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COMMUNITY HOUSING LTD
GROUP OF COMPANIES

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Summary

This response is largely to Chapter 8 of the Reforms to Human Services Draft Report, June 2017, and is from the perspective of the largest player in the community housing sector. We support the following findings of the Commission:

- Social housing is a sector requiring general reform. We agree the public housing system is 'broken' in that it is at best poorly and ambiguously structured to meet the challenges it faces; and at worst financially unsustainable. These problems flow through to community housing, which is largely outsourced from the States. Reform can help to address supply constraints and increase tenant options, while allowing CHPs to function independently.
- Lifting Commonwealth Rent Assistance in line with the rental index is sorely required. However, the support will be still well short of the cost of provision (let alone market rent) for more expensive locations and very low-income tenants.
- CHPs can manage all aspects of housing and service provision effectively and equitably (p. 172). Individualisation and customisation are supported vigorously by CHPs.
- The Commission believes tenants who have a preference to rent a more expensive property should be able to rent one, but should face at least some of the additional cost of that decision. CHL is considering a 'mezzanine stock' option for expiring NRAS properties that might meet this niche.
- As the largest provider, CHL already is involved in a number of activities recommended by the Commission, including tendered management of the public stock, joint ventures with large private developers and funding agencies, evidence gathering, formal asset management, tenure support for private tenants and a well-developed stewardship function. These activities are only possible within the largest providers, suggesting that further consolidation within the sector would be helpful.
- A more systematic approach to stewardship in identifying community needs and prioritising services is long overdue, and outcomes and performance measurement are underutilised. CHL is currently substantially improving its capability in this area.

This is subject to the following considerations:

- Social housing has been 'broken' (p. 2) for a very long time but not particularly because it is a two-tiered system or because it lacks choice. The largest financial problem in social housing, apart from chronic lack of funding as the housing situation worsens while needs become more complex, is that there is at best an accidental relationship between income streams received from properties and the costs of maintaining the services. This makes it difficult for CHPs to engage in active stock management or to undertake practical investment decisions to expand. They must be very selective and make use of pockets of subsidy that appear only sporadically. It also means that some worthwhile propositions have to be turned down because the risk is prohibitive or cannot be assessed.
- We consider that not just the public housing in Australia is 'broken', but the entire housing sector is broken, with house prices among the highest in the world, debt at record levels, home ownership is retreating towards pre-war levels, and private rental vacancy rates in major cities are some of the tightest ever experienced (Appendix B). The aim has always been not for private rental to take the pressure off social housing (p. 167), but for social and affordable housing to take the pressure off the chronically undersupplied and crowded low end private market.
- Average rents currently paid are at about 65% of market level for CHPs and 45% in public housing. We estimate the cost differential between rents paid and market rent on all social housing under current rent-setting policies is around \$3 billion per annum. The estimated \$1.4 billion of extra CRA funding proposed by the Commission would presumably be supplemented by about \$1.34 billion of the National Affordable Housing

SPP if left intact, to be used as a 'high cost housing payment', leaving \$240 million to be met by tenants or the States, or about \$611 per household annually, which is tolerable. However, without NAHSSP it would cause major disruption to the sector.

- It is not in fact necessary to charge market rents – the alternative of cost rents as nominally charged by public housing in the 1980s would be sufficient for sector sustainability. This typically works out to about 85% of market rent. Charging cost rents would give the sector a limited cost advantage over private rental, taking pressure off an already overextended private sector, while permitting long-term internally generated expansion of the stock and making it unnecessary to abandon inner city housing.
- The problem of choice in social housing is probably overstated: in fact for many tenants the true choice is between affordable housing and nothing. Personal choice is actually quite well catered for within the CHP system. Support agencies put considerable effort into matching tenants and properties. As well there is a considerable amount of shuffling as tenants find the properties that best suit them. On the other hand, choice for low income private tenants is largely chimeric as the bottom end of the market is and has always been heavily crowded with inadequate supply.
- We do not necessarily accept that a single model of assistance would improve the system (p. 2), unless funding were lifted to a sufficient level (as overseas) to provide cheaper accommodation in inner areas and to allow CHPs to function independently rather than just as an outsource for the more difficult aspects of public housing management.
- The proposed PC package is likely to have substantial spatial ramifications as inner-city public rentals are vacated and an exodus to the fringe (and to inner-city homelessness and overcrowding) begins; unless the new high cost housing payment is assigned disproportionately to these dwellings. As well as the costs of dealing with social unrest, there would be substantial costs in relocating support and health services to the fringe and in providing higher levels of service support to the unhoused. It is possible that the fringe greenfield ghettos of the 1960s would be recreated as the States sell unlettable inner city estates to pay for new construction at the fringe.
- The main advantage for CHPs vis a vis public housing at the moment, apart from providing supported accommodation, is that the CRA they receive from the tenants permits them to leverage the stock using private finance, thereby allowing up to a 1.25 multiplier to the properties secured for a given amount of funding. If the CRA is extended to public housing, there will be no incentive for the States to pass housing through to CHPs, except to outsource special purpose housing requiring complex support.
- An ATO ruling limits 'affordable housing' to 74.9% of market rent for charities, below which GST may be refunded. The main effect of this is to lower construction costs for CHPs by about 10% relative to private builders (as CHPs currently build so few houses, the effect on revenue has been small). This advantage would be lost if charging market or cost rents.

