



Community Housing Industry
Association NSW

Submission on NSW Productivity Commission

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 02 9690-2447

 www.communityhousing.org.au

 Suite 5, 619 Elizabeth Street
Redfern NSW 2016

 adminassistant@communityhousing.org.au



This report was prepared by:

Tom Kehoe

Community Housing Industry Association NSW

Suite 5, 619 Elizabeth St, Redfern NSW 2016

E: tomk@communityhousing.org.au

T: 02 9690 2447 | **W:** www.communityhousing.org.au

About CHIA NSW

CHIA NSW is the industry peak body for registered community housing providers in NSW. CHIA NSW is also supporting Aboriginal Community Housing Providers in NSW in a process to establish a representative body.

CHIA NSW's purpose is to support the development of a not-for-profit rental housing industry which makes a difference to the lives of lower income and disadvantaged households in NSW. CHIA NSW seeks to ensure that registered community housing providers are active in all housing markets, providing a full range of housing products.

The community housing industry in NSW is growing and diversifying. It now manages more than 50,000 social housing homes – 1 in 3 of every social housing home in NSW. Since 2012, CHIA NSW members have delivered around \$1.2 billion in investment into communities across NSW, creating over 3,200 new homes.

Community housing gives people on lower incomes an opportunity to live in a home they can afford. Registered community housing providers manage social housing, which is long term housing for people with low incomes who may not be able to work or who may have support needs. Some registered community housing providers also manage affordable rental housing which is rented below the market rate to people with lower incomes.

About this submission

This submission is made by the Community Housing Industry Association NSW (CHIA NSW) in response to the NSW Productivity Commission discussion paper, *Kickstarting the Productivity Conversation*.

CHIA NSW welcomes that the NSW Productivity Commission is taking this opportunity to engage the community in a conversation about the future productivity reform agenda for NSW. It is essential for the future success of NSW that reform addresses how government uses its policy levers to maximise social and economic outcomes.

CHIA NSW's interest in the areas discussed in the paper is focused on how they relate to social and affordable housing. Specifically, how the levers available to the state government to improve services to social and affordable housing tenants and applicants and the levers it has to stimulate additional supply of social and affordable housing.

Over the past several years, CHIA NSW has been calling for government to apply a productivity lens to housing policy to recognise the links between the economy, the job markets and housing. CHIA NSW, together with government, corporate and not-for-profit partners has funded a series of research aimed at Strengthening Economic Cases for Housing. This work adds to an expanding evidence base

highlighting the potential productivity benefits of housing policy reform and targeted government investment.

CHIA NSW is advocating for a significant increase in the supply of social and affordable rental homes and for growth of the community housing sector. A major increase in social and affordable rental housing will address the needs of people and families being failed by the private market. It will also play a significant role in improving productivity in the NSW economy. Finally, we argue that the community housing sector is the most efficient mechanism available to government for delivering additional social and affordable housing and improving services to tenants and applicants.

Over the past two decades or longer, the role of the NSW Government in the social housing system has undergone significant change. Where earlier, government was principally a deliverer of services, more recently it has become a market-shaper, a commissioner of services, a contract manager and a regulator while still delivering services in the system.

CHIA NSW believes that further evolution of the role of government in the social and affordable housing system can kickstart growth and improve services in the social housing system. The role of government should reflect the diversity, strength and scope of the not-for-profit service system which has been established in NSW by a series of government-led reforms.

We have an established, strong, diverse and viable community housing sector in NSW

Considerable time, effort and expense has been expended on supporting the establishment of a strong, diverse and viable community housing sector which has typically had bipartisan support at the Federal and State levels.

Federally, there has been over a decade of bi-partisan support for the growth of the community housing sector. Investment to stimulate supply through the Nation Building Economic Stimulus Plan and the National Rental Affordability Scheme made by Labor led to significant growth in the sector and its asset base. The Coalition has established the National Housing Finance Investment Corporation with its affordable housing bond aggregator. This creates a mechanism for registered community housing providers to borrow against their assets to invest in new housing supply.

