



Submission to:

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Introduction

UNSW's [City Futures Research Centre](#) is Australia's leading urban policy research centre (see Appendix 1). Over the past decade we have been heavily involved in researching issues highly relevant to the Senate Economics References Committee (SERC) Inquiry into affordable housing.

This submission is based on [our extensive research record in this field](#) especially as it relates to housing market dynamics, housing policy matters, international national housing policy strategies, affordable housing financing models and housing assistance delivery systems. A full list of material drawn on for the submission is given in the reference list included. This includes our own work and other recently published evidence in support of our arguments.

In the submission, we first discuss the significance of housing as a policy issue, the rationale for government intervention in housing, issues concerning how the Australian Federation has governed its multiple interests in the housing field, current challenges facing Australian policy makers concerned with housing matters, and features of successful national housing policy strategies. This provides the context for the second part of our submission which proposes policy directions in four key areas of the Inquiry's terms of reference in which we have specific expertise. We consider that these directions must be pursued at the national level to address Australia's looming housing policy challenges and, specifically, to ensure that Australia's housing system continues to contribute effectively to national economic growth and productivity and social well-being goals.

The four directions for national policy covered in the submission concern:

1. Tax Reform for Improving Housing Affordability
2. Achieving an Integrated National Affordable Housing Supply Strategy
3. A Larger Role for the Third Sector in Social and Affordable Housing Provision
4. National Leadership in Connecting Urban and Housing Policies

Specific recommendations for Commonwealth Government action under each of the above headings are included in the relevant section. We would be happy to provide additional information and answer questions concerned with any of the matters covered by the submission.

The Importance of Housing

Housing is a complex policy issue with relevance to and consequences for all levels of government. The pervasive and interconnected influence of housing matters on Australia's national economy and society is recognised in the broad ranging terms of reference for the Senate Economics References Committee (SERC) Inquiry into affordable housing.

Housing activities contribute significantly to the domestic economy and the performance of the housing sector has potentially profound implications for macroeconomic performance and economic management and productivity – as demonstrated by the way that inadequate regulation of the US housing finance system triggered the 2007 Global Financial Crisis. Housing is also an important source of investment and wealth creation, especially for those who own their homes, thereby acting as a further economic stimulant. Until the past decade, investment in housing accounted for more than 5 per cent of GDP in Australia but this has trended down since 2000. Housing wealth accounts



for almost a half of total household net wealth and housing costs represent 18 per cent of average total household— the largest single item of a typical household’s budget¹. (ABS 2011: 4)

Housing is also a key pillar of social policy: the ways that housing and housing assistance are provided influence not only housing affordability, appropriateness and security but, more broadly, the employment, educational and health outcomes of citizens. Spatially housing plays a core role in shaping our cities and their economic, social equity and environmental performance.

Why and How Governments Intervene in Housing²

Governments use a wide array of financial and other forms of intervention to reduce the cost of housing, to encourage housing investment or to achieve other housing-related objectives. Financial incentives range from explicit grants directed towards housing provision for the disadvantaged, to implicit tax concessions that, in effect, benefit the most advantaged. Traditionally intervention has aimed to improve allocative and productive efficiency by addressing market failures, to enhance equity and to contribute to macroeconomic stability and growth. Ideally, such intervention enhances people’s housing opportunities and ensures equitable access to housing (OECD 2011: 183).

Badly-designed housing interventions, however, can have substantial negative effects. Assistance that increases demand for housing is unproductive if it is capitalised into dwelling prices because of sluggish supply responses in housing markets. Supply side subsidies may crowd out private investment that would otherwise have occurred or may displace those who are already disadvantaged in housing markets. The post-2007 experience in the US highlighted the perverse impact of poor housing finance policies on financial and economic stability.

Demand side subsidies targeted to low income households, while generally more effective in meeting affordability objectives than supply-side measures, are less effective in tight housing markets and where the elasticity of affordable housing supply is low. Supply side subsidies are more effective in avoiding rent escalation in markets where there is an inadequate supply of rental housing (particularly for low income households). They are also more effective in supporting neighbourhood revitalization efforts and in enabling low income people to live in neighbourhoods from which they might be excluded under a demand-side subsidy system.

Demand side subsidies facilitating access to home ownership (e.g. first home owner grants) are inequitable if directed to households with higher incomes than households remaining in the rental market. They are ineffective in that they merely bring forward purchases that most probably would have occurred in any case (Wood et al. 2006). They are inefficient when they compound price pressures in the housing market and when they expose vulnerable households to repayment and default risks and, as a result, heighten macroeconomic instability.

¹ Housing costs are 21% of the budget of households in the lowest income quintile and 27 % for those in the lowest net worth quintile.

² This section is based on Yates (2012b) who provides a taxonomy of different types of subsidies, more detail on the rationale for them and, critically, an evidence based assessment of the consequences of different forms of intervention and for many of the claims made in this section.