1. Interest and Involvement

1.1 Community Housing Limited

Community Housing Limited (CHL) is a not-for profit community housing provider (CHP) and registered charity devoted to 'a world without housing poverty'. It is Australia's only national community housing provider, and the largest, managing about 6,200 properties for those in need. As well, we have a large homelessness and transitional housing management programme in Victoria, we construct and manage special needs and indigenous housing and engage in community development activities. Overall, our stock is fairly representative of the national community housing profile.

Like other CHPs, CHL's goal is to produce affordable quality housing for low income earners, which we do using the full range of available subsidies or cost reductions – free or cheap land, taxation incentives, subsidies, grants or donations, borrowings and joint ventures to provide equity capital. We also reduce internal costs through other income-earning activities – development, stock management, tenancy and property services. We set rent at 30% of income up to a maximum of 74.9% of market rent.

Many of our tenants have special needs and require access to specialised services, which we access through partnerships with a wide range of service agencies.¹ The lack of a balanced funding base for some services affects to an extent the kinds of projects we can undertake and may limit the classes of client we can accommodate. The quality of service providers is also variable, with some being much more active and effective than others.

Relative to many other community housing providers, CHL takes a more commercial approach, and it has a strong design and project capability. It has constructed about 2000 houses, including around 750 through the Nationbuilding and NRAS initiatives after 2008. As in the social housing sector generally, new construction activity has been very low since that time,² although recent transfers of public housing management have increased our stock under management. Accordingly, CHL has sought to expand its activities abroad and has commenced operations in East Timor, Chile, Peru, Rwanda, Indonesia and India.

Despite the static response from governments, the need for affordable housing in Australia has escalated in the last eight years, accompanied by rising house prices, falling home ownership rates, diminishing rental affordability and an increase in visible homelessness. CHL has the systems in place and is capable of managing a much larger stock to meet the demonstrated need, but is hampered in its efforts by the current system of funding social housing and the institutional arrangements surrounding affordable housing provision.

1.2 Income and costs - a rational funding base

The principal proposal of the Commission is, on tenure neutrality and choice grounds, to introduce market rents and apply a uniform housing payment, thereby removing the price advantage of social housing relative to private rental.

The major problem of the social housing sector is not so much lack of choice, which we argue in the Section 4.1 is actually much better provided by CHPs than may be apparent, but the lack of a rational funding base and financial unsustainability. Under the current arrangements, the income stream from social housing bears at best an accidental relationship to the cost of provision. On average the income is just sufficient to cover the cost of management and maintenance, not

¹

² For example, zero houses were constructed in our major base Victoria during 2015-16.

expansion, borrowing or even longer-term refurbishment, and therefore affordable housing cannot easily be structured as a business enterprise.

Table 1 shows that CHL, as a fairly typical community housing provider, runs close to the wind in the provision of affordable housing. The surplus in Victoria is largely countered by extra borrowings to increase the stock. Elsewhere, the rental income, even including CRA, is not quite sufficient to meet costs, although these are below the sector average.

Table 1. Selected approximate rents and cost per property, CHL and social housing^a

	<i>Market rent</i>	<i>Rent paid^b</i>	<i>Cost</i>
CHL NRAS	15463	10412	11152
CHL Victoria ^b		12649	10340 +1978 finance
CHL Other States		7693	8065 +456 finance
Public housing	15047 ^d	6739 ^e	8766 ^f
Community Housing			11938 ^f

Note a) Indicative results only; budgets typically aggregate a range of programs and payments.

b) For CHL, includes CRA and operating grants used to meet dwelling and tenant costs.

c) CHL Victoria manages 452 transitional housing properties (from a total stock of 1921 units). These properties are comprehensively funded through grants and have higher associated management, property and tenant costs.

d) Rebated households are 88% (AIHW 2010), average rebate \$9441 (SCRGSP 2017).

e) Victorian figure only.

f) SCRGSP (2017).

