Submission to:

Select Committee on Social, Public and Affordable Housing
Legislative Council
Parliament of NSW

Prepared by:

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Summary

Drawing on an extensive research evidence base concerned with housing market dynamics and affordable housing models developed over a number of years at the City Futures Research Centre UNSW, this submission focuses on three themes that underlie the terms of reference of the Legislative Council Select Committee Inquiry into Social, Public and Affordable Housing. The featured themes are:

- Spatial patterns of social disadvantage and their connections to housing markets and affordable housing provision
- Policy reforms aimed at increasing the supply of appropriately located affordable housing
- Policy reforms aimed at improving the effectiveness and sustainability of existing social housing.

The submission argues for a three-pronged and integrated strategy to reform the provision of social and affordable housing in NSW:

- Increasing affordable supply in locations appropriate to current and future need;
- Modernising and reconfiguring the existing social housing asset base; and
- Devolving public housing service delivery to a network of regulated arm's length organisations.

Achievement of the strategy requires a new model of public and private co-financing. This in turn will necessitate strong cooperation between the Commonwealth and NSW governments and should be especially directed to attracting new sources of large scale private investment in rental housing provision.

The case for future government investment in this sector is grounded in the argument that affordable housing is an essential component of NSW's social and economic infrastructure, making a vital contribution to the economic productivity, liveability, social equity and environmental sustainability of our cities and regions.

The submission also includes a detailed appendix which brings together the latest information on housing supply shortages prepared for City Futures by Dr Judith Yates.

1. Introduction: City Futures Research Centre, UNSW

Established in 2004 and headed by Professor Bill Randolph, City Futures is Australia's leading urban policy research centre. Spanning the interrelated areas of urban planning, housing, design, development and social policy, our work aims to advance the understanding of Australia's cities, their people, the policies that manage their growth, and their impacts on our environment and economy. The Centre occupies a premium position in the Australian academic research community in the area of urban research. In the 2012 national university research assessment exercise, the ERA, City Futures together with the Planning Program at UNSW was rated as the only level 5 – well above world standard – urban and regional planning research group in Australia.

Led by Professor Hal Pawson, with a major contribution from A/Prof Vivienne Milligan, the Housing Policy and Practice sub-program within City Futures encompasses research on a wide spectrum of issues ranging from social housing management and estate renewal to housing affordability, financing and development. While it has developed largely through its success within the Australian Housing and Urban Research Institute (AHURI) network, this program also takes in projects commissioned or grant-funded by a wide range of other agencies, recently including Housing New South Wales, the Real Estate Institute of New South Wales and NSW not-for-profit housing providers.

City Futures works closely with several other UNSW research groups as well as with research centres at other universities in Australia, Asia and Europe. The applied focus of City Futures' research also involves strong partnerships with local, state and federal government agencies as well as industry stakeholders and community groups.

2. Scope and structure of submission

In this submission, we focus on three key themes that underpin the terms of reference of the Legislative Council's Inquiry into social, public and affordable housing, namely:

- Patterns of social disadvantage and their connections to housing markets and the provision of forms of affordable housing (see specially ToR (b))
- Policy reforms aimed at increasing the supply of suitably located affordable housing (ToR (g))
- Policy reforms aimed at improving the effectiveness of existing social housing.

Also provided as an appendix we cite the latest available evidence on housing supply shortages prepared by our colleague Dr Judith Yates (University of Sydney), one of Australia's leading housing economists. Dr Yates served on the recently disbanded National Housing Supply Council from its inception in 2008 and has an extensive record of publications concerned with, inter alia, housing market analysis and housing policy settings.

In the time available to prepare a written submission it has not been possible to assemble other information and prepare new research evidence that may be of relevance and interest to the Inquiry. However, we would be willing to answer specific queries related to our areas of expertise or provide additional evidence-informed responses at a later time if required.

Our comments and proposals featured in the submission draw on our extensive research into housing markets, affordable housing and social disadvantage in Australia and elsewhere undertaken over the last decade. The body of research which has informed the paper is listed at end.

The submission is structured as follows. The first substantive section (Section 3) provides an overview of the changing distribution of social disadvantage in NSW's capital city, Sydney. Drawing on research undertaken at the Centre over the last decade, it discusses the underlying housing market drivers of the process, as well as its impacts – especially in terms of the productivity of the wider urban economy. This raises questions around the implications of these processes for the location of appropriate affordable housing to meet current and future affordable housing needs in the city. While a NSW affordable housing policy needs to address the situation state-wide, our expertise, as the City Futures Research Centre, is on the state's major city region, Sydney. As the city's pre-eminent urban research centre, this is appropriate and aligns with the Centre's goals and mission. It is also undoubtedly the case that Sydney houses the major share of those in housing need and where issues of disadvantage and affordable housing supply are most intense.

Again drawing largely on our own research, Section 4 discusses the various policy mechanisms potentially available to facilitate the provision of affordable housing – especially in terms of the utilisation of private finance. However, devoting effort to boosting the supply of affordable housing makes sense only if the existing affordable housing stock is also protected and enhanced. Hence, Section 5 discusses the condition of the State's public housing stock and how its continuing decline might be arrested and reversed.

References, where drawing on City Futures work, are listed at the end of the document in date order. References to other published sources are shown in footnotes.

3. Patterns of social disadvantage and their connections to housing markets and provision affordable housing

Housing Affordability, Social Polarisation and Sydney's Housing Market

Like other Australian cities, Sydney has seen significant shifts in terms of the geography of social and economic disadvantage in recent decades. With policy often subjugated to the efficiencies of housing market activity and market-led developer decisions, and with a marginal role for public housing, Australia's cities have been progressively sifted and sorted by market forces, redefining the relative social homogeneity and equity in suburban form and function afforded by the post-war 'Settlement'.

In the process, these cities have undergone a marked process of social polarisation associated with an unequivocal shifting of disadvantaged populations, including the low paid workforce, into middle and out suburban locations. While it has been seen in all Australian cities, the post-1980s 'suburbanisation of disadvantage' has been perhaps most pronounced in Sydney (Randolph & Holloway 2005a; Yates & Wood 2005; Randolph & Tice 2013). Although significant population loss in inner areas was seen until the early 1980s, as the following section shows, a combination of housing market drivers in the past three decades has resulted in the locations of social disadvantage being displaced outwards from the inner city.

This section reviews the evidence for this drawn from recent and ongoing research by City Futures (Pawson et al, 2012; Pinnegar et al., 2011). We would argue that the evidence clearly points to the pivotal role that changing patterns of housing demand and supply have played in driving this process of socio-spatial restructuring. It is not our purpose here to explore the drivers of these changes in detail. They are a combination of changes in the macro economy and social welfare regimes, together with demographic changes, including immigration, and wider changes in cultural and societal norms and aspirations. But they also reflect housing market processes that have led to differential investment patters in housing stock across the city, including a major upswing in (private) rental investment over the period and differential wealth creation through property ownership.

As the geographies of disadvantage have shifted outward, and then consolidated, increased social polarisation appears to have become more entrenched spatially. It is these broader shifts which frame the challenges to the development of affordable housing provision within Sydney and to which forward policy directions must respond. While these shifts can be clearly associated with fundamental changes taking place in the macro policy environment since the mid-1980s – and thus at one level, arguably beyond the influence of state policy frameworks – the impacts of those shifts that have resulted in the substantial reworking of our cities sets the context within which state policy for affordable housing must be framed.

This section aims to show that:

a) The polarisation of the housing market in Sydney has been accompanied by a marked suburban shift in the populations of socially more disadvantaged households in the last thirty years, and

b) Social disadvantage is no longer predominantly associated with public housing, if indeed it ever was, but is much more broadly associated with lower value private housing markets, especially the private rental market.

These socio-spatial shifts raise two key issues as regards the provision of appropriate affordable housing options for this group.

- The need for housing for this disadvantaged group is not likely to be met from existing public housing supply.
- The suburbanisation of lower income households raises the question of what the cumulative impact of this process is having on the access these households have to job rich inner city locations, especially those in the so-called 'Global Arc'. This in turn raises question of the efficient working of the urban economy and broader infrastructure provision.

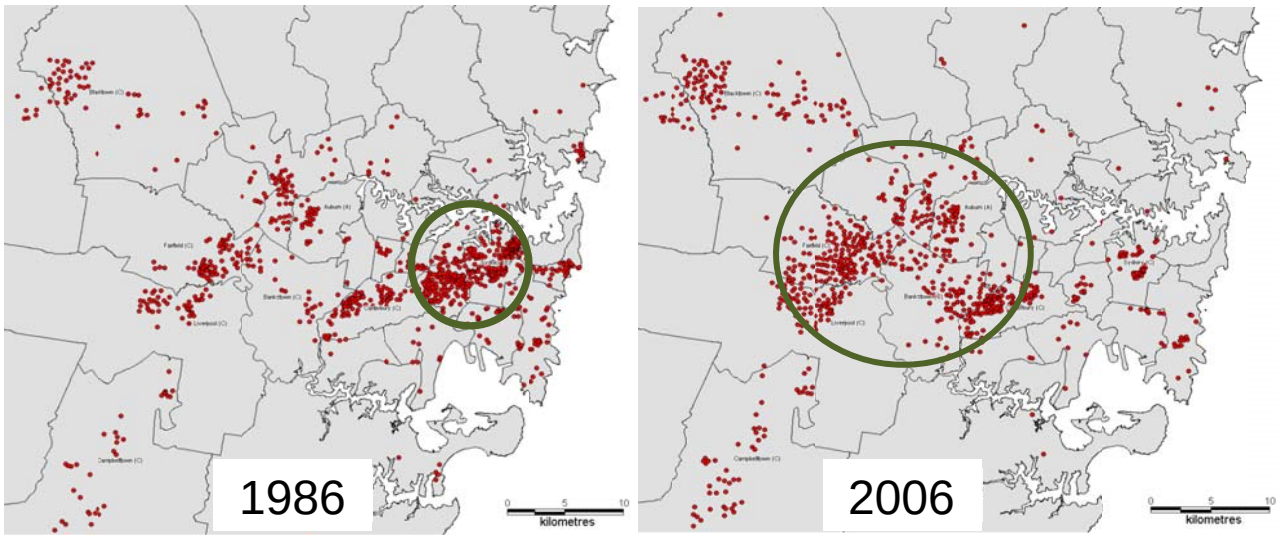
(a). The shifting location of disadvantage

First we look at disadvantage. The analysis for this section takes the period between 1986 and 2006 to assess the outcomes of several decades of economic and social restructuring have had on the location of social disadvantage in Sydney. To establish the trends in the location of disadvantage, we have used the Australian Bureau of Statistics Censuses for 1986 and 2006 at the suburb geography level to analyse the relative movement of concentrations of disadvantaged households using the Socio-Economic Index for Areas (SEIFA) in Sydney. In particular we use the Index of Socio-economic Disadvantage (ISD), one of the indicators in the SEIFA suite[1]. Our analysis seeks to understand both the spatial pattern/geography and depth/intensity of disadvantage across the city. Here we illustrate the data in two stages.

Firstly, census districts (CDs) lying at or beyond 1 standard deviation below the mean Index of Relative Disadvantage score for Sydney were identified as being 'Highly Disadvantaged'. This equates to approximately 15% of all CDs. These highly disadvantaged CDs were mapped for 1986 and 2006 as dots on the metropolitan map (see Figure 1)

[1] This Index is calculated for each census area as a composite of 16 census variables focusing on aspects of disadvantage. The scores are standardised and vary about a mean of 1000 for Australia as a whole. A score below the mean indicates greater relative disadvantage, and those above the mean greater relative advantage: a score of 800 indicates a relatively deprived area, whilst one of 1200, an area of affluence.