The far more significant demand side subsidies – the Australian Government tax expenditures that reduce the cost of housing for established home owners and rental housing investors by upwards of \$30b in 2013 (Treasury, 2014) – are potentially even more problematic. They are inequitable and contribute nothing to housing affordability. They favour owners once they have paid off their mortgage; they support those who can afford to borrow to invest in rental housing. They disproportionately benefit older, high income home owners and investors. By lowering the user cost of housing for owner-occupiers and for negatively geared investors; they reinforce factors that add to housing demand and compound dwelling price pressures in the presence of supply inelasticities. Given their typically pro-cyclical effect they enhance rather than counteract market volatility and can lead to lower rates of growth. They are likely to have contributed to urban sprawl. Yates (2012b) provides an overview of international evidence that supports these claims. Yates (2010a) provides evidence of the perverse distributional outcomes of such subsidies in Australia.

Underpinning the case for housing policies generally targeted towards support for home owners are contentions about the perceived economic and social benefits associated with this form of housing tenure. To the extent that such arguments are convincing, they provide a basis for using subsidies to assist into home ownership those who would be otherwise unable to secure access. However, the structure of assistance provided by indirect tax expenditures to owner-occupiers fails to do this. Instead, the greatest support goes to existing home owners, with young lower income home purchasers and renters receiving the least assistance. Indeed, given the contribution of such support to what some analysts argue is a substantially over-valued market (OECD 2013), these forms of assistance actively debar access to moderate income and lower income groups. The implicit subsidies provided through the tax system benefit home owners, not home ownership. Similar concerns can be raised by the preferential treatment given to owner-occupied housing in the assets test.

The Governance of Housing

The undeniable importance of housing notwithstanding, governance of housing has become fragmented, inconsistent and uncertain in Australia and successive governments have shied away from recognising housing system problems and from tackling housing policy reform.

While their responsibility for public housing underlies a popular tendency to see housing policy as primarily a matter for the States and Territories, the preceding section has made amply clear that, especially through its control over tax expenditures and social security policy, it is the Commonwealth Government which in fact holds most of the key levers here. However, the Federal administration's role in housing is not defined constitutionally or in legislation and its influence has been severely chequered by a lack of leadership and continuity of effort over the last three decades (Milligan & Tiernan 2011; Troy 2012). Relatedly, Commonwealth policy capacity in this field has been largely eroded and there has been no long-standing administration dedicated to housing since the early 1990s – a situation contrasting with arrangements in the US, Canada, the UK and much of Western Europe (Lawson & Milligan 2007).

State governments are (increasingly) starved of the resources necessary to run housing assistance programs effectively and the essential coupling of housing, urban and infrastructure policies that



should drive new residential development has been largely absent (see Section 4 under ‘Specific Directions for Australian Housing Policy Strategy’). Recently, in a further narrowing of the state level housing policy agenda long standing housing departments have been absorbed into welfare departments in most jurisdictions (WA is a laudable exception) resulting in dilution of a broader housing policy outlook and expertise. Unlike in most advanced economies, local or city governments have very limited and poorly-defined roles in housing and lack the resources and capacity to influence local housing outcomes or to catalyse local responses and bottom up innovation³.

Thus the future governance of Australia’s housing is a core issue to be addressed. Effective governance is not a simple matter of one level of government (the Commonwealth or the states/territories) being allocated responsibility and accountability for housing policy. Nor is the simple formulation of less government (regulation) and more market going to work. In our view, the complexity of the issues involved, the significant impact of other (‘non-housing’) national policy settings on housing outcomes (especially fiscal, monetary and immigration policies) and the challenges mounting in our housing system make national leadership essential. For example, within the similar federal system that operates in the United States, the Housing and Urban Development department is resourced and empowered to play a nationally pivotal role. This is needed not only because national policy levers are so critical to the performance of the housing system but because specific initiatives designed to improve housing affordability will require a consistent and assertive national approach to have sufficient impact.

Acknowledging the diversity of housing markets across the country and the defined roles of states within the Australian federation in program administration, urban management and infrastructure provision, a national approach must be accompanied by stronger coordination between the Commonwealth and states/territories acting to implement a shared strategic agenda (or National Housing Plan). Ideally a way should also be found to activate local government’s potential contribution, starting with an obligation to develop local housing strategies that address local housing needs. Such engagement would require capacity building in local government in the short to medium term and supportive national and state policies. This is, however, consistent with the trend (at least in some states) towards the enlargement of local government administrative units which may help to provide the critical mass required.

We note with concern several recent setbacks to achieving better governance of housing. First, since late 2009 COAG’s attention to a substantial housing reform agenda has lapsed (see Housing Ministers Conference 2009). In this context the National Affordable Housing Agreement (which came into effect in 2009 replacing long standing Commonwealth State Housing Agreements, 1946-2008) was intended to operate as a strategic framework for driving a long term partnership with the states on improving housing outcomes. However, in operation, the Commonwealth’s influence appears to have been weakened by the new framework and its capacity to drive reform has not lived up to expectations so far.

³ A notable exception can be found in the long standing housing policy activities of the City of Port Phillip in Melbourne’s inner city. Their success in preserving existing affordable housing and providing additional affordable dwellings in their area demonstrates what can be achieved at the local level with active municipal engagement leveraging in national and state support.