In NSW, the last NSW Labor government started the transfer of title to registered community housing providers of around 6,000 newly built homes. The current Liberal/National government has continued this support for growth, most recently through the *Social Housing Management Transfer program*, transferring management of around 14,000 public housing homes to the sector.

In combination, these policy settings have created a community housing sector in NSW which is now perfectly placed to take on a leading role in management, new housing development, estate renewal,

and the redevelopment and the densification of public housing land to grow social and affordable housing in NSW.

Getting more from our infrastructure

CHIA NSW welcomes that the NSW Productivity Commission is taking this opportunity to consider how existing innovative service delivery models can be leveraged to improve productivity and customer outcomes.

CHIA NSW's interest is in the potential for the existing innovative service delivery model – not-for-profit community housing providers – to take on a greater role in the delivery of social housing in NSW in order to improve services, improve the standard of social housing and to maximise the quantum of social (and affordable) housing in NSW.

A set of reforms incrementally transferring management of public housing homes to community housing providers alongside support for opportunities for not-for-profit providers to redevelop social housing land would significantly improve outcomes for customers and maximise social and affordable housing delivery.

Improving outcomes for social and affordable housing tenants and applicants

Future Directions recognises that increased community housing provision of social housing represented an opportunity to improve services for tenants. The *Social Housing Management Transfer* program implemented under *Future Directions* transferred 14,000 public housing homes to community housing provider management. Community housing providers now manage 1 in 3 social housing homes in NSW. This is a significant reform which will deliver better outcomes for tenants, the community and the NSW economy while allowing the NSW Government to reduce its costs.

Some of the context for this most recent round of transfers can be found in the 2017 Independent Pricing and Regulatory Tribunal *Review of Rent Models for Social and Affordable Housing*¹. This review found that there is a gap between the rents paid by tenants and market rent that is currently being implicitly paid for through a combination of operating losses, deferred maintenance, unfunded depreciation and forgone returns on their assets.

This effect is most pronounced for public housing and the NSW Land and Housing Corporation. While data about LAHC portfolio changes is not made available to the public, it is implicit through the IPART analysis that the LAHC portfolio is being reduced through asset sales to derive revenue to subsidise the remaining properties.

Transfer of management to community housing providers increases the revenue in the social housing system by triggering payment of Commonwealth Rent Assistance for households transferring from public housing.

The additional income means that community housing providers can afford more intensive tenancy management practices, can invest in innovative support and capacity building programs for tenants and can deliver better outcomes in repairs and maintenance. This is reflected in tenant satisfaction with the services delivered by community housing providers. Around 85% of community housing tenants are satisfied or very satisfied with the services they receive from their landlord.

A program of further transfers should be established to give community housing providers certainty and the ability to plan for growth. Most significantly, this would provide a pathway to improving services, making them more customer focussed and supporting other NSW Government policy priorities.

Issues to consider for future transfers

CHIA NSW believes that the NSW Government should be seeking two primary outcomes from its social housing system: better services for tenants and applicants and increasing the amount of social and affordable housing. The NSW Government can support these outcomes by incrementally transferring the public housing portfolio to community housing providers.

CHIA NSW believes that in order to have control over improving services to tenants and applicants, community housing providers should have control over the properties they manage. This means that future transfers should prioritise policy settings which give community housing providers greater control of assets than under the current approach. Benefits of greater control of assets include:

- Minimising financial waste because community housing providers are in a position to make strategic investment and asset management decisions about the portfolio
- Giving community housing providers the opportunity to explore and take up redevelopment opportunities in the portfolios to increase the supply of social and affordable housing
- Expanding revenue streams and increasing balance sheets of not-for-profit community housing providers which will increase their capacity to leverage private investment into social and affordable housing to increase supply

Repairs and maintenance services are perhaps the critical driver of tenant satisfaction. In the most recent property transfers, the NSW Land and Housing Corporation has required that its maintenance contract for the transferred properties remain in place until 2021. This has limited the service delivery and investment changes that community housing providers would wish to make and which would help them in their efforts to deliver repairs and maintenance services which are more responsive to tenants. It is critical that in any future transfers, this situation is not repeated.