The lack of surplus means that CHPs cannot embark on projects of their own and are largely an outsourced arm of the States (this is one reason why CHL has sought to expand abroad). Much company effort is spent on bidding in competitive proposals for a small number of properties that come with some form of limited subsidy or funding, and are heavily conditional. Some of these have to be rejected after substantial project development work when they do not commercially 'stack up'. Many other contracts have their own idiosyncratic compliance conditions, as they use subsidised resources and States are keen to retain covenants keeping the dwellings within the social stock.³

Accordingly, a system in which the return on dwellings is related to the cost of provision is attractive to CHPs – but not at the expense of our primary mission, which is to provide affordable housing. Market rents are not affordable by any definition for a large number of our tenants. Cost is overwhelmingly the main reason why they have sought to enter our stock; so the option proposed by the Commission is not one that appeals to us.

2. Market rents

2.1 Forward to the past - the proposal of the Commission

The principal proposal of the Commission is to increase CRA by 15% to compensate for increases in real rents, to extend this allowance to public housing (Recommendation 5.1), and to abolish income-based rent-setting, moving towards market rents, grandfathering the transition for 10 years (Recommendation 5.2). Market rents would lead to a considerable throughput into private rental, and in particular would encourage more efficient use of the stock. A 'high cost housing' payment is to be applied to those who are required to remain in higher-rent housing. It is

³ we currently monitor 132 contracts in this way.

estimated over half of all tenants would pay more rent, and 6% impossibly so, unless they received the new high-cost payment.

The arguments of the Commission concerning inequality of subsidy or support to different tenures is one that was widely propagated after 1977 and partially resolved with the introduction of CRA (see Appendix A). In the 1980s, a proposal very similar to that of the Commission was floated and usually reprised during CSHA negotiations, but never survived the opposition of the Commonwealth who regarded housing as a State matter. It is possible now that housing is regarded more as a health and welfare issue that the Commonwealth would assume more responsibility.

Doing a 'back of the envelope' calculation in the manner of the Commission, we find from Table 1 that market rents are \$8300 above current rents charged in public housing and \$5000 in community housing, meaning \$3.2 billion need to be found if market rents are charged. The extra CRA provided to the sector is around \$1.24b. (based on all rebated tenants receiving CRA and an average current CRA of \$3284 pa). If the \$1.34 billion of the National Affordable Housing SPP is used as a 'high cost housing payment' this leaves \$420 million to be met by tenants or the States. or about \$1070 per household annually.

This average rent rise of about \$20 per week would probably be tolerated. However, we cannot be confident that first, the NAHSP would be retained at the current level, nor that the States would choose to apply it consistently. In fact the Commission does not seem to envisage that NAHSP will be the principal source for the 'high-rent payment', stating that more than 50% of social renters would be worse off under the new arrangement.

If NAHSP continues, more likely parts of it would be distributed to emerging high-needs groups, leaving large numbers of existing tenants to exit and put further pressure on already overstressed private rental markets (Appendix B). The properties in less affordable locations would be sold off in this circumstance (Section 2.3), passing to homeowners and investors.

If NAHSP does not continue, the Commission's proposal is actually sleight of hand aimed at reducing Commonwealth outlays while substantially worsening the condition of most urban tenants and causing general chaos in the social housing sector.

2.2 Tenure characteristics

The Commission's proposal is based on the idea that tenures should stand on their institutional merits, rather than because they are more affordable. Therefore social housing would be largely restricted to those who have problems competing on private rental markets (which according to Appendix B, we believe is actually the whole low-income cohort on benefits) have a poor or disruptive rental history (p. 167), or who see value in secure tenure. Implicitly, the only true role for community housing would be in providing support for those with complex needs. The Commission does however recognise that community housing enjoys good outcomes in tenant and property management, tenant satisfaction and other basic metrics.

We insist (Section 2.4) that the primary purpose of the sector is to provide affordable housing, and these tenure characteristics are mostly side-benefits.

2.3 Locational issues

One underdeveloped feature of the Commission's proposal is its very uneven spatial impact and the likelihood that it will congregate the poor. We accept that the Commission's proposals are good for rural centres and other places where land is relatively cheap; however the proposal is profoundly anti-urban.

