and to Sydney as a city

<table>
<thead>
<tr>
<th></th>
<th>Sydney</th>
<th>Auburn</th>
<th>Pendle Hill</th>
<th>Berala</th>
<th>Canley Vale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Median weekly rent (Census 2006)</strong></td>
<td>$250</td>
<td>$215</td>
<td>$220</td>
<td>$220</td>
<td>$165</td>
</tr>
<tr>
<td><strong>Median Rent for a 3 bedroom by Postcode or Sydney SD June 2007 (DoH)</strong></td>
<td>$320</td>
<td>$320</td>
<td>$300</td>
<td>$300</td>
<td>$235</td>
</tr>
<tr>
<td><strong>Median household incomes (Census 2006)</strong></td>
<td>$1154</td>
<td>$736</td>
<td>$978</td>
<td>$861</td>
<td>$694</td>
</tr>
<tr>
<td><strong>Median rent for a 3 bedroom as a percentage of median income</strong></td>
<td>27.7</td>
<td>43.5</td>
<td>30.7</td>
<td>34.8</td>
<td>33.9</td>
</tr>
<tr>
<td><strong>Median rent for a 3 bedroom as a percentage of Sydney median income</strong></td>
<td>27.7</td>
<td>27.7</td>
<td>26.0</td>
<td>26.0</td>
<td>20.4</td>
</tr>
</tbody>
</table>

Source: Author prepared with numbers compiled from Rent and Sales report provided by DoH for the June 2007 quarter and 2006 census statistics

### PROJECT DESIGN

KCL was committed to the community and so the development of more affordable housing was consistent with the social responsibility that is instilled in the co-operative. It provided a strong motivating factor that facilitated the expansion of the co-operative. KCL purchased an allotment in Canley Vale in south-west Sydney and has developed a debt-equity scheme to develop eight units which will see the expansion of their co-operative from 11 households to 19 households. This project has the potential to provide a framework for existing co-operatives and potentially attract more interested parties into the co-operative housing sector.

KCL had attempted to participate in OCH affordable housing scheme and also attempted to access grants available from the Centre for Affordable Housing to develop affordable housing. Neither of those options were viable so the current debt
equity project was developed in conjunction with ARCH. This project involved gaining equity through the purchase of land with the surplus created through good management and a social-mix of low and moderate income households. These qualities that created the surplus will also ensure steady rental income to finance the debt.

*It’s considered to be a surplus and when the audit is done, it’s identified as unrestricted cash.* (Shellshear, K. 2007, pers. comm., 11 Oct.)

The factors that were considered and evaluated before the purchase of the land included:

- Land value including that development approved land would increase the cost of the land significantly
- Accessibility to public transport
- Where the Filipino community in Sydney was located including those on the waiting list
- Services in the vicinity
- Planning controls and approvals on the land
- Direction from ARCH

The preference was to purchase land in Auburn as they had an established community and support network, however the option was investigated and the opportunity did not exist (Project Report 2007). After a thorough land valuation of comparable sites the Canley Vale property was identified as the most cost effective. The affordability facet of the land was the biggest driver in locating the project in Canley Vale. The Canley Vale site (shown in Figures 5-6) also met other criteria including:

- located in close proximity to public transport infrastructure, within 400 metres of Canley Vale train station;
- close to public schools, town centre, and open space;
- zoned residential; and
- the land was 1, 437 square metres which would support the anticipated growth of 3-8 dwellings.
Figure 5: Location of site at 96 Canley Vale Road, Canley Vale on the southwestern corner of Sackville Street and Canley Vale Road

Source: www.whereis.com.au

Figure 6: 96 Canley Vale Road, Canley Vale currently vacant land

Source: Author 2007
CO-OPERATIVE MODEL

The KCL co-operative, which was initially established as Kapit-bahayan Filipino Co-operative Limited, was formed in 1994 and registered as a co-operative under the Cooperative Act 1992 (NSW). The KCL co-operative was initially developed when the Karine of ARCH and another gentlemen invited us to a seminar in I think Auburn and we heard them introduce about housing co-ops, and then they were invited further to talk with the group, with us Filipinos who were former teachers in the Philippines. Newly arrived then we arrived in 91. So we had a small group call we call Filipino family support group which is based in Lidcombe and that’s when we decided to organise a co-operative. (Amores, R. 2007, pers. comm., 7 Oct.)

The co-operative model was well suited to the group and the small community that had developed that were already supporting each other. The co-operative was able to provide greater security in the housing, empower the residents and give the tenants a greater level of responsibility and control in their housing arrangements. As Ruben indicated

*We want independence as much as we want assistance.*

The co-operative has had strong management and organisation and provided a great deal of support for the local Filipino community which has supported the need to further expand the co-operative. Initially, 6 families were supported in the Auburn townhouse complex that was received in 1997. These were later complemented with 2 additional dwellings in Berala and 3 in Pendle Hill as the co-operative grew. The KCL co-operative provides more then just housing for their individual community, they engage in the greater community and participate in community building. The co-operative and members “also serves the community as a family support group and as a promoter of the integration of the Filipino and Australian cultures” (Miers 2007). The development of the co-operative was consistent with the general development of housing co-operatives that have developed along

*some common affinity or special need that brings them together.* (Shellshear, K. 2007, pers. comm., 11 Oct.)
The co-operative model that will be adopted on completion of this project will form a hybrid. The co-operative will have common equity in the new dwellings, while still operating under the leasing co-operative model with the existing 11 dwellings. Therefore, the co-operative would be able to provide security in tenure for a percentage of their tenants, however

They’re now talking about giving 39 or 99 year leases so that would allow us to borrow and grow. (Miers, S. 2007, pers comm., 11 Oct.)

This would not only provide equity in the lease and ability to grow for other co-operatives, it would primarily provide greater security in tenure. The expansion of the KCL co-operative may also be able to provide greater affordability in the long term; as owners they would have greater control over the rents charged over the new dwellings. This common equity model gives greater control and has fewer restrictions.