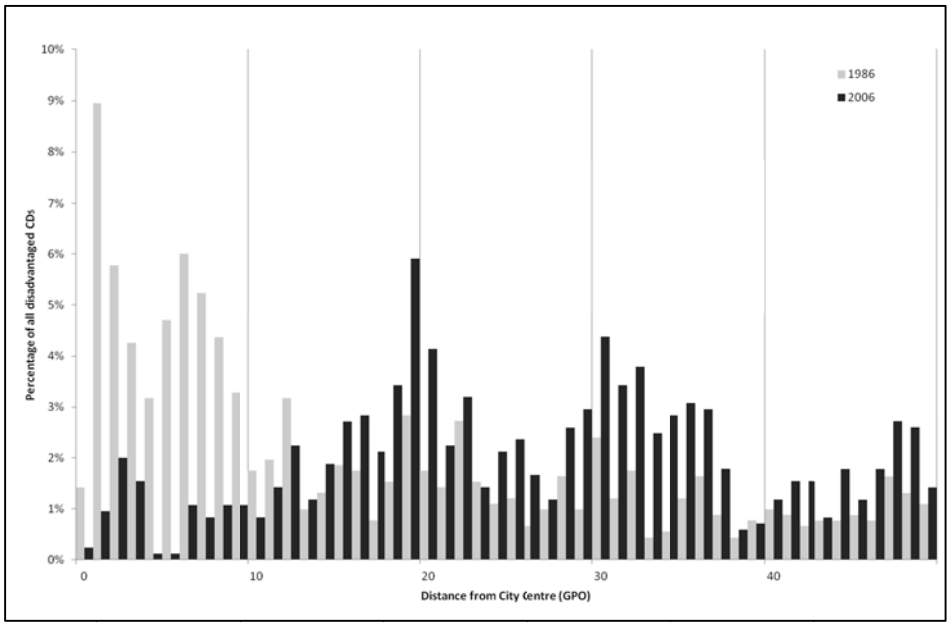
Figure 1: Highly disadvantaged CDs, 1986 and 2006



The suburbanisation of disadvantage over this period is clearly evident, with a dramatic fall off in the proportion of highly disadvantaged CDs in central/inner areas and large increases in middle and outer areas.

This suburban shift is illustrated more graphically in Figure 2, which shows the percentage of CDs that are highly disadvantaged in half kilometre bands proceeding outwards from Sydney City Centre (distance from the GPO) for 1986 and 2006. The loss of such CDs in the first 10-12 kilometres is startling and reinforces how the housing market in the inner ring has worked to effectively exclude lower income and disadvantage households form this area. The growth in numbers of disadvantaged CDs in 20-25km band and the 30-40 km band is notable.

Figure 2: Sydney: Disadvantaged CDs by distance from the City Centre 1986 and 2006 (kms)



The second stage of our analysis considers what has happened in terms of intensity. Here we look at the suburb level and determine the proportion of the suburb's population that are living in highly disadvantaged CDs. The maps overleaf (Figures 3 and 4) provide a graduated scale for all suburbs in metropolitan Sydney that contain one or more highly disadvantaged CDs. This therefore picks up suburbs where there are small pockets (e.g. the eastern suburbs) as well as where that disadvantage is more widespread (e.g. central west). In order to capture the intensity or concentration of disadvantage, the following scale has been used:

- **Dark green** 10% of the suburb's population live in highly disadvantaged CDs
- **Mid Green** 10-20% of the suburb's population live in highly disadvantaged CDs
- **Lime green** 20-40% of the suburb's population live in highly disadvantaged CDs
- **Orange** 40-80% of the suburb's population live in highly disadvantaged CDs
- **Red** Over 80% of the suburb's population live in highly disadvantaged CDs.

Figure 3: Relative intensity of disadvantage, metropolitan Sydney 1986

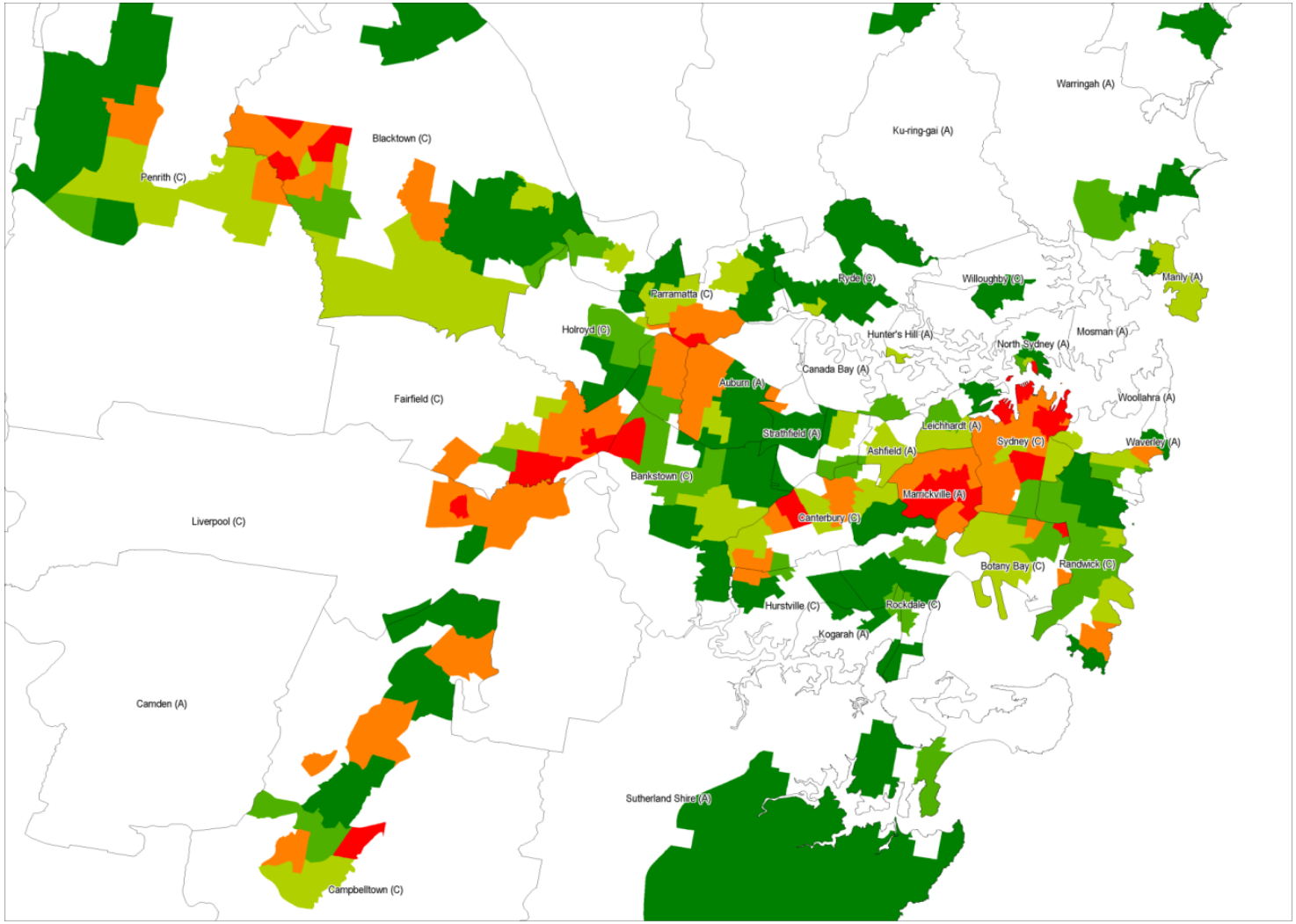
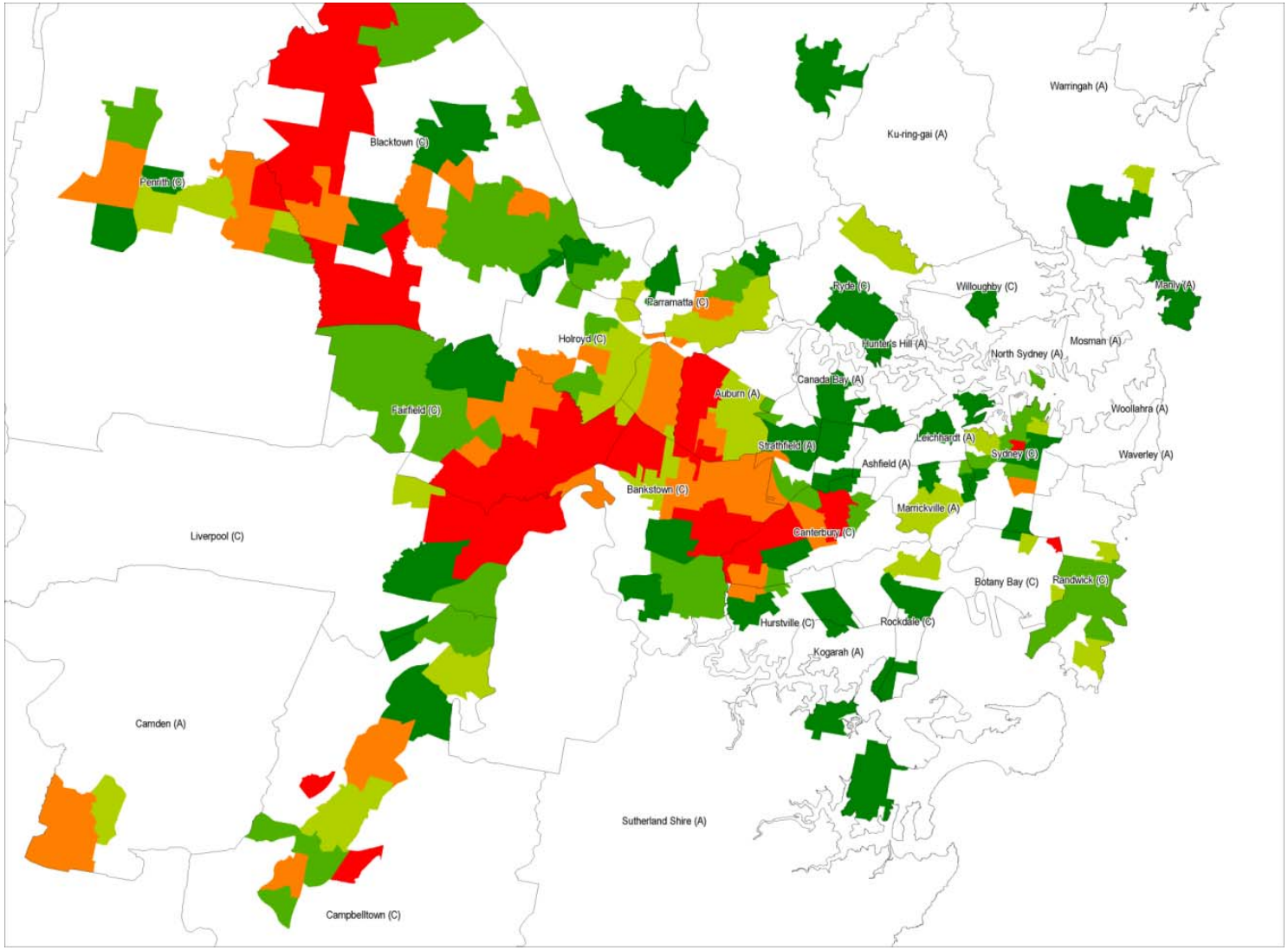


Figure 4: Relative intensity of disadvantage, metropolitan Sydney, 2006



Again, the spatial patterns are clear: a substantial loss of disadvantaged locations has occurred in the inner city core so that areas such as Redfern-Waterloo and Eastlakes appear as outliers by 2006, and consolidated levels of disadvantage can be seen stretching from Canterbury-Bankstown westward. Moreover, the concentration of disadvantaged suburbs in the middle and some outer suburban areas has become much more pronounced, especially in the broad swathe from Bankstown through Fairfield to Liverpool.

