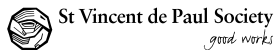
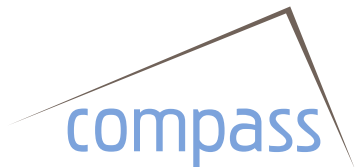


# TOWARDS A NATIONAL HOUSING STRATEGY



**Professor Dave Adamson, OBE**  
Research and Development,  
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# FOREWORD

In 1945 Australia faced an unprecedented shortage of housing and the 1944 Commonwealth Housing Commission identified the need for 700,000 new homes. Despite a skills and materials shortage and the financial difficulties of the post-war economy, the Commonwealth Government built 670,000 homes in ten years. This document identifies a housing supply and affordability crisis similar to 1945. It also recognises an absence of planning and strategy capable of providing a solution.

In this document we identify a central role for the Commonwealth Government in shaping the economic, political and cultural environment in which housing is provided. The United Nations Charter of Human Rights asserts that 'adequate housing' is a fundamental human right. However the UN Rapporteur on Human Rights, following an Australian visit in 2007, concluded that Australia was failing to deliver that right. It identified the absence of any co-ordinated national strategy for housing as the primary cause of that failure.

This document takes as its starting point the provision of housing as a human right. We also suggest that providing adequate housing for all those who need it is a responsibility of government. A National Housing Strategy, developed and led by a Housing Minister, is an essential ingredient of ensuring that every member in Australian society has access to adequate housing. Providing adequate housing is an investment in future generations. It will benefit the health and wellbeing of all residents of Australia. It will be an economic stimulus as it was in 1945 and 2008, and contribute generally to the efficient functioning of our regions, cities, towns and communities.

The case for investing in housing and the recommendations developed in this document have been made in association with a range of partners and experts in the field of housing and related services. It has a strong research base and assembles the best evidence for change that is available. I hope you will take time to read it and to support its recommendations in your work towards a sufficient, modern and equitable housing system for all Australians.

I want to acknowledge the diligent and capable work of Professor David Adamson OBE in the development of this document and all the contributors and reviewers generally.

**Greg Budworth**

GROUP MANAGING DIRECTOR  
Compass Housing Services

# TOWARDS A NATIONAL HOUSING STRATEGY

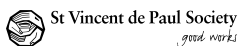
## Author's acknowledgments

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Any errors are mine.

**Professor David Adamson OBE**



**The following individuals and organisations have endorsed this document and its contents:**

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# AUSTRALIA'S HOUSING CRISIS

For the past decade in Australia there has been a growing awareness of a housing crisis and the absence of a national strategy to address it.

...it was argued that the current Australian housing system was poorly placed to deal with immediate and longer-term challenges—affordability was declining and housing supply was constrained, while the traditional public housing model was 'broken' and the private rented sector was failing to deliver at the low-rent end.

New housing models were needed and the Commonwealth Government needed to provide policy leadership in this sphere (Berry & Williams, 2011).

Clearly, one of the dominant messages coming out of this inquiry is the need for the Australian Government to give coherence to the numerous local, state and national incentives and schemes intended to contribute to the provision of affordable housing. A long-term, integrated and coherent plan with consistent policy governing a national approach to affordable housing is needed (The Senate: Economics References Committee, 2015).

Housing issues have entered popular consciousness through comprehensive media coverage of an affordability crisis and the emergence of the concept of 'generation rent'. Difficulties faced by first time buyers in entering an overheated market, especially in the capital cities, have been headline material for some years. Most recently there has been an increasing awareness of the challenge of rental affordability for key workers in our cities. Increasing attention is also being paid to rising levels of homelessness and the impact on people who have not historically been associated with homelessness, including older women. Some key facts underline the major challenges in the Australian housing system that ultimately percolate through the housing system to impact the most vulnerable.

- » 206,000 households on the waiting lists for social housing
- » 46% of those with greatest needs wait 2 years or more
- » 61% were homeless at the time of allocation to public housing
- » 40% of Commonwealth Rental Assistance beneficiaries still pay more than 30% of income on rent (528,000 of 1.32 million income units)
- » 105,000 people were designated homeless in the 2011 Census.

*(Australian Institute of Health and Welfare 2015), (ABS, 2011).*

*The formation of the Commonwealth Affordable Housing Working Group has been broadly welcomed following its announcement by Minister for Social Services, Christian Porter on the 7th January 2016. This document identifies some broad parameters for change that we hope the Working Group will consider and will be able to direct attention to the detail that a document of this kind is not intended to achieve.*



There has been no shortage of contributions to the debate on housing and many institutions, peak bodies and service providers have highlighted the difficulties their specific client groups are experiencing in the housing system. This document attempts to draw that wide body of civic opinion into one place and to define a consensus about the key challenges and some of the required solutions to the housing crisis. It brings together contributions from academics and practitioners, a wide range of published academic research, policy documents, conversations with leading experts and non-academic publications. Inevitably, this document is a summary of key issues and is not able to fully reflect the detail and nuances of the comprehensive range of research on housing issues internationally and in Australia. Readers are directed to the extensive body of research literature referenced in this document for a more comprehensive analysis.

In the various submissions to the drafting of this document a clear consensus emerged.

- » An urgent role for the Commonwealth Government to develop and implement a National Housing Strategy that redefines the pattern of support for the housing system in Australia.
- » The need for Commonwealth policy leadership by the creation of the role of Minister for Housing.
- » The rebalancing of subsidy to housing sectors between private ownership, private rental and social rental.
- » A requirement for a sustained, stable and adequate investment in social housing, including a substantial increase in supply.
- » The exploration, testing and delivery of innovative financial models to support a range of tenure types with an emphasis on improving the supply of affordable housing.

Despite this consensus there was some variation of emphasis in the suggested processes and programs that might resolve the current problems with the housing system. There were also different understandings of the crisis, or indeed whether there was a crisis, from different State-based organisations in locations where affordability issues have been less evident (Heaton 2016) and where social housing supply has instead been perceived as the critical problem. With different capital city experiences that range from 15.4% house price inflation in Sydney in 2015, to negative values in Perth and Darwin (Housing Industries Association, 2015) it is inevitable that different definitions of problems and solutions will be evident. This document attempts to develop a national housing perspective and a holistic system view of housing that merges these perspectives in ways that are supported by the wide-ranging research produced by the Australian Housing and Urban Research Unit (AHURI), whose research output has informed almost every page of this discussion.

The formation of the Commonwealth Affordable Housing Working Group has been broadly welcomed following its announcement by Minister for Social Services, Christian Porter, on the 7th January 2016. This document identifies some broad parameters for change that we hope the Working Group will consider and will be able to direct attention to the detail that a document of this kind is not intended to achieve.

This document does not directly address the relationship between the Commonwealth and the States and Territories in the delivery of housing but is predicated on an overarching role for the Commonwealth to set the prime goals and objectives of the housing system. This is best achieved at a national level with compliance by all jurisdictions. This ensures a common standard and equality of access at national level. Internationally, there has been a tendency for more centralised approaches to defining the core objectives of the housing system, whilst promoting diversification in ways in which the key question of affordability is answered (Gronda & Costello, 2011). There has been a focus on the increasing need for federal governments to define the allocation of resources and the institutional frameworks of housing policy.

*The elaboration of the Commonwealth role and the development of a National Strategy for Housing will inevitably lead to the reformulation of the current National Affordable Housing Agreement (NAHA) and a redefinition of the relationship between federal and state levels of Government. To achieve this requires a clear and formal leadership role for the Commonwealth Government and a prioritisation of housing policy at Cabinet level.*

Lawson 2015 concludes in relation to social housing provision:

*It is clear that the allocation of federal resources, and the institutions established by national governments to drive housing system reform (such as conditional programs, legislation and regulation), have a vital impact on the orientation and capacity of social housing systems operating in the broader housing market (Lawson, 2015).*

This view is reinforced by the position that many of the reforms suggested in this document are related to taxation, housing subsidy and regulation, all largely controlled by the Commonwealth Government. Consequently, this document is focused on the role of the Commonwealth Government and how it influences the housing system directly and indirectly. The establishment of a national strategy with the Commonwealth providing a clear and formalised leadership is required to address some of the critical issues evident in all sectors of the housing system.

The elaboration of the Commonwealth role and the development of a National Strategy for Housing will inevitably lead to the reformulation of the current National Affordable Housing Agreement (NAHA) and a redefinition of the relationship between federal and state levels of Government. To achieve this requires a clear and formal leadership role for the Commonwealth Government and a prioritisation of housing policy at Cabinet level.

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## RECOMMENDATION ONE

**That the role of Commonwealth Minister for Housing is created within the Cabinet to ensure that housing policy is a core Government priority. This will foster the development and adoption of a conscious and planned response to housing policy and will create the leadership that the development of a National Housing Strategy will require.**





# THE CONTEXT OF HOUSING IN CONTEMPORARY AUSTRALIA

The right to 'adequate' housing has long been recognised by international institutions and is enshrined in the Universal Declaration of Human Rights (1948) and International Covenant on Economic, Social and Cultural Rights (1966). The history of housing in the developed world presents at nation level, different trajectories toward the fulfilment of that right. In common with much of the English-speaking world, the journey of housing policy in Australia is one that initially recognises that right, but gradually sees the policy platform for its delivery and maintenance seriously eroded. Leaving the definition of 'adequate housing' for later discussion, there has been a general failure at an international level to fully deliver the post-WWII promise of housing as a basic and fundamental element of the welfare state, ranking alongside health, education and personal social services. Australia's trajectory has much in common with the United Kingdom and has been influenced by both policy and practice in the UK. Both nations in turn have seen a transition from a social democratic welfare model to one that is influenced by neo-liberalism and a greater reliance on the role of the market and the individualisation of social policy and welfare support. This transition is regardless of the political persuasion of the party in power, as the central tenets of neo-liberalism have become both political and economic orthodoxy.

The impact on housing policy has been considerable. This is not the correct place for a full historical account, save to demarcate the major policy boundaries and periods of notable change that have brought us to the current crisis in housing. In general political discourse, much of the attention given to housing is in terms of a dichotomy or 'bifurcation' (Jacobs et al, 2010) between home ownership on the one hand and rental, both private sector and social housing, on the other hand. In reality, the housing market is a diverse and complex system with interdependencies between home ownership, property investment behaviours, private housing rental and the social housing sector, which consists of state housing provision and the not-for profit and community housing sectors. The relationships between these segments are determined by a wide range of Commonwealth and State Government policies including taxation, welfare systems, planning and land use and the wider condition of the economy which determines employment and wage levels.

The historical flows of housing policy in Australia are visible in the changing patterns of the Commonwealth State Housing Agreements (CSHAs). From the first of these in 1945, the changing emphasis of political parties and their administrations find their way into the principle framework for determining the roles of the Commonwealth and the States in the provision of public housing, but also in the promotion of private home ownership as the primary political objective. The first of these arose from the work of the 1944 Commonwealth Housing Commission (CHC). The Commission was addressing



a housing situation very similar to today, with a general under-supply of housing and an affordability problem (Yates, 2013). Most importantly, the Commission asserted access to housing as a fundamental right for all citizens (Troy, 2012). Troy's detailed analysis of the 1945 CHSA and subsequent revisions until the National Affordability Housing Agreement (NAHA) of 2012, paints a picture of the gradual erosion of the notion of housing as a right and the erosion of the corresponding obligation of Government to directly provide housing. He charts a long transition towards a marketisation and commodification of housing.

