Building a not-for-profit affordable housing industry in Australia

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Abstract
Development of the capacity of not for profit organisations to deliver growth in affordable housing has been an important strategic housing policy interest in Australia over the last decade. However, Australia has only a small number of not for profit organisations with recent direct experience of financing and procuring housing. In 2004, the seven largest providers had developed around 1,200 units of affordable housing over the preceding decade. At the end of 2007/08, the eleven leading providers owned over 5,440 dwellings. The latest research shows that: skills and capacity among this group are increasing; growth is accelerating; and around 30 additional providers are poised to become affordable housing developers, partly as a result of the impact of new national initiatives.

This paper will examine recent innovations in the funding, policy and delivery frameworks for affordable housing across Australian jurisdictions. By comparing evidence across states and territories, the paper will attempt to discern what has been effective policy and practice, and to make a case for strategies that would be capable of supporting larger scale growth in the industry. The paper draws on recent empirical research undertaken for an AHURI funded project. The research methods included surveys of provider organisations; interviews with staff, stakeholders, partners and other key informants; group discussions with tenants of affordable housing projects; and analysis of a variety of official documents and websites of governments and relevant organisations. The primary research also included an assessment of comparable not for profit housing models in selected similarly developed countries, which can be drawn on to augment local experience.

Key words
Not-for-profit organisations; affordable housing; policy innovation; Australia
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Introduction

There are many well established not-for-profit organisations across Australia that are managing housing that is owned by state housing agencies or, in some cases, privately. The potential for some of the larger and well performed of these agencies to take on new functions, especially the development of additional housing and neighbourhood revitalisation, has been recognised for some time (Milligan et al. 2004, Bisset and Milligan 2004, Milligan 2005). However, compared to the situation in many similar countries, Australian governments have generally been slow to establish the policy, funding and regulatory tools that will be necessary to enable these organisations to produce affordable housing and undertake neighbourhood renewal projects at scale (Lawson and Milligan 2007).

In this paper, we draw on a recent AHURI-funded research project to demonstrate the capability and potential of not-for-profit organisations to contribute to the development of affordable housing in Australia (Milligan et al. 2009). We describe some of the models that have been operating in parts of Australia, assess current impediments to their expansion and replication, and identify the policy and institutional requirements that will be required for these players and other entrants into the field to achieve larger scale provision. A growing body of research evidence on the features and performance of better-established models of affordable housing operating internationally also informs the discussion in the paper.

In its broadest usage, affordable housing denotes any housing within the means of lower income households. In the Australian context, the term is sometimes used more specifically to delineate subsidised housing that is owned and operated by not-for-profit organisations. Making such a distinction has served both as a way to indicate that the housing is produced and delivered under more flexible guidelines than those that apply to traditional public and community (social) housing programs and to signal that affordable housing is different to (and, by inference, has greater community appeal than) social housing, especially that provided by state agencies, which is perceived negatively in many local communities. This paper is concerned specifically with the latter usage: that is, with forms of affordable housing that are financed, developed and owned by not-for-profit organisations with government support.

In 2004, seven not-for-profit organisations were engaged in developing affordable housing as core business (Milligan et al. 2004). By 2008, this group had expanded to eleven. The eleven established developers owned nearly 5,500 dwellings at the end of the 2007/08 financial year and had net asset worth of around $1.3 billion (Milligan et al. 2009). Most also had development pipelines, which will produce around another 2,300 dwellings. When the pipeline is delivered, total stock under the control of these providers will have increased by 220 per cent since 2004. Significantly, there is larger group of around 30 well-established not-for-profit organisations that are poised to become developers under emerging government policy directions. However, none of these agencies has an assured development path.

To place the current status of not-for-profit housing developers in context, the next section provides a brief review of Australia’s approach to encouraging diversified forms and providers of affordable housing provision.
A long gestation

A national program for providing public housing began in Australia from 1945 following earlier state-based experimental projects. The period to the mid 1950s has been described as the “hey day” of building public housing (Hayward 1996). From then on, while high levels of building activity continued, only one seventh of dwellings built by state housing authorities were retained as public housing: the vast majority of dwellings were sold to tenants on concessional terms, contributing to Australia’s growing share of home ownership which had reached 70 per cent in the 1970s (Milligan 2003).

While large-scale sell off of public housing was wound back from the 1970s and ceased in the 1980s, public finance levels from then on have been insufficient to maintain and expand the place of social housing in Australia’s housing system. The proportionate share of social housing of around 5 per cent of all dwellings did not increase from the 1970s. By 2006, the share had dropped below 5 per cent (ABS, 2008), one of the lowest rates among developed countries.

From the 1970s, there were some early experiments in most jurisdictions with alternative models of social housing provided by non-government organisations using public subsidies. This trend was boosted after 1984 when the national government adopted a program (the local government and community housing program, later the community housing program), which aimed to achieve growth in community-managed housing models. While this trend appeared to emulate directions internationally at the time, it did not have the scale and attributes of similar strategies being implemented in places such as the UK, Canada, the USA and many Western and Northern European countries. Table 1 provides recent data on the extent to which social housing is delivered by not-for-profit providers in a selection of developed countries that have widely differing levels of social housing. Within this sample, Australia and New Zealand have the least diversified and among the smallest systems of social housing.