(b). Suburbanisation of low incomes

Key to understanding this shift has been the similar suburbanisation of lower incomes across the city. Comparing income profiles over time is a tricky business, especially when it comes to assessing whether temporal changes themselves have resulted in spatial change. Coupled with this are two other related effects that serve to shape overall income distribution; absolute and relative changes. While incomes in general have risen substantially over the period 1981 to 2006 (an absolute change) there is considerable evidence to suggest that within this absolute change are relative winners and relative losers.

In the interests of meaningful comparison over time, we have analysed Census household income data, in this case from the 1981 and 2006 Censuses, at CD level grouped into five broad bands, from low to high. Figures 5 and 6 illustrate the percentage of total households by CD within each of five broad income bands for the Sydney metropolitan area in these two years respectively. Both graphs are horizontally scaled to represent the range between the lowest and highest bands based on 2006 dollar values. The results show that whilst incomes may have increased overall in absolute terms over this period, the distribution of incomes across the income continuum has markedly polarised. There are more dark blue and dark red areas, with a distinctive loss of the middle income bands. In other words, income growth has not been equally shared across the city. These patterns are the spatial reflection of the overall increase in income inequality over the last thirty years in Australia.

There is a strong correlation between the suburbanisation of disadvantage and the shifts seen in the patterns of income distribution between 1981 and 2006. It is also important to note the 'squeezing' of middle incomes areas over this period, with the commensurate expansion of areas of higher and lower incomes. In particular, the central and eastern areas of the city to the south of the harbour have seen a significant shift towards higher incomes, and the middle suburbs towards lower incomes.

Figure 5: Spatial representation of income bands, metropolitan Sydney 1981 (2006 values)

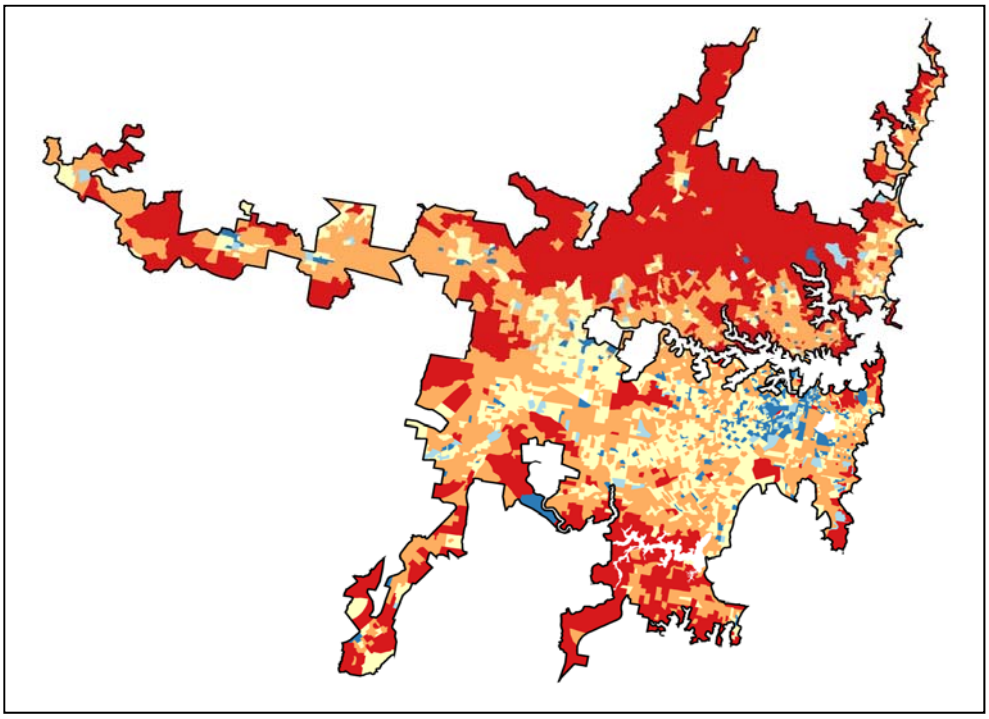
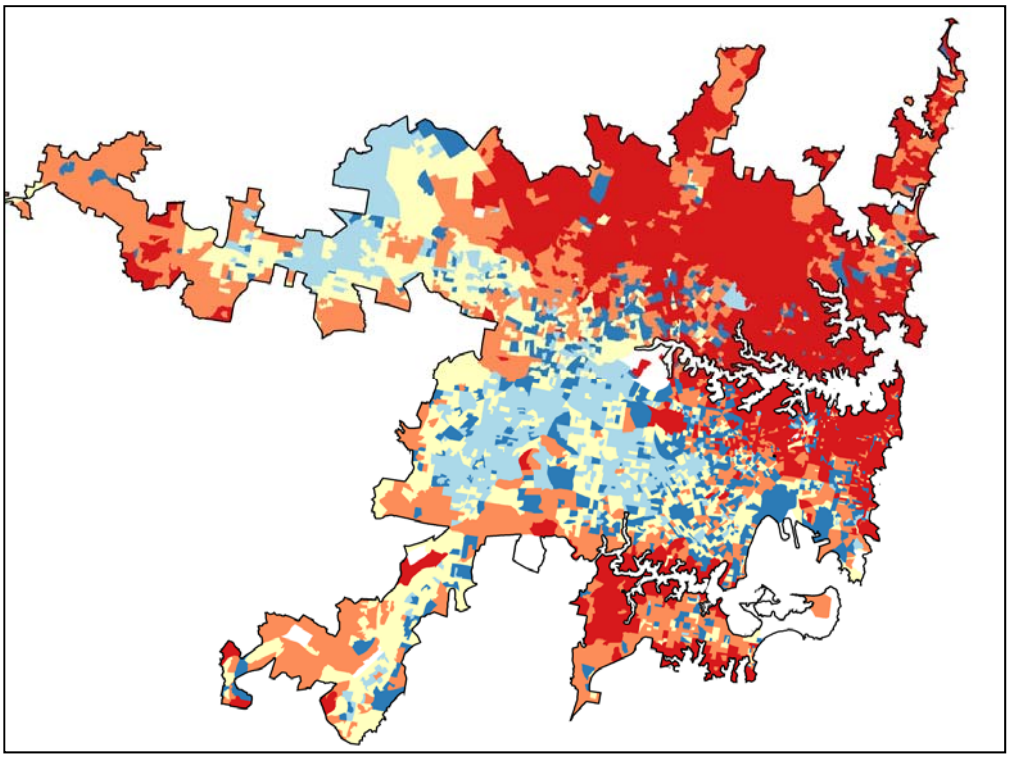


Figure 6: Spatial representation of income bands, metropolitan Sydney 2006



What is the link to geography of public housing?

While there can be no doubt that the existing public housing sector is associated with areas of high disadvantage, it is rarely acknowledged that, overall, the link between high levels of social disadvantage and public housing is, at best, partial. An analysis of 2001 Census data showed that at this time only 39% (75,594) of the 193,000 or so households living in CDs classified as being severely disadvantage on the SEIFA score lived in areas where the presence of public housing could be said to high, defined here as more than 20% of all households in that CD – see Table 1 (Randolph and Holloway 2005). Note that the average proportion of public housing in Sydney as a whole was just 4.8% at this time.

Table 1: Number of Households Living in Areas of Disadvantage by the Level of Public Housing in Sydney, 2001

Level of public housing	*Index of Relative Socio-Economic Disadvantage*				
	Severe disadvantage	Moderate disadvantage	Moderate advantage	Highly advantaged	Total
High (>20%)	75,594	23,184	3,552	0	102,330
Moderate (4.8%-20%)	52,260	109,081	50,371	2,102	213,814
Low (<4.8%)	65,318	296,417	573,814	170,410	1,105,959
Total	193,172	428,682	627,737	172,512	1,422,103

Source: Randolph & Holloway (2005b) Table 3

Moreover, as shown in Table 2, even in those areas where public housing was concentrated (i.e. defined as above 20% of the CD's households), less than half of all households were actually public tenants. In fact, only just over a fifth of all households living in areas of severe disadvantage were public housing tenants, while a third lived in areas where the presence of public housing was negligible. In other words, social disadvantage is overwhelmingly a private sector problem. While these data refer to the position in 2001, there is no reason to believe this situation has changed. If anything, the concentration of disadvantaged households in areas of private housing has only increased.

Table 2 – Tenure of dwellings in CDs with severe disadvantage, Sydney, 2001

	Low level of public housing	Moderate level of public housing	High level of public housing
Households	65,318	52,260	75,594
Outright Owner	36.2%	31.3%	19.1%
Home Buyers	15.9%	16.6%	14.0%
Rent from Public Landlord	1.2%	11.8%	47.4%
Rent from Other Landlord	36.3%	30.6%	11.0%

Source: Randolph & Holloway (2005b) Table 8

Table 2 also illustrates the dominant housing tenure mix of these severely disadvantaged locations is that of outright ownership and private rental. The mix of elderly low income home owners and low income working age renters (many with families) is the defining housing market characteristic of

these areas. Both groups have significant implications for future affordable housing policy, to which we return below.

Extensive research led by Yates (Yates et al. 2007) showed conclusively that households most at risk of facing the multiple problems that arise from a lack of affordable housing are lower-income households in the private rental market. This research also found that:

- Housing affordability problems are predicted to increase in the first half of the 21st century as a result of anticipated demographic and housing market changes.
- Affordability problems have specific spatial dimensions.
- Housing markets have failed to provide an adequate supply of affordable housing for lower-income households.
- Declining affordability has implications for economic performance and labour market efficiency, social cohesion and polarisation of cities, environmental considerations and the creation and distribution of wealth through home ownership

All these findings have profound implications for the development of an effective, efficient and extensive response to the mounting problems of housing affordability for the low paid Australians and their families.

The association between lower income renters, Commonwealth Rent Assistance recipients, public housing waiting list applicants and the location of low cost private rental dwellings shows how closely these indicators of housing stress are related to the private rental market in Sydney (Randolph & Holloway 2007). In this case, the data were for 2003. Once again, it is unlikely that the very high correlation between these four variables has changed dramatically in the intervening decade. Of course, the issue of rental affordability is entirely a private market issue.