Second there is no dedicated national Housing Minister (with responsibility both for housing policy and for assessing the impacts of Australian Government policy more broadly on the housing system) in the present Coalition Government. A procession of six short term Housing Ministers under the Labor administration between 2010 and 2013 provided limited opportunity for strategic housing policy development. Third, placement of housing in the social services portfolio (and in similar departments previously since 1996) has perpetuated the narrow and inadequate framing of housing as a welfare issue. Fourth, the Housing and Homelessness Ministerial Council which operated to coordinate and drive essential cross jurisdictional reforms to housing and homelessness programs has been disbanded by COAG.

Also of concern is the 2013 abolition of the National Housing Supply Council (NHSC), which was providing much needed specialist advice and information on critical housing supply issues to governments and the housing industry. While this seems unlikely to be reversed, the over-riding need for a regular and authoritative Australia-wide housing demand and supply analysis remains undiminished. One response would be to emulate the United Kingdom's [UK Housing Review](#) (Pawson & Wilcox 2013), a long-running annual collation and analysis of housing-related data drawn from a diverse range of published and unpublished sources. Undertaken by independent academics and highly regarded by government agencies and industry bodies alike, the Review provides a valued source of housing statistics widely drawn upon by policymakers. Albeit that it would be a more modest enterprise than the NHSC, an **Australian Housing Review** could play a useful role in helping to fill the problematic gap resulting from its abolition.

The Changing Housing Environment and Implications for Housing Policy

Arguably, Australia's housing policies overall served most Australians well in the past. However, profound and rapid changes in Australian society and entrenched affordability problems in many urban and regional housing sub-markets mean that governments cannot continue with their historic reliance on a market-driven, homeownership (and retail private investor) dominated policy model. The extent of economic and social change also means 21st century housing needs and preferences are very different from the past.

Drawing on the available academic and public evidence (to which we have extensively contributed), we provide below a synthesis of what we would argue are among the most significant problems facing Australian housing policy makers:

- a) Australian housing markets are among the most expensive in the world and affordability has become a structural problem which cannot simply be addressed by lower interest rates (currently at an all-time low), through cash subsidies (such as First Home Owner Grants) to encourage home ownership, or by expanding the urban fringe (Yates 2012a; Yates & Milligan 2007). Forecast population growth will continue to place strong pressure on housing supply especially in many urban and coastal locations. Against this demand side pressure, supply shortfalls are forecast to remain (NHSC, 2013). Current tax settings have exacerbated affordability problems by encouraging speculative investment in housing (Eslake 2013; Kelly 2013a; Yates 2010) , a process compounded by the growing attractiveness of Australian



housing to overseas investor flows. House prices have continued to outpace household incomes and low to moderate income households face fewer affordable housing options.⁴ There is no sign that housing markets operating under current policy settings will offer more affordable housing.

- b) Demographic and social changes are generating new housing demand pressures. For example Australia has a growing number of older people facing housing problems that stem from both affordability and suitability issues, especially those who have never achieved home ownership (Yates & Bradbury 2010) and those whose circumstances have been affected by ill-health or family changes (Jones et al. 2007). This unfolding situation potentially has major consequences for Commonwealth health policy and aged care goals and retirement incomes policy.
- c) Home ownership rates are falling among younger generations; both life style choices and affordability constraints are contributing to this trend (AIHW 2013; NHSC 2013; Yates 2011). Home ownership rates have been declining for younger households for at least 30 years and, since 1991, have declined by 10 percentage points for households in both the 25-34 year old and 35-44 year old age groups. These declines have been most dramatic for low to moderate income households with 20 percentage point declines recorded for younger, lower income households.⁵ Among many factors that could be cited to explain this, labour market changes (such as growing casualization and part time jobs) and changes in family structures (especially the incidence of single person and single parent households) have been important drivers. The trends and their underlying drivers lead us to conclude that the first home buyer market is unlikely to return to its historic size and significance and government action cannot change this situation.
- d) The corollary of declining rates of home ownership is that long term renter numbers are growing (AIHW 2013; Stone et al. 2013) and renting is becoming the new norm⁶. This and other developments in the rental sector mean that renting looms as a much bigger policy and regulatory issue than it has been in the past (Hulse et al. 2012). The largest budget outlays for housing (currently nearing \$4b per annum) in the last two decades have been for Commonwealth Rent Assistance (CRA), a transfer payment made fortnightly to eligible low income private renters⁷. Yet this been insufficient to reduce affordability problems in the rental market and, arguably, has done nothing to stimulate additional affordable rental supply. We would argue that this instrument has been less effective in the absence of a

⁴ Since the early 1980s, house prices across Australia have increased faster than average household incomes, with most increases occurring in the late 1980s boom and in the decade from the mid-1990s. The dwelling price to income ratio more than doubled over this period (Fox & Finlay 2012) In 2010-11, only 5 per cent of dwellings that were bought or sold were estimated to be affordable for low to moderate income households in the bottom two quintiles of the income distribution, down from 8.9 per cent in 2009-10 (COAG 2012: 259, 268). The shortfall of private rental housing affordable and available for these low to moderate income households has been estimated at over 500,000 (NHSC 2012: 48).

⁵ Unpublished estimates derived by Yates from ABS survey data.

