

April 4, 2008

**John Hawkins**  
**Committee Secretary**  
**Senate Select Committee on Housing Affordability**  
**In Australia**  
**Department of the Senate**  
**PO Box 6100**  
**Parliament House**  
**Canberra ACT 2600**

Dear Mr Hawkins,

**Submission: Senate Select Committee on Housing Affordability In Australia**

The Association to Resource Co-operative Housing (ARCH) is a peak body for Housing Co-operatives in NSW, funded by the NSW Office of Community Housing since 1989.

ARCH welcomes the opportunity to submit to the committee on housing affordability and specifically to draw attention to the broad potential that co-operative housing offers as a viable solution in Northern and Eastern Europe, parts of Asia, Canada and the UK.

ARCH acknowledges that there are sufficient organisations and academic institutions providing coherent analysis on the causes that minimise Housing Affordability, as well as offering land and tax strategies that might address the critical issue of supply and its relationship to affordability.

As such, this submission focuses on the unique advantage of one model - co-operative housing as a means of developing and sustaining an affordable housing solution that builds on communities, neighbourhoods and people as a primary focus of investment in a viable and affordable housing future

We trust that this enquiry will further Australia's policy capacity for new and innovative solutions that put "people" at the centre of affordable housing outcomes.

Thank you.

Yours sincerely,

*KE Shellshear*

**Karine Shellshear**  
**Executive Director of ARCH**



## **Housing Co-operatives in the Context of Housing Affordability**

In the current context of crisis in housing affordability, the broad spectrum of impact affecting both low to moderate income earners is now being highlighted by inflationary market costs and poor supply of both rental and home ownership. This paper looks to broadening the diversity of Federally controlled solutions and looking at Housing Co-operatives as a viable option in a broad range of strategies.

The following analysis is extracted and summarised from previous research commissioned by ARCH, undertaken by the Australian Centre for Co-operative Research and Development (ACCORD). It advocates for the growth and development of new sustainable models of co-operative housing as part of an Affordable housing strategy co-ordinated by the Commonwealth Government.

It is clearly apparent today that we face a crisis in housing affordability. Funds for public and community housing through the Commonwealth State Housing Agreement have been constantly declining, whilst the demand for that housing is greater than ever. At the same time, government has moved towards delivering its services on a more integrated basis, one that recognises the value of working in partnership with communities, and which recognises the importance of individual and community capacity building in redressing social exclusion. This changing context presents both new challenges and new opportunities to Commonwealth and State Governments in supporting innovative solutions that will help address the current crisis taking into key consideration those who are directly impacted on.

### **A Model of Social Capital**

Co-operative housing offers a unique model of tenant empowerment and community development. The evidence internationally and within Australia suggests that co-operative housing is more capable of generating social capital – that is, networks of trust and reciprocity – than other forms of social housing. Enhanced social capital delivers a range of benefits to co-operative housing residents. These include personal skills development amongst co-operators, better social support systems, improved physical environment and more active participation by tenants in the communities in which they live

A number of key factors influence co-operative success and the ability of co-operative housing sectors to grow and deliver broad community benefits. These include: the opportunity to recruit socio-economically diverse tenant groups with a genuine desire to participate; adequate financial and organisational support; approaches which manage risk while recognising co-operative autonomy; and government structures that both support and acknowledge the distinct contribution of co-operative housing.

### **Redefining the role of Co-operative Housing**

Community housing has been variously promoted as enabling greater non-government investment, creating transparency through separating housing provision from housing regulation, providing greater choice for tenants, addressing non-shelter support needs of tenants and facilitating greater community involvement in addressing social housing need.