Table 3 – Correlation coefficients of Commonwealth Rent Assistance recipients, public housing waiting lists and low cost private rental dwellings in Sydney 2001

	No of low income private renters	No of Rent Assistance recipients	No of public housing applicants	No of low cost private rental dwellings
No of low Income private renters	-	-	-	-
No of Rent Assistance recipients	0.93*	-	-	-
No of public housing applicants	0.78*	0.83*	-	-
No of low cost private rental dwellings	0.94*	0.94*	0.79*	-

* Correlation is significant at 0.01 level

Source: Randolph & Holloway (2007) – Table 8.4

The importance of the private rental market on the supply of housing for lower income households in Sydney has undoubtedly become more important in recent years. With the proportion of investor activity in the Australian housing market now estimated to account for as much as 44% of all

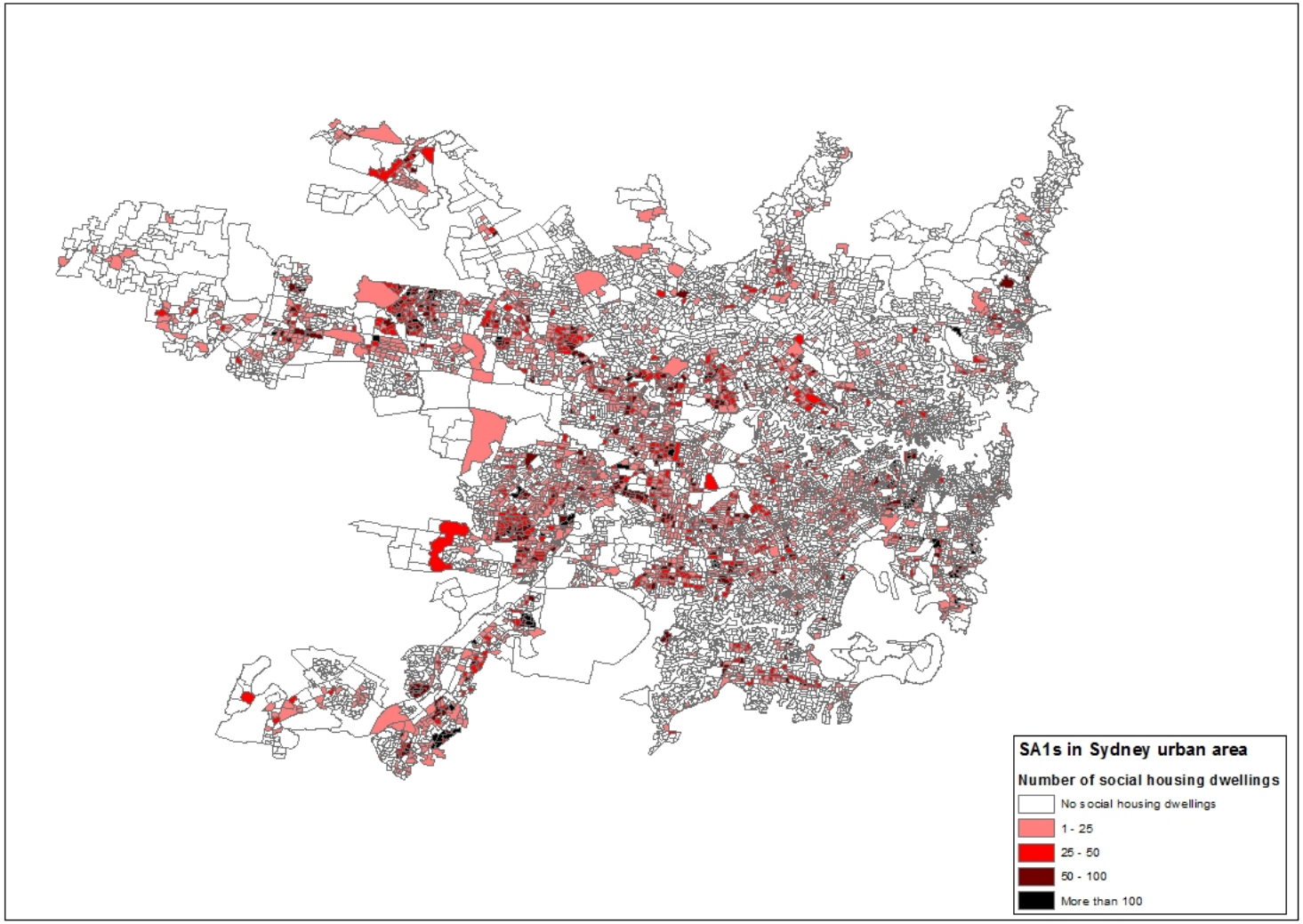
residential property sales in 2011-12 (Haylen 2014)[2], there is clearly a major shift in the nature of housing supply for this sector of the market. Whether this supply is either affordable or in the most appropriate locations to provide suitable housing options for the low waged and more generally socially disadvantaged population will require further research. Such research is being planned at City Futures.

So what is the capacity for the current social housing system to provide affordable housing options for households in disadvantaged areas? The answer is that it is a limited one. There are 73,685 occupied public housing dwelling in Sydney in 2011, accounting for just 5.5% of the total housing stock. Post-the National Economic Stimulus Package (NESB), and with only a modest new supply of affordable homes coming on stream under the NRAS arrangements, together with falling relet rates, an aging demographic in the sector and an eligibility criteria strongly focused on only households in the greatest need where economic participation rates are generally very low, the capacity of the social housing sector to offer effective solutions for affordable housing for the bulk of those facing affordability difficulties in the private sector is now highly constrained.

However, this is not to say there could not be a positive input from the social housing sector. Figure 7 shows the distribution of social housing in 2011. What is quite evident is the relatively close approximation between the distribution of public housing assets and the areas of need. Although, as shown above, the social housing stock contributes only a small minority of the housing supply in these areas, if reconfigured, it would be possible to restructure the social housing sector to generate more supply targeted at the demand, which is now largely for smaller accommodation. A strategic policy of reconfiguring social housing assets, similar to that achieved under the NESP in 2008-2012, with small scale renewal on accessible blocks to deliver higher densities, could make a significant difference. However, to achieve this, a much more integrated approach needs to be taken set within a firm funding model that would provide the financial capacity to undertake this. The kinds of solutions outlined in the following section on options to support a substantial affordable housing growth strategy would need to be adopted to facilitate this. Nevertheless, a strategic renewal program, implemented across the stock, could open up a major transformation of the stock, leading to improved amenity, increased supply and improved stock matching to demand. If this was targeted at higher value locations as well, then there would be better capacity to address the labour market mismatch issues noted above.

[2] Haylen, A. (2014) *Housing Prices, ownership and affordability: trends in New South Wales*, Briefing Paper No 1/2014, NSW Parliamentary Research Service Sydney.

Figure 7: Distribution of social housing at SA 1 level, Sydney 2011



Source: ABS Census 2011 Tablebuilder.

The growing mismatch between affordable housing opportunities and jobs

While the role housing plays in the economy has been widely recognised by policy makers, this has largely focused on macro-economic impacts, such as the economic multiplier effect generated by housing production and property transfers, or of the outcomes and implications of housing debt and investment flows on the stability of national (and indeed international) financial systems. What has been less appreciated, and much less researched in Australia, is the relationship between the location and availability of affordable housing provision and the economic capacity of urban areas to function effectively and efficiently (SGS 2012; Grattan Institute 2013[3]). Specifically in relation to this submission is the question of how well the structure of housing provision in Sydney supports or hinders the efficient functioning of the urban economy in terms of the access of essential lower waged workers to employment in 'job-rich' central city labour markets.

That this is likely to be a growing issue can be deduced from the discussion above of the growing polarisation of housing opportunities in our largest city which has resulted in an increasing mismatch between the location of housing reasonably affordable to lower paid workers and 'job rich' central city locations, and to the 'Global Arc' from Botany through the CBD and out via Macquarie Park into the Hills district. Previous research conducted by the authors of this submission has shown conclusively that the greatest affordability problems are with the low paid workforce (Yates et al. 2005), that the greatest affordability problems are faced by households renting in the middle suburbs of the city (Randolph and Holloway 2002), and the increasing role played by lower value suburban housing markets in Sydney in providing housing for low income households (Randolph and Holloway 2005). The latter research also showed conclusively that it is very low incomes, not high rents per se, that are the cause of housing affordability problems and that those workers facing the greatest affordability problems included hospitality workers, food preparation workers, hairdressers, un-skilled sales workers and sales assistants. These are not the "key worker" group of professional and technical workers, but represent the low paid workforce that has become known as the "precariat", with uncertain and casualised working practices, low levels of job security and poor remunerations outcomes.

Randolph & Holloway's (2005) research concluded that at that time there was little direct evidence to support the claims of those who express concerns that employers in high cost areas such as the inner city could not attract essential workers because of housing affordability problems. However, the study did support the claim that those who work in inner city areas and live there do have to endure significantly more unaffordable housing compared to outer city residents. This suggests that there is indeed a significant inner city housing affordability problem, but that this essentially a subset of a wider problem of general income and spatial polarization which is reducing housing options for lower income earners in general. The research also indicated that, with the exception of the CBD, in recent years the proportion of workers who live in higher cost suburbs had fallen relative to those who lived in outer areas.

[3] SGS Economics and Planning (2012) Productivity and Agglomeration Benefits in Australian Capital Cities, Final report. COAG Reform Council, June 2012.
Grattan Institute (2013) Productive Cities, May 2013

The implications of a lack of appropriate affordable housing in inner city locations close to abundant, if low paid, work opportunities are that many workers either pay a high proportion of their incomes in meeting their housing costs and/or travel long distances in order to work in their chosen location.

The impact of widening house price/rent differentials across the city on employment opportunities has been a key concern of the spatial mismatch debates for thirty years. Gobillon et al (2003, p21)[4] provide an overview of a number of underlying mechanisms that potentially explain how distance to job opportunities could be harmful. The potential mechanisms are as follows:

a) The efficiency of job search decreases with distance to jobs because workers obtain less information about distant job opportunities or firms resort to local recruiting methods.

b) Incentives may be too low for workers residing far away from jobs to search intensively. If dwelling rents are sufficiently low or search costs sufficiently high, workers may be discouraged from searching.

c) Workers may refuse jobs that involve too long commutes because commuting is too costly relative to the wages paid. As a result, they may restrict their job searches to their residential neighbourhood.

d) Transport is inadequate, thus reinforcing the search and commuting costs at (b) and (c).

e) Employers may refuse to hire, or may pay lower wages, to distant workers because commuting long distances makes them tired, more likely to be absent and hence less productive.

In broad terms, this spatial mismatch between housing and jobs has formed the basis of a rethinking of affordable housing policies in the UK and US. In particular, recent affordable housing debates have broadened from focussing on targeting the most needy (often those excluded from the labour market) to including workers seen as essential to the efficient operation of the local economy but at risk of being squeezed out of local housing markets by high housing costs. This widening of the housing policy debate has yet to be fully expressed or recognised in Australia.

For example, in the US, the Urban Land Institute concluded that

"the lack of affordable housing in urban areas is leading many households to locate far from their jobs, creating all the problems associated with sprawl, including traffic congestion, air pollution, environmental degradation, and requests for public funds to be used for the construction of new roads, schools, libraries, etc. In some areas, the lack of workforce housing has become an economic development issue as corporations decide not to locate in areas where their employees cannot acquire decent, safe and affordable housing." (Haughey, 2001, p2)[5].

In other words, concerns with affordability problems for the urban workforce extend beyond the difficulties faced by employers in recruiting and retaining staff. They extend to issues of urban form,

[4] Gobillon, l., Selod, H., Zenou, Y. (2003) "Spatial Mismatch: From the Hypothesis to the Theories", Institute for the Study of Labor (IZA), IZA Discussion Paper No. 693, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=382787

[5] Haughey, R. (2001) The Challenges to Developing Workforce Housing, The ULI Workforce Housing Forum, Los Angeles, California, December 5-6, 2001. http://www.knowledgeplex.org/showdoc.html?id=1054

the environment, public health and wellbeing, public infrastructure and local economic development.

This broad overview suggests there are a number of structural reasons why high cost locations may be starved of essential workers and a number of reasons why this might be seen as a problem, not just in terms of housing policy per se, but of the broader efficiency of the city, especially in terms of access to jobs.

What is much less understood, however, is the impact that the spatial displacement of the lower paid workforce into more suburban housing markets has had on the ability of employers to attract the lower paid workforce that underpins the economic productivity of central city areas. In addition, anecdotally at least, difficulties in recruiting low paid care and health workers in Eastern and Northern suburban areas have become more pronounced. The limited supply of affordable housing in relation to workforce numbers in high values locations may be becoming an increasing locational barrier to the lower income workforce and for employers who rely on this workforce. It can be argued that escalating housing costs have affected central city business efficiency, in the form of difficulties of recruitment and retention.