⁶ 30% of Australian households in 2011 were renting privately, an increase from 26% in 1981 (AIHW 2013)

⁷ In June 2012 there were 1.2 million income units (involving 2.4m people) receiving CRA (AIHW 2013).



more comprehensive policy approach to combatting housing affordability problems which includes increasing a permanent supply of affordable housing.

- e) Lower home ownership rates moving through the age cohorts will be a further factor (in addition to rates of ageing) affecting retirement incomes policies. As early as 1991, the effect of the long run decline in home ownership rates for younger cohorts had begun to show in a decline in home ownership rates amongst older households (NHSC 2013: Figure 2.1). Historically, Australia's lower pension rates (cf OECD levels) have reflected typically lower housing costs (thanks to outright home ownership) in retirement but as older renter numbers increase (and more home mortgages extend into retirement years as a result of delayed entry into home ownership) pension rates will become less adequate. This unfolding story underlines the interconnectedness of housing and other social policy settings and highlights the need to foster an integrated policy model in a fast changing social environment.
- f) The public housing system is chronically underfunded and under very severe strain. Continuation of current policy settings will result in this sector being reduced to playing an even more marginal role than at present in addressing acute housing need and homelessness. The historic investment underpinning the sector (largely from the Commonwealth) is also at risk of being further diminished as state governments defer essential property works and sell valuable sites to make ends meet.⁸
- g) Innovations elsewhere to put social housing on more sustainable foundations and to diversify models of provision (especially through third sector engagement, offering incentives for private financing and by promoting innovative tenure arrangements, as discussed in more detail below) have not become well enough established here (Lawson et al. 2010). The 2008 National Rental Affordability Scheme (NRAS) initiative is the most significant local policy innovation so far, generating as it has considerable investor demand and a momentum for a new public private co-financed model of affordable rental supply. However, continuing uncertainty about its future is very damaging to the interest that has been shown, in particular by larger private investors who require scale and policy predictability to invest in residential property (Milligan et al. 2013).
- h) Substantial household growth, much of it flowing from Commonwealth migration policy, and underinvestment by Commonwealth and state governments in new urban infrastructure, particularly public transport, have been big factors in the restructuring of Australian cities and declining housing affordability. There have been consequential impacts for liveability in fringe suburbs and a trend to growing social polarisation (Atkinson et al. 2011; Baum & Gleeson 2010; Randolph 2004; Yates 2002). The same processes are also beginning to affect economic productivity and the economic capacity of urban and regional areas to function effectively and efficiently by creating barriers to workforce mobility (Kelly 2013b; SGS 2012). Declining affordability is likely to have also contributed to the drag on broader consumer

⁸ We note in this context that it was past sales of vast amounts of public housing between 1955 and the 1970s that contributed to what remains of the public housing sector today being insufficient to meet needs now or into the future.



spending, because so many households are committed to high mortgage or rental payments. A deeper equity problem concerns the regressive tax treatment of housing assets, which is contributing to wealth inequities, notably between older and younger generations and between owner occupiers and renters (Yates 2012b).

The challenges identified above, while by no means comprehensive, expose the wide, cross cutting and complex nature of contemporary housing policy issues, concerning a spectrum of matters that range from individual housing needs through social equity, urban and health outcomes to national economic performance and growth. Thus, they help to illustrate the case for a broader conception of strategic housing policy and the necessity for a national government to develop strategic policy responses that will be capable of addressing their economic, social and environmental consequences. We question how Australian governments going forward can afford not to address these fundamental housing and urban issues.

Attributes of National Housing Strategies

In this section we draw on a comparative review of national housing policy and strategy completed in 2007. This highlighted those attributes of international policy approaches that appeared to have been associated with successful responses to contemporary housing issues similar to those faced by Australia:

- A view of housing as being an integral part of economic, social and environmental policy
- Sufficient housing expertise both within and connected to government, which is committed to building policies and relevant institutions to deliver desired housing outcomes
- A long term commitment to achieving desired housing outcomes, in which government plays an assertive and important role in a constructive partnership with all relevant public and private agencies
- Progressive development of a modern institutional framework for delivering government desired housing outcomes using a well-designed mix of market and non-market mechanisms
- A climate and practice where diversity, flexibility and local innovation can flourish without leading to the abandonment of appropriate national policy responsibilities and the efficient allocation of subsidies according to need
- Comprehensive and up-to-date market analysis and policy oriented evaluation strategies that can help to ensure the efforts of government are effective, responsive and appropriate
- The adoption of balanced multi-tenure policies with a common focus on increasing affordable and sustainable housing options, improving tenure choice and pathways and supporting socially mixed communities (Lawson & Milligan 2007⁹).

⁹ The countries examined from which these principles were developed included the USA, Canada, Germany, France, the Netherlands, United Kingdom, Eire, Austria, New Zealand and Denmark. While no one country was exemplary at the time of the study (pre GFC), all had been active in the recent past in reforming their housing



To flesh out how some of these attributes could be advanced in the Australian context we next propose key policy directions in four areas that refer to selected terms of reference for the Inquiry in which we have specific expertise.