The co-operative may also adopt different affordability measures that do not require the rent to be set at 25 per cent of income and instead utilise the affordable housing provider provision and charge rent at below 75% to receive tax offsets. With the equity and steady income streams within this co-operative they have the opportunity to expand further, however

**PROJECT FUNDING**

The project will be funded via a debt equity process. The co-operative initially used a portion of their surplus to purchase the Canley Vale Site at $500,000 from a surplus of roughly $1 million. Therefore, equity is achieved in the purchase of the land. With the equity in the land and the equity that exists in the asset, with development approval they are able to borrow and establish a debt. The debt will be financed by equity that exists in the rental stream. This rental stream includes 65 per cent moderate income members who pay market rent. The expenditure and revenue that provides an innovative framework for other co-operatives is outlined in the table below.
Table 6: KCL Debt Equity Project Expenditure and Revenue Overview

<table>
<thead>
<tr>
<th>Expenditure Overview</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Purchase (from current surplus)</td>
<td>$500,000</td>
</tr>
<tr>
<td>DA Approval / processing fees</td>
<td>5% development costs</td>
</tr>
<tr>
<td>Council Rates</td>
<td>$2,000 (per year)</td>
</tr>
<tr>
<td>Cost of building (Construction costs payments staged over</td>
<td>$100,000 to $120,000</td>
</tr>
<tr>
<td>a 9 to 12 month period)</td>
<td>(per dwelling)</td>
</tr>
<tr>
<td>Insurance</td>
<td>$5,000 (approximately)</td>
</tr>
<tr>
<td>Cash flow from rentals</td>
<td>Nil for first 9 months of construction</td>
</tr>
<tr>
<td>Monthly repayments on $1,200,000 over 30 years at 6.9%</td>
<td>$7,903</td>
</tr>
</tbody>
</table>

**Monthly Expenditure on Mortgage Repayment**

**Yearly Expenditure on Mortgage**

**Revenue**

<table>
<thead>
<tr>
<th>Development Option and rental income – Build a mix of eight 3 and 4 bedroom units with a potential rental income at around $250 a week per dwelling</th>
<th>$2,000 (per week for 8 dwelling units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note: In 2006 the market rent for a 3-bedroom dwelling in Fairfield was $250 a week and a 4-bedroom dwelling was $300 (Rent and sales report September 2006)</td>
<td></td>
</tr>
<tr>
<td>Note: Co-op would aim to charge rent for low to moderate-income tenants at 75% of the market rent</td>
<td></td>
</tr>
<tr>
<td><strong>Monthly rental income (four weekly) on 8 properties</strong></td>
<td>$8,000</td>
</tr>
<tr>
<td><strong>Yearly rental income from 8 properties (times 52 weeks)</strong></td>
<td>$104,000</td>
</tr>
</tbody>
</table>

Source: Miers 2007

The co-operative also undertook a risk evaluation and have factored into their equation any unforeseen costs. The design (Figure 7) specifically addresses the risk associated and if the co-operative runs into financial problems a contingency plan has been developed that would result in two dwellings being sold to finance the project (Project Report 2007). The project will also be supported by the assurance of filling the tenancies with a waiting list of approximately 24 households and steady income stream (Amores, R. 2007, pers. comm., 7 Oct.).
FRAMEWORK

Although only in its initial stages, the Kapit-Bayahan project is already providing a useful framework. The joint venture between KCL and ARCH has enabled the group to undertake the tasks required and negotiations necessary to ensure the adequate design, approval, finance and construction phases of the development will be addressed. ARCH provides services in assisting in gaining development approval and co-ordination with community organisations. They are able to utilise or develop working partnerships which can provide networks and partnerships that could benefit future co-operatives wishing to expand and acquire common equity.

The involvement of members and the support provided by ARCH in the debt equity project shows the potential of the co-operative sector (observations made at a design meeting). The members present at the design meeting were well informed with the design and all participated in the evaluation of the design. The tenant involvement aspect of co-operatives was evident as well as the common goal to develop housing
that suited the needs of the co-operative. The co-operative also identified the need to develop an office and meeting area as part of the new development which would support the management and operational requirements of the co-operative. The current meeting and registered office is located in the garage of one of the dwellings at the Auburn complex. Not every member understood the technical aspects that were discussed, however all were eager to be involved and comment on the design. The empowerment and involvement that form key qualities of a co-operative were evident.

KCL is a community organisation that has built strong partnerships and has the support of non-profit organisations and aims to maximise the potential of the site. However, the

*thing about Canley Vale is that it’s pretty affordable out there anyway, but the thing is my feeling was they should have tried to maximise it because of it’s proximity to the station and there is a whole opportunity in that block to get some really good urban consolidation stuff associated with the train station.*

(Miers, S. 2007, pers comm., 11 Oct.)

The project had the potential to undertake a more difficult process with the argument that as an affordable housing provider in a well located site with great access to public transport, educational services, parks and employment centre, there should be concessions. However, the venture chose to take the safer passage that would result in a quicker return. This would ensure that the risk was minimised and the co-operative would be able to establish the common equity co-operative and security for the members and accommodate new members from their waiting list.

The project and any challenges that may arise will provide a useful guide to other co-operatives that wish to expand. The constraints for other co-operatives evident in this case study would be that to undertake such a project you would have to purchase land in affordable suburbs such as Canley Vale. This limits the opportunities for certain groups including the youth co-operatives and co-operatives that have developed communities in inner more affluent areas of Sydney. The project will be able to demonstrate the success of the common equity co-operative model and provide greater security for low and moderate income households. The lack of security has been the greatest disadvantage of the co-operative model in NSW and may have
contributed to its relatively limited success. The ability to acquire equity will distinguish itself from the community housing sector. Relationships, partnerships and proven success could create a path for other co-operatives.
CHAPTER 6

CHL, ARCH AND WILLOUGHBY COUNCIL

DEBT EQUITY PROJECT

The debt equity project outlined in this chapter is a joint venture between CHL, ARCH and Willoughby Council to provide affordable housing in the Willoughby LGA. The project was developed in response to funding made available by the Centre for Affordable Housing (CAH) in the form of a $1.7 million grant. The joint venture involves partial funding through CAH, the supply of land by Willoughby Council and the debt and equity raised as well as the development and management of the project by CHL. ARCH’s role will be to develop a co-operative that will occupy the properties upon completion. Illustrated in this chapter is the evolution of a hybrid co-operative housing model for the NSW sector, however it will utilise a recognised tenant management co-operative model. This project will be funded by a debt equity model.