Comparing the development path of this sector in several countries including Australia suggests several factors have constrained the local sector (see for example, Koebel 1998; Bisset and Milligan 2004; Lawson and Milligan 2007). First, unlike in the UK, US, Canada and the Netherlands, large-scale transfers of existing public housing to non-government entities have not occurred. Second, government has heavily circumscribed the functions of community housing organisations in Australia, resulting in these being confined largely to tenancy management and tenancy support. One reason that may explain the persistence of this situation is that community housing has been administered by public housing authorities, which have tended to perceive alternative providers as rivals rather than as delivery partners. The weak power base of not-for-profits compared to the much larger public providers, which fund and regulate them, when combined with the absence of dedicated institutions to provide leadership for the sector (such as the former Housing Corporation in the UK) and differing levels of support across jurisdictions, has meant that this sector has not been able to shape its own future to any significant extent, valiant efforts notwithstanding (Bisset and Milligan 2004). A third attribute which differs for many of the other countries being compared, is that most community housing organisations in Australia do not own or control much of the housing that they manage and depend on government subsidies or grants for their solvency. All these factors help to explain why housing not-for-profits in Australia have remained small; have not developed skills in housing financing and procurement and, consequently, why most have not been able to promote different responses, such as developing other affordable housing products or participating in urban renewal schemes. In short, the potential of this sector has not been triggered by positive government policy in Australia, unlike elsewhere.
### Table 1: Not-for-profit sector’s share of social housing, various countries

<table>
<thead>
<tr>
<th></th>
<th>Social housing dwellings (’000)</th>
<th>Share social housing all dwellings (%)</th>
<th>Estimated share in not-for-profit sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>2400</td>
<td>35</td>
<td>99</td>
</tr>
<tr>
<td>France</td>
<td>4300</td>
<td>17</td>
<td>92</td>
</tr>
<tr>
<td>Switzerland</td>
<td>375</td>
<td>12</td>
<td>73</td>
</tr>
<tr>
<td>Canada</td>
<td>700</td>
<td>7</td>
<td>67</td>
</tr>
<tr>
<td>Austria</td>
<td>840</td>
<td>22</td>
<td>63</td>
</tr>
<tr>
<td>UK</td>
<td>5120</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>US</td>
<td>2700</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Ireland</td>
<td>125</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Australia</td>
<td>400</td>
<td>5</td>
<td>11&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>New Zealand</td>
<td>70</td>
<td>6</td>
<td>Negligible</td>
</tr>
</tbody>
</table>

<sup>1</sup>Data are most recent available for each country. Countries selected are those covered in previous research and for which comparable data could be obtained.

<sup>2</sup>Many countries do not report this information as standard. Data is indicative and has been estimated using various sources.

<sup>3</sup>Includes Community housing managed by Indigenous organisations.


In Australia, there were further attempts to introduce alternative approaches to the provision of affordable housing using innovative financing models and special purpose delivery vehicles from the mid 1980s. These were largely experimental models instigated initially by some state governments and later by the national government in the early 1990s, with a core aim of attracting private finance into affordable housing (Milligan et al. 2004, Berry 2000). However, many schemes floated at the time either did not come to fruition or were not replicated. Major barriers to achieving private investment in affordable housing historically that have been identified in the research record included: the lack of track record for structured investment in affordable housing schemes in Australia; the small scale nature of the projects on offer coupled to policy uncertainty (for example, several innovative proposals for private fund raising received adverse tax rulings after they were floated); the perceived risks associated with rental investment (influenced by lack of knowledge about not-for-profits and their level of skill in property and tenancy management); poor market information; and the relatively poor yield for rental housing in Australia, especially for institutional investors who had a wide choice of alternative investments (Berry et al. 2006, Berry 2000).

Whatever the promise of these early schemes may have been, their potential to generate lasting responses to a growing shortage of affordable housing was stymied after a change of national government in 1996. The incoming government cancelled innovative programs that had underpinned the experiments in the early 1990s, including the social housing subsidy program and the building better cities program, and over the next 12 years reduced total capital funding for social housing by around a quarter in real terms. These cutbacks had accumulated to $3.1 billion by 2008 (Plibersek 2009). The national government also dropped prevailing requirements for expenditure on additional housing supply, withdrew substantially from a policy development role and made triennial funding to states contingent on greater targeting and improving the efficiency of the existing social housing delivery system. This policy retreat effectively left the future of Australia’s not-for-profit housing sector to the states and territories, thereby guaranteeing that its further development would follow an uneven and fragmented path.
Following a national election in November 2007, a new social democratic government made a commitment to develop a broadly based national housing policy and subsequently has announced a series of housing initiatives, many of which have direct implications for the future role and significance of not-for-profit providers (Australian Government 2008). The most positive signal of the national government’s intentions for the sector so far occurred when the Minister for Housing announced in a major public speech in March 2009 that the centrepiece of the Australian Government’s social housing reform agenda ‘is to facilitate the growth of a number of sophisticated not-for-profit housing organisations that will operate alongside existing state run housing authorities’ (Plibersek 2009, p5). A plan for a national approach to registration and regulation of not-for-profit housing agencies has also been announced (COAG 2009).

We will comment on the scope and potential of these new directions to expand affordable housing later in the paper. Next we review not-for-profit models that began to emerge locally from the mid 1990s. These models provide an operational perspective that can help to inform an assessment of what will be required to achieve stronger and more sustainable growth in this sector. This is followed by a short review of some features of international approaches that offer further ideas about how this sector could grow the supply of affordable housing.

Locally grown models

Two pathways using not-for-profits to develop affordable housing can be identified from activities across individual states from the mid 1990s. The first involved community based organisations or, in some cases, local governments seeding new approaches at a local level and the second involved some state governments starting up demonstration housing companies.

The main instances of local government or community-led innovation occurred in Victoria, where the early examples include projects by Ecumenical Housing Incorporated (1985), the St Kilda Housing Association (now Port Phillip Housing Association) founded by the City of St Kilda (1986), Community Housing Ltd (1993) and Supported Housing Limited (1993). All of these agencies or their successors now form part of the leading affordable housing development industry in Victoria. In Western Australia, Perth Inner City Housing Association Inc (1986) provided the foundation for the development of the industry in that state, later merging with other providers to become one of the leading developers, Foundation Housing (2006). These agencies were early innovators tapping into joint venture programs offered by state governments, forming strategic partnerships with local governments or churches and using other one off opportunities to develop procurement experience and build their balance sheets (Milligan et al. 2004). In other jurisdictions, innovations did not emerge from the existing sector but from government, resulting in three state-founded development companies.