At the moment poor people and particularly the homeless tend to head for the city centre where support services and health facilities are located and where there is some safety in numbers. A prime objective of housing organisations has been to improve social mix and avoid ghettos of the

poor where social problems are reinforced and services are poorly provided. This has been a major achievement of our cities in the 21st century in terms of diversity and improving social mix.

Cheap locations correspond to cheap land. Charging market rent without rebate will cause most inner city housing to be vacated and the units will be unlettable to any qualifying entrants. Complexes such as the tower blocks of Melbourne will have to be sold and the proceeds applied to new estates on the fringe where land is cheap. Many of the occupants are aged pensioners, they will be badly dislocated and suffer a real locational disadvantage. New health facilities will have to be built for them and other services transferred; public transport is poor or non-existent in these areas. Placing people who require services at lower population densities will reduce access and increase the cost of provision.

Residualisation in social housing (p.167), which has been mostly alleviated through social mix, will again become the norm unless better models can be found. It is not in any way clear how the proposal “would also open up more opportunities for social housing tenants to access private housing in less disadvantaged neighbourhoods”. Leaving only the most difficult tenants in social housing will also greatly encourage stigmatisation and support community bias and preconceptions about “govies”.

A number of households will not leave the inner area and will prefer homelessness or shared arrangements, adding to the already visible street problem, or accelerating the reversing 80 year trend to larger household sizes (Appendix B).

We are in no doubt that the profound spatial reorganisation that will accompany an unrebated move to market rents will significantly lower social welfare, while causing massive confusion throughout the sector.

2.4 Private sector response?

The Commission enjoys the belief that supply will ‘appear’ to meet the exodus out of public housing. Unfortunately, it never has before, at least not since the 19th Century.

The main problem is that there can be an urban supply response to a sudden influx of low-income renters but it is illegal on public health and community standards grounds and regulated out of existence in Australia. Private developers never enter this space because of high risk and poor profitability under existing standards. The oldest and most dilapidated housing has the cheapest rents, but it is in finite supply. Boarding houses were once the response for single people, but they have mostly been closed due to the costs of meeting health and safety regulations.

Various forms of sharing and illegal subdivision are the norm in this situation, such as the tenements of the 19th century, including the emergence of ‘bedspacers’ and other typical third-world responses.⁴ The public housing adopting high market rents will also be subdivided and shared where possible as tenants react to an impossible situation by bypassing compliance.⁵

Most new tenants come out of shared arrangements, but a few will leave rental vacancies. In the meantime, the millions of younger households who would once have been owners in the old system will be filling every vacancy.

2.5 Philosophical objections - farewell to the market?

CHL, like other CHPs, has as its primary mission to provide affordable quality housing. This can mean a number of things, but generally is interpreted by the ATO to mean less than 75% of market rent.

⁴ “Bedspacers’ are widely advertised in the Philippines. They generally consist of two or three bunk beds in a second bedroom, which about six people rent, coming and going. Mostly they are urban immigrants and young women. This is already seen in Australia.

⁵ <http://www.heraldsun.com.au/leader/north/calls-to-crack-down-on-melbournes-illegal-rooming-house-operators/news-story/699756b24a08dab8b290c23642acfd15>

Charging market rent would require an existential re-think of what affordability means. It would probably mean building housing in cheap locations, generally regional or fringe (as CHL frequently does). Seeking and obtaining various kinds of subsidy and paring costs, which has been our bread-and-butter and generally a prerequisite for new projects, would no longer have much point except to accommodate those receiving the new 'high-cost housing' allowance.

'Market' is in many ways antithetic to 'affordable', particularly in times when land costs have increased so rapidly relative to incomes - which is by definition rent-seeking and market failure. In the 1970s land was typically a quarter of the house-and-land package, now it is two-thirds of the value. This is a form of asset inflation that is often socially approved and encouraged in market liberal countries, but it makes housing increasingly unaffordable.

It is not surprising that in the USA and now throughout the developing world, various forms of land pooling arrangements such as land and community rental trusts have been developed to remove parcels of land from the market system and keep prices affordable for posterity. The 'cost-rent' arrangement above does much the same thing for conventional social housing pools. It mostly eliminates the possibility of active stock management (buying and selling properties to achieve the best financial or social return) which very few CHPs are able to do anyway as their properties are held under covenant. These pooled arrangements generally refer to owned housing, but in the case of rental housing they would allow for the use of pooled historical land values for estimating 'market rents' rather than using the current traded values. In this context, 'hard' choice-based letting (see Section 4.2) might set an alternative market.