The development will contribute to the affordable housing program developed by Willoughby Council in response to the declining affordability in Willoughby where “increasing property values above the Sydney Metropolitan average have exacerbated the lack of housing affordability, rental stock at the lower end of the market is disappearing and rents are significantly increasing” (Willoughby City Strategy July 2005). CHL, the housing association that will develop all the units will have the primary management responsibilities for the units designated for affordable housing. Subsequently, the co-operative developed to occupy these dwellings will be strictly a tenant management co-operative and will only partly manage the properties. This model has been designed in the attempt to reduce what some consider onerous and time consuming managerial and organisational tasks, while still empowering the members of the co-operative as responsibilities will be negotiated and delegated to the future co-operative.
SITE DESCRIPTION

The site that has been identified for the development of this project is located in Artarmon (Figure 8-9). The site is approximately 3180 square metres. The land is located in Barton Road, which also has a residential flat building with public housing. The site is an irregular piece of land that is located next to the Gorehill Freeway. The factors that make the site suitable for the development of affordable housing, as discussed in the Pilot New Affordable Housing Programs Report prepared for an Ordinary Council Meeting on 14 March 2005, include:

- Well supported by transport infrastructure including 100 metres from access to the Gorehill Freeway and 500 metres form Artarmon Railway Station
- Complement surrounding medium density residential
- As a result of RTA use of the site in conjunction with the construction of the Gorehill Freeway, the site is now barren and would need to be revegetated.
- Is not suitable for open space for which it is zoned due to security
- Close to services, the commercial shopping strip approximately 500 metres from the site and the Royal North Shore Hospital within 1km of the site.
- Close to employment generating activities located in the Artarmon commercial shopping strip, Royal North Shore Hospital, Artarmon Industrial area and Willoughby Council depot.

Figure 8: 30-34 Barton Road, Artarmon

Source: www.whereis.com.au
As the project is still in the initial phases the major challenges arising in this project currently is directly related to the site and the planning and legislative controls restricting residential development on the site. The restrictions on the land include:

- Part of the land was actually owned by the RTA and Council had to acquire that parcel of land.
- The land is crown land; this requires the land to be reclassified from community land to operational land as community land has numerous restrictions that would not allow it to be used for residential purposes.
- The land is zoned open space (Figure 10) and designated as a flora and fauna reserve. However, as a result of RTA using the land while it was constructing the Gorehill Freeway nearly all remnants of vegetation have been removed and there is no sign of any fauna. However, the rezoning of the land from open space to a residential zone to permit multi-unit dwellings will also be a lengthy process as we need to rezone it to a medium density residential zone. That process is happening as part of our new LEP for the whole city that we’re
doing. So that would probably be another 2 or 3 years before that's finally gazetted. (Nguyen, L. 2007, pers. comm., 8 Oct.)

Figure 10: The land is zoned Open Space

Source: Willoughby Council 2007
The proposal for the site after the site is rezoned and classified operational land will result in the construction in two stages. The first building to be erected will include the eleven 2 bedroom units planned to be sold as part of the debt financing after the first stage of construction to provide funds for the subsequent stage and second building. As the project is still in the conceptual stages and given that the development approval and construction approval is still some time away the exact units and design are only at the conceptual stage.

WILLOUGHBY HOUSING CONTEXT

Willoughby LGA is where the project will be undertaken and it is vital in understanding why the local council will form a key stakeholder in this project and how the project will benefit the community. Willoughby Council provided the initial equity that was required for the successful tender for the grant as it provided the land for which the development will take place. Willoughby will also add value to and equity to that land via the rezoning process.

*The Council’s got different roles in this project as well. Because we’ve got the role of land owner and we’ve got a role of consent authority and we’ve also got a role of providing affordable housing.* (Nguyen, L. 2007, pers. comm., 8 Oct.)

Willoughby Council has developed its own affordable housing program as they are committed to providing affordable housing. The affordability crisis has been described by Lara Nguyen, the housing officer at Willoughby Council area as

*there are some issues with affordable housing in this area. We did a housing study in 1995 that kind of looked at housing needs in this area and from that we did an affordable housing policy or we prepared some affordable policies and we have been recently looking again at the figures around housing affordability ... and of course it’s a very bleak picture for anyone who wants to buy or even rent. The rental has gone up every year for however long and also the average mortgage payment has been going up and there is a lot of people in housing stress.*

The Willoughby area is considered to be an area that is increasingly becoming more unaffordable, which is significant given it used to be a working class area and had a real social mix.
Willoughby ... had been a high working class area, and the state recognises ... there is nowhere people can live. (Shellshear, K. 2007, pers. comm., 11 Oct.)

Increasingly the area is becoming unaffordable; “Willoughby has a low proportion of public housing stock compared to other areas” (Willoughby City Strategy July 2005) as is also evident in the table below. Outlined in the table below is the reality that if you are on the Sydney median income and live in Artarmon in Willoughby LGA you would be facing housing stress. Subsequently, if you were below median which means all low-income and a significant proportion of moderate income residents and chose to live in a one or two bedroom unit in Artarmon of the Willoughby LGA you would be living in housing stress, if not extreme housing stress. The children of those working class families that used to inhabit the area, amongst other groups, would have limited options except to move away from their community and the connections established.