The first of these companies was City West Housing (1994), followed by Community Housing Canberra (1998) and Brisbane Housing Company (2002). While each differs in detail, they were all set up by governments for a similar broad purpose: to directly expand the supply of housing for allocation to low and, sometimes also, to moderate income households by using private fund raising blended with a variety of public funding sources. Use of such arms length delivery vehicles preceded the establishment of specialised regulatory systems in Australia. Instead of regulatory control, specialised company articles were developed and boards were structured to include a specified mix of commercial and social policy expertise. As government initiatives, the agencies have continued to work closely with government but their independent boards have encouraged different approaches.

Below we describe and compare key elements of the business models that have been adopted by the first not-for-profit developers in Australia. This analysis illustrates the multifaceted strategies that can be applied to achieve affordable housing and provides one means of assessing potential elements of a core model that would be capable of generating a larger scale response in the Australian context. It also serves to highlight current impediments and barriers to growth. More detail on the operations of the current leading not-for-profit developers of affordable housing is contained in the full report of the research on which this article is based (Milligan et al. 2009).

City West Housing

City West Housing (CWH) was established in 1994 by the New South Wales Government as a vehicle for delivering affordable housing in a small inner city precinct of Sydney (Pyrmont/Ultimo) that was undergoing urban renewal and densification. Ownership of the company was vested in two Ministers of the Crown, the
Minister for Housing and the Treasurer, who each hold ordinary shares. Between 6 and 15 community-based preference shareholders appoint an expertise-based Board of Directors, which manages the company on a day-to-day basis (Milligan et al. 2004).

The company was capitalised initially with $50 million provided by the then Commonwealth Government (under the Building Better Cities Program) to enable rapid entry into the housing market. Subsequent funding has come from developer contributions that flow as renewal proceeds under a regional planning requirement and other state government capital contributions. Total funding to date from developer contributions and state sources is $22 million and $11 million, respectively (CWH pers. comm. 2009). The company has a target to build 600 units of affordable housing in the local area over 30 years. In 2000, they extended their operations to another inner city urban renewal area (Green Square), utilising developer contributions for affordable housing that were required in that precinct to provide affordable housing ($44 million by 2009). The rate of development by the company has been much slower in that area (45 dwellings completed by 2007/08), because government capital was not provided.

CWH has been successful in developing high quality multi-unit housing at a reasonable price in a generally buoyant local housing market. The company houses a mix of income groups, which has contributed to its social and fiscal sustainability (Milligan et al. 2004). By the end of 2007/08 it owned 491 dwellings with a net asset value of $251 million (CWH 2008). This asset is not leveraged – the company has chosen to reinvest rental surpluses in additional supply. In both precincts where the company operates, developers could provide either sites or make a capital contribution to meet the planning requirements. As only capital has been provided so far, CWH has had to source land in the open market in competition with the private sector.

The outcomes to date suggest that initial restrictions placed by government on the business model and the geographic operating area of the company, together with the low tolerance for risk of government shareholders, has meant that incentives to pursue growth and innovation have been insufficient. As well, acquisition of land, especially in periods of strong market activity has been expensive compared to if developers had been required to provide sites. Scarcity of capital funding and political and industry resistance to the wider application of inclusionary zoning has blocked similar models emerging in other parts of New South Wales.

**Brisbane Housing Company**

Brisbane Housing Company was established on a broadly similar model to CWH in Queensland in 2002 but has achieved more rapid growth. Initial capitalisation (of a similar magnitude to CWH) by state and local governments was used to develop a portfolio that could then be leveraged to provide financing for additional growth. To enable it to prosecute an ambitious growth target, this company chose to build a specialised property development capacity from the outset and outsourced tenancy management to existing community-based providers. By taking a more entrepreneurial approach than CWH, BHC has procured 596 dwellings with a net asset value of $155 million in 5 years and has well developed plans to achieve 1,000 properties by 2010. This level of activity has enabled the company to attract and maintain a large team of project development staff who have built their expertise as the company has expanded.

A favourable independent evaluation of its performance in 2005 assisted the company to negotiate changes to their constitution that were necessary to allow them to adopt a bolder growth plan, which utilises their balance sheet and growing development experience (KPMG 2005). Under this plan, BHC has begun to move into larger, more complex mixed-tenure, mixed-use developments. These types of projects support higher densities on large sites without comprising social mix and generate surpluses that can be reinvested in affordable housing. The new projects are being undertaken by subsidiary organisations, both to quarantine risk and to preserve the charitable status of the parent company. Two initial developments brought to market in 2008/09 sold very quickly (Milligan et al. 2009).

An element of financial sustainability for BHC has been their dwelling choice. Over 80 per cent of the portfolio comprises boarding house rooms, studio and one-bedroom apartments in small multi unit complexes that give a high dwelling and revenue yield per site, while also addressing a product gap in the market.

Because BHC operates over a wider geographic area than CWH, they have more market and partnership opportunities, while still specialising in higher density multi-unit developments. However, unlike CWH,
BHC has not had the benefit of significant rental surpluses, as it is required by the state government to limit housing allocations to lower income (public housing eligible) clients. This has limited its capacity to use debt finance for projects. Currently BHC assets have only a low level of gearing (less than 5%) but this is projected to increase as more private finance is used, serviced by company profits and cross subsidisation from sales. Following the success of BHC, a second community-based provider in Queensland, the Gold Coast Housing Company (2007), has attracted funding of $15 million from state and local government sources.

