



Common Equity Housing Limited

**Submission to the Senate Inquiry into
National Rental Affordability Scheme**

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INTRODUCTION

Common Equity Housing Ltd supports the introduction of the National Rental assistance Scheme as an initiative that has the potential to increase the supply of affordable rental accommodation for a cohort of the population that is severely disadvantaged in the current housing market.

CEHL considers that the scheme needs some further flexibility in the level of subsidies available to those willing to make a long term investment to provide affordable rental accommodation in areas where it is currently prohibitively expensive for moderate income earners to purchase or rent.

CURRENT HOUSING MARKET

It is well recognized that the current housing costs, either to purchase or to rent housing in any large metropolis across Australia have become prohibitive for either families or individuals on lower incomes.

For the last few decades the Australian Housing market can be divided into three distinct tenure types being ;

Home owners or purchasers occupying their own properties which accounts for nearly 70 % of the overall market.

The private rental sector that represents between 20% and 24 % of the market, and

Social housing comprising about 5 % of the market.

Social housing being rental housing that is provided by State Housing Authorities or other not for profit housing providers and is usually highly subsidized through government programs.

Whilst home ownership has been the preferred form of tenure promoted by successive Australian Governments since WW11, it needs to be recognized that even in more affordable times the percentage of home owners has not risen above 74 % of the total housing market.

It must be acknowledged that a significant proportion of the population do not earn enough income or do not enjoy stable enough life circumstances to enable them to responsibly enter into mortgage arrangements required to purchase their own home. This is even more obvious given the current high costs of either purchasing an existing home in any capital city in Australia or the current costs of building a new home.

Recent events in USA where there was a culture of imprudent lending to borrowers lured into the benefits of home ownership show the dangers of relying on home ownership as the preferred tenure type for all segments of the population. The inevitable defaults have left people both homeless and indebted and are considered to be the prime catalyst for the economic meltdown now spreading across the globe.

The government does need to support and offer incentives for the other forms of housing tenures and not just limit its assistance to home purchases.

TARGETING GREATEST NEED.

It is recognized that there are particularly disadvantaged sectors of the community that show the greatest need in terms of housing assistance.

It is also well documented that this sector are also characterized by being over represented in a range of other social disadvantages including income levels, health issues, disabilities, addictions, lack of education and training.

This group has become the core target for the existing social housing services.

The reducing number of social housing properties has been increasingly targeted to this cohort for the last two decades.

This has led to a range of other problems such as;

More pressure on low income workers who were once eligible for social housing programs but are now effectively excluded due to the more rigorous allocation processes which are geared for high needs applicants.

Increasing financial pressures on State Housing Authorities which now exclusively house people in the highest risk categories and with the least ability to pay rents that cover the cost of providing the housing. For the last decade State Housing Authorities have become financially unviable and struggle to maintain their existing housing stock.

Public housing estates have become ghettos of severely impoverished and disadvantaged people. Recent research indicates that many people's situation actually deteriorates because they are trapped in problematic housing estates.

Because of these management policies there has been a considerable community backlash against public housing and public housing tenants. Where a generation ago public housing was still viewed as government sponsored housing which provided low paid workers or newly arrived immigrants a stable and affordable base from which they could improve their lot in life. Today it is stigmatised as the end point for those who have failed to make it in society.

It has to be recognized that those in greatest need do require better planned and managed housing that it integrated into different communities and that it requires relatively deep subsidies if it is going to deliver positive outcomes for high need people.

There is also a need to provide a less subsidized form of rental housing to meet the needs of those who have relatively low incomes but do not exhibit the other social needs of the highest need target groups. The proposed NRAS and its intended target group has the potential to fill this void.

The cost to government is relatively low as the investment will come from non government sources with a relatively small annual subsidy provided by government for a limited term.

It is equally important to recognize that there should be a housing continuum and many people will be motivated to improve their lot. This is governed both by tenure types, location and level of housing amenity. NRAS sponsored housing has the potential to form an important part of this continuum.