This policy trajectory can be identified with key turning points in both policy and the public support for specific housing models. Whilst housing policy rarely turns rapidly and tends to be evolutionary, there are key moments that signify major political and at times ideological change.

### 2.1 First Wave Housing

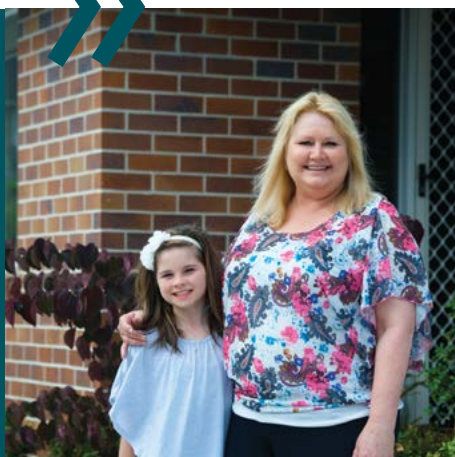
The post WWII environment was one that internationally favoured the extension of welfare provision and housing was included in the social policy environment as a key determinant of social justice and equity that informed the Labor Government in Australia. Despite the economic privations of the immediate post war period, an active program of house building was necessitated by rising expectations of returning soldiers and the desire to avoid the class distinctions of the pre-war period. This climate resulted in the creation in Australia of a 'public rental housing program funded by the Commonwealth and constructed and managed by the States' (Troy, 2012 p 86).

The 1944 Commonwealth Housing Commission identified the building of 700,000 new homes and, during the term of the first CSHA, 1945-1956, nearly 670,000 were created. Much of this provision was focused on the needs of demobilising soldiers and the provision of public housing was easily politically legitimatised. It was a considerable achievement to develop such a comprehensive building program at a time of labour and material shortages and against the background of the war national debt and general under-productivity. The funding of such an exercise at a difficult time indicates that contemporary governments make an active choice not to fund a similar program and ground that choice in arguments of austerity that do not measure up against the deprivations of the immediate post-war years (Groenhart & Burke, 2014). This program of housing construction also contributed significantly to economic recovery and the conditions leading to economic prosperity in Australia.

However, the initial commitment to the provision of public housing was both partial and short-lived. Policy also supported home ownership as the ideal; a support enhanced by the post-war 'boom' years when home ownership became a realistic proposition for a majority of the working population (Yates, 2013). In 1954, a revision to the CSHA to permit sales of state housing was later enshrined in the renewed 1956-1961 CSHA. Within one year, 10% of the 1945 CSHA housing stock had been sold (Troy, 2012). This effectively ended the only short period in Australian history where a clear commitment to state housing balanced the drive in policy towards home ownership. Consequently, this First Wave housing model effectively ended in 1956 when the sale of public housing stock was symbolic of a departure from the perception of housing as a right. This was the start of a 'residualising' process that continues to characterise the declining stock of social housing.

### 2.2 The Second Wave Housing Strategy

The second wave of housing strategy, from 1956, marks an increasing sponsorship of home ownership at the same time as the developing perception of State housing as 'welfare housing'. Numerous commissions, committee reviews and task force investigations contributed to the gradual residualisation of state housing, which was diminishing in quantity by the practice of sales and return of sales receipt to the Commonwealth, without reinvestment in the housing system. The better housing stock, in the better locations gradually disappeared and the remnants of public housing were



*The causes of the current situation are explored in the following section but for the moment it is sufficient to say that the Commonwealth and States have an obligation to create an efficient housing system that addresses the critical needs appearing in Australian society. Housing is an increasingly scarce resource and the economics of the market are creating significant levels of housing finance stress and general lack of affordable housing for purchase and rental.*

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## RECOMMENDATION TWO

**That a national program of house building is initiated to address the current shortfalls in supply. This should provide homes for purchase, intermediate ownership models, homes for private sector rental and new provision of social housing. The commencement of the program should be preceded by a robust population analysis to establish the demand for housing over the next 20 years and the analysis used to inform a phased program of housing development over that period to meet projected demand.**

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## RECOMMENDATION THREE

**That Commonwealth land not in current use is provided to State departments specifically for home construction. This should, where possible, be subject to master-planning procedures to ensure an effective contribution to city and regional functions and be located to take advantage of employment, transport and civic amenity opportunities. This should be implemented within an overall 'place-making' perspective to develop sustainable mixed income communities that contribute to the social, cultural and economic life of wider society (Deloitte, 2015).**

increasingly in locations of concentrated disadvantage (Hulse et al, 2014). The shift in allocations policy toward social need accelerated the residualisation of state housing by concentrating families and individuals with high social support needs in state housing locations (Yates, 2013). The provision of state housing was seen as reserved for those with critical needs rather than the general low-income families that had been supported in the First Wave. Low to moderate income families were expected to secure accommodation in the private rental sector, supported by Commonwealth Rental Assistance if their incomes could not meet the full market cost of their housing. In this model the right to public housing was seen as temporary and tenants who improved their conditions were expected to move into the private rental market. This view prevails and prevents the creation of stable, state housing communities with tenants from more varied socio-economic backgrounds.

Whilst this can be presented as the rationing of a scarce public resource for those in most need, it is in reality a failure of Government commitment at all levels to meet a fundamental need of its citizens. The development of extensive waiting lists (206,000 households in 2014 (Australian Institute of Health and Welfare, 2015) indicates the unmet demand. The use of demand side, personal subsidy (Commonwealth Rental Assistance) to support private market rental also drives the perception of rental assistance as a welfare payment. This is presented as unfair to the hard working population who struggle to meet their own housing needs through mortgage payments. The social distinction between 'skiver and strivers' (UK) and 'lifters and leaners' (Australia) drives a clear wedge between the majority of tax payers and those who rely on public housing or rental subsidy to meet their housing needs. Social democratic cultures of social solidarity have tended to be replaced by an individualism that blames the poor for their poverty.

The only exception to this drift towards an increasingly marginalised social housing sector occurred in the brief return to more principles driven housing policy by the 2007 Rudd administration. This saw the re-establishment of the role of Minister for Housing, the launch of the National Rental Affordability Scheme (NRAS) in 2008, the transition from CSHA to the National Affordable Housing Agreement (NAHA) in 2009 and the Social Housing Building Initiative within the Nation Building Economic Stimulus Plan (Milligan & Pinnegar, 2010). However, even the NRAS target of 50,000 new homes over 10 years did little to address the 200,000 homes that could have been achieved if construction of new homes at 1980s levels had been maintained (Jacobs et al, 2010). The early termination of the NRAS program sacrificed even this modest ambition and the grounds for optimism created by this brief period of focus on housing policy were confounded by rapid political change.

### 2.3 Towards a Third Wave Housing Strategy

In this document we have focused the attention of key housing providers, academic experts and those providing related support services on developing a new model for housing. This model must recognise the desire for home ownership by governments and citizens, as well as the mixed market of State and private sector provision. It must recognise the role of community and faith organisations in providing significant levels of housing and related services. Fundamentally, it should recognise the role for all levels of Government to provide adequate supply, quality, and equity in housing markets. This must include a sufficient supply of Government funded provision to meet the needs of a growing population in the context of a challenging economic environment. The traditional emphasis on home ownership has been less successful since the Global Financial Crisis, with declining sales and more difficult market entry for first time purchasers. Whilst sponsoring home ownership may work in strong economic climates, with high wage levels and low unemployment, it does not function well when housing inflation outstrips wages and where the supply of homes lags far behind the demand.

The causes of the current situation are explored in the following section but for the moment it is sufficient to say that the Commonwealth and States have an obligation to create an efficient housing system that addresses the critical needs appearing in Australian society. Housing is an increasingly scarce resource and the economics of the market are creating significant levels of housing finance stress and general lack of affordable housing for purchase and rental.

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## RECOMMENDATION FOUR

**That, where necessary, Commonwealth land endowment to States should be ‘de-risked’ to promote developer interests. This could include remediation of contaminated brown field sites, streamlined planning and land-use permissions and developer payment deferment to permit initial property sales to underpin inclusionary zoning in new developments.**

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## RECOMMENDATION FIVE

**That planning rules require ‘inclusionary zoning’ in new commercial housing developments to promote a supply of affordable and social housing in multiple locations with a varied mix of tenures to avoid concentrations of social housing.**

Consequently, to develop a National Strategy for Housing requires a comprehensive conception of housing as a vital economic, physical, cultural and social policy domain that operates as a complex whole. This has been referred to as ‘whole of system housing perspective’ and is adopted for the purposes of this document (Jacobs et al, 2015). This also suggests that any National Housing Strategy has to recognise diversity of tenure and associated consumer behaviours and that policy cannot simply be determined by a ‘command and control’ structure of heavy-handed intervention. Rather, the role of Government is to provide parameters in which the housing market must operate. Parameters might include affordability, supply, quality, sustainability and most critically, equity.

The Third Wave of Housing Strategy should recognise the diverse tenure requirements of the current population and include a major social housing component that reverses the residualisation of social housing by accommodating a mixed population of tenants and intermediate owners. New communities created in the national home building program identified in Recommendation Two should be of mixed tenure and be ‘tenure blind’ to promote social cohesion and the eradication of the stigma of social housing. Allocations policies grounded solely on acute need have contributed significantly to the concentration of social problems in social housing communities. A more rational and planned approach is required to create balanced and cohesive communities. Housing services in such a context could provide a range of support mechanisms to directly address the needs of the individual and family in a continuum of support ranging from long-term social tenancies to direct home ownership.

*The current crisis of affordable housing supply bears many similarities to the post-WWII housing context and requires a significant program of house building in order to address the fundamental challenge of meeting rising demand for housing in all tenure types. Housing is a core element of the physical and social infrastructure of the nation and requires Commonwealth Government investment in much the same way as road, rail, and energy infrastructure requires Government to set the parameters for development of assets (New South Wales Federation of Housing Associations 2015). The program should recognise that demand side interventions alone cannot resolve the current crisis and that a major development of supply is essential. Within the program for new homes attention must be given to the social housing system where a major shortfall of supply is evident. This shortfall cannot be met by transition of social tenants into the Private Rental Sector (PRS). A building program should reflect the key demographic trends of aging, migration and reduced household size, predicted to increase the number of households to 11.6 million by 2031 (Australian Institute of Health and Welfare, 2014). Four recommendations arise from the requirement to improve housing supply.*

# 3

## THE CURRENT HOUSING SYSTEM

To derive a 'whole of system' housing strategy it is first necessary to understand the components of that system and the relationships between them. In the first section we briefly explored the changing dynamics and balances between the elements of the system. The following paragraphs will further develop that understanding. Whilst it is possible to segment the housing system along different lines we will identify the following core sectors:

- » home ownership
- » private rental
- » State and community housing
- » marginal renting
- » indigenous housing
- » homelessness services
- » disability housing.