Community Housing Canberra

Community Housing Canberra (CHC) is a not-for-profit company that was established by the Australian Capital Territory (ACT) Government in 1998 to support the development of the local community housing sector. Initially, the main function of CHC was to provide property management services for housing managed by community housing providers. In 2000, the CHC Board pursued an opportunity to develop new affordable housing using a redevelopment site (previously a failing public housing complex, comprising 143 bed-sitter units) that was transferred from the Territory’s housing agency on a deferred payment basis. At the time CHC had no balance sheet and no secured funding so to develop the site they entered a joint venture with a private investment corporation and a construction firm. The development undertaken comprised 126 dwellings, of which 15 were retained by CHC, funded largely from their share of the profits in the joint venture. Another 15 units were returned to ACT Housing in consideration for the value of the land they transferred to CHC. This initiative enabled CHC to undertake a second development using the assets that they had acquired as security for financing a new project with a commercial loan. In this smaller development, 24 dwellings were sold by CHC, four dwellings were retained for use as affordable rental housing funded from the development margin and additional profits were retained for investment in future projects (Milligan and Phibbs 2005). The initial projects undertaken by CHC illustrated the potential of a commercial development model with development margins reinvested in affordable rental housing. While these groundbreaking projects produced a very small yield of affordable housing (19 units), they attracted interest from the ACT Government to work with CHC on ways to establish a more efficient scale of production in the company. In 2007 as one part of a wider affordable housing strategy, the government announced a suite of mechanisms that were designed to enable CHC to develop affordable housing at scale in Canberra (ACT Government 2007). The core mechanisms included: transfer of title of 135 former public housing dwellings (asset value $40 million) to provide both an asset base to CHC and land suited to redevelopment; a rolling development finance facility for CHC of $50 million at government borrowing rates with provision for deferral of interest payments for one year; and provision for CHC (and potentially other not-for-profits) to make direct purchases of newly released crown land at market valuation on deferred payment terms.

In return for these incentives, CHC has agreed to a target production of 1,100 new dwellings over 10 years, comprising 470 dwellings for rental and the remainder to be sold into the affordable end of the market. Apart from the provision of sites for redevelopment at higher density, there is no capital subsidy in this model. Consequently to achieve operational viability, CHC is targeting its rental housing to a higher income group than the previous cases ($34,000 up) that can afford the rents charged (based on 74.9% of market levels).

Victorian housing associations

Building on successful joint ventures with local housing associations from the 1990s, since 2004 the Victorian Government has adopted an industry development approach to increasing supply of affordable housing by working with the established community-housing sector in that state, in preference to setting up new delivery vehicles or seeding demonstration projects. Under this approach, the government has established a specialised class of providers, called housing associations, and directed capital funding to them to help them to achieve scale and build capacity. By the end of 2008, eight providers that were already operating as housing agencies in Victoria had met the new regulatory standards (introduced in 2005) that were required of them to undertake housing financing and procurement. Public funding of $355 million has been allocated so far for expansion of affordable housing through these agencies. To receive capital funding for a project, housing associations are expected to raise funding for at least 25 per cent of their total project costs from other sources, such as their own equity, partner equity or land, and borrowings.

These designated associations have responded well to this stimulus and opportunity by making significant organisational changes to enhance their governance and professional staffing mix, by taking on much greater
levels of financial and operational risk than previously, and by expanding their geographical sphere of
operation to create more opportunities for growth. The scale of the Victorian program, coupled with the
requirement to leverage other resources, has also helped to promote partnering between associations and
other investors, which have included diverse church agencies, secular welfare and service organisations and
VicUrban, the government’s land development agency. An established international trend for housing
associations to partner with private developers in urban renewal areas to provide affordable housing (and
mitigate gentrification) is also starting to emerge in Victoria. By the end of 2007/08 collectively this class of
developers had net assets of $837 million and owned about three quarters of the total affordable housing in
the sector. 6 Because of the requirement to bring in funding from other sources for at least a quarter of project
costs, the Victorian based associations are more highly geared than the examples discussed earlier but still
have low debt levels. One reason for this is that contributions of organisational resources and partner equity
have been significant to date. Whether associations will be able to increase debt levels when gifted resources
are not available depends crucially on how allocations, rent and subsidy policies are set. One weakness of
this model compared to the financially independent companies discussed above is that the decision to
allocate capital funds to a project rests with government not the developing agency. This has contributed to
project uncertainty, costly delays and budget overruns, and political interference in the design of some
projects. On the whole, the case study from Victoria shows that organisational development and effective
and appropriate procurement occurs when it is stimulated by government commitment and sufficient
financial incentives, underpinned by regulatory guidance and powers.

Overview

These four Australian case studies demonstrate the potential of not-for-profit developers of affordable
housing when government adopts a strategic and positive response to utilising the sector and commits
dedicated funding to growth. Our research also shows that these models of affordable housing have the
strong support of their residents (Milligan et al. 2009). By comparing the models, elements of best practice
that can be discerned include having: dedicated funding (CWH, BHC); a large scale dedicated investment
program (Victoria, BHC); direct access to sites (CHC); a cost effective public loan facility (CHC); the
financial and social benefits of income mix (CWH); and purpose-designed regulation (Victoria), which also
alleviates the need to found new special delivery vehicles.

In the next section, we draw on a body of comparative research that we have been involved in recently
and Lawson and Milligan 2007) to examine the key elements of policy and practice that have enabled similar
models to flourish elsewhere. 7 The discussion covers four critical areas: financing of affordable housing; the
role of positive planning policies; regulation of affordable housing providers; and procurement and asset
management methods.

International models

Financing affordable housing

While a wide variety of mechanisms for public financing of affordable housing are in use, a common
approach of governments is to provide a mix of capital investment (usually in the form of grants, low cost
loans or low/no cost land) and ongoing subsidies that are paid either to tenants or to providers to achieve an
affordability standard. The ongoing subsidies have to be sufficient to meet the operating costs of providers
(after rent revenue is taken into account) and the cost of servicing any private finance that is used to procure
additional housing. The capital funds meet the gap in the cost of procuring housing after private financing
and any revenue surpluses that the provider can reinvest or other sources of equity (such as from a partner)
are applied (Oxley 2007). For example in the UK, social housing grant that is available on a competitive
basis to housing associations typically meets up to 50 per cent of agreed project costs 8 . A housing benefit
payment ensures lower income households can afford rent at a level that covers the additional operating costs
arising from private loans that complement capital grant and any other sources of equity (Golland and Blake
2004).

In well-developed systems, the mix of public funding is designed to create a viable not-for-profit industry
that can achieve its intended social purpose (see below) and stimulate additional investment. Funding also
has to be at sufficient scale and certainty to encourage and underpin the investment activities of providers
and to promote private investment. For example, Austria commits a fixed share of GDP to its housing
programs and enters into long term agreements with providers, and the US has a permanent tax incentive for affordable housing (Gilmour and Milligan 2008).