A move to market rents in social housing would probably accelerate the development of these alternatives, as CHPs move to protect units in 'good' locations, which would otherwise be lost.

3. Extending the range of choices in accommodation and services

3.1 Tenant choice in community housing

We accept the general principles of competition and contestability, but note that within community housing at least, apprehensions about a lack of choice are exaggerated and should certainly not be the principal concern in designing a working housing subsidy system.

CHPs spend a good deal of time interviewing tenants and matching them with properties in a personalised service. As well, our exit figures show that of 7,100 tenancies since the commencement of CHL, 1,440 terminated in moves to other social housing opportunities – including 1,197 transfers within our stock and 128 into other social housing agencies. Most of these occurred during the first two years of the tenancy, as the tenants familiarised themselves with the new opportunities and worked out their needs. This is probably more flexibility than they would obtain anywhere else, including private rental.

One should be aware that many of our tenants have few other housing opportunities (see Appendix B for the reducing options within private rental markets). They are marginalised within an increasingly unaffordable private rental stock, have no chance at home ownership and are faced with very long waiting lists for public housing. In many cases, their real choice has been social housing or nothing.

3.2 Choice-based letting

Choice-based letting (pp. 166-170) in the hard American sense, where qualifying tenants bid on affordable housing stock, thereby setting rent through auction and establishing a reduced-rent

submarket for lower-income households, is probably unacceptable in Australia, though it could be applied quite well to better-quality stock.

Choice-based letting in the British/Netherlands style, where tenants apply for advertised properties and they are let to the most qualified applicant, is not difficult to implement and is already applied by some agencies to NRAS properties. However, very many CHP properties come with State covenants restricting access to the prioritised waiting list, and these would need to be unwound. Once again, the system is best applied to unencumbered 'mezzanine' properties, which are few.

3.3 Head leasing

Head leasing from private landlords (p. 171) has been undertaken since the mid 1980s, and the Commission states that 20 per cent of community housing properties are head leased. The main advantages have been quick response, while the landlord provides scarce equity capital.

Head leasing in Australia has never been particularly favoured by the sector. Because our rental markets are so tight compared with other countries (Appendix B) landlords have been unwilling to lend at sub-market rents, as the Commission acknowledges. One also needs to be careful not to saturate the market in regional locations, driving up local rents, and we always take up leases very slowly to avoid local rent rises. The lack of control over the properties has also been an issue as first, leases are only for a year and therefore more suited to crisis housing and rapid response, and second the properties cannot be used for active stock management.

In some States of the USA such as Oregon, well developed systems of supply by private landlords are in place so that anyone on a moderate income can obtain a secure lease at an affordable rent. It would be much harder to find willing landlords prepared to sacrifice rent for income and property security in Australia, where markets are so much tighter and favour the seller, but several CHPs including CHL are trialling this through dedicated real estate agencies.

3.4 Support services

CHL generally partners with specialist service providers within specific projects where special needs are an issue (aboriginal housing, prisons, homelessness, disabled, youth). In many cases, the support services actually supply tenants from among their clients. Apart from this, tenants are free to arrange their own providers or bring their support workers to the arrangement.

CHL already supplies services and a range of assistance to private renters (p. 177) through the Victorian Housing Establishment Fund, and works with real estate agents to place tenants and obtain throughput from transitional housing in Outer Eastern Melbourne and Gippsland. We are well able to extend these services if supported by the States.

We have some concerns with other proposals of Chapter 9, but these are dealt with in the responses of our peak industry bodies.

4. Stewardship

4.1 Evidence base

After 2003-4 The loss of the detailed CSHA data collection,⁶ which had provided an excellent base for all forms of research and policy work, dealt a considerable blow to the evidence base.

⁶ www.aihw.gov.au/publication-detail/?id=6442467586; earlier collections at <http://trove.nla.gov.au/work/19787403?selectedversion=NBD28565442>

AIHW and the Productivity Commission have attempted to fill the gap but many items that were formerly freely available (such as consolidated and harmonised budgets) are no longer with us. The community sector also supplies fragmented data in hundreds of annual reports according to a wide range of accounting standards, and is therefore particularly opaque and unbenchmarked.

The performance benchmark approach of NAHA and the later CSHA has its value, but it tends to reflect only the principal concerns of the stakeholders at the time of inception, and many data items that had been taken for granted ceased to exist.