In presenting such a list we are implying a hierarchy of quality, accessibility and equity that has a clear reflection in the social experience of housing in Australia. However, in terms of policy design and implementation the housing system tends to be conceived of as a continuum of interrelated sectors with inter-dependencies and articulated relationships that are influenced by the overall system condition. Failure in one part of the system can create negative responses in others while the pattern of issues we have identified in all points along the continuum has significant implications for the future if adequate policy responses are not forthcoming.

### 3.1 Home Ownership

The policy trajectory outlined has increasingly privileged home ownership, prioritised through tax exemption for capital gains and tax deduction for negative gearing. From only 50% in the 1947 Census to its peak of 70.8%, in the 1966 Census (Troy, 2012), home ownership has enjoyed a cultural primacy in Australia. The 2011 Census records a home ownership level of 67%. This small decline in ownership is slightly more exaggerated for under 35 year olds, although there is disagreement as to whether this is an affordability issue of a deferred marriage and purchase pattern (Baxter & MacDonald, 2004). The cultural attachment to home ownership inevitably influences the political process and all parties have supported home ownership to varying extents by subsidy and taxation



*It is the shared opinion of contributors to this document that changes to the level of home ownership subsidy are essential and that any savings to Treasury gained from the exercise should be redirected to support other forms of housing tenure. Almost all contributors have stressed the need for reform to the multiple subsidies currently attracted by home ownership in Australia. The level of subsidy is not only seen as iniquitous but also inefficient. Subsidies cost Treasury significant funds, do not increase supply, and introduce inflationary pressure into the housing market. Reform of CGT exemption for the main residence and the CGT discount on investment property are seen as the prime targets for change that could contribute to the solution of current issues and build toward a robust and sustainable housing system for the nation. Further significant saving could be gained from reform of the negative gearing tax subsidy. We return to this issue in detail in Section 4.2.1 and Recommendation Twelve.*

policy. The pre-occupation with home ownership is common to the English speaking nations, in contrast to much of Europe where home ownership levels are generally lower. In Australia, private home ownership is the most subsidised housing sector. Subsidy takes several key forms and has a major impact on the whole housing system at the level of supply and distribution.

The primary subsidy is the Capital Gains tax (CGT) exemption for the main residence. The cost to the budget in the Financial Year 2014-15 was \$46 billion, more than double the expenditure on Medicare and more than on both Defence and Education (Grudnoff, 2016). This expenditure compares with \$3.9 billion on Commonwealth Rental Assistance in the same period (Australian Institute of Health and Welfare, 2015). Furthermore, 90% of the benefit from the concession is experienced by the top 50% of earners. High earners in the top 20% receive 55% of the benefit (Grudnoff 2016). Grudnoff proposes the ending of the exemption for homes of over \$2 million in value. He suggests this would raise almost \$12 billion over four years, which represents three times the current budget for social housing (Parliament of Australia, Parliamentary Budget Office 2013). The most recent Treasury estimates indicate that the main residence CGT exemption will cost \$100 billion in the four years to 2018-19. Further CGT subsidy is provided in the form of the general CGT discount of 50% on capital gains, which also applies to homes bought as investment properties and later sold for gain. The 50% CGT discount will amount to \$121 billion by 2018-19 (Khademm & Waters, 2016). These measures collectively fuel house price inflation, which in turn adds pressure to the private rental sector and ultimately increases demand for social housing.

Further subsidy of home ownership is also provided on income tax deductions for negative gearing where investors in property can claim tax exemptions for all annual outgoings on a rental property. These expenses include interest, depreciation of fixtures and fittings, and rental management costs. A tax benefit exists if the expenses are greater than the gross income from the property. This has fuelled the small investor market in Australia where, for some investors, the tax strategy is as important as rental income or future capital gains (Australian Financial Review, 2015). This has added further inflationary pressure to the housing market, particularly in major cities (Heaton, 2016).

Housing assistance also exists for lower income households wishing to enter the property market. The First Home Owners Grant (FHOG) assisted 61,200 households to purchase a property in 2013-14. The Home Purchase Assistance (HPA) scheme helped a further 44,200 households with direct lending, deposit assistance, mortgage relief and interest rate relief. There are also additional State level subsidies available.

Overall, this presents a very favourable policy climate promoting home ownership at a cost to Treasury that far outweighs expenditure on private rental support or state and social housing. Whilst there are clear inequities in this structure of housing assistance, political change presents Government with enormous challenges. A range of vested interests from individual consumers through to real estate agents, builders and investors have enormous interest in maintaining this active promotion of home ownership.

It is the shared opinion of contributors to this document that changes to the level of home ownership subsidy are essential and that any savings to Treasury gained from the exercise should be redirected to support other forms of housing tenure. Almost all contributors have stressed the need for reform to the multiple subsidies currently attracted by home ownership in Australia. The level of subsidy is not only seen as iniquitous but also inefficient. Subsidies cost Treasury significant funds, do not increase supply, and introduce inflationary pressure into the housing market. Reform of CGT exemption for the main residence and the CGT discount on investment property are seen as the prime targets for change that could contribute to the solution of current issues and build toward a robust and sustainable housing system for the nation. Further significant saving could be gained from reform of the negative gearing tax subsidy. We return to this issue in detail in Section 4.2.1 and Recommendation Twelve.

*The private rental sector has matured to become an important element of the housing continuum in its own right and is no longer a transitional housing choice en route to home ownership. Addressing the supply of affordable private rental sector housing is a core requirement of any future National Housing Strategy.*

### 3.2 The Private Rental Sector

There remains a significant proportion of the population who are unable to enter the home ownership model. For those who cannot afford home ownership, private rental provides the primary route to securing accommodation, with almost a quarter (23.4% in 2011) of households experiencing this tenure model (Stone et al, 2013). The private rental sector has played an increasing role in housing provision as the state sector has declined in significance and been less available for families with low to moderate incomes. Additionally, rising house prices, especially in capital cities, have pushed more people for longer periods into the private sector rental market and private renting can no longer be seen as a transitional phase of housing for many households, with 33.4% of private rentals being for a period of 10 years or longer (Stone et al. 2013). However, supply of affordable rented accommodation has not increased proportionately, creating costs pressures and, for many, this route is attendant with rental affordability pressures that become heightened by wider economic conditions as real wage levels fall, employment becomes more precarious and the level of poverty rises. Some 62.6% of long-term renters experience housing stress with those lowest 40% of income households paying more than 30% of income for rental accommodation (Stone et al, 2013). Households, experiencing this level of housing stress, are less resilient and more likely to experience difficulties sustaining their tenancies at times of financial or family crisis (Stone et al, 2015).

Hulse et al (2012) paint a picture of a private rental sector under increasing demand pressure from migration, international students, and family restructuring and fracturing (Hulse et al, 2012). In this pressured market, low to moderate income households contend with the upward rental pressures to the extent that, in capital city locations, affordable rented accommodation is effectively not available, creating a flow to extended suburban locations. Hulse et al also identify a contradiction between the investment basis of ownership in the private rental sector with its requirement for fluidity of assets and the household need for stable accommodation (Hulse et al 2012). The investment characteristics of the sector also push investment to the higher end of the market as negative gearing tax exemptions and institutional investment approaches favour higher expenditure. Consequently, there has been little growth of supply of affordable homes for rent (Hulse et al. 2012). Frequent changes of ownership create a precarious tenure and private rental is associated with frequent dislocations triggered by enforced residential moves. Social housing tenants often cite this insecurity of tenure as a disincentive to enter the private rental sector, even when their economic circumstances improve considerably (Wiesel et al, 2014).

The Commonwealth's primary role in this sector is the provision of Commonwealth Rental Assistance (CRA) to low income households to address the short fall between incomes and market rent levels. CRA is a non-taxable rental subsidy paid to low income households in receipt of pension, welfare benefits or Family Tax Benefit with variable rates and caps, dependent on rent levels and family composition. In 2013-14 \$3.9 billion was paid in CRA to 1.32 million 'income units' (Australian Institute of Health and Welfare, 2015). The increasing use of CRA represents a shift from the large-scale, direct state provision of social housing for low-income families as a universalistic welfare solution to housing need, to a more 'individualised' provision that subsidises individual and household need (Jacobs et al, 2015). For proponents, the approach provides flexibility and choice for the consumer and levers private sector investment to meet housing demand, securitised by a guaranteed income. For others there are risks associated with the translation of state housing support into a benefit payment with an associated stigmatisation. Additionally, as the cost of the policy inevitably rises, it can become a prime target for Government expenditure savings. This has been the recent experience in the UK with stricter eligibility criteria and benefit caps on The Housing Benefit.

The private rental sector has matured to become an important element of the housing continuum in its own right and is no longer a transitional housing choice en route to home ownership. Addressing the supply of affordable private rental sector housing is a core requirement of any future National Housing Strategy.

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#### RECOMMENDATION SIX

**That the home building program identified in Recommendation Two ensures an adequate supply of affordable private rental sector housing. The sector should also be supported by ensuring that the thresholds and levels of CRA payment ensures that no families are required to pay more than 30% of household income for accommodation.**

*In 2012-13, Commonwealth direct expenditure on social housing was \$2.8 billion, which represented 18% of the Government expenditure heading of 'community amenities and infrastructure expenses'. This was less than Recreation and Culture (\$3.6 billion), Road and Rail (\$3.5 billion) and Environmental Protection (\$3.4 billion). In reality, general population housing received \$1.8 billion as \$1 billion of the housing budget was accounted for by expenditure on Defence Housing Australia (Parliament of Australia, Parliamentary Budget Office 2013).*

### 3.3 Social Housing

The term social housing is used here to describe housing for rent provided by State Departments and Community Housing Providers (CHPs). We distinguish this pattern of housing provision from the widely applied term 'affordable housing', which may be both for purchase or rental. The first form of social housing we will refer to as public housing and the second as community housing. Public housing provided the backbone of the post-war housing settlement but has declined in significance ever since. Currently, some 4.8 % of the population meet their housing needs by social housing rental with by far the largest proportion in public housing. In 2014-15 some 394,844 households were housed in social housing, with 80% in the public sector and 17% in the community sector with the remainder in State Owned and Managed Indigenous Housing (SOMIH) (Australian Institute of Health and Welfare, 2015).

Despite often being portrayed very negatively and subject to considerable stigma, social housing in Australia plays a significant role in housing low income families with highly positive benefits for their overall lived experience. For example, 95.3% of tenants in public housing and 93.7% of tenants in community housing felt better able to manage their rent and finances. Some 88% felt more able to cope, and over 80% reported enjoying better health since moving into social housing (AIHW 2015). In qualitative studies, tenants' evaluation of public housing has been very positive in terms of the impact on their lives and their sense of social inclusion and 'belonging' in contrast to the often negative social exclusion focus of much of the social housing literature (Mee, 2007 & Mee, 2009).

In 2012-13, Commonwealth direct expenditure on social housing was \$2.8 billion, which represented 18% of the Government expenditure heading of 'community amenities and infrastructure expenses'. This was less than Recreation and Culture (\$3.6 billion), Road and Rail (\$3.5 billion) and Environmental Protection (\$3.4 billion). In reality, general population housing received \$1.8 billion as \$1 billion of the housing budget was accounted for by expenditure on Defence Housing Australia (Parliament of Australia, Parliamentary Budget Office 2013).