Governments also adopt a variety of strategies to attract private investment at least cost. These may include government guarantees for loans (as in the Netherlands, Switzerland); other forms of collateral (such as transfers of former public stock onto balance sheets - UK, the Netherlands); or offering tax concessions or incentives for finance for additional supply (e.g. Austria, US, France) (Lawson and Milligan 2007).

In the past, many governments have established specific ‘protected’ arrangements to raise private finance for affordable housing. France has retained a specialised savings scheme for this purpose, which has proved robust under varying financial market conditions (Milligan et al. 2009). Under the French Livrét A scheme, household savings deposited in special accounts are pooled and converted to low interest loans for affordable housing companies. Interest earned on these deposits is not subject to tax. More typically since financial deregulation, countries use dedicated intermediaries to raise large tranches of private finance at lower cost (for example, the Austrian housing banks, the Swiss bond issuing cooperative) or to pool funding from diverse sources (e.g. US Housing Trust models), and then channel these to regulated providers of affordable housing (Milligan et al. 2009, Lawson 2009, Lawson et al. forthcoming).

The potential of these various financing instruments should be assessed in terms of feasibility, efficiency and the effectiveness and appropriateness of the outcomes they achieve - especially long term affordability and measurable benefits for tenants and communities.

Planning and land policies to support the provision of affordable housing by not-for-profits

Planning policies that are designed specifically to facilitate provision of well located affordable housing have become more widespread as affordability problems have deepened and housing markets have become more segregated. For example, many countries (or urban growth regions) now have voluntary, negotiated or mandated forms of development contributions for affordable housing, including France, England, Ireland, the Netherlands and many US states and Canadian provinces. When such mechanisms apply, it is common practice for all or a set a proportion of the affordable housing contribution to be linked to other funding levers for affordable housing (described above) and to be directed to a not-for-profit developer/ manager. In response to the preference shown by developers to make in lieu cash contributions, policies have been strengthened to ensure requirements are met on site in many countries. This helps to promote social mix and ensures good locations for projects can be obtained at lower cost. Placing ownership of the affordable housing in the not-for-profit sector also helps to ensure its preservation as affordable housing (Gurran et al. 2008).

One key difference between local practice and international best practice has been the size of the contribution for affordable housing. Many countries require or aim for a more significant contribution for affordable housing - typically 15 per cent to 20 per cent and sometimes higher - than has been the case where inclusionary mechanisms have been used in Australia. For example, the development contribution channelled to City West Housing (discussed earlier) was based on achieving 3 per cent of new dwellings in the affordable band (Milligan et al. 2004). Recently however, there have been signs that a 15 per cent target may become more widespread with South Australia, Northern Territory and Queensland choosing this figure in policies that they have introduced recently (see Milligan et al. 2009 for details). Another difference is found in the geographic scale at which an inclusionary policy applies. In Australia it has been usual to limit inclusionary requirements to small areas undergoing significant renewal and densification. Internationally, similar requirements are more likely to apply across a larger region, covering a wide array of brownfield and greenfield sites. This reduces ‘developer shopping’ and puts downward pressure on land costs.

Another element of land and planning policies that is used effectively to support affordable housing developers is giving them facilitated access to publicly owned land. Our previous research includes examples of the how this strategy is used in Switzerland, the Netherlands, Austria, France, the UK and many US states (see Milligan et al. 2009, Lawson 2009, Gurran 2007, 2008 and Lawson and Milligan 2007).

There are myriad other direct and indirect planning measures that can be applied to help to lower the costs faced by affordable housing developers. These measures, such as concessions on application fees, waiving infrastructure contribution requirements and offering density or design bonuses linked to housing type and impact, have not been utilised widely in Australia (Milligan et al. 2009).
Regulation of not-for-profit housing developers

Internationally, there are a large variety of legal forms of not-for-profit housing developers and diverse regulatory arrangements apply. Nevertheless generally, moves to give not-for-profits greater autonomy and responsibility and associated shifts to ‘contract out’ public housing services have been accompanied by the introduction of specialised regulation. Reasons given for regulating this sector include to ensure the rights of low income tenants are protected (in the absence of market power); to account for public investment and to assess the achievement of public policy goals (such as affordability) and industry standards; to build confidence in and support professional development of the sector; and to help manage risks and to attract lenders and private partners (Cave 2007, Milligan 2005). Models vary from being legislatively prescribed and enforced (Austria, UK) to looser cooperative or industry-run approaches (the Netherlands, Switzerland). In some cases, for example under the US low income housing tax credit scheme, projects rather than organisations are regulated. Regulators may be national, state or local governments or industry-based specific purpose bodies.

Key lessons arising from practice in this area include: the need for clearly stated and measurable public policy goals to inform regulation; that the extent of regulatory rules and controls must be balanced against risk and not unduly dampen flexibility and innovation; the need to streamline regulation (such as by removing overlapping processes) to minimise compliance costs, the importance of giving sufficient attention to tenants’ rights; the benefits of sharing industry information arising from the regulatory process with all stakeholders; and the need to continuously adapt regulatory systems to meet changing needs and opportunities in the industry (Cave 2007, Milligan et al. 2009).

Procurement, housing design and asset management practices

Procuring affordable housing through specialised not-for-profit developers offers a range of benefits. Products can be purpose-designed to meet the requirements of clients with particular design needs, such as modifications. Often affordable housing products, such as the smaller housing forms being provided by several of the leading developers in Australia, are not being supplied in the for-profit market. The development brief can be geared to a product that is durable for long-term renting. These socially oriented providers can offer pathways to home ownership using innovative financing products. For example, not-for-profits in the UK and the US have been at the forefront of shared equity schemes and community land trusts that provide tenants with an opportunity to purchase their homes progressively.

Waste, water and energy-efficient housing designs that reduce living costs for tenants and meet broader environmental sustainability goals can also be encouraged in the sector. In North America and Europe not-for-profit developers have been leading innovators in green building designs. In those regions also many well established not-for-profits have used their strong local connections to buttress a leading role in neighbourhood renewal.