Delivering more social and affordable housing

The reforms and support to establish the sector in NSW have created the conditions for community housing providers to significantly increase their organisational capacities. Over the past decade, community housing providers have delivered over \$1.2 billion of investment into communities, developing nearly 3,500 new homes.

NSW does not have enough social and affordable housing. Researchⁱⁱ commissioned by CHIA NSW and Homelessness NSW from the City Futures Research Centre at UNSW estimates that by 2036, NSW needs to create an additional 317,000 social and affordable homes to meet the current shortfall and the additional need driven by population growth and change.

To meet this massive challenge, the NSW Government needs to consider how it can best use its key existing social housing asset – the land on which public housing is built – to support and enable the delivery of additional social and affordable housing.

The current model established to drive the renewal of the social housing portfolio – Communities Plus – seeks to attract for-profit developers and leverage private sector investment to renew, densify and diversify sites. Despite interest in the model, most sites have not progressed. CHIA NSW understands that a primary driver of this delay is falling land values and the financial feasibility for private developers of including social and affordable housing.

Given this, it is appropriate for government to rethink this model. The existing community housing provider legal and regulatory model has viability advantages for delivering affordable rental housing compared with the private sector and a new paradigm for renewing the portfolio should look to maximise these advantages.

In a report for Landcomⁱⁱⁱ by UNSW, City Futures considering the feasibility of the Build to Rent model in Australia, the authors identified a model where a registered not-for-profit community housing provider developed mixed tenure schemes with market rental housing cross-subsidising an affordable housing component would potentially offer the best outcome in terms of efficiency for any given level of subsidy.

A new approach should explore how the value of the land can underpin projects led by community housing providers which diversify tenure mix while maximising social and affordable rental housing. It may be that there are different models which are more appropriate to different sites and markets and to different community housing providers with different business models. Government should develop an approach which is optimal for maximising social and affordable housing while balancing tenure mix, the diversity and capacity of the existing community housing provider market.

A new approach should also seek to minimise leakage of constrained funds derived from tenant rents into expensive and complex procurement processes.

Research by AHURI^{iv} has also considered the most efficient mechanisms for investment in social housing. The research analysed different mechanisms involving a range of debt, efficient financing and capital investment to assess their relative costs to government. The research shows that a capital investment model, supplemented by efficient financing, provides the most cost effective mechanism for Australia—in preference to a no capital investment, commercial financing, operating subsidy model.

Meanwhile use housing

In 2018, CHIA NSW collaborated with NSW Government agencies to explore the potential for meanwhile use housing. In this exercise, CHIA NSW mainly focussed on the meanwhile use of *land* for housing. Our work suggested that there may be the potential to use underutilised government land, held for some other future purpose, to provide for off-site manufactured modular housing.

A workshop held with NSW Government agencies identified that there were a number of barriers to meanwhile use of land for this purpose in NSW. The modular housing industry in Australia is relatively small and boutique so creating a sustainable affordable product would be a challenge. There are limited debt finance products available to support the concept, the separation in land and dwelling ownership being one issue and lease financing products typically meaning debt must be repaid over the initial period of meanwhile use, something impacting cash flows to the extent that projects are likely to be unviable.

This work did identify a number of examples of meanwhile use of existing dwellings or buildings, providing temporary housing. While these are worthy projects, delivering good outcomes for vulnerable people, they are limited in scope tenure type and should not be seen as a substitute for systemic solutions to the failure of our housing market to deliver long term affordable housing in the rental sector.

Productivity gains from better housing outcomes

CHIA NSW has a strong interest in how the planning system can be reformed to support better social and economic outcomes and the delivery of additional social and affordable housing.

CHIA NSW, with partners in government and in the not-for-profit and corporate sectors has been supporting a series of pieces of research, led by Professor Duncan Maclennan – *Strengthening economic cases for housing: the productivity gains from better housing outcomes*^v – which consider the economic cases for housing investment, including with a focus on the link to productivity.