The specific circumstances affecting state-managed public-housing are complex and present a range of intractable problems. Jacobs et al (2010) describe a picture of a long-term chronic underfunding, deficit operation since the 1990s, the use of asset sales to defer operational costs, rising operational and administrative costs and the overall stigmatisation of public housing estates. The long-term policy permitting sales of public housing has also diminished stock, leading to an increasing failure to meet demand for public housing. In contrast, community housing has attracted positive attention in recent years with higher tenant satisfaction levels and a perception that CHPs are able to provide a comprehensive range of services to support tenancies and the wider social and economic integration of tenants. The potential role of CHPs this is more fully discussed in Section 5.

Overall, social housing tenancy helps people to access services, engage with the community and improve their circumstances. It provides them with a safe, secure and stable foundation on which to live, and it encourages them to participate in their community and contribute to its development. Fostering this stability in households creates more resilient communities, as it minimises insecurity and need, enables relationships to be formed, and increases the community's capacity to absorb and respond to both everyday pressures and unexpected events. While living in social housing has challenges, as tenants readily acknowledge, we need to respect tenants' appreciation of the benefits of social housing (Mee, 2009). Rather than seeing social housing as a broken system or a burden to the state, the sector must be understood as having a valuable part to play in supporting the health and dignity of citizens, and the development and safeguarding of stable, active and resilient communities.

The provision of all forms of social housing has attracted considerable attention by neo-liberal governments globally and has been seen as a policy domain where market interventions have a potentially significant role to play. Much of the explanation for the decline of social housing internationally derives from the perception of social housing as 'welfare' that is likely to create dependencies and fix low-income families in permanent





*Social housing is the bedrock of affordable housing availability. The national building program identified in Recommendation Two should specifically target the development of supply that minimally eradicates current waiting lists within 10 years. Improvement of supply can be most directly achieved by the redevelopment of low-density state housing communities at higher density and to achieve mixed tenure patterns of residence. Inclusion of housing for sale in such redevelopment can be part of the funding mix but also contribute to the development of mixed, social cohesive communities. Examples of this approach can be seen at both Bonnyrigg and Riverwood, Sydney.*

residence in low-income neighbourhoods. Whilst this superficially appears to be the case, it has been more the result of the failure to meet demand for social housing and the consequent marginalisation and residualisation of social housing as it filters households with greatest needs into concentrated localities, where communal patterns of poverty and social exclusion can develop.

*...there is nothing inevitable about the role of public housing as a collecting point for those least well-off. As we argue here, this residualisation of public housing is best understood as a symptom of the lack of investment and allocation policies over the last 30 or so years (Jacobs et al, 2010, p10).*

Expenditure on social housing has been a clear focus within austerity measures as governments face budget deficits and a perceived need to reduce borrowing following the Global Financial Crisis (GFC). Consequently, it is difficult to disentangle the decline of social housing provision from the impact of neo-liberalism becoming a dominant 'policy paradigm' (Nicholls, 2014). This has been taken to its most extreme in the UK where a rapid program of reform has reduced Housing Benefit eligibility and payments, extended social housing sales to Housing Association tenants, abolished the inclusionary zoning elements of planning regulations and effectively ended long-term security of tenure for Housing Associations and Council Housing tenants. The result has been termed an 'ambulance service' model of social housing (Fitzpatrick & Pawson, 2014) which gives only limited housing support at a time of need and expects onward movement into private rental as soon as possible.

This growing perception of social housing as 'welfare housing' (Yates 2013) also creates an associated stigma and perception of its provision as a burden on the state and each taxpaying citizen. The stereotyping of social housing tenants also contributes to local opposition to social and affordable housing development, placing an added barrier to increased housing supply (Davison et al, 2013). Social housing becomes associated with the economically inactive and becomes situated in a political and media discourse that demonises social housing tenants, adding further pressures to diminish funding for the sector. This is in contrast to the vision of the Commonwealth Housing Commission and the post war belief in the value of public housing.

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## RECOMMENDATION SEVEN

**That a program of social housing redevelopment should commence to eliminate waiting lists within 10 years.**

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## RECOMMENDATION EIGHT

**That redevelopment of social housing communities should promote the creation of mixed-tenure and mixed-income neighbourhoods to avoid the mono-cultural experience of current social housing estates.**

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## RECOMMENDATION NINE

**That allocations policy to newly created social housing should reflect social and economic diversity and not be based solely on acute social need. The allocation strategy should be specifically designed to halt and reverse social housing residualisation and stigmatisation and include allocations to low-income families as well as those with acute social need.**

### 3.4 Marginal Rental Sector

This sector, whilst small, provides an important buffer between social housing and homelessness. It is a sector of choice for some categories of renters. Goodman et al define marginal renting as including motels, boarding rooms, hostels and caravan parks (Goodman et al, 2012). For boarding houses they describe a sector characterised by shared facilities, insecurity of tenure, personal insecurity, and lower levels of legal protection than alternative forms of renting. In the final report of their study they describe a generally negative experience for the tenants of many boarding houses.

*In summary, rooming houses tend to be places where low-income people are concentrated. Many experience multiple forms of disadvantage including vulnerabilities associated with ageing, alcoholism, mental illness and drug addiction. These forms of disadvantage are often associated with anti-social behaviours that are disruptive in the shared domestic environment (Goodman et al, 2013, p36).*

They also point to considerable variation in regulatory frameworks between the States. However, despite some of these issues, the sector is not solely occupied by people with high levels of need but is actively chosen by some renters including retirees, seasonal workers and students. With considerable qualification about the reliability of recorded statistics and a general sense of significant under-counting prevailing in the sector, Goodman et al (2013) provide a figure of 1,226 boarding houses in Australia in the 2011 Census, housing some 13,880 tenants. The most significant concentration is in New South Wales. For most States there was an increase between 2006 and 2011 with a declining significance of traditional, large boarding houses and a rise in the number of small residencies in suburban areas, in which typically tenants rented one room with shared kitchen and bathroom facilities (Goodman et al, 2013).

A more complex situation exists for caravan parks with a process of potential gentrification and difficulties disentangling the statistics from a growing number of specifically designed retirement parks with higher income profiles. The category can include tourism parks, accommodation for 'fly in, fly out' workers and student accommodation. Goodman et al make a distinction between 'owner renters', who own their accommodation but rent the site, and 'renter renters', who rent both. The latter



*The marginal rental sector has the capacity to provide a safety net between homelessness and other elements of the housing continuum. Variable standards and regulatory mechanisms at State level prevent the universal achievement of minimum standards and the tenant experience of marginal housing is highly variable and poses risks for tenants of poor personal safety and insecurity of tenure.*



are more likely to experience low incomes and marginalised housing outcomes and a greater risk of eviction as sites are redeveloped for more profitable patterns of land use (Goodman et al, 2013).

The marginal rental sector has the capacity to provide a safety net between homelessness and other elements of the housing continuum. Variable standards and regulatory mechanisms at State level prevent the universal achievement of minimum standards and the tenant experience of marginal housing is highly variable and poses risks for tenants of poor personal safety and insecurity of tenure.

SEE RECOMMENDATION TEN

### 3.5 Indigenous Housing

The research literature investigating indigenous housing is remarkably consistent in its identification of key issues. It paints a pessimistic picture in which indigenous people experience housing outcomes that are significantly below those regarded as reasonable for the wider population. Despite improved Government policies since 2001 with the publication of what was seen as a 'landmark document' (Flatau et al, 2005, p vii), key issues remain intractable. These can be categorised under three main headings.

#### a) Housing System Challenges

Historically, the general shortage of housing has been exaggerated for the indigenous population and housing quality achieved a much lower standard, especially in remote localities (Jardine-Orr et al, 2004), (Cooper & Morris, 2005). The instigation of the Strategic Indigenous Housing Infrastructure Program (SIHIP) in 2008 was designed to improve this situation and following a difficult start (Australian Government, 2009) has made some progress towards its targets of building 750 houses, 230 rebuilds and 2,500 refurbishments (Donald and Canty-Waldron, 2010). Procurement practices within the program have also supported non-housing outcomes, including indigenous employment and training which have proved difficult to implement and to measure (Martel et al, 2012).

The majority of indigenous people live in more urban areas where they interact with the general housing system mainly in the private rental, public and community sectors. Indigenous people can experience difficulties in the private rental sector, largely as a result of prejudice (Flatau et al, 2005), further limiting housing choices. Access to public housing is historically better and needs-based allocations can favour indigenous applicants who tend to have higher need levels and can access tenancies faster than the general population. However, sustaining tenancies can be difficult and tenancy duration is generally shorter (Flatau et al, 2005). Indigenous people are largely confined to home rental with historically low levels of home ownership (Birdsall-Jones & Corunna, 2008).

#### b) Cultural Challenges

There is a general dissonance between the cultural values of indigenous families and housing regulations designed primarily for European families. This can be exaggerated where there are few indigenous employees in housing agencies or where cultural competency is not assured for frontline housing managers. Cultural difference can be identified in attitudes to 'over-crowding', tenant absences from properties and inappropriate housing design/size. Several studies point to 'spiritual and psychological' impacts of colonial disempowerment and 'stolen generation' legacies, with associated impacts on mental health and substance abuse (Cooper & Morris, 2005), (Flatau et al, 2005), which are often not recognised by mainstream housing providers.

#### c) Support Challenges

Indigenous people can experience higher levels of poverty, physical and mental illness and family violence, partly in response to the factors identified with cultural disempowerment. These historical factors can condition reluctance to seek assistance from service providers due to distrust and fear of welfare interventions. Indigenous people may also define homelessness differently and not present themselves for homelessness support. They may also rely more on kinship networks for support rather

than external agencies, especially where they have previously experienced culturally inappropriate services. Recent trends in 'welfare conditionality' have emphasised the potentially punitive regimes associated with income management and Acceptable Behaviour Contracts (ABC) (Habibis et al, 2013).

One of the key issues for indigenous housing management is the choice between specialist separate services and delivery within mainstream housing services (Milligan et al, 2011). Generally, there is considerable respect for the desire for autonomy in which indigenous organisations are able to provide more culturally responsive services and in locations not supported by mainstream service providers. This view is balanced by concerns about service fragmentation and an evidence of lower housing outcomes for indigenous populations. Better communication of good practice between mainstream and indigenous housing services could do much to address cultural competence in the former and better housing management systems in the latter.

*Indigenous organisations (both housing agencies and others) have made many positive and innovative contributions to the housing service system and this is recognised in mainstream agencies, especially at the local level where heavy demand and regular crises tend to provoke problem solving. However, much more could be done to systematically engage Indigenous agencies and networks in policy making and planning processes and to build capacity across the housing service system to enable them to play a more integrated role alongside mainstream organisations. This direction would be consistent with self-determination principles and could be expected to achieve better client outcomes across the whole service system (Milligan et al, 2011, p5).*

Fundamentally, better indigenous access to mainstream services provides an important route to housing outcomes for indigenous people, especially in urban area where it is estimated that up to 80% of indigenous social housing tenants reside (Milligan et al, 2011). The community sector in particular should address the lower rate of indigenous tenancies compared to state counterparts. Cultural competence in housing staff is a key issue and providing better support systems to help maintain tenancies is a prerequisite of more equal outcomes for indigenous tenants (Flatau et al, 2005).