Specific Directions for Australian Housing Policy Strategy

1. Tax Reform for Improving Housing Affordability

A number of key directions relating to tax reform were identified in the 2008/09 'Henry Review' (Australia's Future Tax System (AFTS) Review Panel 2009). We consider it was mistaken to exclude the preferential treatment of owner-occupiers from the Review's terms of reference and, as outlined elsewhere¹⁰, take issue with details of certain Review recommendations. Overall, however, we support the general thrust of the Henry analysis and resulting housing-related tax policy reforms as advocated.

We would advocate the following broad directions for tax reform:

- a) **Reduce incentives that increase demand for housing without stimulating supply.** Much of the pressure on housing affordability arises from the demand pressures imposed on scarce land by wealthy households able, and encouraged, to over-consume and, particularly, to over-invest in housing both as owner-occupiers and as landlord investors. For owner-occupiers, this means addressing capital gains tax exemptions, land tax exemptions and the treatment of the family home in the assets test. For investors, it means addressing the asymmetric treatment of income and expenses.
- b) **Increase incentives for investment in affordable rental housing.** While popular concerns with affordability often focus on the difficulties faced by aspiring first home buyers in gaining access to home ownership, the far greater burden of declining housing affordability is borne by lower income households in the private rental market. There are two key reasons for this. For the most disadvantaged, the private rental market is unable to provide an adequate supply of affordable housing simply because they do not have the capacity to cover the returns needed. For the marginally less disadvantaged, the private sector allocates the supply of affordable housing that does exist to those able to pay more. Policies, such as those that allow negative gearing, encourage speculative investment in housing. Reliance on the private sector provides no scope for ensuring that the affordable housing that does exist is allocated to those in need of it. Assistance is needed to encourage long-term investment

systems and had national strategies that conformed to the principles listed to a greater or lesser extent. Australian housing policy and governance at the time of the study (i.e. prior to the 2008 reforms—for a summary of these reforms see Milligan & Pinnegar (2009)) was assessed to be comparatively poorly aligned with the principles.

¹⁰ These are outlined in the concluding section of Yates (2010b), which addresses the questions of whether the recommendations made in the AFTS Report would enhance Australia's economic and social outcomes as they are reflected in its housing system, whether they would enhance taxation arrangements on property and whether they would improve access to affordable housing.



in affordable rental housing allocated to those unable to secure affordable housing in the private market.

Specific policies options to support the above strategic directions are outlined in a [separate submission to the SERC Inquiry made by Yates](#) (Submission no. 53).

2. Achieving an Integrated National Affordable Housing Supply Strategy

With the introduction of the NRAS scheme in 2008, Australia made important strides in emulating international practice concerned with blending public and private financing for supplying additional affordable housing. It is now critical that Australian governments build on the market developments and momentum catalysed by NRAS to maintain market engagement and settle 'affordable housing'¹¹ as a recognised and proven investment class.

Consistent with the arguments we have set out earlier in this submission, national leadership on this issue is necessary for several particular reasons, especially: the small size of the Australian market and, hence, investor opportunities; investor requirements for policy consistency and managing risk; to help drive borrowing costs as low as possible; and, more broadly, the vital contribution that well located affordable housing will make to improving national economic productivity and social wellbeing.

In our February 2013 submission to the concurrent [NSW Upper Housing Inquiry into Public, Social and Affordable Housing](#)¹², City Futures set out a detailed proposal describing principles for and elements of a possible national affordable housing supply strategy. This drew on our extensive research evidence on this topic, major outputs of which are listed at the back of this submission. We note that several other submissions to the SERC inquiry have also made specific proposals in this regard. Rather than duplicate that material here we provide an overview of the policy actions that our research has led us to propose as critical next steps, as follows.

- a) **Establish a robust national affordable housing legislative and policy framework** to engender policy continuity, ensure public accountability and to bolster private sector confidence. Critical elements of the national framework include having: coherent and well-defined policy goals; dependable public subsidies (especially NRAS and CRA) which underpin investor returns and are crucial to achieving affordable housing outcomes; and appropriate regulatory arrangements applying to investors in and suppliers/managers of affordable housing (covering, for instance, rent caps, dwelling attributes, terms of occupancy, resident eligibility, duration of affordability requirements etc).

¹¹ By affordable housing we mean 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 comprising a range of options that include both traditional public and community housing (social housing) and new forms of private sub market and regulated market housing for purchase or rent. The affordability that can be achieved for particular products will depend on who is targeted (resident capacity to pay), the rent/price necessary to meet the costs of provision and the level of subsidy provided to offset these costs.