These difficulties are reflected in high staff turnover, lengthy recruitment periods to find replacement staff, and the extra costs associated with training of staff and higher wage bills. For lower income workers, a job in the central city or high value suburbs may mean longer commutes at unsocial hours, incurring additional cost, both monetary and social. While this issue has been commonly characterised in policy debates as being one affecting professionals working in public sector jobs (so called "key workers"), as Yates et al (2006) confirmed, the most critical housing affordability issues are faced by low paid service sector employees (both public and private) as well as those employed in increasing numbers in the often precarious professional employment, such as in the so called "creative economy" that has become a global marker for city economic vitality and growth. These latter workers are located overwhelmingly close to the inner city and CBD fringe locations in Sydney.

Summary: Implications for affordable housing provision

Key points from the above discussion are as follows:

a) That Sydney's socio-spatial structure has changed, concentrating social disadvantage into new places in the city. Specifically, disadvantage has now moved into the older middle suburbs between 20 and 40 kms from the CBD.

b) The new concentrations of disadvantage are primarily associated with private housing markets. This appears to be a combination of a low income retired cohort living in their own homes (with possible associated under-occupancy and deteriorating amenity) but on very low incomes, and a cohort of younger (often family) households living in an emerging low value private rental market.

c) This has been driven by housing market processes that have squeezed those on lower incomes from the inner city where they were once concentrated while at the same time generating a newly emergent lower value private rental housing stock in these suburbs.

d) There is a clearly emerging issue of the growing mismatch between the location of more affordable housing in the private sector and the location of jobs, especially those for low paid occupations in the service sector in the central, eastern and northern higher value areas. This raises wider issues of the link between housing markets and the efficient functioning of the city's economy, including the need for effective affordable transport.

e) The location of the social housing stock could be more effectively reconfigured to generate increased supply through a structured and fully funded renewal process rolled out sequentially across the city. Mechanisms by which this could be achieved are discussed below. However, there is also a need to develop effective policy interventions to support the expansion of affordable housing supply in job-rich areas of the city where there is currently a dearth of affordable housing opportunities. This aspect is critical to ensuring Sydney does not become even more polarised.

4. Policy reforms aimed at increasing the supply of affordable housing

A central focus of the City Futures research effort in recent years has been on investigating the provision of affordable housing with particular reference to new sources of finance for affordable housing and innovative models for delivering and regulating affordable housing services.

In this report we use a generic definition of affordable housing: i.e. housing that is intended to meet the needs of households whose incomes are not sufficient to allow them to access appropriate housing in the market without assistance. This definition recognises affordable housing as including traditional public and community housing (social housing) as well as new forms of private sub market and regulated market housing for purchase or rent. While our focus below is largely on how to promote much-needed supplies of affordable rental housing, we have also researched affordable home ownership options (see, for example, Pinnegar et al. 2008; 2009) which lie outside of the scope of the current inquiry.

By international norms in OECD countries, Australia (and NSW) has a comparatively small traditional social housing sector, which has been in long term decline largely as a result of scarcity of public funding over the last two decades[6] – a situation that is expected to continue. Moreover, private market supply of low cost housing has also been in steady decline and has failed to respond to emerging needs (such as from lower paid workers and single income households), and, thereby, contributed to labour market problems and social polarisation (as discussed above). Additionally, the limited supply of dwellings affordable to lower income households are not always allocated to those who need them most[7]. On the investment side, while Australia has experienced enormous growth in capital markets and savings in superannuation funds, these funds have not been flowing into the residential sector. As regards rental housing supply, we have continued to rely almost exclusively on 'mum and dad' rental investors whose investment decisions are largely driven by generous tax concessions and anticipated capital gains. This is problematic, not only because such investment flows are inherently volatile, but also because they further inflate house prices as well as failing to address the shortage of lower rent provision (Milligan et al. 2013a).

In this context, two successful post 2008 joint Commonwealth and state partnerships – the National Rental Affordability Scheme (NRAS) and the Social Housing Initiative (SHI) – have served to demonstrate how investment in the supply of social and affordable housing could be revitalised. At their core, both these programs used public funding to leverage private investment into additional supplies of privately owned but appropriately regulated affordable housing[8]. Without going into the

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[6] In contrast to other welfare areas including social security, health and education, housing has experienced significant real contraction in budget outlays since the 1990s (excepting the period 2008-2012). This has occurred despite steady increases in the need for affordable housing and a long term decline in housing affordability (see Yates et al 2007).

[7] See for example Wulff, M. Reynolds, M. Dharmalingam, A. Hulse, K. & Yates, J. (2011) *Australia's private rental market: The supply of, and demand for, affordable dwellings* Final Report 168, Melbourne: AHURI.

[8] NRAS offers a financial incentive (mainly in the form of a refundable tax offset) to private investors and community organisations to provide newly built rental housing for low and moderate income households, let at below market rents for 10 years. By January 2014 over 18,000 new rental dwellings had been built utilising NRAS (DSS unpublished data) The SHI was a 2008 economic stimulus measure which resulted in over 19,000 new social housing dwellings being built between 2008 and 2013. Additional growth in dwellings of 10% is

details of their operation and their comparative strengths and weaknesses here, we contend that a similarly conceived *permanent program* dedicated to stimulating private investment in affordable housing supply is the missing link in Australia's housing policy framework and the key to reducing the severe and growing shortage of affordable housing, particularly acute in NSW.

Government contributions to facilitate privately procured affordable housing can take many forms, including equity investment, recurrent subsidies (on either the demand or supply side), soft public loans, supplier tax concessions, supply of discounted land and government guarantees (see Milligan et al. 2009).

Whatever combination of mechanisms is used, our extensive consultation with the housing and investment industries and our analysis of successful international public/private financing models and practice has shown that to attract private investment, the following broad conditions must be met through a dedicated policy framework:

a) There is sufficient public subsidy (per dwelling) to meet housing affordability objectives and to service finance costs – rates of return for affordable housing have to match those on offer elsewhere in the investor market

b) Structured financial arrangements are needed to ensure the efficient and cost effective flow of funds – offering liquidity of investment is key to meeting diverse investor needs as well as to preserving the supply of affordable housing

c) Sufficient quantities of public incentives are available to attract large scale investors, such as superannuation funds

d) There is predictability and certainty for investors – overcoming the novelty of investing in (affordable) rental housing requires a long term commitment by governments that investment opportunities will be replicable

e) Governments adopt facilitative land supply and planning policies – to ensure sufficient development ready sites in appropriate areas can be sourced

f) Legislative and regulatory frameworks are in place to safeguard client outcomes, to meet public accountability requirements and to ensure effective financial risk management

g) Well governed, well-performing delivery agencies exist to deliver the policy/program (Milligan et al. 2009).

Considering how these principles could be applied in the Australian/NSW policy and market contexts and based on our research, we offer the following broad comments and suggestions under each head of consideration above.

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expected to be leveraged from this asset over 10 years (KPMG (2012) *Social Housing Initiative review, Report for the Housing Ministers Advisory Committee*, September).

Public subsidy arrangements

Providers of affordable housing in Australia currently rely on NRAS incentives and Commonwealth Rent Assistance (CRA)[9] as the two forms of subsidy used to help meet the costs of private finance.

While successful in stimulating the take-off of an affordable housing industry Australia-wide, the uncertainty about the NRAS program's future has placed at risk the strong financial sector interest,[10] business development activity and organisational capacity building that has been generated since its inception. Therefore, to help consolidate this industry and ensure its future, it will be crucial for governments to commit to a future for NRAS (or a similar measure) beyond 2016.

Commonwealth Rent Assistance (CRA), paid to eligible low income tenants, is the core subsidy that underpins the provision of social housing (at affordability benchmarks equivalent to those in public housing) by independent not-for-profit (NFP) community housing providers (CHPs). Unlike in many countries where private financing has been successfully introduced, CRA was not designed for this purpose. Consequently, as recognised by the 2010 Henry Review of Government Taxes and Transfers, CRA has a number of limitations:

- Payment rates are unrelated to market rent levels and are not indexed to market rent trends – the resultant gap in revenue available to affordable housing providers is most severe in NSW
- Payment rates are unrelated to the costs of providing social housing to low income tenants including those with complex needs, resulting in providers facing structural operating deficits
- Payment rates are insufficient to service private financing costs. (It is only with the addition of NRAS subsidies, or SHI capital contributions, that CHPs have been able to invest in additional housing supply by raising private finance).

Enhancements to CRA, possibly along the lines recommended by the Henry Review, should be a high priority for national government to improve rental affordability. Presently, however, there are widespread stakeholder concerns that pending reviews of social security payments announced by the incoming national Coalition Government have the potential to undermine the revenue base that is supporting affordable housing provision. One option to contain the budget implications of adjusting CRA as suggested above would be to introduce a top-up payment directed exclusively to registered suppliers of affordable housing for priority groups. CRA enhancements would be particularly beneficial to NSW, and especially in Sydney, which is most disadvantaged by current flat payment rates.

Structured financial arrangements

To minimise costs to government (of financing subsidies), appropriate terms and conditions for private financing are essential. This requirement has become more crucial since the Global Financial Crisis (GFC) and ensuing credit crunch, which (coupled with Basel III regulatory requirements impacting the banking sector) have reduced availability of traditional bank finance and led to more stringent lending rules, such as shorter terms and higher debt cover ratios (which in turn necessitate

[9] CRA is a Centrelink payment available to eligible private tenants to assist them to meet the costs of their housing. Tenants in affordable housing pay an 'affordable rent' that is takes into account their income and their entitlement to CRA.

[10] At least three of the four major banks and several second tier banks are now lending into the sector.

having larger reserves for loan security). To overcome these barriers many international governments have been facilitating lending for affordable housing by:

- Establishing (or facilitating the establishment of) specialist financial intermediaries that raise wholesale and retail finance at scale and channel this to the affordable housing sector (The Housing Finance Corporation – THFC – In the UK offers one example[11]);
- Supporting the development of financial mechanisms suited to investor demands, such as housing bonds that offer liquidity and can be structured to be attractive to different classes of investors. For superannuation funds, for example, a low-risk, low-return infrastructure-type investment with return based primarily on cash-flow has been suggested as a desirable model. The 2012 Housing Supply Bonds proposal that we have developed with colleagues provides one example of how this could be achieved by tailoring bond issues with different characteristics for different investor classes (Lawson et al. 2012).
- Offering additional government backing in the form of guarantees (or similar credit support arrangements) to reduce the cost of finance to affordable housing suppliers (while also minimising budget outlays). The most recent AHURI-funded research to which we have contributed outlines a specific model for an affordable housing investment guarantee and proposes new institutional arrangements for issuing same that has been designed for Australian conditions (Lawson et al. 2014 forthcoming).

Adopting a specialised institutional framework to support fund raising for affordable housing would enhance the efficiency of NRAS as a financial subsidy – by reducing the cost of funds and helping to ensure a stable flow of funds into the industry. A high level industry/government task force has been proposed as a means of taking forward these proposals and ensuring their suitability to domestic conditions (see Milligan et al. 2013a).

Sufficient incentives to attract large scale investors such as super funds

A threshold issue for attracting investors such as superannuation funds is that the scale of the prospective investment is sufficient to make it worth the time and cost of funds (and funds' managers) to investigate and take up.

The fragmented nature of investment opportunities in affordable housing across Australia to date has limited the scope for aggregation to the scale required for institutional investment and this has contributed to lack of success in securing such contributions to date (Milligan et al. 2013a). Even with the advent of NRAS, the numbers of incentives available in the early NRAS funding rounds and the process for accessing them were not conducive to institutional involvement. However, specialist intermediaries are now emerging to facilitate the aggregation process (albeit that there is a need to regulate these to minimise impacts on investor returns and to avoid leakage of public subsidies in fees.)