SEE RECOMMENDATION TEN

### 3.6 Disability Housing

Up to 22% of Australian households have one or more individuals affected by disability or long-term health conditions, with major consequences for their housing careers (Beer & Faulkner, 2009). For people with disability there is an exaggerated shortage of independent, affordable housing in all tenures. This is compounded by shortages of accommodation that meet the needs of people with mobility impairment to reside in, or to enjoy social visits to. Difficulties securing sufficient levels of support consign people with disability to remain as adults in the family home or take up residence in specialised group accommodation with low levels of independence and autonomy. Because of low rates of economic activity, people with disability are over-represented in social housing (Beer & Faulkner, 2009).

In 2010, individual Council of Australian Governments (COAG) members committed to make substantial contributions to the financial wellbeing of people with disability through a range of concessions for costs in housing, and providing social housing that has access to transport, services, and education and training opportunities (Council of Australian Governments (COAG), 2011). COAG identified the need to develop innovative options to improve affordability and security of housing across all forms of tenure. Building on the findings of the Productivity Commission Inquiry into Disability Care and Support (The Productivity Commission 2011), COAG agreed in 2013 to the development of the National Disability Insurance Scheme (NDIS) with a phased roll out in successive States and a program of trial sites in the short term.

The NDIS is expected to provide people with disability with 'reasonable and necessary' support, over which they will have the capacity to direct. This will inevitably affect



*The range of issues identified for marginal, indigenous and disability housing are largely the consequence of failed design and quality standards that adequately reflect the physical and cultural requirements of specific sections of the population. This is coupled with specific aspects of inadequate supply for those with specific needs whether deriving from cultural or physical needs. International experience suggests that Government leadership in establishing minimum design and quality standards is an essential component of addressing the specific needs of all population groups. Whilst State Governments currently develop design standards a national minimum standard will provide general quality benchmarks that are uniform and nationally applied.*

the housing sector and how housing assistance is currently provided. With greater control over their lives, people with disability will seek more independent options, leave segregated facilities, and expect to have the same choice as other people of where, how and with whom they live.

The NDIS has committed to provide assistance for home modifications and limited capacity to assist a small percentage of people through the supply side of the market. There will, however, be a large unmet need for accessible, affordable housing. This will require specific disability provision investment in the social and private rental sectors to meet the needs of those whose disabilities prevent economic participation and for whom there will also be a life time need for supported housing solutions. There are opportunities for niche provision within wider shared equity approaches to home ownership for people with disability whose families are willing and able to provide financial support to enter and sustain home-ownership. Any future National Housing Strategy will need to contend with these challenges.

The range of issues identified for marginal, indigenous and disability housing are largely the consequence of failed design and quality standards that adequately reflect the physical and cultural requirements of specific sections of the population. This is coupled with specific aspects of inadequate supply for those with specific needs whether deriving from cultural or physical needs. International experience suggests that Government leadership in establishing minimum design and quality standards is an essential component of addressing the specific needs of all population groups. Whilst State Governments currently develop design standards a national minimum standard will provide general quality benchmarks that are uniform and nationally applied.

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## RECOMMENDATION TEN

**That the Commonwealth Government works with State Governments to develop a National Minimum Housing Quality Standard and agree a time frame for its achievement. This should be achieved by no later than 2025 and the design standard should address specific requirements associated with marginal, aboriginal and disability housing. Issues of cultural appropriateness, physical accessibility and personal and community safety should be key components of a minimum standard.**

### 3.7 Homelessness

Homelessness policy is the subject of a National Partnership Housing Agreement (NPHA) within the current National Affordable Housing Agreement (NAHA). Homelessness is ultimately the product of the chain of housing system failures identified in the preceding sections of the report. Definitions of homelessness are partly cultural but for social policy purposes require robust statistical measurement. The conventional 'cultural' definition of homelessness recognises primary homelessness as those experiencing street living or rough sleeping, secondary homelessness as those in emergency accommodation or living temporarily with others (e.g. sofa surfing) and tertiary homelessness as those living in inadequate housing such as boarding houses (Chamberlain, 2014). This is distinct from the ABS adoption of a tri-partite definition that includes concepts of adequacy, security and access to and control of socialisation space. This latter definition includes the 'housed-homeless' whose accommodation is lacking in one or more of these factors (Chamberlain, 2014). By this latter measure homelessness increased from 89,700 in 2006 to 105,200 in 2011, a homelessness rate of 49 per 10,000 population (Wood et al, 2014).

*The primary approach of this document is to address the failures in other aspects of the housing market because resolving key housing system structural failures will bear most fruit in combating homelessness. However, this should be accompanied by a targeted program to address the difficulties experienced by specific population groups and those experiencing personal stress that renders them homeless. Utah City is the most cited international example of high intensity programs to tackle homelessness at city level (McCoy, 2015). Most involve the simple measure of actually providing the homeless with housing. This provides the homeless with the stability to address additional problems of mental health and substance misuse and ultimately reduce their demand on support services to the extent that the savings considerably outweigh the initial costs of housing provision (Utah Housing and Community Development Division 2014).*

Conventional perceptions of homelessness have often revolved around the personal circumstances of individuals, with mental health and addiction issues often seen as the trigger for homelessness (Homelessness Australia 2014). Wood et al (2014) identify a consensus around an explanation of homelessness as combining structural and personal issues as structural pressures are experienced first and most severely by vulnerable individuals. Consequently, this document primarily addresses the structural issues of housing supply and affordability in order to reduce risk to vulnerable individuals and groups. However, identification of vulnerable groups is essential to designing effective policy and support services and there has been recent focus on the link between family violence and homelessness (Australian Institute of Health and Welfare, 2016) and older women (Homelessness Australia, 2016) experiencing homelessness.

The patterns of homelessness have not remained static and traditional regional areas of high levels of homelessness have shown some improvement whilst urban areas are experiencing higher levels. These changes can largely be attributed to structural factors.

*Our descriptive analysis of the role that housing market, labour market and income, and demographic factors may play in explaining homelessness in Australia revealed that structural factors do seem to be important. We found that populations of regions that have lower rents, more public housing, smaller rent to income ratios, higher unemployment and a larger share of Indigenous persons are more vulnerable to homelessness (Wood et al, 2014).*

The primary approach of this document is to address the failures in other aspects of the housing market because resolving key housing system structural failures will bear most fruit in combating homelessness. However, this should be accompanied by a targeted program to address the difficulties experienced by specific population groups and those experiencing personal stress that renders them homeless. Utah City is the most cited international example of high intensity programs to tackle homelessness at city level (McCoy, 2015). Most involve the simple measure of actually providing the homeless with housing. This provides the homeless with the stability to address additional problems of mental health and substance misuse and ultimately reduce their demand on support services to the extent that the savings considerably outweigh the initial costs of housing provision (Utah Housing and Community Development Division 2014).

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## RECOMMENDATION ELEVEN

**That the national house building program identified in Recommendation Two specifically addresses the supply of housing for chronically homeless people and provides supported accommodation sufficient to meet demand and reduce homelessness to residual levels by 2020.**

# 4

# THE COMPONENTS OF A HOUSING STRATEGY

In setting out to develop a National Housing Strategy it is important to have a clear objective. This involves determining what an effective housing 'whole system' achieves. We turn here to internationally accepted standards determined within the United Nations Habitat III program, which has been ratified by over 100 nations, including Australia. The program employs the concept of 'adequate housing' (United Nations, 2015). This definition moves beyond the limited 'four walls and a roof' definition of housing to address a range of housing quality, security, equity and quality of life issue.



- » **Security of tenure.** Housing is not adequate if its occupants do not have a degree of tenure security which guarantees legal protection against forced evictions, harassment and other threats.
- » **Availability of services, materials, facilities and infrastructure.** Housing is not adequate if its occupants do not have safe drinking water, adequate sanitation, energy for cooking, heating, lighting, food storage or refuse disposal.
- » **Affordability.** Housing is not adequate if its cost threatens or compromises the occupants' enjoyment of other human rights.
- » **Habitability.** Housing is not adequate if it does not guarantee physical safety or provide adequate space, as well as protection against the cold, damp, heat, rain, wind, other threats to health and structural hazards.
- » **Accessibility.** Housing is not adequate if the specific needs of disadvantaged and marginalized groups are not taken into account.
- » **Location.** Housing is not adequate if it is cut off from employment opportunities, health-care services, schools, childcare centres and other social facilities, or if located in polluted or dangerous areas.
- » **Cultural adequacy.** Housing is not adequate if it does not respect and take into account the expression of cultural identity. (United Nations, 2015)



Whilst much of the attention of the Habitat III program is focused on the developing world and the emergence of slum cities, the basic requirements of 'adequate housing' are identified as equally relevant for the populations of the developed world and should be set as minimum standards for Australian citizens, regardless of their income or specific personal circumstances. They should apply equally to all social groups, ethnic minorities, indigenous people and those experiencing ill health and disability. This concept of adequate housing, with its specific requirements, underpins the discussion in this document and is the objective of housing policy reform we advocate in this document.

In 2007 the United Nations Report of the Special Rapporteur on Adequate Housing reached this conclusion.

*The Special Rapporteur notes that Australia lacks a clear consistent, long term and holistic housing strategy. There is no legislative and policy framework against which the outcomes of Government programs and strategies can be evaluated to assess to what extent Governments are progressively realising the human right to adequate housing for all. Current indicators from diverse sources show regressive results; reductions in public housing stock, soaring private rental rates, an acknowledged housing affordability crisis and no real reduction in the number of homeless... In the light of numerous issues described in this report, the Special Rapporteur has come to the conclusion that Australia has failed to implement the human right to adequate housing (United Nations: Human Rights Council, 2007, p2).*

The continued absence of any national plan or strategy since that report in 2007 suggests that the same conclusion would be reached in 2016.

We also note that the 2015 United Nations, Sustainable Development Goals were agreed by the 193 member nations of the UN General Assembly and endorsed by the Australian Government in September 2015. Goal Eleven commits members to:

*make cities and human settlements inclusive, safe, resilient and sustainable.*

Importantly, the associated Target 11.1 additionally commits nations to:

*By 2030, ensure access for all to adequate, safe and affordable housing and basic services...*

We also note that signatories 'pledge that no one will be left behind' (UN General Assembly, 2015). With this goal agreed as appropriate for all nations, regardless of their level of economic and social development, we suggest that it could be achieved in Australia significantly before 2030.



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## RECOMMENDATION TWELVE

**That the Commonwealth Government fully endorses the right to adequate housing as defined within the Habitat III program and recognises the fundamental right to adequate housing for all Australians. This recognition should be supported by the development of a National Housing Strategy to achieve this for the full population by 2025.**

### 4.1 Housing as an Investment

*We find that government investment in affordable housing supports a range of social objectives by improving outcomes for residents, in areas including health, crime and employment. Affordable housing supports some of the highest need individuals in society. It offers a more affordable, often better quality alternative to renting privately, both through the quality of homes and the services that housing associations deliver to support tenants. Further, affordable housing developers are making public funding go further, for example by cross subsidising new affordable homes from sales and other commercial activities (Frontier Economics, 2014).*

Whilst the above citation refers to the UK experience, there is a general recognition that adequate housing investment underpins a range of social policy domains and can make a significant contribution to effective social policy outcomes.