More recently, the lack of outcome evaluation for various long-standing programs has been evident. As a large CHP, CHL is developing an impact framework with consultants and is beginning to conduct longitudinal surveys of tenant outcomes on specific programmes. We are also in the process of forming partnerships with research institutions to

4.2 Tender processes

Opening the management of public housing to competitive tendering (p. 175) is of considerable value to CHPs. This is already familiar to the sector as most property transfers are actually an outsourcing of management and do not transfer title. There is no reason why for-profits should not tender; though they may have difficulty working with NGO partners in service support.

We also find that undesirable restrictive practices are emerging in some States, preventing CHPs from tendering against private developers in public redevelopments.

Joint-venture developments including an affordable housing component have barely been trialled in some States. These generally involve only a very low affordable component such as 5%, even on former public housing sites, where they accompany a considerable loss of affordable stock. In Britain a 50% affordable housing component (defined as 80% of market value) is common. It is hard to know how affordable housing would be defined for this purpose under a market rent regime.

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Appendix A. A Brief History of Tenure Neutrality and the Financing of Social Housing in Australia

Australia's housing support system has always been tenure-based. In the post-war years, governments in Australia and elsewhere sought to place as many people as possible into home ownership (some 90% of the population eventually achieved this in Australia at some point in their lives), with the remainder to be accommodated in public housing at reduced rents. Private rental was considered to be a temporary arrangement for those awaiting entry to long-term housing, and also useful for mobile population groups. Under the CSHA, the Commonwealth lent the States funds at a concessional rate of 4% to construct public housing and provide cheap loans for middle-income buyers.

Public housing however, was always very substantially underfunded compared with most Northern European countries in the post-war years. Only a small proportion of those eligible were ever housed, and a quarter of households remained in private rental, compared with two to three per cent in Britain and much of Northern Europe. As inequality and joblessness began to increase in the 1970s in Australia, rental affordability became a serious issue with after-housing poverty or 'housing stress' rising rapidly in all private tenures, while public housing waiting times stretched out to unattainable lengths.

With the move away from welfare statism in the 1970s, most Northern European countries adopted principles of tenure neutrality— expressed in government outlays through a uniform housing allowance applied to all tenures. In Australia, this could not be achieved because of our Federal constitution. The Commonwealth claimed that housing was the business of the States, the States claimed that a housing allowance was income support and therefore the business of the Commonwealth, and no progress was made.

In the 1980s, there was also a generally held opinion that social housing was actually an alternative to home ownership as in Europe, rather than a highly residualised form of rental. Under that line of thought, the correct tenure comparison of subsidy was with home ownership, which enjoys very substantial tax expenditure benefits.

The report Flood and Yates (1987)⁷ showed that public housing and home ownership were receiving substantial per-household subsidies in the form of direct outlays, tax expenditures and regulation, whereas private rental received almost nothing. From 1988 Commonwealth Rent Assistance (CRA) was extended to all private renters, at a level sufficient to bring most private renters on pensions and benefits above the poverty line. Eventually, as expected CRA rose to become easily the largest form of housing outlay (in 2015-6, \$4.4 billion annually applied to 1.34 million income units⁸).

At this time, the States began to question the relevance of using market rents as a housing benchmark, as it bore little relationship to the costs of provision. Public housing had not been bought on the private market like private rental housing but was generally constructed on greenfields or under urban renewal programs under all kinds of arrangements involving reduced outlays relative to private construction. They adopted the Swedish cost-rent model for non-profit housing as an alternative to individual ownership, in which costs were pooled and averaged, with a provision for expansion and future upgrading of the stock.⁹ Cost-rents were applied to all dwellings and an 'rebate' or explicit subsidy paid to those who would be paying more than 20% of incomes. Typically, the cost rent averaged about 85% of the market rent, and it was dependent only on the characteristics of the dwelling, not its location. This obviated the need to charge higher rents or provide explicit higher subsidies in high cost locations, as maintaining social mix and accessibility to services was an important objective of governments.

⁷ Flood, J. and Yates, J. *Housing Subsidies Study*. AHRC Report 160. (Canberra: AGPS, 1987).

⁸ <http://www.aihw.gov.au/housing-assistance/haa/2016/financial-assistance/>

⁹ Popularised by Kemeny, J (1981). *The Myth of Home Ownership*. Routledge.