Inconsistent state frameworks – e.g. on residential tenancy law, property taxes and charges – are also obstacles for aggregation models and for large investors looking for a diversified portfolio of properties across the country to achieve desired scale and manage risk.

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[11] See Lawson, J. (2013) *The use of guarantees in affordable housing investment—a selective international review*, Positioning Paper 156, Melbourne: Melbourne: AHURI

As advised by investment experts, to achieve scale in the small Australian market, spread risk, reduce transaction costs and achieve a rate of return adequate to attract institutional investors, a diversified investment portfolio offering a mix of rental products (from 'top end' to 'affordable'[12]) in a range of locations will be required. Thus intergovernmental cooperation will be desirable to package investment options under similar conditions across jurisdictions.

Predictability and certainty for investors

In Australia, the short-lived and inconsistent nature of policies and programs designed to secure private finance for affordable housing from the 1980s has impeded the development of an affordable housing industry. Countries having more success in this realm have permanent or long running schemes in place – for example the US Low Income Housing Tax Credit has operated continuously since 1986 (and was made permanent by Congress in 1993). Similarly, Austrian Housing Construction Convertible Bonds have been available in that market since 1993. Importantly, while investment patterns have changed, both these instruments proved robust following the GFC.

Similarly, a dependable housing funding framework with commitments by all levels of government is required to attract and sustain substantial investment in affordable housing in Australia. Taking into account the degree of interest and learning catalysed under NRAS since 2008 (and start-up costs), industry experts cogently argue that future governments, of whatever political persuasion, must continue along that path ('stay the course') while making necessary adjustments to the scheme as the market for affordable housing grows and the broader economic context changes (Milligan et al. 2013a). Losing momentum or straying too far from the market responses now emerging under NRAS would have adverse and long term consequences for this nascent industry and the reputation of government, particularly with the superannuation funds industry and the major banking institutions.

Facilitative land supply & planning policies of governments

Landuse planning and land supply are core responsibilities of state and local governments. Our research into international practice (see, for example, Gurran et al. 2008; 2007 & Lawson & Milligan 2008) suggests that a major factor in the successful uptake of financial incentives (discussed above) is how effectively planning policies are aligned with funding arrangements. While this was a key consideration in the design of NRAS[13], implementation has been patchy resulting in uneven spatial outcomes so far[14].

The current South Australian, Western Australian and ACT Governments have developed the best local models in this regard. While NSW does have a number of (hard won) specific examples of gains through supportive planning policies these typically have been localised (e.g. Pyrmont/Ultimo, Green Square) or sporadic (e.g. provisions in the 2009-2011 Affordable Housing SEPP). A consistent and enduring, though not uniform, policy approach is essential (i.e. one that applies across all major development areas but with settings responsive to differing cyclical and submarket conditions).

Reasons for aligning financial incentives and planning requirements include:

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[12] Such an approach has the potential to address broader demand for rental housing as well as pressing affordable rental needs.

[13] NRAS was designed to give states and territories the option of meeting required co-payments via planning system benefits as an alternative to, for instance, budget outlays or gifting land.

[14] For example, by January 2014 NSW has received 12% of allocations while Queensland had received 37% (DSS unpublished data).

- Improving planning certainty (such as occurred during the SHI) reduces costly delays to development
- The market costs of land acquisition within high demand (and high need) metropolitan areas is prohibitive in the absence of planning scheme requirements for affordable housing inclusion
- Linking incentives to planning requirements for affordable housing provides a way of leveraging much greater value from the subsidy that is being provided
- Connecting the financial incentive to planning requirements may provide a means of stretching the period for which accommodation is available to the affordable housing sector (e.g. beyond the 10 year duration of NRAS funding support) without the need for additional subsidy
- The planning system provides a strong framework for identifying preferred locations for affordable housing, ensuring that incentives are not used to subsidise new residential development of otherwise marginal viability due to poor accessibility or low demand[15].

Offering government land for the development of affordable housing is also widespread in best practice policy models. Options include:

- Development on land that remains in public ownership – noting that this will not deter the forms of private investment envisaged above as land ownership is not an investor requirement
- Offering public land at an 'affordable' (residual) price to not-for-profit housing developers (as has occurred in the ACT)
- Providing land for community land trust models which maintain affordable housing in perpetuity while facilitating resident mobility and equity take-out (see Crabtree et al. 2012)
- Entering into joint ventures or deferred sale models where public land value is redeemed through retention of social or affordable housing after the development phase (as is being pursued in WA).

As regards the scope for using the planning system to facilitate affordable housing in NSW, the Affordable Housing State Environmental Planning Policy (AH-SEPP) introduced in 2009 represented a step forward in incentivising privately financed affordable housing development and in making permissible certain types of privately financed multi-unit development (irrespective of council objection), provided that a proportion of dwellings were rented as affordable housing at sub-market rates. Unfortunately, the current government amended key provisions under the AH-SEPP in 2011. And, far from looking to strengthen the planning law framework for promoting affordable housing, reform proposals put forward in the 2013 Planning Bill envisaged further weakening the position by removing the power for a consent authority (local council) to implement inclusionary zoning.

Legislative and regulatory frameworks

To be more affordable than market provision, it follows that 'affordable housing' requires government subsidy and additional public policy support in various forms as outlined above. The

[15] Phibbs, P. Milligan, V. Gurran, N. & Gilmour, T. (2008) Submission in response to the NRAS Technical Discussion paper, University of Sydney

objectives of government and the characteristics of housing required to meet affordability outcomes must be clearly specified, preferably in legislation, and compliance must be assured for public accountability reasons. Other aspects where regulatory assurance will be critical to investors relying on cash flow are management of tenants and assurance of rental income – these are key performance areas for providers under the 2014 National Regulatory System for Community Housing.

Beyond that, market forces must be free to find the solutions.

Given the novel status of the residential sector for large scale investors, Australian stakeholders have argued recently that, in addition to establishing appropriate legislative and regulatory foundations, there may also be a place for a joint government/industry 'proof- of-concept' phase geared to kick starting the industry (Milligan et al. 2013a). The aims would be to:

- Help to generate a market for institutional investment to operate successfully over the longer term
- Test models suited to institutional investors
- Assess and promote the viability of institutional investment in affordable housing
- Use the results to develop longer term policy, including the level and forms of government support necessary to achieve desired social outcomes.

As regards 'planning and land supply', key roles for state governments in such a phase could include:

- Release of a portfolio of development–ready government sites for take up through a competitive bidding process
- Streamlined planning support for the development of projects (such as provided under the SHI)
- Investment by government superannuation funds
- Participation in a task force to evaluate outcomes and further develop policy settings.

Well governed well performing delivery agencies

Well established independent organisations with highly skilled boards and professional staff are another core feature of established systems of affordable housing provision. These may be either NFP or limited profit entities that operate on commercial principles but are also subject to specialised regulation. Their roles embrace any or all of property development, investment facilitation, rental management and tenant/community support and stewardship, and long term ownership of affordable housing.

In Australia, larger regulated community housing providers (CHPs) are, potentially, the primary agencies through which much higher levels of private investment could be channelled into affordable rental housing provision. Across the country, there are now some 20 or more so called 'growth' CHPs managing portfolios of over 1,000 properties each, several with cross jurisdictional reach. These mission-driven organisations have been at the forefront of seizing recent funding opportunities under NRAS and SHI, exceeding expectations of what they could offer – for example,

they have been the most successful delivery vehicle for NRAS. Examples of innovation by the leading CHPs include pioneering mixed tenure projects; bringing affordable housing back into areas that have gentrified (such as the inner cities), innovative and environmentally sustainable dwelling design, creating pathways to home ownership for some of their tenants, initiating a variety of public private partnerships/joint ventures, and building much-needed affordable housing in towns adversely affected by the resources boom (Milligan et al. 2013c; Wiesel et al. 2012). Their recent success notwithstanding, retention of the capacity of such entrepreneurial entities to initiate or procure additional affordable housing into the future relies (as for investors) on having continuity and predictability of opportunities for development and investment.

Overview of proposed policy model for affordable housing supply

Ultimately achieving a sustainable affordable housing industry capable of producing a regular supply of affordable housing will be reliant on ensuring an integrated package of funding, policy and regulatory measures is in place, as described above and depicted below. This in turn will necessitate a sustained and strategic leadership role from government, a high degree of cooperation across levels and agencies of government and working closely and collaboratively with the investment and affordable housing industries. A national funding framework within which individual states have the opportunity to plan and guide local investment in affordable housing using all available policy levers would be optimal.

Source: Milligan et al (2009)

5. Transforming the existing social housing portfolio

Alongside of growing the supply of affordable housing, an essential pillar of required policy action is to preserve and enhance existing social housing in NSW. This will involve accelerating modernisation and reconfiguration of the public housing stock to overcome entrenched social disadvantage and improve outcomes for tenants. As we noted in the first part of this submission, there is considerable opportunity to implement a structured reconfiguration of the social housing stock to deliver a significant new affordable housing supply through such a mechanism. The challenges involved in these interconnected tasks have been well documented elsewhere, including in the 2013 report of the Audit Office of NSW, a backdrop to this inquiry.

As in other states and territories, the unsustainable condition of NSW public housing leaves the system unavoidably reliant on divestment of stock and indefinite deferral of essential works. Albeit calibrated according to tenant survey responses, 32% of NSW public housing falls below an ABS-defined minimum acceptable property standard – the highest proportion for any state or territory[16].

Essential strategy components

Below we outline our ideas for how to resuscitate the social housing system by adopting an approach broadly to similar to successfully completed reforms to former public housing systems in the UK, parts of continental Europe and North America (see box). Essentially these involve:

- Diversifying the provision of public housing by progressing the development of a state-wide system of independent, regulated housing providers. This step would build on the existing NFP sector (both mainstream CHPs and Indigenous community housing providers) and facilitate new entrants as required to achieve a preferred market structure. Both generalist and specialist providers will be needed.

- Transferring the assets of HNSW into these existing and new entities via a carefully planned and staged approach[17]. While most public housing transfers completed in Australia to date have been limited to 'management outsourcing', this is atypical of how reform has proceeded elsewhere. We argue that title transfer would provide greater scope for CHP entrepreneurialism and innovation (Pawson et al. 2013, Chapter 7). This could also facilitate enhanced asset planning and management, informed by a longer term perspective than is normally possible for governments subject to annual funding decisions and short-term electoral cycles.

[16] Productivity Commission (2013) *Report on Government Services – Housing and Homelessness*; Table 16A.15 http://www.pc.gov.au/gsp/rogs/2013

[17] As management and property transfers are progressed, arrangements for public employee deployment could also be negotiated.

- A clearly stated and calibrated minimum acceptable physical standard for social housing stock (e.g. incorporating structural integrity, liveability and environmental sustainability components) needs to be developed. While Housing NSW has developed 'asset performance standards' these are in the form of a detailed manual for determining whether particular building components are of acceptable condition rather than specifying the minimum acceptable facilities and physical condition of a dwelling.

- Benchmarking costs and introducing sector wide service and property standards to govern and regulate performance across a diversified system of social housing providers. Our latest research concerns developing and trialling a framework related to aspects of what would be required. (Pawson et al. 2014 forthcoming).

- Using CHPs (i.e. off-budget delivery vehicles) to leverage the existing assets and their enhanced revenue base (rents augmented by transfer of CRA payments to (non-public) tenants) to, as a priority task, re-profile the existing supply of social housing and bring retained assets to a required property standard via the injection of significant tranches of private financing. Unlike occurs through privatisation, property assets would be protected by regulatory controls buttressed by the social purpose of these third sector parties.