Following on from the identification of a clear set of parameters defining adequate housing for all Australian citizens, we want to promote the view that the achievement and stabilisation of an efficient housing system, and the adequate provision of social housing within the system, requires significant public investment. This approach recognises the way that housing provision underpins other social policy domains and potentially leads to reduced demand and diminished costs for other services.

*Housing is essential to support employment and wellbeing, and to assist people on their path to self reliance. Housing fundamentally enables participation through access to shelter and security. Affordable housing with easy access to jobs and services is crucial to allow people to participate socially and economically in society (Reference Group on Welfare Reform to the Minister for Social Services 2015, p119).*

The same report highlights the advantage of an investment approach to public services and identifies current practice in the European Union and New Zealand as providing examples of the need to maintain expenditure on key social and public services. This is especially true for vulnerable groups where diminished services can have significantly higher costs in the long term. This is perhaps counter-intuitive in a social policy climate conditioned by austerity and some of the elements of neo-liberalism philosophy. The latter tends to eschew state provision in favour of privatisation and individualisation of public services. However, a public investment model is not in contradiction to either neo-liberal or more social democratic approaches to welfare provision and can focus limited resources more effectively to meet the needs of the most vulnerable.

Large-scale investment in a holistic housing system would have major economic and social policy benefits including the following four key benefits listed below.

- » **Economic Impact.** The economic impact of housing on the wider economy is not definitively identified but there is a general acceptance that housing market fluctuations both reflect and condition wider economic activity, and indeed were the initial cause of the GFC. Evidence of the potentially negative influence of housing on national economic performance can be seen in the UK, where low levels of post GFC housing activity are estimated to have contributed a third of the fall in GDP between 2007 and 2009 (Generis Consulting and Oxford Economics 2010). Additional negative effects can occur when disproportionate personal and household investment in housing, encouraged by taxation incentives, detracts from investment in other forms of economic activity and reduces consumer spending in the general economy (Gurran et al. 2015). More often, we focus on the benefit of expenditure on housing and the economic contribution of housing construction as creating a multiplier effect in the economy. Politicians often turn to housing-led economic stimulus during economic downturns. In Australia, stimulus expenditure following the Global Financial Crisis was, at its peak, \$5.3 billion in 2009-10. This in itself points to the widely perceived value of housing expenditure in promoting healthy economic growth. Despite this widespread belief, quantification of the impact of housing on the economy can be difficult.
- » **Health Improvement.** The World Health Organisation recognises a clear link between housing and health and outcomes for critical illnesses including respiratory disorders, infectious diseases and home accident rates. (World Health Organisation, 2010). There are also sufficient studies to identify a health and well-being outcomes gradient that runs from the outright owners of homes, to mortgagees, private sector renters and at the lowest outcomes, social and public housing tenants (Mason et al, 2013), (Waters, 2001)). Housing allocation systems that prioritise need, and specifically health-based needs, clearly funnel people experiencing poor health to the social and public renting tenures where we then observe the lowest population health outcomes. Inevitably, this is a 'bi-directional' relationship.

*Good housing and good health are not merely associated or 'go together'. To attain and maintain sustainable housing, people need adequate, coordinated and timely support for their health. Equally, to maintain good health, people need to be in affordable, adequate, secure dwellings (Mallett et al, 2011, p10).*

It is also the case that high concentrations of poverty in disadvantaged localities tend to foster strong peer cultures in which unhealthy behaviours become normalised and where there are low health expectations reinforced within family and peer cultures. These can relate particularly to diet, smoking and alcohol and drug related behaviours (Adamson 2014), (Mallet et al, 2011).

- » **City Functionality.** Gurran et al (2015) identify a range of effects that derive from housing supply and affordability, including influence on labour mobility, economic participation and employment rates and urban congestion rates. The Committee for Sydney argues that 'unlocking access to affordable housing' will 'move Sydney from a good city to a great city' (Sullivan & Hughes-Turnbull, 2015). Much of the focus has been on the increasing difficulties of 'key workers', especially those in the public services of health and education, to acquire stable, quality housing in central city locations with the majority of inner suburbs effectively priced out of reach for both purchase and rental (Committee for Sydney, 2015).

» **Equity Outcomes.** Improving housing supply and affordability in all sectors has implications for a fairer society; one in which all citizens benefit from the wealth created in a nation. This is in part a moral argument based on the rights of citizenship in any advanced country, but it is also an 'efficiency' argument in that provision of adequate housing contributes to national social cohesion. This is not an argument for equality of outcome and does recognise that there will remain major differentiation in income and wealth, which will be reflected in the housing choices available to individuals. However, investment in the provision of adequate housing for all has potential to contribute to social inclusion outcomes and social cohesion at community level. It will also reduce family debt and general stress and make secondary contributions to resolving community anti-social behaviour and family violence. Both are associated with poor housing outcomes and interventions at family level can make major changes to entrenched patterns of behaviour.

In 2012-13 Commonwealth expenditure on Housing was \$2.8 billion, which represented 18% of the Government expenditure heading of 'community amenities and infrastructure expenses'. This was less than Recreation and Culture (\$3.6 billion), Road and Rail (\$3.5 billion) and Environmental Protection (\$3.4 billion). In reality, general population housing received \$1.8 billion as \$1 billion of the housing budget was accounted for by expenditure on Defence Housing Australia (Parliament of Australia, Parliamentary Budget Office 2013).

In this document we call for further substantial investment in the housing system to eradicate the key issues identified and to provide a stable and sufficient supply of housing that meets the needs of the population. Regardless of innovations in funding explored in Section 4.2 this will inevitably require significant Commonwealth level public expenditure. We have argued in Recommendation Five that funding should be derived from a review of the current level of subsidy for home ownership. This can be supplemented by the development of a housing bond or trust approach to aggregate borrowing capacity and provide Government loan guarantees. In making a call for further Commonwealth funding of housing supply we are not advocating a simple funded capital program but rather a multi-method approach combining elements of state expenditure and leverage of private institutional lending. Effective design of innovative financial instruments is likely to provide more impact than direct Government capital expenditure. Some of the internationally recognised approaches are identified in the following sections.

### 4.2 Funding for Change

All provision of housing is dependent on achieving funding (Rowley et al, 2014), whether for homes for purchase, private rental or social renting. However, there is a general view throughout the developed world that policy innovation must be funded by savings in the existing policy portfolio, or by future savings derived from the policy innovation itself. Generally, governments are not persuaded, even by the most convincing evidence-based arguments, to spend additional revenue or to increase borrowing. However, there are counter-arguments that balance the dominant 'austerity' paradigm and some awareness that too much restriction on Government spending can itself dampen the economy. The need for economic stimulus post GFC was widely recognised and the Australian Nation Building response included significant housing-led stimulus. There is a contemporary case for economic stimulus caused both by the commodities downturn within the Australian economy and from the wider threat to global economic systems deriving from slowing growth in China, to which the Australian economy is particularly vulnerable (Hutchens & Martn, 2016). However, given the ebbs and flows of these wider economic factors we will focus our arguments for funding within the present economic realities.

There are three sources of potential funding for major housing system reform.





#### 4.2.1 Reform of the Taxation Regime

There has been a historical (Commonwealth of Australia, 2009) and current focus on tax reform at Commonwealth Government level with considerable recent discussion of GST reform. In 2015 the Commonwealth Government published its discussion paper to begin a national conversation about tax reform (Australian Government 2015). The paper argues for 'fairness of the tax system. The fastest route to fairness can be achieved by redistribution of housing subsidy, from a clear dominance of support for home purchase, to a more balanced support for all forms of tenure. Any national discussion must include reduction of CGT subsidy for the main residence and reduction of the CGT discount on investment properties as well as the controversial role of negative gearing on property investment. We have discussed the current levels of subsidy in Section 3.1 and propose a reform that would deliver in the first instance a \$12 billion reduction in expenditure on home ownership and investment subsidies. The patterns of reform should be distributed across the whole range of current subsidies and we note the Australia Institute identification of a \$2 million cut off for main residence exemption (Grudnoff, 2016) as a key element of reform. Protection will be required for asset rich but income poor owners who acquired their properties in less febrile market conditions, but the current incentives encourage over-investment in housing as a share of household financial planning and put inflationary pressure on house prices. We also advocate a reduction of the CGT discount from 50% to 25% on investment property, which would still provide investment incentive but at reduced cost to Treasury. Any resulting loss of small-scale 'mum and dad' investors can be addressed through the greater attraction of institutional investment, which is addressed below (Section 5.2.3). The savings derived from tax reform should be redirected to the stimulation of supply in the following proportions:

- » 20% to promotion of first time home ownership,
- » 20% to indigenous housing, homelessness and disability housing services
- » 30% to support for private rental
- » 30% to new supply of social housing.

Such reforms can be future orientated to avoid disruption to the current financial planning of individuals and institutions but should lead to a full rebalancing of housing subsidy within 10 years. Reforms of this kind pose a major political challenge and recent reactions to Labor Party proposals for negative gearing reform have resulted in numerous claims of housing values collapsing, a reduced supply of affordable homes for rent and huge impact on small and low income investors (Urban Development Institute of Australia, 2016). A less panicked modelling of the impact of the Shorten proposals to end negative gearing for future transactions and reduce CGT discount to 25% has found that cumulative savings of up to \$5.9 billion per annum would result from the measures and that the majority of impact would be on the highest 10% of earners (Phillips, 2016).

The target of \$12 billion is presented as a discussion point, based on a more ambitious program than previous sums within schemes such as NRAS. It is also a relatively modest redistribution of the overall home ownership subsidy configuration. Most importantly it is a sum of sufficient scale to attract significant institutional investment if deployed within a Government-led loan guarantee fund similar to those discussed in Section 4.2.3. However, further financial modelling, based on demographic evidence, should be conducted to determine an amount that is sufficient to address the issues within the housing system that this report identifies.

#### 4.2.2 Investment for Future Gain

This report builds a clear case for Commonwealth investment in housing. Full supply of 'adequate' housing underpins other policy domains and reduces service load and expenditure in key area such as health, education, transport. There is also a more direct approach to investment that directly ties the investment to specific outcomes. This has been evidenced in the 'actuarial' approach, which identifies high risk, high cost populations and directs focused interventions to reduce problems and ultimately reduce future demand on Government provided services. Most clearly associated with innovations by the New Zealand Government, the returns to investment in the actuarial

## RECOMMENDATION THIRTEEN

**That the Commonwealth Government initiates a major review of all home ownership and investment subsidies to work towards a better balance between sponsorship of home ownership, private sector rental and social housing subsidy. Without detailing specific measures, we suggest a target of \$12 billion per annum saving which would be redirected to schemes to promote first time purchase, affordable rental and increased new supply of social housing both within the state and community sector.**

approach are potentially long-term and currently we do not have sufficient evidence to fully judge the merit of current implementation. However, generally more 'preventative' approach to public policy is clearly relevant to the current issues of the housing system, especially where high levels of need have come to characterise the social rental sector. Investment in better supply, higher quality and more comprehensive support services specifically focused on high need groups is likely to offer effective returns especially where investment in children and young people diverts them from poor health, educational and housing trajectories. A second approach attracting interest is the social impact investment model and several State jurisdictions have trialled this approach. Here, investors and providers are linked by Government, with Government providing returns on investment for the additional efficiencies and better client outcomes that support services are able to leverage from increased investment. The relatively recent innovations in this approach prevent a full evaluation of their potential contribution but they could have a clear role to play in key areas including homelessness services and the mental health and disability support services that are required by many tenants in social housing.