**Table 7: Comparison of rent and households incomes in the Willoughby LGA and Artarmon where the proposed project will be located and to Sydney as a city**

<table>
<thead>
<tr>
<th></th>
<th>Sydney</th>
<th>Willoughby LGA</th>
<th>Artarmon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median weekly rent (Census 2006)</td>
<td>$250</td>
<td>$360</td>
<td>$335</td>
</tr>
<tr>
<td>Median Rent for a one bedroom flat/unit by Postcode or Sydney SD June 2007 (DoH)</td>
<td>$320</td>
<td>$380</td>
<td>Not available due to small number</td>
</tr>
<tr>
<td>Median Rent for a two bedroom flat/unit by Postcode or Sydney SD June 2007 (DoH)</td>
<td>$330</td>
<td>$435</td>
<td>$390</td>
</tr>
<tr>
<td>Median household incomes (Census 2006)</td>
<td>$1, 154</td>
<td>$1, 667</td>
<td>$1, 578</td>
</tr>
<tr>
<td>Median rent for one bedroom as a percentage of median income</td>
<td>27.7</td>
<td>22.8</td>
<td>-</td>
</tr>
<tr>
<td>Median rent for a two bedroom as a percentage of median income</td>
<td>28.6</td>
<td>26.1</td>
<td>24.7</td>
</tr>
<tr>
<td>Median rent for one bedroom as a percentage of Sydney median income</td>
<td>27.7</td>
<td>32.9</td>
<td>-</td>
</tr>
<tr>
<td>Median rent for a two bedroom as a percentage of Sydney median income</td>
<td>28.6</td>
<td>37.7</td>
<td>33.8</td>
</tr>
</tbody>
</table>

Source: Author prepared with numbers compiled from Rent and Sales report provided by DoH for the June 2007 quarter and 2006 census statistics
“The number of households renting rose approximately 26% between 1986 and 2001” (Willoughby City Strategy July 2005) and with the statistics outlined in Table 7 it is evident that it is increasingly hard to find suitable and affordable accommodation in the Willoughby LGA which has driven the need for this debt equity project as part of Willoughby Council’s Affordable Housing Program. The Affordable Housing Program has resulted in cash contributions and dwelling units, however due to the partnership with private owners, the initiative has resulted in complications within the program.

Affordable housing strategy where we require, if a site’s re-zoned, then we require 4% of the floor space to be dedicated as affordable housing ... One site was down next to the St Leonards Railway Station, and 10 units there were provided by Meriton Apartments. ... another site that was developed and they paid a cash contribution of about $230, 000 into our affordable housing fund.” (Nguyen, L. 2007, pers. comm., 8 Oct.)

affordable housing trust fund, so that money can be used to for purchasing new properties to be rented to people on low to moderate incomes that kinda thing. But at the moment we’ve just been using it to offset the costs of the 10 existing units we have because the strata levies are quite high for those units. So there’s things like the strata levies and there was an issue with air conditioning and those kind of costs. (Nguyen, L. 2007, pers. comm., 8 Oct.)

The current initiative will initially place a greater role for Willoughby Council, however the partnership with a non-profit organisation and the CAH releases some of the pressure after the initial phase of ensuring the development can proceed. The provision of the affordable housing and management will be undertaken by CHL and any subsequent tenant management co-operative. Council will have less direct involvement after the development approval stages and will have limited ongoing costs required from the affordable housing program funds.

**PROJECT PROPOSAL AND BACKGROUND**

The Centre for Affordable Housing’s (CAH) primary role is to provide a portion of the equity required to ensure that the project is feasible and ensuring that affordable housing is created. The establishment of the grant under the NSW Government’s Affordable Housing Innovations Fund (AHIF) as a debt equity grant initiated the project and subsequent investigations by Willoughby Council who as described earlier
are concerned with providing affordable housing in their LGA. After Council approved of the concept of engaging a community housing provider, outsourcing the subsequent management and participating in the debt equity model by providing the land and subsequent equity that was required to be considered for the grant, a partnership was established with ARCH.

*Willoughby Council, to some extent for local council, we find that a number of local council that they have more proximity to the tenant co-op model. That would be the community concept, the empowerment themselves so that is where the council, especially for the Willoughby Council, they think that yes they need to have affordable housing component but at the same time they don’t mind to consider the co-op model.* (Yeung, P. 2007, pers. comm., 8 Oct.)

After the equity had been acquired and assurance was established by the partnership with ARCH that the housing would support low-moderate income families, the need to fund the remainder of the project and a partner with development capacity was required. CHL, being a non-profit organisation was selected as

*ARCH is aware of CHLs unique capacity and especially for the design and construct.* (Yeung, P. 2007, pers. comm., 8 Oct.)

CHL joined the venture as the main proponent who entered into agreements with CAH to utilise the grant and to provide 28 affordable housing units.

The joint venture utilises half of the inaugural funds available through the AHIF program. The venture discussed in this Chapter and a second project occurring in Nowra through Shoalhaven Community Housing will provide a total of 40 additional affordable dwellings at a $3.4 million cost to the NSW Government. The projected yield from the grant was initially estimated at 20 affordable units at a cost of $170,000 per unit to the government where the expected community housing provider contribution through capital and debt contribution would be equivalent to $1.12 million. However, the actual yield that will result on completion of the projects will create 40 dwellings at a cost of $85,000 per unit. The project in Nowra will provide 12 units and has provided contributions in line with the projected fund and yield. However, the partnership that has been established to fund, develop and inhabit the project led to a more ambitious project that will provide a greater amount of affordable dwellings in a location that is in high demand for affordable housing.
PROJECT FUNDING

CHL develops partnerships with local and government organisations to provide affordable housing. They however, have a number of arms in which they can assist in the development of affordable housing.

*We are registered community housing provider ... in addition to the housing management services we provide project development, architectural services and construction services.* (Yeung, P. 2007, pers. comm., 8 Oct.)

As a non-profit community organisation they are able to provide a more cost effective service then other private organisations and with a strong history of development and management in Victoria they are able to transfer those skills and practices that minimise costs to the NSW sector. Subsequently, in the development of the Willoughby debt equity project they are able to provide sound expertise in the project management phase, the cost effective practices and materials during construction phase and an affordable housing model for the future tenants.