The costs of not-for-profit development are typically lower than market development because developer margins are avoided (when development is ‘in house’) and property taxes usually do not apply. Many not-for-profits also have a reputation for being effective asset managers, actively refinancing and renewing their portfolios and re-investing any proceeds in their businesses.

These asset-based benefits are among the key reasons for encouraging a larger not-for-profit development industry, especially in the context of the high need for additional affordable housing in Australia (see Australian Government 2009, Yates and Milligan 2007). Policy makers and regulators need to understand the ramifications for their functions.

Industry development and growth: current impediments and strategies to address them

In this section we identify some of the main impediments to growth of a sustainable not-for-profit development industry that arise from our research on Australian affordable housing developers and international practice, and suggest ideas and actions to address them. Issues discussed are grouped around what we contend to be three critical strategies that should shape the future: setting the right vision; improving the investment framework; and strengthening public governance.
Setting the right vision

The starting point for expanding this industry is to set a vision and to determine key policy goals. The vision and goals will frame the roles of providers; influence the funding mix and product options that are feasible and the potential for entrepreneurial opportunities; and set the parameters for regulation.

There has been considerable debate about the social purpose and role of the emerging generation of affordable housing providers in Australia (Phillips et al. 2009). This debate is centred on the question of to what extent these providers should maintain targeting of their housing to high needs groups (that is substituting for or replicating the current role of social housing) versus being able to address a broader range of needs and have a more diversified product and client mix. Resolution of this concern is strongly intertwined with a goal to increase private funding (COAG 2008) (see below). Increasing reliance on private financing means that heavy targeting to low income households will require larger subsidies than are available presently to offset higher operating costs. If adequate subsidies for lower income households are not offered, providers may be forced to increase the share of housing allocations made to those groups who can afford to pay higher rents to help offset the costs of private financing. Thus failure in policy setting to come to terms with the intersection between funding mechanisms and target groups for assistance could result either in worse affordability outcomes for lower income groups or creaming of places to higher income groups.

In our view, the resolution of this policy quandary will lie in setting a needs-based target for expanding affordable housing, allowing for a mix of client groups within the recognised range of needs and allocating housing places along the continuum of needs, proportionately. Such an approach offers the best potential to contribute positively to social outcomes (e.g. less segregated, more stable neighbourhoods; more housing pathways; less tenure stigmatisation) and financial outcomes (e.g. improved viability; attracting investors and additional resources; containing public subsidy costs).

Improving the investment framework

1) Financial incentives and access to finance

To date, financing of sufficient scale to develop the potential of the not-for-profit sector and to justify greater investment in capacity building has not been forthcoming either from governments or the private sector. Until 2008, there were insufficient incentives in place to attract large-scale private financial interest in investing in, or lending for, affordable housing in Australia (Milligan et al. 2004, 2009; Berry et al. 2006). The recently launched National Rental Affordability Scheme (NRAS), which is offering funding incentives for 50,000 rental dwellings over four years from 2008/09 shows good promise to transform that situation but the timing of its introduction in the wake of the global financial crisis has meant that its potential to attract private investors is uncertain. This issue notwithstanding, NRAS could be more specifically steered to supporting growth in the not-for-profit sector. For example, organisations have to apply for NRAS incentives for each individual project in a competitive funding round. This runs the risk that good market opportunities are foregone, incurs additional costs for feasibility studies and project-based assessments, and discourages collaboration.

Setting standards for developments and introducing cost caps may offer better ways than open competition to ensure value for money, especially when the industry is in such a nascent stage with low volumes of activity. Set asides of a significant share of NRAS incentives for this sector and making these available in a block grant to established players that have met some pre-qualifying process (e.g. have an approved business plan and meet a designated performance standard) would give greater certainty, increase collaboration and assist forward planning, allowing agencies to commit staff and resources to property development. In the longer term, the retention of NRAS funded housing as affordable housing beyond the 10-year duration of the incentive will also have to be addressed, if the not-for-profit sector is to maintain its capacity to assist low income households.

Where government funding has been offered at a state level, not-for-profit developers have been expected to source significant levels of other finance - typically a target of between 25 per cent (Victoria) and 40 per cent (New South Wales) of project costs has been set. However as discussed above, the capacity for leverage is highly dependent on policy on rent setting, allocation rules and the level of subsidy that is offered to offset the costs of private finance. Current policy settings and the available subsidy mechanism (Commonwealth Rent Assistance) have not been designed and steered to achieving the current target levels of leverage. As
well, both international practice and the low level of private financing underpinning local schemes (even before current capital market shortages) point to the need for Australian governments to do more to orchestrate and coordinate large scale fund raising and direct it to not-for-profits, if optimal leverage is to be achieved in a cost effective way. A companion paper to this (Lawson et al. 2009) discusses in more detail how this might be approached in the Australian context by using a special purpose bond instrument, drawing on design and operational features of successful bond models elsewhere.

In the last two decades, financial commitments to additional housing supply have generally been at a low level and short term or intermittent in nature. Recent changes to the financial arrangements for social housing in Australia under the National Affordable Housing Agreement have not addressed the need for a permanent source of funding for growth (Milligan 2009). While a welcome turnaround from the parlous situation over the past decade, the only capital funding designated for adding to the supply of social housing is an emergency response to the financial and economic crisis and a small national partnership program. To sustain any reasonable level of supply beyond 2010/11 when both these initiatives cease will require governments to meet the gap between the level of private financing serviceable from revenue and tax incentives (such as NRAS) and the costs of provision. Assistance in the form of grants, soft loans and low cost land sourced from all spheres of government needs to be offered as part of a coordinated package, if the advantages offered by the not-for-profit sector are to be utilised to increase the supply of affordable housing.