### 4.2.3 Promotion of Private and Institutional Investment

Investment in the private rental sector in Australia has historically been characterised by small-scale investors with limited capacity to significantly promote increase in supply (Berry, 2002). Consequently, attraction of 'institutional' funding has been the 'holy grail' of governments seeking to reduce their obligations to housing spending (Pawson & Milligan, 2013), (Milligan et al, 2013). Institutions generally recognised as most likely to invest in housing are those comfortable with low risk, low yield investment opportunities. Post GFC, superannuation funds have generally been identified as potentially the most significant sources of institutional investment (Berry & Williams, 2011), (Lawson et al, 2014). Commentators cite the United States 1986 Low Income Housing Tax Credit (LIHTC) scheme as the primary example of private sector incentivisation to develop housing for affordable rent. The Australian National Rental Affordability Scheme (NRAS) partially emulated this approach but with considerable shorter terms for which housing had to remain in the affordable sector (10 years) compared with the US 30 year period. Attempts to emulate the success of the LIHTC in both the UK and Australia have generally failed to attract significant levels of institutional investment and the NRAS scheme was discontinued before its target of 50,000 homes was achieved.

There has also been considerable international innovation in investment models (Lawson, 2013), (Milligan et al, 2013). With conventional borrowing routes limited since the GFC by withdrawal of international finance institutions from Australia and a tightening of loan conditions by Australian banks, securing finance for private sector development has become challenging, especially for small to medium size developers (Rowley et al, 2014). Existing finance models range from conventional bank borrowing, historically characteristic of community housing borrowing, to innovations in bond issues, private placements with lending institutions and sale and leaseback models (Pawson & Milligan, 2013). Any or all of these funding models have potential to develop if the Commonwealth Government contributes to an environment that both raises net returns and reduces investment risk (Berry, 2002), (Rowley et al, 2014). This can be achieved by direct subsidy (e.g. demand side support through widened Commonwealth Rent Assistance) and financial guarantee models (e.g. NRAS type rental subsidy directly to the developer/owner). There is also considerable potential for Government and private sector partnerships, usually at State level, which use joint venture structures to partially de-risk development. For example, use of 'Government-owned land, Government guarantees to purchase unsold units, pre-sales to Government, and direct-profit sharing (Rowley et al, 2014, p 5).

There is also potential for three way partnerships between property developers, the community housing providers (CHPs) and Government. There are emerging examples of public housing estates being redeveloped at higher density, followed by CHP tenant management on behalf of developers. There is considerable potential in developing current public housing communities in partnership with private developers and CHPs,



where demolition can provide opportunities for densification, matching housing size with current demand and creating more mixed income, mixed tenure communities with dilution of the concentrated distribution of households with high levels of need. These opportunities have yet to be fully recognised and comprehensively developed in improving supply in the private rental and social rental sectors.

The role of CHPs can also be enhanced by developing the aggregated borrowing capacity of CHPs with security provided by Government funds. In this approach, Government acts as or creates an independent intermediary between borrower and lender, providing independent assessment of investment value and additionally providing loan guarantees to protect fund investment.

However, achieving favourable borrowing terms is not only a question of the scale of the loan facility sought but also balances security, collateral, and the term of the facility. Sufficient security to attract institutional investors to the affordable housing market is likely to be dependent on Government providing loan guarantees. The example of the Housing Finance Corporation (THFC) in the UK underpins the need for such schemes to be Government-led to provide guarantees to investors that all loans are under-written by Government in the event of default. In the UK model two schemes provide over £10 billion in sureties. The bond is managed by an intermediary (THFC) contracted to the Department of Communities and Local Government. This model suggests a tri-partite partnership between a Government-sponsored agency established specifically for the purpose, the community housing sector and institutional lenders. Usually referred to as the Affordable Housing Finance Corporation model, this approach has enjoyed success in a number of European nations including the UK, the Netherlands and Switzerland (Lawson, 2013). Lawson et al (2012) examine the specific example of the Austrian Housing Construction Convertible Bond (HCCB) and argue for its relevance, with some adaptation, for the Australian housing context (Lawson et al, 2012). This and similar approaches could assist in overcoming some of the current institutional reluctance to invest in CHPs, despite their competence to bring product to market (Lawson et al, 2014).

There is no shortage of innovative funding mechanisms that could be developed to fund affordable homes for rent in both the private rental sector and in social housing. The recently established Commonwealth Affordable Housing Working Group should fully explore these options to lead to a pilot scheme of significant scale. The pilot should draw on the extensive international experience and the expert knowledge of the various models that currently exists in the research community in Australia. Of the models identified in the Commonwealth Affordable Housing Working Group's Issues Paper, the Government sponsorship of a housing bond or trust approach with appropriate levels of Government financial guarantee and management is the model most supported by international evidence and a significant body of AHURI examination of future funding options.

*There is no shortage of innovative funding mechanisms that could be developed to fund affordable homes for rent in both the private rental sector and in social housing. The recently established Commonwealth Affordable Housing Working Group should fully explore these options to lead to a pilot scheme of significant scale. The pilot should draw on the extensive international experience and the expert knowledge of the various models that currently exists in the research community in Australia. Of the models identified in the Commonwealth Affordable Housing Working Group's Issues Paper, the Government sponsorship of a housing bond or trust approach with appropriate levels of Government financial guarantee and management is the model most supported by international evidence and a significant body of AHURI examination of future funding options.*

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## RECOMMENDATION FOURTEEN

**The Commonwealth Government should in the near future instigate a Housing Bond or Trust approach to funding significant supply of new home building. Attention should be paid to the international evidence of what works and the specific mechanisms relevant to the Australian experience that will encourage institutional lender confidence in investment in housing supply, particularly in the community housing sector.**

# 5

## THE ROLE OF CHPS

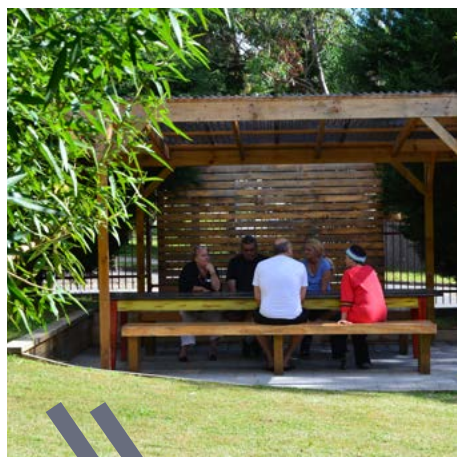
Considerable attention has been paid in recent years to the role of not-for-profit or community housing providers (CHPs). The generally positive experience of public housing transfer in the UK has been cited as evidence for a similar process of transfer to resolve some of the problems associated with the Australian state sector. In the Australian context, housing transfer is generally used to describe both simple 'fee for service type' transfers of housing management as well as more comprehensive transfer of properties with title (Pawson et al, 2013).

There has been a growing perception that provision of housing by community providers could be an alternative route to greater efficiency (Milligan et al, 2004) and a better tenant experience but there has been a 'stop-start' program of small-scale housing transfer. Considerable impetus was given to this view by the Commonwealth Discussion Paper in 2010 (Commonwealth of Australia, 2010). It identified 930 CHPs overall with 45 larger-scale providers managing 63% of community housing. The paper recognised the existing and potential expansion capabilities for these CHPs within a picture of a more sophisticated sector with significant potential for funding leverage from private finance sources.

This view was reflected in the agreement between Commonwealth and State Governments to target the transfer of up to 35% of public housing to community providers (Jacobs et al, 2010). However, to date only Tasmania has reached that level of transfer and progress has been remarkably slow in all other States. The 2010 paper effectively applied a market model to social housing with expectations that larger, well-regulated CHPs could leverage borrowing, increase efficiency through competition, improve existing housing, develop new mixed-tenure assets, facilitate urban renewal and social inclusion and address the barriers to employment experienced by tenants. The enormity of this task set for the CHPs is ironic in a housing sector where market provision has historically failed and the combined efforts of central and local governments have failed to provide adequate services.

Pawson et al (2013) have identified the following perceived motivations for housing transfer:

- » revenue maximisation through qualification for CRA
- » leverage of private finance
- » service improvement for tenants
- » tenant and community empowerment
- » place management and community renewal (Pawson et al, 2013).





*The issue of transfer with title has been identified by all the participants in the development of this document as essential to the long-term planning and financial modelling if CHPs and State providers are to reap the maximum benefits from the transfer process. In the absence of title transfer, extended lease periods are essential to provide the basis of long-term investment by CHPs.*

The UK experience suggests some basis for the realisation of these potential benefits. Major transfers from the late 1980s onwards have given rise to substantial borrowing by housing associations to fund both repair and new development together with comprehensive regeneration programs that have featured both physical and social renewal. However, much of this success was predicated on the transfer of title with the housing assets, which facilitated substantial borrowing leverage (Pawson et al, 2013).

The community sector response to this changing policy environment has been varied. Gilmour and Milligan (2012) have described a process of organisational hybridisation evident in the larger CHPs that balance social objectives with increasingly commercial models of operation whilst providing services conventionally offered by the state (Gilmour & Milligan, 2012), (Milligan et al, 2015). Perhaps surprisingly, CHPs have demonstrated some capability to provide improved housing services, leverage bank borrowing, increase supply and address the social inclusion issues experienced by their tenants. To some extent this reflects experience in the UK and points to considerable potential to fulfil the expectations set out in the 2010 Commonwealth discussion paper. However, further development of the sector is unlikely unless 'more sustainable public policy settings and funding strategies emerge...' (Gilmour & Milligan, 2012, p 492).

The issue of transfer with title has been identified by all the participants in the development of this document as essential to the long-term planning and financial modelling if CHPs and State providers are to reap the maximum benefits from the transfer process. In the absence of title transfer, extended lease periods are essential to provide the basis of long-term investment by CHPs.

Transfer with title would give longer-term financial stability through increased leverage of institutional borrowing. Various barriers exist to the transfer of assets with title but are primarily based on misconceptions of risk posed by inexperienced CHPs or loss of assets to state treasury accounts. In reality, larger Australian CHPs have already demonstrated their experience and capacity to manage transferred housing. More substantial programs of transfer will encourage mergers between CHPs further developing capacity, stability and the ability to provide services across state boundaries. Risk could be further mitigated by the exercise of 'probationary' periods where management transfer is reviewed after a pre-determined period before title transfer is finalised. Perception of loss of asset is primarily based on optimistic asset valuations that do not recognise the public expenditure liability of maintaining a state housing service and the unsustainability of the model. In Wales, housing transfer was with title and, where negative stock evaluations were evident, included a 'dowry' subsidy to support repair and renovation of housing deemed to be in poor condition. Such measures provide the optimal conditions for the success of a major transfer and immediately confer on the receiving agency competitive borrowing leverage to attract major institutional investment.