The project will be funded via a debt equity process. The debt equity process will involve equity obtained through three organisations and debt raised against that equity to provide the funding for the project. As the project is only in the initial phase the debt and equity outlined in Table 8 are high level figures that give a general understanding of how the project will be funded.

<table>
<thead>
<tr>
<th>Table 8: Tentative funding model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provider</strong></td>
</tr>
<tr>
<td>Land Cost Willoughby Council</td>
</tr>
<tr>
<td>(9 units, which is the equivalent of the price of the land will be returned to Council but will be managed by CHL as affordable housing)</td>
</tr>
<tr>
<td>Grant Centre for Affordable Housing</td>
</tr>
<tr>
<td>Debt CHL privately financed through income stream from rent from future tenants</td>
</tr>
<tr>
<td>11 units sold on market</td>
</tr>
<tr>
<td>Development Cost</td>
</tr>
</tbody>
</table>

Source: Shellshear 2007, ARCH 2007
CO-OPERATIVE MODEL

The co-operative model that will be utilised in this project has been labelled a secondary model:

\[\text{this secondary model that it is not the pure form of the tenant co-op model that we are thinking about, \ldots CHL will be responsible for the ongoing management. \ldots Having said that, the tenant co-op will still maintain the most essential aspiration, that is, they would like to have their group of people that they can live together, they would like to make sure that their common concerns can be addressed. (Yeung, P. 2007, pers. comm., 8 Oct.)}\]

However, in a technical sense it will take on the form of a tenant management co-operative discussed in Chapter 3. The hybrid form is the culmination of the two community housing forms that have proven to make housing more affordable. The benefits are gained through tax breaks and operating as a non-profit community organisation and reduction on costs associated with management due to the establishment of a co-operative model to maintain the properties. The tenant co-operative ensures the costs related to the management of these properties are reduced for the community organisation ensuring greater affordability in the housing. An argument can be made that the co-operative itself could have undertaken the development. However, given the funding structure and the development potential of the site, an existing co-operative would unlikely have sufficient funds or expertise and a co-operative developed for the purpose of the project would also not have sufficient equity or the capacity to incur or manage a debt.

The development of this co-operative model is also an alternative model that reduces the tasks and responsibilities required of the tenants including the financial management which has to an extent been the hardest task to juggle for tenant co-operative groups (Paul van Reyk Consultancy Services 2005) and has seen 12 of the 37 co-operatives outsource their financial tasks (Miers, S. 2007, pers. comm., 11 Oct).

The agreement brokered between CHL and CAH will stipulate the affordability measures that will ensure the provision of affordable housing. This is further supported by the constitution of CHL which outlines the operational standards which ensure as a non-profit community housing provider they will ensure that tenants are low-moderate income and they pay rents considerably below market rent which
ensures affordability. CHL could also stipulate this in their agreement with the future co-operative to ensure that tenant selection takes into account the social mix and retention of affordability for a mixture of low-moderate income households.

The model being not directly under the control of the Office of Community Housing is not subject to the strict public housing eligibility requirements, so the tenant co-operative would be able to support a greater social mix with tenants from very low, low and moderate income households. However, it must be noted that undertaking a project like this may create division between the owners and the co-operative members. The owners will purchase their properties through the first stage and may establish a community before the co-operative is established which could potentially isolate them from the existing group. The other result of having a co-operative share a strata title with home owners provides the co-operative with greater weight and power to effect decisions on the site. The concern would be to ensure that the decision making is fairly distributed; for this reason separate strata titles maybe also required however this may contribute to any division that may arise.

Another factor that reduces the empowerment in the co-operative in his model is that the co-operative being established post–development would have no control over or participation in the design phase. The ability to involve the community in the design and facilitate the growth of working partnerships is not achieved. The current vision for one co-operative, with the capacity of 28 units, could also lead to unforeseen challenges as co-operatives have traditionally formed under much smaller numbers then expanded. An opportunity may arise where this could provide a great opportunity for a sector or segment of the community that needs to be located in the area and have limited opportunities due to income levels such as key workers for whom there is an identified shortage of affordable housing. This development could provide affordable housing for a key workers tenant co-operative which could support the various industries in a centrally located area. This could include supporting nurses in the Royal North Shore Hospital, council depot workers and other industries located in the region as it is located in proximity to the northern beaches where a shortfall or imminent shortage of key workers through lack of affordable housing has been forecast (Epic DotGov 2004).
FRAMEWORK

This project provides a useful framework in developing successful partnerships in the provision of affordable housing in a relatively unaffordable area to rent and live. Unlike the earlier case study where the co-operative was established and their expansion was limited by their means and existing community network, this project has evolved through significant funding through equity and debt raised through a rather unique and complex partnership. The rezoning of the land in a highly attractive suburb assists in financing the project as the asset value increases significantly and value in selling units in an expensive market to fund the development is captured. The partnership between Willoughby Council, the in house expertise brought to the project by CHL and the security in the tenanting and reduced costs with the co-operative model has allowed the project to maximise the potential output of affordable housing units on the site and through the grant received by CAH.

The provision of housing with security in tenure in the Willoughby LGA may assist groups that may have been forced to relocate away from their community and may facilitate low-income groups in saving and eventually moving to home ownership. The project would assist in ensuring that diversity and social mix in the community is not lost. It also has the potential to provide a long term affordable rental accommodation for those who do not wish to enter or are unlikely to ever afford home ownership, which is a growing market sector (Wulff 1997). The tenant co-operative model provides members with a secure and stable tenure where they can be actively involved in the management of their housing.