Within this broader set of qualifiers it is possible to identify a range of areas where co-operatives can work with government to achieve the Federal Governments goals:

**A Federally Co-ordinated Affordable Housing Strategy can offer new opportunities to redefine and rearticulate the role of Co-operative Housing in Australia:**

- ⊞ Co-operatives are human institutions. Investment in co-operatives makes sense if the objective is to address the need of prospective tenants to build social networks, to build their own capacity, and to integrate within their communities. One of the key roles of Co-operatives should be to address social exclusion and to facilitate improvement in the personal and social circumstances of tenants.
- ⊞ Capacity built through co-operative formation can be extended to non-housing objectives. Co-operative housing should be seen as playing a role in broader community development.
- ⊞ Co-operatives require stability in their membership and investments should be aimed at long term, secure, affordable housing.
- ⊞ Co-operatives have been very successful in addressing social exclusion where they have brought together common language/cultural communities, or communities with a shared experience (eg disability). Co-operative housing can play an important role in addressing the need for socially supportive housing amongst groups who wish to live together and who might otherwise be marginalised.
- ⊞ Co-operatives work best where they encompass a mix of skills and (generally) incomes. They have been successful at enabling people who cannot afford to buy their own home to achieve some of the benefits of ownership. Co-operative programs can be most effectively used in a way that combines broader housing affordability objectives with addressing the needs of potential public housing tenants.

This redefinition of the role of co-operatives in meeting social/public goals provides the basis for looking at the other dimensions of a possible partnership between the sector private supporters and government.

**Acknowledging Co-ops Role in Community Development**

The idea that co-operative development fosters community development is an important part of any strategy that includes co-operative housing.

In the United States these goals are linked through the network of third sector providers which can access the Community Development Block Grant program which provides funds for both housing and broader community development objectives (O'Regan & Quigley, 2000).

In the United Kingdom neighbourhood regeneration efforts have been directly linked to secondary service provision to, and support for new co-operatives (eg. Coin Street).



A number of strategies can be implemented to reinforce the link between co-operative development and community building:

## **Co-operative housing as a means of addressing broader affordability**

Compared with other forms of Commonwealth/State Housing Agreement funded organisations, housing co-operatives have a greater proportion of tenants in both the highest and lowest income categories (National Community Housing Forum, 1999: 77). The value of income mixing is currently recognised as an asset in the co-operative housing sector.

The dilemma for housing co-operatives that wish to maintain their socio-economic mix arises from the failure to date to find effective solutions to the broader affordable housing crisis.

Housing co-operatives are an ideal form of Affordable Housing but they need government support. Support provided through the Commonwealth/State Housing Agreement is increasingly targeted to individuals in the most extreme need. In order to play a vibrant, and viable role in future housing affordability, co-operatives need to be able to have a mix of these people and others on moderate incomes – those who fall into the group targeted by the NSW State Government's affordable housing strategy.

The capacity of co-operatives to access state Government affordable housing funds is limited at this stage because of the nature and level of funding available. The capacity to develop mixed partnerships to pursue opportunities to develop sustainable affordable housing has been highly successful in other countries and should be supported and encouraged Nationally as a viable option in Australia – as it provides people with greater control and the sense of ownership that underlies people's sense of security in housing.

## **Mixed Equity**

Affordable housing co-operatives could draw on their higher potential income base to supplement government investment through development of limited equity / mixed equity models.

Whereas tenants' shares in common equity co-operatives are generally nominal, limited equity co-operatives cover some or all of their capital costs through issuing shares to their members.

Ongoing affordability of the housing is secured through limiting share growth (for example to CPI). In the United States the purchase cost of a membership share tends to be around the amount of rental bond.

In Sydney, and in much of New South Wales, the affordability problem for even moderate income earners is so severe that the entry costs to limited equity housing would be prohibitive without significant government support. Given the large number of renters on moderate incomes who pay more than 30% of their income in rent, this option could well provide reasonably cheap, more secure accommodation for moderate income households.

**It is recommended that:**



- *The role of co-operative housing in addressing affordability be explicitly acknowledged and that the Senate Select committee find ways of supporting tied Commonwealth funds for co-operative housing growth and encourage further supplementation through other funding sources (including a possible up front contribution by higher income earners) to create new affordable housing options.*

## **Assistance in developing affordable, managed interest rate loans, in providing grants or government loans**

Capital grants or non-repayable government loans will be required to substantially fund co-operative development.

The North American housing co-operative programs were based on private lenders; for example, the ILM program delivered sufficient returns to attract investors while at the same time achieving certainty for co-operatives in their repayments. But standard mortgage funding arrangements have not facilitated the growth of affordable housing co-operatives.