Despite the initial flush of enthusiasm for a more developed community sector, changes of Commonwealth and State governments have effectively slowed the development of this role for CHPs almost to a standstill. Between 1995 and 2012 only 15,298 homes have been transferred (Lovering, 2013) which would have only represented a medium size council housing transfer in the UK context. The majority of these transfers are also associated with the Social Housing Initiative component of the Nation Building Economic Stimulus program and to date there has been no large-scale transfer of stock from a State Department to a CHP. The largest transfer (4,800 homes), in Logan Queensland, is in the final stages of development with a transfer due in mid-2016. Those transfers that have taken place have varied considerably in the terms of transfer between states with various financial models being applied. Few have involved transfer of title and the majority are for fixed term housing management transfer with the funding model predicated on increased rents derived from qualification for CRA.

The community sector is also to a considerable extent at the mercy of a rapidly changing housing context and policy response. Processes of change currently experienced by the sector include, the development of NDIS, the rapid housing policy fluctuations associated with the National Rental Affordability Scheme (NRAS), the Social Housing Initiative, national regulation regimes, the wider affordability housing crisis and varying State Government approaches to stock transfer and the role of CHPs (Milligan et al,

*Transfer with title would permit sufficient borrowing at favourable rates to underpin a more sustainable social housing system in which not-for-profit providers are capable of new stock development as well as more efficient housing.*

2015). Stabilising this evolving context with a National Strategy for Housing is essential if a process of large-scale stock transfer emerges over the next decade

One of the consequences of a developing role for the social housing sector is the requirement for transparent and comprehensive regulation. The transfer of substantial state assets into the hands of multiple, independent, organisations has to be underpinned by a clear regime of accountability for the management and deployment of those assets. Since July 2013 this has been achieved by the National Regulatory Code (National Regulatory System Community Housing, 2014) administered by the National Regulatory System: Community Housing (NRSCH). Defining the conditions which assign three levels or 'Tiers' of competence to registered providers, the system inevitably focuses attention on the future capacity of Tier 1 providers to increase their management of social housing and to become mainstream developers of future supplies of affordable housing for rent and purchase. To date the potential for both horizontal (within tiers) and, vertical (across tier) mergers, has not been fully realised and it may require large-scale stock transfers at State levels to promote mergers where competence and scale is required to qualify as a large scale transfer vehicle. Confidence in the regulatory system becomes even more essential if stock transfer with title is to be fully considered and legitimised.

There is an overwhelming case that if the full capacity of CHPs to leverage additional funding from private financial institutions is to be fully realised the security offered by possession of title is a prerequisite for a not-for-profit sector to fully meet its potential to resolve the adequate supply of affordable and social housing. Whilst stock transfer without title can provide some level of solution it is dependent on increased rent levels made possible by qualification for CRA. The success and sustainability of transfers without title is therefore entirely dependent on a specific Government policy of subsidy that may or may not be supported by future political administrations. It is also the case that the more properties are transferred then the higher the CRA cost to Government becomes, adding additional pressures to reform the policy.

Transfer with title would permit sufficient borrowing at favourable rates to underpin a more sustainable social housing system in which not-for-profit providers are capable of new stock development as well as more efficient housing.



## RECOMMENDATION FIFTEEN

**That a major national program of public housing transfer, critically with title, to community housing providers (CHPs) be initiated by the Commonwealth Government. This would require State Governments to follow a common policy and a shared timetable of transfer of up to 50% of housing by 2025. The objectives should be to:**

- » promote the development of CHPs through asset growth and, where relevant, mergers
- » create a community sector able to attract investor confidence
- » enable development of comprehensive housing services with support for employment pathways for tenants
- » increase supply of affordable housing across a range of tenures, managed by CHPs.





# CONCLUSION

The views expressed in this document are not new and have been separately detailed in numerous documents published by a range of peak bodies and national organisations e.g. (New South Wales Federation of Housing Associations, 2015), (Australian Council of Social Services, 2015), (Shelter New South Wales, 2015), (The Senate: Economics References Committee, 2015), (National Shelter, 2016), (St Vincent de Paul Society, 2016). There is a clear consensus both about the pattern of problems evident in the Australian housing system and the actions required from Government to address those issues. The consensus is also evident in the contributions to this document. The severity of the problems warrants a restatement and refocusing of that consensus to further persuade Government to prioritise the housing agenda.

We are also conscious that we have only addressed the role of the Commonwealth Government in this document. However, we recognise that there are additional changes at State and Local Government Area levels that could further address the national housing crisis by tackling specific state and local issues. Notably reform of stamp duties and replacement with a land tax carries considerable potential (Commonwealth of Australia, 2009). Additionally, the ability of local Government to set a context for planning, land use and local housing objectives can play an important role (Beer et al, 2014). However, we believe these levels of reform are best undertaken within a National Housing Strategy and consequently have focused on that objective here.

The design, development and maintenance of a robust and stable housing system represents one of the most fundamental contributions to achieving a sustainable society that meets the needs of all citizens. Housing underpins economic productivity, the quality of the urban space and the quality of life for individual citizens. In developing the Australia of the future, getting the housing agenda right and enabling it to mesh with employment, transport, urban design and environmental sustainability is critical (Berry & Williams 2011). The recent appointment of a Minister for Cities is a highly positive move towards tackling some of the key policy challenges that confront the nation. A parallel portfolio of housing could provide a powerful policy configuration that would help resolve some of the most pressing social problems in Australia today.

The core recommendation (Recommendation Two) in this document, to instigate a significant program of new home building, underpins all the other recommendations and defines the leadership role we have identified for the Commonwealth Government. Whilst we are aware that our recommendations would commit Government to significant levels of expenditure we believe that the current crisis in the housing system cannot be resolved without such a commitment. We believe that the necessary funding can be found in reform of the current levels of subsidy for home ownership to create a more equitable distribution of housing subsidy to a multi-tenure housing system. The consequent release of Government funds will be best employed leveraging additional income through innovative financial models rather than direct capital expenditure.

We have consequently identified specific recommendations to increase the role of the private sector in contributing finance to an empowered and effective community housing sector. Again this requires a leadership role for Government in creating a method for aggregated borrowing with Government securitisation of loans. We also identify the role that housing transfer can play in equipping the community housing sector to meet the challenge of affordable housing supply in partnership with Government and the private sector. We hope that this document provides a valuable contribution to the achievement of a vision for Australia that will deliver a housing system that meets the universal human right of access to adequate housing recognised by the United Nations Habitat III program.



# APPENDIX A:

## List of Recommendations

**Recommendation One:** That the role of Commonwealth Minister for Housing is created within the Cabinet to ensure that housing policy is a core Government priority. This will foster the development and adoption of a conscious and planned response to housing policy and will create the leadership that the development of a National Housing Strategy will require.

**Recommendation Two:** That a national program of house building is initiated to address the current shortfalls in supply. This should provide homes for purchase, intermediate ownership models, homes for private sector rental and new provision of social housing. The commencement of the program should be preceded by a robust population analysis to establish the demand for housing over the next 20 years and the analysis used to inform a phased program of housing development over that period to meet projected demand.

**Recommendation Three:** That Commonwealth land not in current use is provided to State departments specifically for home construction. This should, where possible, be subject to master-planning procedures to ensure an effective contribution to city and regional functions and be located to take advantage of employment, transport and civic amenity opportunities. This should be implemented within an overall ‘place-making’ perspective to develop sustainable mixed income communities that contribute to the social, cultural and economic life of wider society (Deloitte, 2015).

**Recommendation Four:** That, where necessary, Commonwealth land endowment to states should be ‘de-risked’ to promote developer interests. This could include remediation of contaminated brown field sites, streamlined planning and land-use permissions and developer payment deferment to permit initial property sales to underpin inclusionary zoning in new developments.

**Recommendation Five:** That planning rules require ‘inclusionary zoning’ in new commercial housing developments to promote a supply of affordable and social housing in multiple locations with a varied mix of tenures to avoid concentrations of social housing.

**Recommendation Six:** That the home building program identified in Recommendation Two ensures an adequate supply of affordable private rental sector housing. The sector should also be supported by ensuring that the thresholds and levels of CRA payment ensures that no families are required to pay more than 30% of household income for accommodation.

**Recommendation Seven:** That a program of social housing redevelopment should commence to eliminate waiting lists within 10 years.

**Recommendation Eight:** That redevelopment of social housing communities should promote the creation of mixed-tenure and mixed-income neighbourhoods to avoid the mono-cultural experience of current social housing estates.

**Recommendation Nine:** That allocations policy to newly created social housing should reflect social and economic diversity and not be based solely on acute social need. The allocation strategy should be specifically designed to halt and reverse social housing residualisation and stigmatisation and include allocations to low-income families as well as those with acute social need.

**Recommendation Ten:** That the Commonwealth Government works with State Governments to develop a National Minimum Housing Quality Standard and agree a time frame for its achievement. This should be no later than 2025 and the design standard should address specific requirements associated with marginal, aboriginal and disability housing. Issues of cultural appropriateness, physical accessibility and personal and community safety should be key components of a minimum standard.

**Recommendation Eleven:** That the national house building program identified in Recommendation Two specifically addresses the supply of housing for chronically homeless people and provides supported accommodation sufficient to meet demand and reduce homelessness to residual levels by 2020.

**Recommendation Twelve:** That the Commonwealth Government fully endorses the right to adequate housing as defined within the Habitat III program and recognises the fundamental right to adequate housing for all Australians. This recognition should be supported by the development of a National Housing Strategy to achieve this for the full population by 2025.

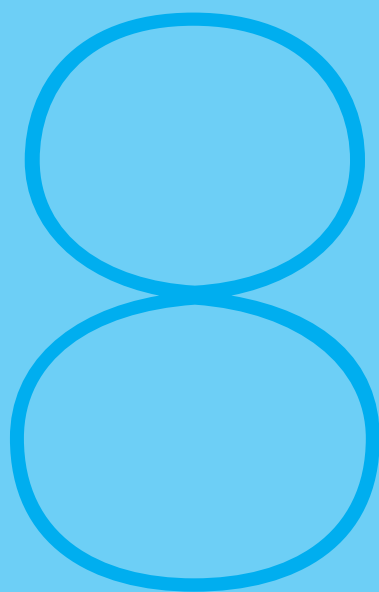
**Recommendation Thirteen:** That the Commonwealth Government initiates a major review of all home ownership and investment subsidies to work towards a better balance between sponsorship of home ownership, private sector rental and social housing subsidy. Without detailing specific measures, we suggest a target of \$12 billion per annum saving which would be redirected to schemes to promote first time purchase, affordable rental and increased new supply of social housing both within the state and community sector (See Section 5.2.1).

**Recommendation Fourteen:** The Commonwealth Government should in the near future instigate a Housing Bond or Trust approach to funding significant supply of new home building. Attention should be paid to the international evidence of what works and the specific mechanisms relevant to the Australian experience that will encourage institutional lender confidence in investment in housing supply, particularly in the community housing sector.

**Recommendation Fifteen:** That a major national program of public housing transfer, critically with title, to community housing providers (CHPs) be initiated by the Commonwealth Government. This would require State Governments to follow a common policy and a shared timetable of transfer of up to 50% of housing by 2025. The objectives should be to:

- » promote the development of CHPs through asset growth and, where relevant, mergers
- » create a community sector able to attract investor confidence
- » enable development of comprehensive housing services with support for employment pathways for tenants
- » increase supply of affordable housing across a range of tenures, managed by CHPs.





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