This research looked at how the assessments of agglomeration effects on economies which are used to weigh transport and labor market investments could be applied to residential infrastructure.

The aim of the research was to model the relative impacts of the Business as Usual approach in housing where renters can be pushed to more affordable but less accessible parts of the city and a Better Housing Outcomes scenario supplying affordable housing in well located areas near labor markets.

BAU localities were selected in less well-serviced locations that were also more remote from jobs. The BHO localities were located on residentially-zoned land (R3, R4) within 800 metres of major hospital precincts (as a proxy for wider service accessibility), with improved access to job density, and with a simple annual grant subsidy of \$8,500 p/a for 10 years used to enhance affordability.

It was assumed that the BHO opportunities are to be targeted at residents with a socio-economic profile equivalent to the BAU areas (renters on incomes below or equal to the NSW median income).

Econometric modelling focussed on four potential areas of productivity change:

- Reduced travel time from living closer to work
- Better matching to a wider range of jobs by moving closer to job dense locations
- Phasing investment programs to reduce construction sector instability
- The consumption and investment effects of rent burdens exceeding 30% of incomes

Travel time effects

The shift from BAU to BHO locations led to:

- Reductions in travel to work times for both private and public transport users: private travel times reduce from 60-80 to 50-60 minutes, while public transit time drops from 80-100 to 65-75 minutes;
- Limited Travel Mode Switch, with BHO reducing private and raising public transit uses; and
- Travel Time Savings estimated at \$2554 p/a per worker, or \$1277 of additional labour supply per worker, and an estimated total gain of \$2.26B Net Present Value (NPV).

Wage effects

Bringing workers closer to more jobs and firms closer to more workers creates matching gains. Employers pay more for specific, skilled workers, while workers seek out employers who need their skills. The research evidence suggests that for a given skill-age gender group, wages are higher for home locations closer to jobs.

- After standardising for skills, age and gender, moving from a BAU to a BHO scenario means:
- Per annum incomes rise (the higher the skill group, the bigger the rise);
- Workers with higher degrees earn an additional \$41, 170 p/a, with a lifetime NPV of \$425,000; and
- Unqualified workers earn an extra \$11,793 p/a, with a lifetime NPV of \$56,000.

The overall effects estimated are substantial. In reality, some lags in adjustment or incomplete take up of potential gains may occur, but the effects are still likely to be substantial.

The effect of delivering a counter-cyclical housing program

Productivity may be impacted not just by what housing is produced and where, but also by when it is delivered. For example, there are suggestions (but little evidence) that a counter-cyclical delivery of subsidised housing investments that produces housing ahead of schedule can stabilise industry structure and training efforts, and also benefit from lower materials prices in the downswing.

Exploration of the impact of bringing forward an investment that would otherwise have occurred in a later period on the construction sector for NSW revealed that:

- The sector was of substantial scale, producing some 7.9% of NSW Gross Value Add (GVA);
- That share had increased marginally over the two decades to 2018 as construction sector GVA growth outpaced the wider economy;
- The construction sector is cyclically less stable than the rest of the NSW economy; and
- Evidence for lower materials costs and other downswing effects was weak and inconsistent over time.

Consumption and investment effects

High burdens of housing payments in relation to incomes reduces consumption of other goods and diminishes savings and investments, as well as reducing home-ownership and asset accumulation for early life-cycle households.

For rental households in NSW, housed under BAU arrangements, an estimate was made of the income spent on rent above the standard 'acceptable' threshold level of 30% of income.

This revealed:

- NSW renters up to the median income 'overspend' on rent by an average of \$5,893 p/a;
- The total, indicative annual 'overspend' on rent in NSW is approximately \$1.8B; and
- These high rents in NSW also absorb Commonwealth Rent Assistance of approximately \$1.4B.

These payment burdens have major implications for the distribution of income and wealth in Sydney and NSW, and there is a strong prima facie case that they impact economic and productivity outcomes now and in the future. The research suggests that reducing them, by making housing more affordable, would enhance productivity. However, the effects cannot be modelled within a CGE framework, so they play no role in driving the study estimates of economic impacts from providing BHO. The overall estimates of benefits are therefore likely to be conservative.