Unfortunately the system soon collapsed due to lack of agreement over the cost rent parameters, and the rapid influx of very low income tenants who needed subsidy. As most people on moderate incomes were removed from public housing through market or cost rents, public housing receipts were no longer sufficient to pay interest to the Commonwealth, or to augment or improve the stock. Loans were converted to grants from 1989, and more and more of these were applied to improving the public stock and meeting the rising rental deficit, rather than being used for new construction as intended. Eventually the whole CSHA grant money was applied to the deficit, and the pretence of the CSHA being capital funding was finally abandoned under NAHA in 2009.

During the Global Financial Crisis, substantial funding for social housing was allocated under Nationbuilding and NRAS, and used to increase the stock by about 55,000 dwellings – a good proportion of which were built as community housing. However, since that time social housing has stagnated and construction is currently at its lowest level in 40 years. Some States have responded with growth initiatives – earnings from the \$1b Social Housing Growth Fund in Victoria are slated to fund about 450 dwellings a year.

Design of Rent Assistance

A great deal of work was done during the 1970s and 1980s by housing economists in the United States under the Housing Voucher Experiment to estimate the effect of different formulae of housing allowances on the private market. Because of the inelasticity of housing supply, it was generally determined that rent-based formulae would be appropriated in good part by landlords, who would scale up their rents accordingly. Accordingly, allowances in Britain and Australia were largely built around incomes, with some rental component. As well, the payment was not varied by location, to allow renters to ‘vote with their feet’ and seek out cheaper locations. The formula used in Australia, which is largely income based or a flat payment as almost everyone meets the rental cap, was well-favoured by housing economists as being the least likely to interfere with the workings of markets. Subsequent growth in rents at a much slower rate than house prices supported the theoretical position. The Commission has cited more recent work reaching the same conclusion.

Community housing

Under deinstitutionalisation, a significant proportion of tenants began requiring various forms of social support. Housing moved from a ‘bricks and mortar’ issue to a health and welfare issue and was portfolioed accordingly within governments. The States realised from the 1990s that the nascent community housing sector was better able to enter into partnerships with NGOs to provide these services. As well, CRA which was available to community housing tenants would allow a small amount of borrowings to be supported in CHPs, so that as in Britain commercial funds allowed some multiplier to outlays.¹⁰ Accordingly, the community sector grew quite rapidly to 73,620 dwellings in 2014-15.

An industry-wide consensus exists that everyone should be provided with affordable secure housing and adequate social support. In the absence of sufficient funds for this in Australia, the status quo has been to supply this for the most needy while giving eligible households in other tenures enough through Centrelink payments to keep them above the after-housing poverty line (or alternatively, to avoid ‘housing stress’).

Rent setting and housing stress

The standard rent-setting formula based on percentage of income is of very long standing, and is also used by banks for loan affordability. It is easy to administer as long as income is regularly monitored. In terms of equity it is a blunt but convenient instrument.

¹⁰ Private borrowings are widely applied by housing associations in Europe, supported by much more generous grants and allowances and higher average incomes among tenants. CHL was one of the first to apply borrowings in this way, and only now are some larger providers following suit.

The paper Flood (2012) *Housing stress: fix or discard?*¹¹ uses equal-utility principles to show that the measure should be varied both by household type and by income. The residual income approach (formerly known as 'after-housing poverty') also solves the problem, but is fairly complex and requires tight monitoring of household circumstances. In the November document, the Commission cited the important work by Rowley and Ong (2012) showing a poor correlation between actual stress and 'housing stress'.

¹¹ www.academia.edu/7163968/Housing_Stress-_fix_or_discard

Appendix B. Crowding in private rental markets

One might well say that not just public housing is ‘broken’ but Australia’s whole housing system, as rising prices and rents make housing unaffordable to young upper middle class couples as well as the ‘battlers’.

There has always been market failure and crowding at the bottom end of the private rental market. This has been made worse in recent years by the filtering down of middle-income tenants who would once have been home owners.¹² Rents have risen more rapidly than house prices in recent years in some States, fuelled by rising demand,¹³ meaning that an increasing proportion of renters are paying a high proportion of their incomes and are in after-housing poverty. Affordable lettings available to the lowest income group, singles on Newstart, are now barely 1.4% of lettings in Victoria.¹⁴

The competition is fierce for lettings, especially at the low end, and private rental is very much a seller’s market. Rental vacancy rates in Australian cities typically run at 1-2 per cent compared with 9-11 per cent in the USA or Europe. For more than 10 years, even employed couples have taken months to find suitable properties they can afford, and overbids of the asking price have become the norm.¹⁵ While overt discrimination on the basis of race has been largely eliminated, economic disadvantage remains the paramount impediment to finding accommodation.