**Federal Government support for the development and marketing of new types of mortgage funding arrangements would be required if private lending is to become a central feature of any new approach.** But even if this occurred, the crisis in affordability within the New South Wales housing market means that affordable housing for low-income earners will need to be substantially subsidised by government.

**Assuring lenders** - States should be encouraged to transfer stock to umbrella bodies, where assets are secured by debentures or other forms of security so that loans can be secured and levered against existing properties (originally funded under Commonwealth tied programs).

In addition, government can support more affordable loans and the development of new housing by offering some type of assurance to lenders. In the North American cases, this was by way of insurance or government guarantee. In Western Australia, the government has agreed to offer a “deed of right of first refusal” or “put option” - which allows a certain period for the government to step in and prevent foreclosure on the mortgage.

**Rent supplements** - The availability of income supplements for low income households is critical to maintaining affordability and manageability of any repayments to private lenders.

In the Australian context, co-operatives should, and lenders may seek some assurances about the future of rent assistance payments, or about what will be done if Commonwealth government policy in this area changes.

## **Issues in attracting private funds**

Overseas and Australian studies on funding low-cost housing support the use of a mixture of public funds and private funds to raise finance. Accessing private funds will alleviate the cost burden on government. However, it would be extremely difficult to rely only on private funding as a source of funds due to the lower returns that investments in low-income housing mortgages generate compared to the returns on other forms of housing investment.



To overcome the low return/high risk perceived by private investors, the Government could provide cash outlays in order to fund the gap between the return on normal residential mortgages and the return on low-income housing mortgages. Additionally, it could provide some income and/or tax subsidies. One example is to allow Commonwealth rent assistance to still apply to eligible recipients and seek exclusion of State government stamp duty and land tax.

Different models for attracting private investment in community and affordable housing have been canvassed in a range of papers, most recently, the substantial report released by the Australian Housing and Urban Research Institute.

There are several avenues through which private funds can be raised to purchase dwellings:

1. **Retail loans from financial institutions** - Government funds may be required to supplement the mortgage payments provided by housing co-operatives. Government guarantees over mortgage payments may also be required.
2. **Debt securitisation** - Private funds can be raised through the issue of mortgage backed bonds. Bond issues were used previously in the late 1980s to finance low-income ownership of homes. However, since then the secondary market for residential mortgage backed securities has grown significantly. Home loan originators, such as RAMS, have used securitisation to enter the market for home loans and forced other financial institutions to adopt securitisation as a lower cost fund source than deposits for home loans. Additionally investors are using mortgage-backed bonds as an alternative to investing in fixed interest government bonds. The number of government bonds issues has been declining as governments move to achieve budget surpluses. As with retail loans the marketability of these mortgage backed bonds may require a government guarantee and a need for interest payments to be subsidised by the government.
3. **Leasing arrangements** - Dwellings can be purchased or constructed and then leased to the housing co-operative for a period that recognises the long-term tenancy requirements of a housing co-operative, say 99 years. The lessor could be the government or a group of private investors who have purchased the dwellings and are leasing them back to the housing co-operative.

There are several types of private investors who have the potential to be attracted to financing affordable housing, including co-operatives.

1. **Superannuation funds** - They regard a stable fixed income stream as an attractive investment in their portfolio.
2. **Ethical Investors** - They invest in order to earn an acceptable return as well achieve several desirable goals. These goals are in terms of improving some social or environmental factor in the economy. Consequently, they are willing accept a return that is lower than the normal risk adjusted rate of return. There has been considerable growth in the USA of investors branching out into ethical investments. Investor interest has also increased in Australia with several Australian mutual and pension funds including ethical investments, such as equity in environmentally friendly companies, in their portfolios. Affordable housing has the potential to be developed as an attractive ethical investment.



### 3. **Banks with Equity Products** – such as Wespac, Bendigo and MECU

In the current drive for Affordable Housing outcomes, solutions have focussed on very large-scale players: key growth providers, investors and developers. This paper looks to the establishment of a systematic approach to Affordable Housing that can support and allow for the expansion of community based initiatives, developed over several decades. The broad-based umbrellas that harbour such initiatives offer consistency in approach and reliable outcomes for people as well as supply solutions. An affordable housing future should capitalise on this experience and expertise.