This model provides a useful framework for larger investment projects that require significant funds or a greater capacity to incur debt which currently small co-operatives would not have the ability to manage. The affordable housing model explored in this project is primarily the value in partnerships through a number of various organisations. The model is able to utilise both the cost effectiveness of a community housing provider and the reduced housing costs associated with management, with tenant empowerment and responsibility.
The tenant management co-operative model explored would not be limited to community housing. It has opportunities to create empowerment in public housing which has happened in Britain (Fowkes 2001) or could even support institutional financing of private rental accommodation (Berry and Hall 2005; Milligan and Yates 2007) which would empower and provide long term management options and communities in the ever increasing long term rental market (Wulff 1997). The tenant management co-operative model also facilitates the development of skills within the low-income and moderate income members that could support their move onto home ownership.
Housing is an important factor that can have a great influence on a person’s standard of living. “Households should enjoy tenure choice and consumer protection, including access to long-lease contracts, shared equity arrangements and co-operative ownership structures, as well as opportunities for home purchase and private rental” (Council of Capital City Lord Mayors 2007, p.69). This denotes the need to explore and develop a wide array of housing choices to be able to meet differing objectives and demands of various household structures. In Australia a single housing tenure has dominated and received a significant proportion of policy focus and support. The increasing inability to access that tenure is creating adverse impacts across the whole sector. There is an apparent need to explore and develop alternative models to address the lack of alternatives which has contributed to the housing affordability crisis.

Housing co-operatives provide a form of housing tenure that utilises the capacity of its members to undertake the management and organisation of their housing. Housing co-operatives have had success in a number of countries, particularly in countries with well developed social housing sectors. Across the various countries a variety of models have developed in response to the different markets and available funding including equity and shared equity models that provide an alternative to traditional ownership and non-equity models designed to preserve rental affordability. The housing co-operative sector has played a relatively small role in terms of providing an alternative housing choice in the NSW context.

Primary research in the form of interviews and a literature review were the main forms of research undertaken to inform this thesis. The research undertaken explored the housing co-operative tenure; its role within the social housing sector; how does it provide affordable housing; whether it was capable of providing a solution to the housing affordability crisis and what were the current innovations occurring in the
sector that warranted a renewed look at the tenure. The increased role of the community housing sector which includes the projected expansion from supporting 13,000 households to 30,000 households (NSW Planning for the Future: Community Housing 2007) also justifies an exploration of the housing co-operative tenure which currently forms a subsidiary of that sector.

The two hybrid and innovative models outlined in the KCL debt equity project and CHL, ARCH and Willoughby Council debt equity project outlines the prospects for the housing co-operative sector. One of the strengths of these two projects is that they are utilising innovative funding through debt equity schemes to address supply side failures and together will generate potentially an additional 35 units of affordable housing. The achievements of the KCL project are significantly different to the achievements in the CHL, ARCH and Willoughby project as both are conducted on different scales, adopt different housing co-operative models and are located in opposing housing markets.

**HOUSING CO-OPERATIVES WITHIN COMMUNITY HOUSING**

Housing co-operatives currently form one branch of the community housing sector in NSW while the other community housing providers are non-profit housing associations. The community housing sector and the public housing sector form the social housing sector. The operation of the co-operative model under the community housing arm allows the housing co-operative to operate in a manner which provides affordable housing. The members (with a minimum of 65 per cent upon initiation of the co-operative) that meet the public housing eligibility requirements are required to pay 25 per cent of their income like the majority of other social housing tenants. The tenants, if any, who make up the remainder or fall out of eligibility for public housing like all social housing tenants, will then pay market rent however may still be eligible for CRA.

The ability to create a social-mix and the responsibilities required of members of housing co-operatives is what distinguishes the housing co-operative sector from the other forms of social housing in NSW. These two factors contribute to the sustainability of the co-operative model and the reduced costs of the co-operative
structure which supports its role within the sector. One of the assets that allow housing co-operatives to have greater financial success is the social-mix of moderate and low income which allows low-incomes to be subsidised by moderate-incomes. The other asset is the management and training of the members to be able to conduct their own maintenance, keep their own records and only outsource when the task becomes too difficult to manage by the co-operative.

The greater financial viability is supported by the fact that a number of the co-operatives have been able to build up a surplus while financing all the maintenance and repairs and any outsourcing of services. The greater financial viability of the housing co-operative tenure supports the need to expand the model to make the community housing sector more cost effective and subsequently capable of supporting a greater number of households who are contending with unaffordable housing options. The other factor is that housing co-operatives are able to expand on their own and create shared equity.

The affordability that members of these co-operatives enjoy can facilitate home ownership which is evident in the current KCL co-operative where five households have been able to move onto home ownership through the affordability and security that they accessed while members of the co-operative.

**KCL Debt Equity Project**

The KCL project shows the strength of the existing affordable housing co-operative model in NSW as the social capital that evolved has provided the resources to develop the project. The social sustainability that has been created through the initial co-operative is also evident in the current development and justifies the need to support such tenure formats. The project is small in scale due to the capacity of the existing co-operative however it reflects what social capital and innovative community action can achieve. The project is a step forward in a sector that has been relatively stagnant.

**Funding**

The funding model adopted to finance the project will incur debt through the equity in the land. The equity in the land was achieved through the purchase of the land by the
co-operative from their surplus that existed that was determined to be unrestricted
cash by the Office of Community Housing. The size of the debt can be supported by
the increase in land value that will be achieved through development approval. The
process of gaining approval is primarily run by joint partners ARCH with significant
input from KCL. The debt will be financed from equity in the strong and steady
income stream and a strong waiting list of prospective members.

This funding would be a simple model that any other existing co-operative could
undertake given they had a surplus that could allow them to purchase land and
establish the equity which the debt will be raised against.

Co-operative Model Developed
The innovations currently occurring in the sector with KCL undertaking a debt equity
project and other co-operatives exploring possibilities with their surpluses will enable
the co-operatives to expand and broaden the scope of their role as a community
housing provider. These new endeavours would create a hybrid where KCL will be a
mixed leasing and common equity model. The new development would be owned by
the co-operative under a common equity co-operative model. They would be partly
released from the Office of Community Housing restrictions.