¹² See submission 114 -

<http://www.parliament.nsw.gov.au/Prod/Parlment/committee.nsf/0/91BF564FB74A3F03CA257C97001E1AC66>



- b) Specifically **target the institutional investment market**. While a range of investors is desirable and should continue to be encouraged, it is only from large investors (superannuation funds, sovereign wealth funds, insurance companies etc.) that the volume of funds sufficient to redress the supply shortfall in affordable housing is likely to be raised. Growing demand for both market-priced and affordable rentals contributes to this potential. The best way to 'kick start' this response would be via a joint government-industry task force that identifies how best to match investor needs (secure and competitive rates of return, liquidity, scale etc.) with government objectives for affordable housing (lower rents, quality housing, target groups for assistance etc.). In this regard we note the evolving strategy for attracting private investment to public infrastructure provision could readily be extended to include affordable housing, which we consider to be vital economic and social infrastructure.
- c) Develop **structured financing arrangements** (such as housing supply bonds) and the institutional architecture for fund raising/distribution (such as a specialist intermediary that pools investor demand and manages the interface between investors, developers and managers) to ensure efficient and cost effective delivery of available funding. [Inquiry Submission 24](#) (by our colleagues Dr Julie Lawson and Emeritus Professor Mike Berry, RMIT) discusses in detail options tailored to Australian conditions (and informed by extensive stakeholder consultations) for enhancing fund raising efficiency and reducing borrowing costs.
- d) **Align the actions of state governments with the national framework**. While a national framework and national financial incentives are vital, a mix of supporting policy measures will also be required to achieve affordable housing policy objectives in diverse local market contexts. Policy support from state (and local governments) should encompass as a minimum: providing ready access to well-located developable sites for affordable housing; supplying government land - as equity, on a deferred payment basis or at a reduced (below market) cost; and ensuring that the state investment environment (e.g. taxes and charges, planning and regulatory requirements etc.) is conducive to affordable housing investment. All up, national and state level support for 5,000 to 10,000 additional dwellings per annum would match investor requirements for scale and contribute to reducing the serious and persisting shortfall in affordable housing supply (Milligan et al. 2013a).
- e) If the new financing model broadly outlined above is going to replace current (failing) funding arrangements for social housing, **additional subsidy support** will be required to lower rents for very low income households while still generating yields attractive to private investors. This could be achieved broadly in one of two ways: by enhancing CRA for priority target groups to increase their rent paying capacity; or by Commonwealth and state governments making additional equity contributions (or soft loans) sufficient to achieve viable projects affordable to very low income households.

3. A Larger Role for the Third Sector in Social and Affordable Housing Provision

Albeit with varying degrees of commitment and continuity, ambitions to expand the role of third sector agencies in the provision of affordable housing have been repeatedly voiced by many



governments at both State and Commonwealth levels over the past 20 years¹³. Fostering the growth of 'community housing' has been seen as a way to bring 'a diverse range of housing providers into the social housing market to both increase housing choice for tenants, and to deliver more housing supply by enabling non-government providers to leverage off their property portfolios' (Housing Ministers Conference 2009, p.23). It also reflects a belief that (at least by comparison with public housing) Australia's fledgling community housing industry has a strong record in terms of responsive tenancy management and social inclusion. With community housing providers (CHPs) almost invariably scoring substantially better than public housing in tenant satisfaction surveys (AIHW 2013), there appears to be some substance to this.

However, as a means of affordably accommodating low income households there are other perhaps more fundamental benefits to the community housing model. As organisations between state and market, CHPs are independent private bodies that exist for a social purpose with an ethos of social enterprise and innovation. As organisations outside government, and subject to business risk, they necessarily bring to bear commercial disciplines in the running of what are essentially social services. For instance, they are required to manage their housing assets effectively (e.g. to make proper financial provision for long term maintenance) and are able to make investment decisions on a long term basis. Unlike private providers of affordable housing, their commitment to provide accommodation accessible to lower income groups is enduring, rather than being lost as soon as the home concerned becomes subject to a market transaction. They can also raise private finance for their public policy purpose without public balance sheet implications.

As they are run in Australia, CHPs are substantially accountable to government and taxpayers via statutory regulation; both specialised regulation and mainstream regulatory requirements (such as under the Corporations Act) apply. By comparison with the traditional state provision model, however, they have a major advantage in their insulation from the overtly politicised management which has dogged public housing under direct Ministerial control.

Government intentions to expand Australia's community housing were clearly embodied by the 2009 Ministerial agreement to promote sector growth, with the aspirational target to expand CHP holdings so that these accounted for 'up to 35%' of all social housing by 2014 (Housing Ministers Conference 2009). At the time of this commitment the existing figure was well under 15%. However, while significant expansion has subsequently occurred, the target looks set to be achieved only in Tasmania. And, even in that instance, it will be met only in terms of properties under CHP management rather than in CHP ownership¹⁴. With managed portfolios still accounting for under 1% of *all* housing stock in 2014, Australia's CHPs remain very much niche players by the standards of many other OECD countries.

¹³ Under the influence of these policy and regulatory directions, restructuring of the community housing sector has resulted in a cohort of around 25 larger, corporatised organisations that deliver (an estimated) 70% or more of community housing services.

¹⁴ Many of the potential benefits accruing under the CHP model are substantially limited by the model under which providers manage government-owned properties under contract rather than taking full ownership and management responsibility. Pawson et al. (2013; Ch 7) addresses these issues).



Some inspiration for the policy of growing not-for-profit affordable housing has been drawn from countries such as the UK and the Netherlands where the past 30 years have seen public housing largely shifted from municipal control into the ownership of what have become—for the most part—financially robust NFP landlords. With Australia’s financially unsustainable public housing system falling deeper into deficit over the past decade (Hall & Berry 2007; NSW Auditor General 2013), the states have been taking a growing interest in the possibility that a similar shift could provide salvation. In the past two years three states have announced substantial transfer programs, with the Queensland Government anticipating handover of virtually its entire portfolio to CHPs by 2020.