EFFICIENT AND EFFECTIVE WAY TO INCREASE THE PROVISION OF AFFORDABLE HOUSING

The NRAS proposal is to be commended as it is a positive attempt to increase the supply of affordable housing.

The intention to promote investment from the investment community in affordable rental housing is laudable.

CEHL do have concerns that the current level of incentives (subsidies) may not be sufficient to attract the level of investment sort or more importantly will not lead to an increase in the amount of rental stock in locations where there is the greatest need for affordable rental housing.

The gentrification of all suburbs, linked to the CBD of any major city by good public transport, is leading to major social dislocation and forcing lower income earners to outer suburbs often accompanied by long and expensive commutes to places of employment, education or to access essential services. The government needs planning and housing policies to address this phenomena.

A well targeted NRAS would be one plank that could begin to address this problem.

INVESTMENT BY NOT FOR PROFIT COMMUNITY HOUSING ORGANIZATIONS.

NRAS does provide a great opportunity for the not for profit sector to develop a fourth form of housing tenure that would effectively fill the space between private rental and home ownership.

It is a form of collective ownership of properties in which the tenants have a stake in the entity that owns the property which they rent but do not have an individual title.

The ownership of the properties is with the not for profit entity but individual tenants could be required to make a relatively small initial investment then pay a monthly housing charge similar to a mortgage payment. The housing charge could be structured to cover rates and larger maintenance charges.

The not for profit agency would be responsible for raising loans to purchase the stock but this could be offset by access to recurrent subsidies to reduce the cost of borrowings through NRAS.

Financiers would be required to enter into loan arrangement with not for profit agencies that have been vetted by government funding assessment and that enjoy government subsidies. This is a preferable situation than lenders entering into mortgages with individual low income households.

This means that NRAS tenants would enjoy many of the benefits that home ownership delivers such as

- Long term security

- Stability

- Responsibility and Pride in their homes

- Ability to decorate and refurbish property

Yet they would forgo

- Access to capital gains on the properties

- The right to bequeath their tenancy.

This form of housing has developed in many European countries and also in Canada where it represents a significant sector of the housing market.

AREAS OF CONCERN

There are currently two potential barriers that make it difficult for the not for profit sector to invest heavily in The NRAS program. The first is the fixed level of subsidy available which is capped at \$8,000 per annum per dwelling.

With current interest costs and the recurrent costs of delivering a rental housing portfolio (maintenance, rates, insurance, administration costs) it is only possible to support debt to a maximum of around \$200,000 per dwelling in acquisition costs if rents are going to be capped at below 80 % of the market. With consideration to the current land and production costs it will not be possible to deliver stock in the areas where it is most required due to the high cost of land in any well established metropolitan area .

CEHL experience over the last 12 months shows that its average cost of acquiring dwellings in Victoria, most of which have been in outer suburbs or provincial cities is currently \$270,000 per dwelling.

NRAS should increase the subsidy on offer either by grant or tax credit to an effective discount of 3.5% to 4 % in the interest payable on the cost of borrowing funds to acquire the dwelling . This could be capped at an upper limit of borrowings of \$400,000 per dwelling. This would enable agencies to develop stock for program use in areas where this form of housing is most needed.

Recent announcements by the ATO that it would audit not for profit agencies, that currently enjoy any form of tax concession, that engages in NRAS projects as it does not fit the charitable purpose of the Tax Act, will curtail the number of Agencies seeking to enter the scheme. Most not for profit housing agencies currently have been granted tax exemption status for their primary role of delivering social housing. The Government needs to reassure agencies their tax status, which is an integral component of their financial viability, is not placed in jeopardy if they expand their activities to also offer affordable housing through NRAS.

The community housing sector is experienced at delivering social housing and has developed models of tenancy and property management that demonstrate both financial and also tenant satisfaction levels that perform favourably when compared to any current private sector rental management arrangements. It is important that NRAS legislation encourages them to become involved in NRAS projects.