Provision of affordable housing would be retained through the co-operatives
constitution and by-laws that would either stipulate or acknowledge the objective of
the housing co-operative to provide affordable housing. However the new formation
as a community housing provider would allow the co-operative to utilise alternative
models of providing affordable housing including additional tax breaks commonly
used by other housing providers.

Location
The project will be developed in a relatively affordable part of Sydney. This reflects
the equity and the ability the co-operative has to fund the debt. However, this location
was also selected as it is where the co-operative members have established their
network and where prospective members are located so they will not have to break
community ties either. A more affordable suburb ensures greatest housing yield can
be achieved. Therefore, the development of a housing co-operative takes into consideration the community aspect as well as factors related to funding.

**CHL, ARCH AND WILLOUGHBY COUNCIL DEBT EQUITY PROJECT**

The Willoughby project is innovative in its delivery of affordable housing by utilising two successful affordable housing models and forming a partnership that will see the benefits of both utilised. The project will be complicated with a number of stakeholders and partners involved who each have a number of roles within the rolling out of the development and the ongoing provision of affordable housing.

**Funding**

The debt equity model that was used to fund the Willoughby case is more complex with three forms of equity. The equity in the land was required for the grant to be awarded. The equity combined in the land and grant will be used to raise the debt. The debt would then be financed by the sale of the private units in the first stage to provide the equity for the remaining stage of development. The equity in the land provided by Council will be returned in the form of units equivalent to the price of land.

The CHL, ARCH and Willoughby Council joint venture will undergo a lengthy planning process before the site is ready for development. This will most likely impact on the potential yield of affordable housing, which has recently fallen to 27 (Yeung, P. 2007, pers, comm., 1 Nov.).

**Co-operative Model Developed**

The co-operative model explored in this project is essentially a tenant management co-operative except it is being developed in conjunction with a non-profit community housing provider. The expertise of the community housing provider will provide a cost effective development as well as ongoing affordability through rent practices. The tenant group will not be required to take on all the responsibilities however will still be responsible for a number of tasks, reducing management costs and achieving greater affordability. Part of the philosophy for this project is to design an alternative model that reduces the time consuming responsibilities of members.
Location

The aspect of this project that outlines its success is that it has been able to deliver affordable housing in a location, Artarmon, that has a severe shortage of affordable housing options in both the public and private sector, where prices are becomingly increasingly beyond the means of the average household let alone low-income households.

Limitations to Co-operatives

The limitations present within the sector and the projects that may inhibit the future growth of the sector include:

- A surplus must be generated before a co-operative could embark on a debt equity program; however, if proposed 39 to 99 year headleases are introduced, co-operatives would be able to use those agreements as a form of equity and be able to also develop common equity models.
- To accumulate a surplus sufficient to undertake such a project requires a considerable amount of time, in the case of KCL 10 years. However, if headleases as proposed do come into effect this process can be done through equity initially achieved in the headlease agreement which could facilitate further expansion.
- A number of co-operatives are unable to generate a surplus due to the condition of the housing they were designated or have selected, as the maintenance costs deplete any surplus funds.
- It has to be recognised as a solution within the spectrum that may only support niche groups. The co-operative model may not be able to work for large groups and may be confined to manageable sized co-operatives.
- Co-operative models require participation and collaboration which will not be successful in all groups.
- The members must be committed to the principles of co-operation including democratic decisions, high involvement, need to be trained to manage housing and support other members.
- The ability to purchase land is still a strong driver to where affordable housing of this nature can be achieved and it will be predominantly located in more
affordable suburbs unless other forms of investment or grants can be developed to offset the higher land price such as the grant by the CAH.

**OPPORTUNITIES FOR CO-OPERATIVES**

The opportunities that are present as a result of insight gained from projects include:

- Models developed could support other tenures like private rental where there is an investor that does not want to deal with management aspects, and the same can apply for public landlords.
- Supporting low and moderate income households that may not be eligible for public housing, as co-operatives are able to support a greater social-mix. This is increasingly important as public housing is supporting those most in need and even to an extent the OCH community housing providers who manage OCH dwellings are supporting those with greatest and special needs.
- These initiatives would be able to support low and moderate income households in providing long term secure and affordable rented housing which may also facilitate home ownership.
- Different models have been explored as different groups are able to take on different levels of involvement and responsibility. Those capable and willing to take on full responsibilities can enter common equity model co-operatives while those who wish to have a more limited role will be able to enter a tenant management co-operative.
- Local governments wanting to retain key workers or a greater social mix within the community can enter into partnerships to provide affordable housing that can be managed at a distance such as Willoughby Council.
- The ability to support the increasing demand for long term rental accommodation.

**THE ROLE OF HOUSING CO-OPERATIVES**

The equity co-operatives that exist would have limited potential to expand in the NSW context as the need to explore the model could not be justified given the similarities with company title tenure which already exists. A greater argument could be made to develop the limited-equity models through the company title tenure. The
non-equity models promote a greater sense of community and community action. The lack of individual equity and the need to obtain greater security motivates the group to work together to achieve common goals such as establishing a common equity co-operative, which has been evident in the KCL case study. Members who would otherwise be living in restrictive, unstable and insecure public or private housing are empowered to take responsibility for their housing. Low income groups who would struggle in the private sector are able to achieve affordable housing and participate in their housing to varying levels dependent on the model selected.

Leasing and tenant management co-operatives primarily provide greater security and provision of affordable long term rental housing. The members may also be able to utilise this tenure, given the security and affordability, to build savings or increase income which would facilitate home ownership. The current debates exploring 39 year leases would also give leasing co-operatives the opportunity to gain equity through undertaking a debt equity scheme which may be proven to be a useful tool for housing co-operatives. Leasing and tenant co-operatives also have the ability to extend beyond the public sector and combine with the private rental sector to provide greater security and empowerment within that sector.