Upgrading rundown social housing stock through private finance: UK experience

Through a sustained program of public housing stock transfers post-1990 UK Governments have succeeded in channelling large sums of private finance into the restoration of former council housing, previously run-down through decades of underinvestment. In England alone, more than £20 billion was sourced in this way in the period to 2010, with substandard quality property being reduced from 38% in 2002 to 10%. Crucial to this achievement was:

- The establishment of a clearly defined social housing property quality threshold – the Decent Homes Standard
- An obligation placed on all social housing providers to develop proposals to secure full compliance with the Standard by a specified deadline – 2010

In the process, social housing providers were also successfully incentivised to improve their business planning, their customer service and tenant engagement, and their management performance.

For further details see Pawson & Mullins (2010).

While the cost of bringing public housing up to a decent standard and reconfiguring the asset base (both to benefit sitting tenants and to align with future needs) is not publicly known, it is certain to be very substantial. And while it is well-recognised that a program to redress this problem would need to be privately financed as far as possible (see Section 4), we believe that – at least in the short to medium term – some additional government funding would be inescapable. This could be delivered by means of the higher CRA expenditure automatically resulting from further tenancy transfers from public to community housing. As discussed in the previous section there would also be a need for public interventions to incentivise and structure private financing.

Given the above arguments, therefore, we disagree with the implication in the 2013 NSW Audit Office Report, 'Making the Best Use of Public Housing', that a socially and financially sustainable social housing sector can be achieved within the available funding envelope. The implication of trying to reconfigure existing public housing assets without additional funds is that significant assets

will have to be sold (in many cases for demolition) resulting in a further reduction in capacity. This is a self-defeating strategy that runs counter to all evidence that there is a need to increase the availability of social housing as a result of the concentration of social disadvantage and emerging issues in the low income private rental market, especially with an aging population, noted above. The inevitably greater residualisation of the remaining social housing stock that would result will intensify stigmatisation of the sector and further erode political and public support for the tenure. It would also store up greater problems for the future.

What we are proposing as an alternative is an off-budget means of addressing long running government liabilities by attracting private finance to the task and using CRA and the security of the current asset base to help defray the costs of this. This will require Commonwealth Government cooperation. With such a strategy in place, National Affordable Housing Agreement (NAHA) funding could then be returned to its intended function as a supply side stimulant[18]. On completion (possibly after 10 years), this transformational strategy could be expected to produce a financially sustainable social housing system, giving governments options for adjusting their level of their financial support[19]. We would be happy to elaborate our thinking here at a later stage of the inquiry.

Service improvements and community housing

In addition to improving the quality of existing public housing, both national and state governments are seeking to generate better outcomes for welfare recipients, including many who are public housing tenants. Alongside financial drivers, this has been a key stated goal of public housing transfers both internationally and domestically and forms part of a wider public service reform agenda, known as new public management (NPM). Essentially this entails outsourcing of government services and thereby leaving government agencies to act as the planner, funder and regulator, rather than direct provider, of welfare services and social infrastructure (Pawson et al. 2013).

While not all third sector organisations or projects work well or deliver their intended outcomes, this also applies in private and public organisations. Overall, we consider that the evidence supports the conclusion that considerable success in revitalising social housing has been achieved elsewhere, notably in the Netherlands, the US the UK and Canada through managed devolution to NFP or arm's length housing entities.

Claims for how a more diversified and contestable system of social housing service provision may contribute to better tenant outcomes centre on:

- The scope for non-government agencies to act in flexible, entrepreneurial ways which could not be replicated by state agencies
- The ability of community based providers to respond to local needs by adopting more flexible and integrated approaches than government agencies to their clients

[18] Retention of capital funding under NAHA is essential if we are to meet the projected need for deep subsidy social housing for high need groups (such as older renters and people with disabilities) into the future. This will be required over and above increased supplies of higher rent 'affordable housing' that more shallow and time limited subsidies, like NRAS, can stimulate.

[19] For example, backlog maintenance will be eliminated and the realigned assets can be managed efficiently into the future.

- The empowerment of disadvantaged groups that can result from social capital formation and community building processes that are used effectively by community agencies
- Leveraging non-government resources
- Efficiencies that can arise from voluntary effort and quasi-market conditions (compared to government performance).

While these claims are widely made and seem reasonable, supporting evidence is often hard to find, at least partly because of the hard-to-measure nature of many of the attributes claimed. We note, however, that community housing tenant satisfaction levels have compared favourably with those of public housing across Australia for over a decade now (for a critical analysis of this measure, see Pawson et al. 2014 forthcoming).

Relevant publications associated with City Futures

Listed below (chronologically ordered) is the body of recent research involving City Futures researchers that provides the evidence base for the arguments and proposal presented in this submission.

Lawson, J. Berry, M. Hamilton, C. & H. Pawson (2014 forthcoming) *Enhancing Affordable Rental Housing Investment via an Intermediary and Guarantee*, Final Report, Melbourne: AHURI

Pawson, H. Milligan, V. Phibbs, P. & Rowley, S. (2014 forthcoming) *Assessing cost effectiveness and tenant outcomes in social housing: developing a framework*, Positioning Paper, Melbourne: AHURI

Davison, G. Legacy, C. Liu. E. Han, H. Phibbs, P. van den Nouwelant, R. Darcy, M. & Piracha, A. (2013) *Understanding and addressing community opposition to affordable housing development*, Final Report 211, Melbourne: AHURI

Milligan, V. Yates, J. Wiesel, I. & Pawson, H. (2013a) *Financing rental housing through institutional investment – Volume 1: outcomes of an investigative panel*, Final Report 202 Melbourne: AHURI

Milligan, V. Yates, J. Wiesel, I. & Pawson, H. (2013b) *Financing rental housing through institutional investment – Volume 2: supplementary papers*, Final Report 202 Volume 2 Melbourne: AHURI

Milligan, V. Hulse, K. and Davison, G. (2013c) *Understanding leadership, strategy and organisational dynamics in the not-for-profit housing sector*, Final Report 204 Melbourne: AHURI.

Pawson, H. & Milligan, V. (2013) New dawn or chimera? Can institutional financing transform rental housing? *International Journal of Housing Policy,* published online October 9

Pawson, H. Milligan, V. Wiesel, I. and Hulse, K. (2013) *Public housing transfers: past, present and prospective*, Final Report 215 Melbourne: AHURI

Crabtree, L. Phibbs, P. Milligan, V. & Blunden, H. (2012) *Principles and practices of an affordable housing community land trust model*, Research Paper, Melbourne: AHURI

Lawson, J. Milligan, V. and Yates, J. (2012) *Housing Supply bonds - a suitable instrument to channel investment towards affordable housing in Australia?* Final Report 188 Melbourne: AHURI

Randolph, B. and Tice, A. (2012) Suburbanising disadvantage in Australian Cities: Housing Markets and Social Change in an era of neo-liberalism. Paper presented at the European Network of Housing Researchers Conference, Lillehammer Norway, June 2012. [Available from the authors]

Wiesel, I. Davison, G. Milligan, V. Phibbs, P. Judd. B. & M. Zanardo (2012) *Developing sustainable affordable housing: A project level analysis*, Final Report 183 Melbourne: AHURI

Pawson, H., Davison, G. and Wiesel, I. (2012) Addressing concentrations of disadvantage: policy, practice and literature review. AHURI Final Report No. 190, Melbourne: Australian Housing and Urban Research Institute

Pinnegar, S., Randolph, B. and Davison, G. (2011) Feasibility study to undertake a Multi-Year Research Project: Addressing concentrations of social disadvantage. Australian Housing and Urban Research Institute.

Pawson, H, Lawson, J and Milligan, V. (2011) *Social housing strategies, financing mechanisms and outcomes: an international review and update of key post-2007 policy developments*, City Futures Research Centre, University of New South Wales, Report prepared for: Housing NSW, Department of Families and Communities, NSW Government

Travers, M. Gilmour, T. Jacobs, K. Milligan, V. & Phillips, R. (2011) *Stakeholder views of the regulation of affordable housing providers in Australia*, Final Report 161, Melbourne: AHURI

Pawson, H. & Mullins, D. (2010) *After Council Housing; Britain's New Social Landlords*; Basingstoke: Palgrave

Pinnegar, S. Milligan, V. Randolph, B. Easthope, H. & Liu, E. (2010) *Low-Income Home Ownership Support Programs.* Sydney: University of New South Wales: City Futures unpublished report.

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Appendix: Housing supply shortages

Prepared by Dr Judith Yates

The 2013 State of Supply Report prepared by the National Housing Supply Council (NHSC) estimated that the gap between underlying demand and housing supply would be around 283,000 dwellings if Australians in 2011 had the same housing consumption patterns as in 2001, with the housing gap in NSW of 76,000 making up 25 per cent of the total shortfall.[20] See Table 1.

Table 1: Housing shortage at end June 2011

	2001 base
NSW	76,000
Vic.	76,000
Qld.	34,000
SA	29,000
WA	48,000
Tas.	12,000
NT	3,000
ACT	10,000
Australia	283,000

Source: National Housing Supply Council 2013 State of Supply Report, Chapter 3. The state components may not add to the national total because the Australia total was based on propensities for the country as a whole, while State/territory estimates were based on data for each jurisdiction.

This gap was met by a reduction in the rate of household formation. Between 2001 and 2011, the likelihood of being a household reference person (or the propensity of persons in that age group to form a household) fell in every age group, as can be seen in Table 2.

Nationally, this decreased propensity to form households in 2011 compared with 2001 (reflected in a decrease in the proportion of persons who were household reference persons) was larger for those in the younger and older age groups. These age groups were more likely to be living with others people in 2011 than they were in 2001. For younger persons, for example, a reduced tendency to form a household might reflect an increased tendency to remain longer in the family home; for older households, it might reflect an increase in the proportion of couple rather than single person older households with a narrowing of the gap between female and male mortality. The lower decline in the mid-age groups might suggest a slowing down in the rate of household dissolution over the period.

[20] These estimates were based on living arrangements recorded in the 2001 Census applied to the Australian resident population at June 30 2011. As emphasised by the NHSC in its report, the shortfall between underlying demand and supply is a theoretical construct, based on an assessment of how many households there would have been had the population in 2011 had the same breakdown of household types within each age group (defined by age of reference person) as was the case in 2001. The shortage measures how many additional households there would have been in 2011 (and hence how many additional (occupied) dwellings would be required) if Australians had the same propensity to form households in 2011 as they did in 2001. More details on the methodology employed can be found in NHSC (2013).

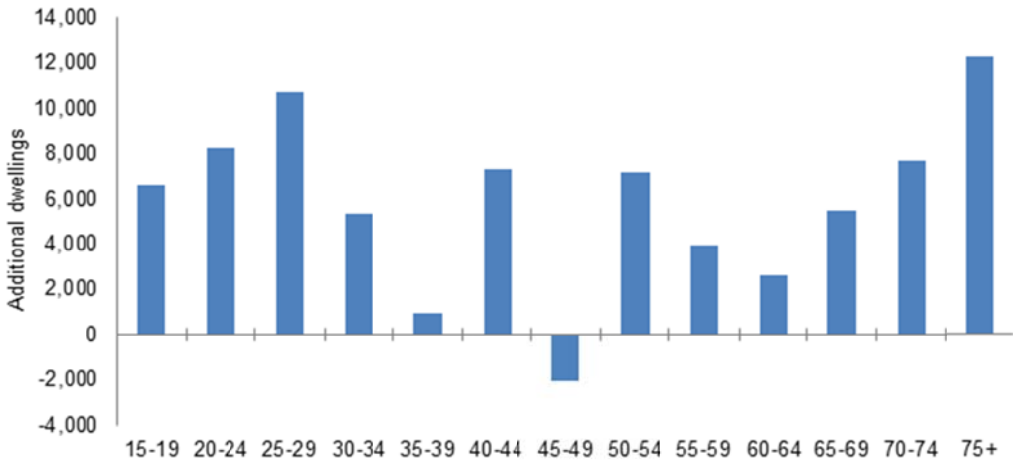
Table 2: Percentage of people recorded as household reference person by age group, Australia 2001 and 2011

	2001	2011	change 2001-2011
	%	%	% points
15-19	4.6	3.0	-1.6
20-24	23.1	20.4	-2.7
25-29	38.8	37.2	-1.6
30-34	47.6	46.1	-1.5
35-39	50.7	49.7	-1.0
40-44	53.7	51.8	-1.9
45-49	53.4	53.2	-0.2
50-54	54.3	53.4	-0.9
55-59	54.9	53.1	-1.8
60-64	55	53.4	-1.6
65-69	56	54.7	-1.3
70-74	60	56.9	-3.1
75+	60.1	59.3	-0.8
Total	45.6	44.7	-0.9

Source: National Housing Supply Council 2013 State of Supply Report, Chapter 3.