2) Access to sites

Australian states and territories generally have not taken a systematic approach to requiring affordable housing inclusion when either government or commercial land is developed, resulting in not-for-profit developers only having facilitated access to sites when local policies apply or where site specific arrangements can be negotiated. In this context, recent moves by several of the smaller jurisdictions to set sizeable targets to guide the expected level of affordable housing inclusion on public and private land is a positive sign. However, unless adequate funding is channelled to not-for-profits, little long term rental housing may result, with most housing to satisfy the requirements likely to be produced for the low cost home ownership market only. This underlines the importance of having clear policy goals and targets for different forms of affordable housing, and linking planning and funding policies directly to them.

Existing government land development agencies could be required to designate sites in their projects for affordable housing, as one part of making a stronger contribution to this industry. There are small examples of affordable housing projects involving these agencies across Australia but governments generally have not recognised affordable housing as part of their core role in recent years, unlike the situation when most of these agencies were founded as land commissions in the 1970s. Introducing explicit affordable housing responsibilities and targets in land development agencies would help to promote whole of government contributions to growth and contribute to social inclusion goals. In a pointer to good practice, the newest agency, the Queensland Urban Land Development Agency (2007), has an explicit affordable housing agenda as part of its strategic role in land acquisition, development and release.

3) Provider balance sheets and title transfers

In Australia, the balance sheets of most not-for-profit developers and aspiring developers are very small. This hinders the capacity of these organisations to raise private finance, it increases financing costs, works against strategic asset management and prevents them taking on additional risk associated with more complex and sophisticated development projects (such as joint ventures or large scale renewal projects). Moves are beginning in some jurisdictions to overcome this impediment to growth by transferring ownership of dwellings under their management to well performed providers with potential for growth. For example, in June 2009 the NSW government announced its intention to transfer ownership of around 7,000 dwellings, mostly newly acquired, to community housing providers by 2012 subject to appropriate regulatory controls (SMH, 2009). A policy commitment to asset ownership and planned larger scale transfer programs to well-performed organisations in this sector across Australia will assist boards to move their organisations to a more commercial business model and position them for taking on greater financing and asset responsibilities.

4) Charitable status

The move of not-for-profits into development of affordable housing for a mix of low and moderate income households has given rise to uncertainty about the charitable status of providers. If the financial benefits that this status enables are lost, larger direct subsidies will be required. Similar issues have emerged for not-for-
profits around the globe, as they have moved towards more entrepreneurial businesses, which involve developing for a wider variety of households and cross-subsidisation practices (Oxley et al. 2008). In Australia, a temporary solution to this issue has been found – specifically to enable NRAS to be taken up in the not-for-profit sector in the short term – but the issue remains unresolved for the longer term. The persistence of this problem is a clear example of where a lack of policy commitment and certainty is holding up progress in the sector.

**Strengthening public governance**

1) **Regulation**

Issues about how best to secure appropriate and cost effective outcomes from independent non-government housing providers introduce questions about public governance and the role of regulation.

Within the policy framework, the regulatory code should set rules and offer guidance, but also give appropriate discretion to enable providers to operate independently in commercially sound ways and offer incentives for innovation and reinvestment. The regulatory model must also provide the necessary powers of intervention and monitoring tools that give assurance that risk will be managed and policy goals will continue to be met.

Since the early 2000s, significant progress has been made in establishing more specialised regulatory arrangements to apply to affordable housing providers, as a parallel development to the greater interest that has been shown by governments and providers alike in enhancing the affordable housing industry. In broad terms, governments, lenders and providers have welcomed these new controls. From the viewpoints of these various stakeholders, a dedicated regulatory model provides a platform for managing risks associated with growth and the adoption of new development and financing functions; enhances confidence in the industry; ensures robust public accountability and signals a commitment by governments to growth. However, regulatory systems are in the early stages of implementation and disparate approaches have emerged so far across jurisdictions (Milligan et al. 2009). Recently the Australian government has taken a leadership role in this area, seeking a nationally consistent approach to regulation. A national approach has a number of potential benefits including: creating a level playing field for providers; addressing the wide variation in state-based regulatory systems; reducing barriers to providers operating across jurisdictional borders; simplifying involvement of national financiers and developers; and providing national data for accountability and benchmarking purposes (Milligan et al. 2009). However, it will also have to deal with significant historic differences in the structure of the not-for-profit sector across jurisdictions and variable local housing market conditions and opportunities. Given this context, a nationally consistent framework implemented by state based regulators under collaborative arrangements (rather than having a single regulator) may offer a practical way forward, subject to states administering this function separately from their housing service agencies.

2) **Joined up government**

Until now, Australian jurisdictions have adopted distinct policy goals, promoted different policy levers and made varying levels of financial commitment to their affordable housing strategies. This situation has produced widely varying conditions and opportunities for not-for-profits across the country. Better-coordinated and more innovative public governance approaches to policy formulation and implementation will be required to achieve higher and more assured levels of growth.

Strong and coherent national leadership and joined-up government action across treasuries (as funders and fund raisers) and housing, land development and planning agencies, together with greater engagement of local government will help to promote scale, give more opportunities to entrepreneurial providers, attract private investors and reduce compliance costs. The Council of Australian Governments (COAG) offers a key mechanism for promulgating a strongly coordinated national approach and a more fully developed National Affordable Housing Agreement could operate as an appropriate policy framework. Under those umbrella arrangements, appropriate delineation of roles and responsibilities, developing greater expertise in or close to government and considering the potential of having specialised financial and regulatory institutions will be priority areas for attention (Lawson and Milligan 2007). To avoid two layers of administration (and regulation?) resource allocations could be made at a state level subject to state based resource allocation plans being agreed periodically with the Australian Government.
3) Better networks

Because affordable housing models typically involve more complex policy and funding arrangements and diverse partnerships, coordinating networks that promote regular and ongoing dialogue between policymakers, funders, providers and regulators of affordable housing will also be critical. Establishing a strategically oriented, multi-stakeholder Affordable Housing Industry Council with responsibility for high-level policy and funding advice, guiding industry development and review, and partnership building has been suggested as one means by which such networking and collaboration could be fostered and steered (Milligan et al 2009). Expanding existing national and state-based peer networks would be another. The potential for intermediary organisations to channel resources and expertise to the sector should also be recognised and encouraged (see Gilmour (2009) for a full discussion of the role and power of networking in this sector).