Building dwellings that better match our preferences

- What steps could the NSW Government take to improve residential development regulations to support an adequate supply of affordable housing?

CHIA NSW believes that the existing residential development regulations could be improved to enhance affordable housing outcomes. The provisions of the existing Affordable Rental Housing State Environmental Planning Policy could be strengthened to mandate affordable rents for affordable housing developed under this mechanism. Management of these dwellings by registered community housing providers would ensure compliance with the rent setting requirements.

CHIA NSW believes it is critical that more resources are made available to monitor compliance with the development consents issued for properties delivered under this SEPP. The experience of our members would suggest that some unscrupulous developers are not making good on their commitment to use a registered community housing provider to manage the 'affordable' units they deliver and that there is little follow-up to tackle this.

CHIA NSW also supports the use of State Environment Planning Policy no. 70 – Affordable Housing (Revised Schemes) as the principle mechanism for delivering affordable housing through the planning system in NSW.

SEPP 70 provides a framework for local councils to design affordable housing contribution schemes which ensure development remains viable and delivers affordable rental housing for communities.

The inclusionary zoning mechanism in the City of Sydney's affordable rental housing scheme established under this SEPP demonstrates that this approach does:

- deliver moderate increases in the supply of affordable rental housing supply
- not affect the viability of new housing supply developments
- provide certainty for landowners, developers and the community about the requirements around affordable rental housing development contributions
- reduce use of Voluntary Planning Agreements (VPA) which have had a very limited impact on affordable rental housing supply and are not open to community scrutiny or consistently negotiated

Local councils should be supported by the NSW Government to develop and implement affordable housing contribution schemes to ensure there is an affordable component to housing supply across the local government area.

Providing greater housing choice to balance labour mobility with tenure security

Registered community housing providers use continuous leases for all social housing tenancies. This reflects our sector's strong view that a stable and secure home is the best way for an individual to improve their social and economic circumstances. A lack of tenure security is felt most sharply by lower income households in the private rental market, particularly in markets where rents are increasing rapidly.

CHIA NSW's view is that the current residential tenancy laws in NSW do not provide adequate protections for renters and do not reflect a balance between tenure security and housing mobility. CHIA NSW is part of the [Everybody's Home](#) campaign which includes a plan for making renting fairer. Everybody's Home and CHIA NSW supports the removal of no fault evictions from residential tenancy law in NSW. This provision undermines security of tenure in the rental sector.

The international experience suggests that a key feature of a fairer rental sector that balances tenure security with housing mobility is the scale of institutional investment in the sector. Institutional investor behaviour is not characterised by the short term capital gain approach exhibited by mum and dad investors. Institutional investors often seek out long term, predictable and stable returns, such as the long term stable rental income of a long term tenant.

Reforms to grow a build to rent sector in NSW are an important in creating an asset class that institutions can invest in. CHIA NSW's concern would be that the NSW Government needs to take steps to make sure that reforms do not place for-profit entities not subject to the same degree of regulatory oversight on an equal footing with not-for-profit community housing providers.

ⁱ <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Affordable-Housing/Review-of-Social-and-Affordable-Housing-Rent-Models>

ⁱⁱ http://communityhousing.org.au/wp-content/uploads/2019/03/Modelling_costs_of_housing_provision_FINAL.pdf

ⁱⁱⁱ Pawson, H., Martin, C., van den Nouwelant, R., Milligan, V., Ruming, K., & Melo, M. (2019), *Build to rent in Australia: Product feasibility and affordable housing contribution, Report*, Sydney: Landcom

^{iv} https://www.ahuri.edu.au/_data/assets/pdf_file/0025/29059/AHURI-Final-Report-306-Social-housing-as-infrastructure-an-investment-pathway.pdf

^v <https://cityfutures.be.unsw.edu.au/research/projects/strengthening-economic-cases-housing-productivity-gains-better-housing-outcomes/>