Figure 1 shows how many additional (occupied) dwellings would have been required in NSW in 2011 had persons in each age group followed the same household formation pattern as their counterparts in 2001.

Figure 1: Increase in underlying demand in NSW from 2001 to 2011 by age of household reference (76,000 total additional dwellings)



Source: National Housing Supply Council 2013 State of Supply Report, Appendix to chapter 3.

While these outcomes are likely to be affected by a number of factors, the Council report points to a shortage of affordable housing as being an obvious potential contributor. Housing shortages contribute to high dwelling prices which make it difficult for those younger households who do form independent households to become home owners. This results in increased pressure on the private rental market and, in particular, at the lower end of the market.

In 2009-10, the national shortage of dwellings that were both affordable and available to renters with gross household incomes in the bottom two quintiles of the income distribution (with gross household incomes of less than approximately $1000 pw, which is 25 per cent less than that earned by a full time adult on average weekly ordinary time earnings) was around 500,000 dwellings (NHSC, 2012: 48).[21] NSW contributed just over 100,000 to this shortage.[22]

A shortage of affordable rental dwellings that are available to lower income households results in these households, who have the least capacity to pay, being in housing stress, with rental outlays absorbing at least 30 per cent of their limited gross incomes.

Possible future outcomes

In broad terms, dwelling shortages arise when increases in the dwelling stock are inadequate to meet the potential housing demand from a growing population. In their study undertaken for the National Housing Supply Council in 2013, McDonald and Temple provided a series of household projections for Australia over the next 15 and 30 years.[23] These are demand side projections that "provide the housing demand for occupied dwellings (by structure and tenure type) that would result from changing demographic and social trends (population size, births, deaths, international migration, internal migration, age structure changes and family and household formation and dissolution)." These estimates are based on the ABS 2011 estimate of resident population and on housing classification type transition probabilities derived from the change between the 2006 and 2011 census broken down by region, age and sex. They do not take into account the constraints that housing shortages or economic constraints place on the ability of persons in different age groups to independently house themselves.

These projections suggest that, by 2026, there will be 2.66m more households in Australia than there were in 2011 and, by 2041, there will be 2.77m more than there were in 2026. These projections are based on a (medium) scenario which assumes annual net overseas migration stabilises at 232,000 after 2021. For Greater Sydney, there will be 450,000 more households by 2026 and a further 460,000 by 2041. The equivalent projections for the rest of NSW are 137,000 and 99,000. Table 3 shows the projected increases in numbers of dwellings required by type (on the assumption that the change in dwelling numbers and type from 2011 follows the same pattern as from 2006 to 2011). As above, these are derived on the assumption that current trends regarding household and dwelling type remain (and are not constrained by availability of suitable stock or its affordability). Because projections beyond 2026 are even more highly speculative than those to 2026, comments below are based only on the demographic projections to 2026.

These projections suggest that, over the next 15 years, Australia will need close to 180,000 new dwellings each year with about 40,000 per year in NSW (30,000 of which will need to be in Greater Sydney). Even more will be needed once loss of current stock through demolition or depreciation is taken into account.

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[21] The quintile 2 upper bound for gross income in 2009-10 was $1,029 pw. AWOTE for full time adult males in December 2009 was $1,227 pw.

[22] Shortage in NSW estimated from 2009-10 SIH by authors. Yet to be finalized analysis of the 2011-12 SIH suggests that the national shortage data has improved marginally over the 2009-10 estimates, but the NSW shortage data remains virtually unchanged..

[23] ABS estimates are not expected until the end of 2014.

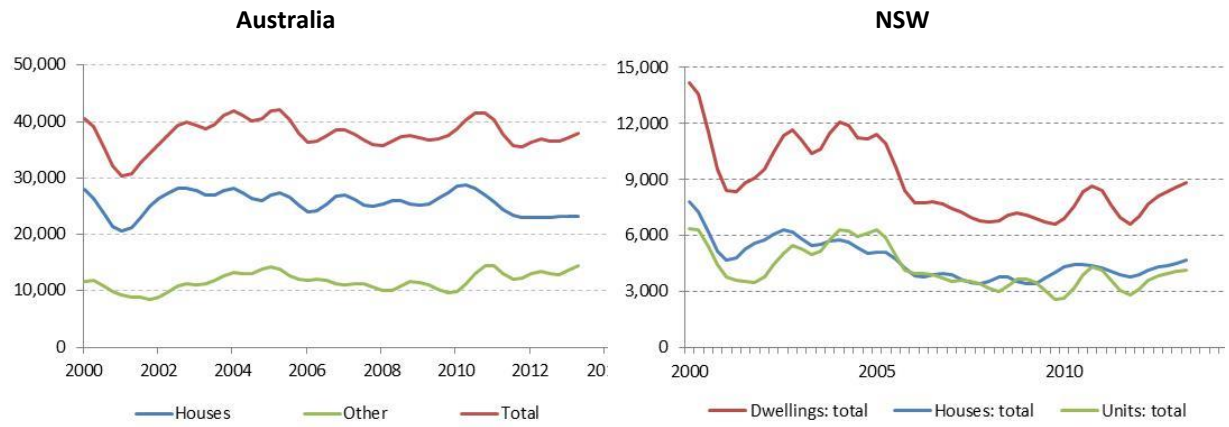
Table 3: Total increment to dwellings and ratio of dwellings by type, 2026 to 2011 and 2041 to 2026

		Increment to dwellings	Implied annual increment	Total Dwellings	Separate houses	Semi-detached	Flats
Greater Sydney	2011-26	451,723	30,115	1.26	1.27	1.26	1.24
	2026-41	462,152	30,810	1.21	1.21	1.22	1.22
Rest of NSW	2011-26	137,368	9,158	1.13	1.12	1.16	1.16
	2026-41	99,488	6,633	1.08	1.08	1.1	1.11
Australia	2011-26	2,663,192	177,546	1.31	1.3	1.31	1.31
	2026-41	2,768,396	184,560	1.24	1.24	1.25	1.26

Source: McDonald and Temple (2013: Tables 8, 9).

Currently, however, housing completions for Australia are running at around 40,000 per quarter, or 160,000 per year, well below the anticipated demand. Those for NSW are below 9,000 per quarter or around 34,000 per year, as seen in Figure 2.

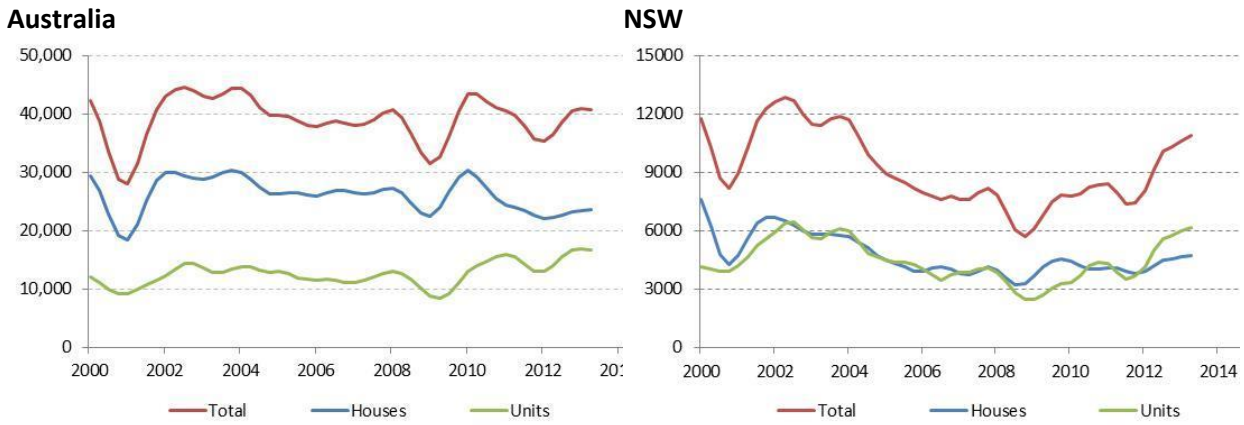
Figure 2: Quarterly dwelling unit completions



Source: ABS Cat. No. 8752.0037, 8752.0038, trend data

As shown in Figure 3, while commencements for Australia remain at a decade long average, those in in NSW have begun to show some improvement over the past year or so in response to the dwelling price boom in Sydney and, at just over the equivalent of 40,000 per year, would be sufficient to meet projected demand if there was no loss of dwelling stock. However, whether this level of construction will be sustained if there is a slowdown in dwelling price growth or when interest rates return to a more normal level remains an open question. Even at this level, they still fall short of the construction levels needed to meet the current estimated shortage of 76,000 reported in Table 1.

Figure 3: Quarterly dwelling unit commencements



Source: ABS Cat. No. 8752.0033, 8752.0034, trend data

A further final set of household projections produced by McDonald and Temple can also be commented on. Taking into account demographic trends alone, these show what demand for each tenure would be given age adjusted current and expected household structure. As with the earlier projections, these assume the 2011 Census distributions of tenure type by region, dwelling type, type of household and age of the reference person remain constant across the projection period. These tenure outcomes for these projections are shown in Table 4.

Table 4: Ratio of dwellings by tenure, 2026 to 2011 and 2041 to 2026

		Total	Owner/ Purchasers	Public renters	Private renters
Greater Sydney	2011-26	1.26	1.28	1.35	1.21
	2026-41	1.21	1.21	1.28	1.2
Rest of NSW	2011-26	1.13	1.14	1.18	1.09
	2026-41	1.08	1.08	1.13	1.08
Australia	2011-26	1.31	1.32	1.38	1.26
	2026-41	1.24	1.24	1.31	1.23

Source: McDonald and Temple (2013: Tables 10, 11).

For Australia, for example, they suggest that, with a 31 per cent increase in the number of households from 2011 to 2026, there will be a 32 per cent increase in the demand for owner-occupation; a 38 per cent increase in the demand for public (social) rental and a disproportionately low 26 per cent increase in demand for private rental.

These projections highlight the difficulties of projecting household numbers and structures into the future without taking into account the (non-demographic) economic and social factors that affect housing demand and the supply constraints that limit the choices available.

To meet these projected demands for an increase of 28 per cent of households in owner-occupation in Greater Sydney by 2026, compared with an overall growth of 26 per cent in the total number of households, the share of households in owner-occupation will have to defy past trends and increase, rather than continue on its current downward trend. To meet the projected 35 per cent increase in the demand for public (social) rental in greater Sydney by 2026 the social dwelling stock will have to increase at an even faster rate than the total dwelling stock. Current market and fiscal pressures suggest neither of these outcomes is likely.

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Until the current projections are made available, copies of their earlier projections (to 2039) can be found at the following websites.

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