4) Capacity building

A widely perceived barrier to the take off of not-for-profit housing developers in Australia has been doubt about the capacity of (mostly small) existing organisations in the community housing sector to take up a new business direction that involves more complex housing development tasks and greater financial and asset risk. This has proved to be a conundrum for emerging and aspiring developers, as the small scale of development opportunities on offer has made it difficult for them to justify investing in building their organisational capacity and moving into development.

While capacity issues are identified as a problem, governments have not addressed them systematically. Opinion among leading developers and industry stakeholders is that if funding resources for housing development can be secured at a sufficient level to justify industry-wide and provider-level supporting mechanisms being put in place, current capacity constraints can be overcome. A longer term growth plan for the sector and assured growth paths for individual providers will enable organisations to bring the necessary development and financing expertise in house; to attract appropriate expertise to their boards, to retain this expertise and to utilise it for other business opportunities. This finding is illustrated by the trajectory of local companies, such as Brisbane Housing Company and the Victorian housing associations, and underpinned by the professional competence, reputation and longevity of not-for-profit housing sectors elsewhere, where project and organisational failures have been rare.

As the industry grows, there will be several key areas needing attention: especially corporate governance; training and professional development programs; business systems development; and industry information. The industry council mentioned above would be one way to foster a more strategic approach to guiding development of this industry and over time could also help to ensure that a supportive and responsive policy framework continues to evolve under dynamic housing market conditions and changing needs. A well-funded program of research and evaluation will also help to support healthy development of the industry (see Milligan et al. 2007 for an evaluation model and framework).

5) Approval processes

There are several avoidable problems with how most not-for-profit developers secure funding and development approval for new projects presently. For example, projects typically require finance from more than one government source. However, applications for funding from different levels of government generally have not been coordinated (except in New South Wales and South Australia in early NRAS application rounds). When fund raising and approval processes are fragmented, overly complex project assembly processes and longer timelines for procurement result. This adds both to transaction costs and to the challenges facing organisations entering this business for the first time. These problems could be overcome by pre-allocating public finance to approved developers or enabling all funding from government to be used more flexibility across projects within program guidelines (as the guidelines for NRAS allow).

Planning approvals have also often been slow and several projects have been subject to more than usual levels of community objection. Problems like these contribute to sub optimal outcomes, such as lengthy project timelines, higher costs and budget overruns, and delays in housing provision. They can be addressed partly by fostering a better understanding in development approval agencies of a not-for-profit developer’s purpose and business approach. More generally, moves by several states recently to streamline their residential development approval processes for complying development should benefit affordable housing developers in future.
Conclusions

The leading not-for-profit housing developers in Australia have demonstrated resourcefulness and competence in procuring small amounts of high quality, modest cost, rental housing for low and moderate income households, emulating successful practice elsewhere. Many more well established organisations (across the mainstream community housing, aged services, disability services, general welfare and Indigenous housing sectors) are willing to contribute resources and apply their skills to this function in diverse ways, subject to some initial investment in their capacity.

On the basis of Australian and international practice, this paper has demonstrated how a mix of incentives can be used to catalyse and grow a strong and productive third sector in housing, with positive outcomes for tenants, local communities and the wider housing system. The biggest factors holding back growth at present are insufficient funding and other incentives from governments to support development plans at a scale that is viable and will attract private investment.

Setting clear policy goals and determining the right mix of financing options both to create opportunities in the current financial and economic downturn and to secure long-term growth in the Australian context are urgent tasks to reduce shortages of low cost rental and halt worsening affordability trends for low and moderate income households in Australia.

Replacing past tentative and fragmented approaches with a more assertive and integrated approach to the development of a sustainable not-for-profit housing sector in Australia is overdue. With the right policy and regulatory settings, higher investment levels and application of funding mechanisms that can deliver scale and certainty, the not-for-profit sector can play a much greater role in increasing the supply of affordable housing at low risk for government.

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1 Dedicated agencies were established to administer community housing programs in New South Wales and South Australia for short periods previously but these have been abolished.

2 There are estimated to be over 1,000 organisations in the mainstream community housing sector. The vast majority of these (89%) manage less than 50 dwellings each but the number and scale of larger organisations (managing between 500 to 2000 dwellings) is increasing. Estimates of the total size of the sector depend on which organisations (mainstream, Indigenous, residential aged etc) are included and so vary between 36,000 to more than 70,000 dwellings (AIHW 2009, authors’ knowledge).

3 In 2008, the tenant mix comprised: 22% very low income households (< 50% median household income); 39% low income households (50% to 80% median household income) and 39% moderate income households (80% to 120% median household income) (CWH 2008).

4 Unlike for CWH in Sydney, there was no levy on development for affordable housing in BHC’s area of operation.

5 Not for profit housing organisations in Australia are entitled to apply for a range of beneficial tax provisions where they charge rent below 75% of market rent. This has resulted in many agencies adopted a rent setting policy of 74.9% of market rent. One consequence of this de facto rent policy, is that providers who aspire to, or required by government to, achieve benchmarks of affordability for their tenants (typically expressed as 25% to 30% of household income) must ensure they allocate housing to those who can afford the asking rent. Currently additional subsidies are generally not available to assist very low-income households for whom the rents may not be affordable.

6 This position had been reached from a mix of stock transfers and new development. A small component of the assets of some Victorian housing associations is located outside Victoria.

7 The review is not intended to provide an evaluation of these models have performed. Koebel (1998) provides a critical overview of the contribution of the not-for-profit housing development model in Europe and North America.

8 Note government sets maximum price guidelines for properties (varied by size and location) where grant is provided.

9 Provisions in Australia for banks to provide mortgage finance for home ownership at a capped interest rate took this form until financial deregulation in the 1980s.

10 There is anecdotal evidence that NRAS has resulted in not-for-profits bidding against each other for projects and that the competitive process may be weakening collaboration and partnering in the sector.

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