However, while transfers may have the *potential* to benefit our rundown public housing, a simple switch to community housing management cannot save the system from further retraction. Only if accompanied by significant policy and funding reforms will the social housing system be put on a financially and socially sustainable path. As we discuss more fully elsewhere (see Pawson et al. 2013), funding assurances are also essential. Crucial here is the Commonwealth’s ongoing commitment to providing a CRA type payment for social housing tenants so that providers (whether public or community housing) can cover their housing costs from their revenue. Assurances are also needed that additional CRA expenditure resulting from further transfers would not be clawed back through reduced NAHA (National Affordable Housing Agreement) funding. Restoring this subsidy to its intended purpose of providing additional housing is essential to meeting future requirements for social housing as the population grows and underpinning private investment (as discussed earlier in the submission).

To address the issues outlined above, and drawing on our recent public housing transfers study (Pawson et al, 2013), we believe the Commonwealth Government should:

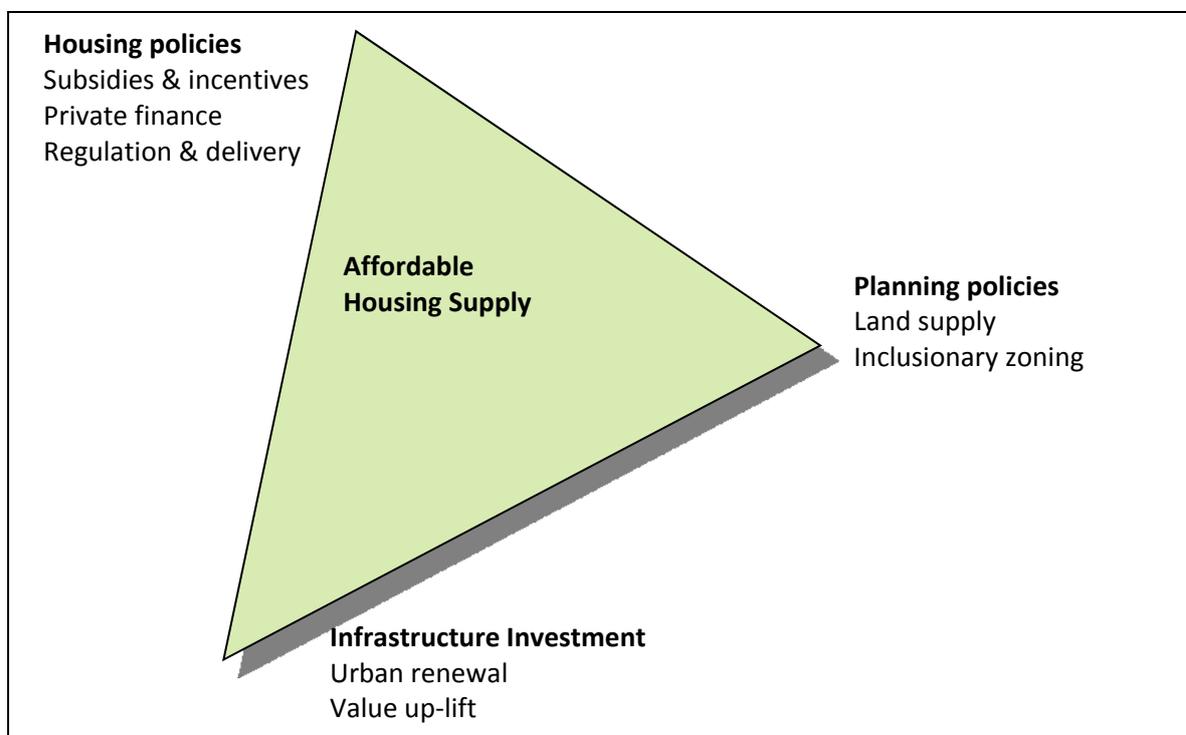
- a) **Recognise the unsustainable condition of the nation’s public housing system** and the overriding responsibility of national government to play a leadership role in driving the overdue reforms needed to avert crisis
- b) Acknowledge that, as indicated by the Henry Review, **reforms needed to place social housing on a sustainable footing must encompass rent and social security policy**, especially to recognise the community service obligation placed on providers (and which does not apply to private landlords)
- c) **Confirm support for CHPs as accountable affordable housing providers** with the potential to (a) manage social housing more efficiently, effectively and responsibly than State and Territory governments, and (b) provide a vehicle to develop additional affordable housing by integrating public and private investment
- d) Develop, in collaboration with relevant stakeholders, **a transition plan for existing public housing** to see it upgraded to a decent standard and placed on a firm financial footing within a defined period

- e) Incentivise State and Territory participation in transition plan implementation by **committing to sustained financial support into the future** via a CRA-type payment to underpin rental income, hence underwriting CHP leveraging of private investment
- f) **Reconfirm the previous Commonwealth Government's preference for CHP asset ownership** (rather than outsourced management of publicly owned housing) and work collaboratively with the States and Territories to overcome the barriers to public housing title transfers imposed by prevailing accounting conventions

4. National Leadership in Connecting Infrastructure, Planning and Housing Policies

There are significant strands of the housing affordability issue that relate to broader urban planning objectives, processes and outcomes. From the outset it should be stated that we believe the successful delivery of an Integrated National Affordable Housing Supply Strategy must link together aspects of housing policy, planning policy and infrastructure investment to better deliver affordable housing outcomes in our major urban areas - see Figure 1. The "virtuous triangle" created by the intersection of these three key policy domains is an *essential* component of developing a 'joined-up' approach to the delivery of affordable housing at scale in the locations where it is increasingly required.