The current innovations and the focus on providing a stronger and larger community housing sector outlines paths in which the housing co-operative tenure can be explored. The two projects that are currently being undertaken provide a great deal of insight into the possibilities for the sector and potential partnerships with other sectors. Housing co-operatives within the community housing sector have been predominantly another way to access public housing stock and functioned within similar regulations. These two models and the frameworks developed create a new social housing sphere where the tenants are directly involved in all decision making and have the possibility to share in equity and achieve long term secure affordable housing.
APPENDIX A: PROJECT INFORMATION

STATEMENT
PROJECT INFORMATION STATEMENT

Date: 10 September 2007
Project Title: Housing Co-operatives. What is their Role?

Approval No.: 75094

Participant selection and purpose of study
You are invited to participate in a study of housing co-operatives and what role they play in alleviating the housing affordability crisis. I wish to learn about the structure of housing co-operatives, their role in the housing market, how they provide affordable accommodation and what are the benefits and challenges members of co-operatives encounter. You were selected as a possible participant in this study because your knowledge and experience in this field will be of great value.

Description of study
If you decide to participate, I will conduct a 30 minute in-depth interview, which I intend to digitally record the audio for the purposes of the research and for reference. We cannot and do not guarantee or promise that you will receive any benefits from this study.

Confidentiality and disclosure of information
Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission, or except as required by law. If you give us your permission, I plan to discuss the results with my supervisor and within my thesis which will be available to academics in the Faculty of the Built Environment and other students within the University. The information may be quoted only if you allow it or will be used as general information for my research thesis.

Your consent
Your decision whether or not to participate will not prejudice your future relations with The University of New South Wales or other participating organisations. If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time without prejudice by completing the statement below and returning this entire form to Simon Pinnegar at Level 1, 1010 The Red Centre West Wing, The University of New South Wales, NSW, Sydney, NSW, 2052.

If you have any questions, please feel free to ask Megan Fu on 0400 166 055 or via email on z3101182@student.unsw.edu.au. If you have any additional questions later, Professor Robert Freestone, 9385 4836, r.freestone@unsw.edu.au will be happy to answer them.

Yours faithfully,

Megan Fu
Bachelor of Planning Student
University of New South Wales

REVOCATION OF CONSENT. Project Title: Housing Co-operatives. What is their Role?
(Please send this entire form to the above address.)
I hereby wish to withdraw my consent to participate in this research project. I understand that such withdrawal will not jeopardise my relationship with The University of New South Wales, other participating organisations or other professionals.

…………………………… ……………………………………………..….… …………………..…………
Signature Please PRINT name Date

Complaints may be directed to the Ethics Secretariat, The University of New South Wales, SYDNEY 2052 AUSTRALIA (phone 9385 4234, fax 9385 6648, email : ethics.sec@unsw.edu.au).
APPENDIX B: INTERVIEW SCHEDULES
Association to Resource Housing Co-operatives representatives

- General housing co-operative
  - What is a housing co-operative?
  - How do housing co-operatives differ from public housing and community housing?
  - How does a co-operative establish itself?
  - What is the model that exists in NSW?
  - Do you know of other models that exist?
  - Who can become members?
  - Where are housing co-operatives generally located?

- Housing affordability
  - Do housing co-operatives contribute to providing affordable housing?
  - What percentage of their income do members generally pay in rent?
  - Is there an opportunity for housing co-operatives to play a bigger role in the housing market?

- Kapit-bahayan Housing Co-operative Limited
  - Have you had any involvement in the KCL Debt Equity Co-operative Housing Project?
  - How have they funded the project?
  - What has been the process they have undertaken?
  - What are the challenges they have encountered?
  - Why have they been successful?
  - What is the current progress of the project?
  - Has this project developed a model for other housing co-operatives?
  - What are the challenges with the replication of this project?

- Willoughby Council, ARCH/Community Housing Limited Debt Equity Scheme
  - What model does Community Housing Limited (CHL) operate under?
  - How does their model differ from NSW housing co-operative model?
  - What has their involvement been on this project?
  - Are their opportunities for further projects with CHL?
  - What is the current progress of the scheme?
  - Who will own the dwellings?
• Expansion of housing co-operative
  o Is there an opportunity for housing co-operatives to expand? If so, where?

**Willoughby Council housing officer / Community Housing Limited representative**

• General housing co-operative
  o What is your understanding of housing co-operatives?
  o What do you see as the positives and negatives of housing co-operatives?
  o How do they contribute to providing affordable housing?

• Willoughby Council, ARCH/Community Housing Limited Debt Equity Scheme
  o What is your understanding of the Willoughby Council, ARCH/Community Housing Limited Debt Equity Scheme
  o How did this project evolve?
  o Why undertake this project
  o How much involvement have you had on the project?
  o How is this project contributing to alleviating housing affordability crisis?
  o Why undertake a joint venture with the aim of providing dwellings for housing co-operatives?
  o Why was this model selected?
  o Is there more opportunities to replicate this project?

**Kapit-bahayan Co-operative Limited representative**

• Development of KCL
  o How did you become aware of housing co-operative?
  o How does it differ from other tenure formats?
  o How did this co-operative begin?
  o Who can join?
  o Does it provide affordable housing? (Do members pay over 30% of their income on rent?)
• What percentage of members are low income and moderate income?
• Has KCL expanded since it began?

• Operation of Housing Co-operative
  o Why join a housing co-operative?
  o How is living in a housing co-operative different to other forms of housing?
  o What would you say are the advantages or disadvantage of living in a housing co-operative?
  o What are some of the responsibilities you have as a result of belonging to a co-operative?
  o Have you developed any new skills as a result of belonging to the co-operative?

• KCL Debt Equity Co-operative Housing Project
  o What is the goal of the project?
  o How involved have you been in the project?
  o What process have you undertaken to develop this project?
  o Have you encountered any challenges while undertaking this process?
  o Where in the process are you at?
  o Do you intend to continue to expand the co-operative after completion of this project? If so, how?
REFERENCES


Australian Bureau of Statistics, 2006 Census


Miers, S. (2007) ARCH/Kapitbahayan Joint Development Project for Debt Equity Co-operative Housing, March


Office of Fair Trading pers. comm., 1 Nov. 2007


*Qualitative Interviews*