New technology has not assisted:¹⁶ the relative ease of submitting rental applications online means that agents receive as many as 50 applications for each property and send only the few most likely through to landlords for approval. Churning therefore occurs for the top end of applicants, and anyone with any kind of recognisable disadvantage – such as being on benefits, or having mental health issues,¹⁷ may have little chance.

Figure 1 (based on our NRAS properties) compares market rents with a standard loan repayment (scaled market value). It shows that the two costs are almost equal over much of the range, clearing the market between the two tenures. It also demonstrates how market rents can be relatively much higher in cheaper properties, indicating crowding, and much lower in more expensive properties, where investors are seeking capital gains rather than rents.

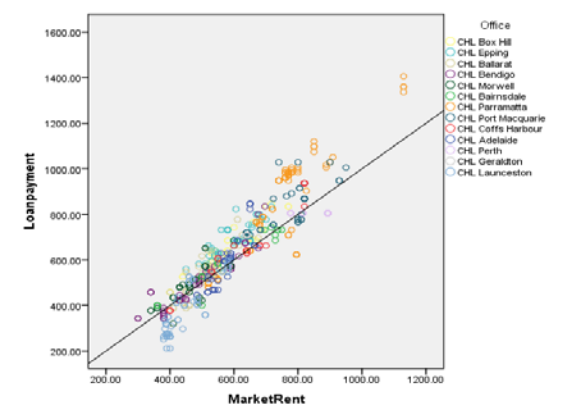


Figure 1, Standard loan payment versus market rent, CHL NRAS properties

¹² Productivity Commission. The Housing Decisions of Older Australians. Research Paper, Dec 2015, and other sources.

¹³ In Melbourne rents have risen by an average 150% over 10 years (DHS Current Rental Report) while median house prices have risen by 100% (REIV).

¹⁴ <http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research-data-and-statistics/current-rental-report>

¹⁵ <https://www.domain.com.au/news/one-in-five-victorian-tenants-offer-to-pay-extra-rent-survey-reveals-20160905-gr75mw/>

¹⁶ <http://www.abc.net.au/news/2017-05-16/rent-bidding-apps-will-make-market-even-more-unaffordable/8530048>

¹⁷ https://www.facs.nsw.gov.au/_data/assets/pdf_file/0007/317059/Mental-Health-Commission-of-NSW.pdf

Crowding is a literal as well as a market phenomenon. The 2016 census shows that the 80 year trend in decreasing household size has now clearly reversed, while all forms of sharing are on the rise.¹⁸

DR JOE FLOOD

Dr JOE FLOOD, is one of Australia's leading housing and urban researchers. His work has been directly responsible for significant changes in Australia's housing policy on several occasions. He is internationally recognised as the developer and implementer of the Urban Indicators system, used by 110 countries to monitor their urban settlements conditions for the Habitat II Conference in Istanbul, 1996, and for subsequent indicators work in a number of countries.



He obtained a Ph.D. in Mathematics in 1972 and was subsequently employed at the Australian Bureau of Transport Economics and at the CSIRO Division of Building, Construction and Engineering, where he rose to become Principal Research Scientist and Project Area Leader, Housing and Urban Studies. In this capacity he conducted many consultancies for different levels of government and the private sector on housing, urban and environment-related matters. In 1993 he represented CSIRO in a joint venture with three universities which led to the formation of the Australian Housing and Urban Research Institute, where he was the inaugural Associate Director, Communications and the Programme Coordinator, Housing Research. In 1993 he worked as a consultant on several studies for the Industry Commission, and presented a submission to their Public Housing Inquiry on matters very similar to the current study.

In 1994 he was asked to head the new Urban Indicators Programme at the United Nations Centre for Human Settlements, Nairobi, where he worked directly with over 50 developing countries, providing technical cooperation in the development of urban indicators systems, also participating in missions to South Africa with the World Bank on housing finance and subsidies. He edited the Global Report on Human Settlements 2003, "The Challenge of Slums". Over the years he has conducted a large number of studies on housing policy, housing markets, housing affordability, housing subsidies, public housing funding, housing stress and the decline in home ownership.

He currently works at Community Housing Limited, Australia's largest national community housing organization, as Research and Policy Adviser.

¹⁸ <http://www.dailytelegraph.com.au/news/sydney-units-crowding-tenants-crammed-into-small-spaces-creating-fire-hazard/news-story/c9f4642c49adb485592b3a58ab9a3a4d>