Figure 1 – Integrated National Policy Framework for Affordable Housing: The virtuous triangle for affordable housing



In our view, Commonwealth Government involvement in and support for major urban infrastructure initiatives, especially associated with transport investment, offers significant opportunities to support the supply of new affordable housing. Most of the new urban infrastructure programs are closely linked with key urban renewal outcomes. A central feature



of these is the requirement to provide for housing and employment densification local to these investments. These infrastructure initiatives therefore provide a major vehicle to focus affordable housing initiatives into urban renewal precincts. For example, targeting a proportion of NRAS and other appropriate subsidy streams to urban renewal activities would provide a major boost for new affordable housing supply in locations close to the accessible jobs, services and transport that these new infrastructure investments will provide.

But in order to close the virtuous policy triangle for affordable housing supply, there is also a need to strengthen the integration between affordable housing and planning policy. In this context it is notable that State planning frameworks have struggled to progress the kinds of planning policies applied in comparable countries overseas that support affordable housing supply (Gurran et al. 2007). Where such policies have been tried locally, they have been limited in scope and resisted by the development sector and have thus proved difficult to replicate or sustain (Davison et al. 2013). Arguably, the separation of Federal and State (and local) government responsibilities in the area of affordable housing supply has contributed to this policy failure. This situation contrasts to the thirty years of urban development after the second world war when national housing policies worked in concert with state planning policies to successfully drive suburban growth through *both* affordable mass home ownership and public housing. Consideration must be given to how best to link Commonwealth Government affordable housing investment with State and Territory planning policies to generate new affordable housing supply in major urban renewal locations so that, once again, the one works to support the other.

Thus, there is a significant opportunity to integrate Commonwealth investment in new urban infrastructure and ongoing Commonwealth subsidies for affordable and private sector housing with State and Territory planning policies for new affordable housing supply via urban renewal projects. In this way, public investment across these three policy domains could be made to work much better at generating new affordable housing provision in accessible urban locations. At present, this opportunity is being squandered.

A final strand of concern focuses on the role of housing policy in contributing to a marked restructuring of social inequality in Australian cities. There is growing evidence that poorer and more disadvantaged households, including much of the low paid workforce, have been effectively excluded from the inner city over the last thirty years and are now increasingly concentrated into the middle and outer suburbs of our major cities (Randolph & Tice 2014 forthcoming). The private rental market is playing a key role in this process. New research suggests that a disproportionate quantum of recent investor landlord activity has been targeted towards the most disadvantaged places within our major cities (Hulse et al. 2014 forthcoming). This supports the findings of Yates & Wood's (2005) statistical analysis of the Sydney housing market between 1991-2001, which identified a general tendency towards an increasing spatial concentration of lower rent dwellings, effectively reinforcing the spatial polarisation of housing provision. This partly results from the flat rate structure of Commonwealth Rent Assistance which takes no account of relative rent levels that, of course, vary significantly across the city. Addressing this issue was another desirable recommendation of the Henry Review that to date remains unimplemented.



So while Federal taxation and rent assistance support for private rental has helped underpin its availability, this has encouraged the increased social polarisation of our cities in the process. There is also clear evidence that this supply is far from affordable to those whom it accommodates. Not only do lower income rental households suffer the most acute housing affordability problems (Yates & Milligan 2008), but housing unaffordability in the rental market is concentrated in the middle and outer areas of our cities among the lower income population (Randolph & Holloway 2005). Paradoxically, therefore, national policy on rental housing appears to be socially dividing our cities through the exclusion of lower income households from more central (and job rich) locations, while at the same time underpinning expansion of rental supply in these locations that is unaffordable.

To address the issues outlined above, the Commonwealth Government needs to:

- a) **Develop, in conjunction with the States and Territories, an integrated approach to the delivery of key infrastructure, planning and housing investments** and policies that progress the opportunities for new affordable housing supply associated with major urban renewal projects in our cities.
- b) **Target a proportion of NRAS and other appropriate subsidy streams to urban renewal activities** to provide a major boost for new affordable housing supply in locations close to the accessible jobs, services and transport
- c) **Reform the structure of Commonwealth housing subsidies**, especially those targeting the private rental sector, to reduce, rather than encourage, the spatial polarisation of the lower value rental market.



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Appendix: 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.

One of the authors of the submission, Dr Judith Yates, with over 40 years' experience teaching and researching housing economics, has recently joined City Futures as an Adjunct A/Professor. Dr Yates served on the recently disbanded National Housing Supply Council since its inception in 2008 and has an extensive record of publications concerned with, inter alia, housing market analysis and housing policy settings.