Levers to Promote Affordable Housing in the Northern Territory

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SGS
Economics & Planning

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Appropriate Housing for ALL Territorians

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Executive Summary

Purpose & Scope of this Paper

This report investigates a range of housing affordability 'policy levers' with a view to recommending a package of measures that would make a difference in the NT, particularly in the urban contexts of Darwin and Alice Springs.

More than fifty levers were identified from national and international practice. These potentially contributed to housing affordability via:

- Improvements to housing market affordability;
- Better institutional arrangements for community housing groups and other affordable housing suppliers;
- Provision of supply side subsidies, that is, to builders and developers;
- Provision of demand side subsidies, that is, direct to tenants and homebuyers;
- Regulatory or tax measures to help fund demand side or supply side subsidies; and
- Ethical investment and benevolence.

This long list of candidate levers was evaluated through a process of consultation with NT stakeholders, followed by more detailed research about the effectiveness of the subject levers elsewhere and how they might apply in an NT setting.

By definition, housing stress covers those households in the bottom two quintiles of the income distribution who are outlaying more than 30% of gross income on accommodation costs. Given the rapid escalation of housing prices under Australia's current 'long boom', very few households in this income range would be even on the margins of home purchase, unless they have access to assets through bequests, family assistance and the like. It is theoretically possible to lift the 'highest' income households in the low income band into home ownership. However, the subsidies in question would need to be extraordinarily deep. This would raise serious equity issues and would constrain the 'reach' of the limited public sector resources available for housing assistance. Bearing in mind the extent of housing stress amongst those 'permanently' anchored in the rental sector, and the fact that the Territory already has a reasonable suite of home lending products in place to assist marginal home buyers, including an innovative shared equity scheme, the evaluation process ultimately focussed on mechanisms to improve the supply of affordable ***rental*** housing. .

Following evaluation, the levers identified to have the greatest potential were:

- The preparation of a wholistic Territory Planning Policy on affordable housing;
- Inclusionary Zoning;
- Demonstration projects, including public private partnerships and innovative joint ventures involving charities, community organisations and for profit developers; and
- Institutional and financial support for cost effective, not for profit delivery models.

Impact of the Prioritised Levers – Need for National Reforms

Whilst the prioritised levers can make a difference, none of the mechanisms reviewed can provide 'the answer' to the Territory's affordable housing crisis. As in all other Australian jurisdictions, the affordability problem in Darwin and Alice Springs reflects a severe and structural shortage of rental housing which is accessible at a reasonable price to lower and moderate income households. This, in turn, reflects the virtual absence of any national program specifically designed to create affordable stock.

Structural national reforms are necessary if a significant dent is to be made in the affordability issue in the Territory. The nature of these reforms has been canvassed in a range of previous studies. The simplest approach would be to reinstate the Commonwealth State Housing Agreement (CSHA) to its previous role and greatly increase capital commitments to the expansion of public housing. Other options would see the Commonwealth making recurrent outlays to bridge the gap between the return achievable on National Affordable Housing Bonds and the return required by commercial investors. A comprehensive scheme of tax credits to bridge this 'return gap' has also been proposed.

Development of the 'Third Sector'

Given that national reforms are a precondition for successful affordable housing policies at the State and Territory level, the analysis in this report shows that there are a number of local initiatives which can be taken in the NT to boost the effectiveness of whatever structural assistance is forthcoming from Canberra.

The principal requirement is to accelerate the growth of a 'Third Sector' within the rental tenure sphere. The Third Sector relates to not for dividend Housing Associations which are dedicated to the provision of affordable and appropriate housing outcomes for their tenants. The Brisbane Housing Company and City West Housing in Sydney are early Australian examples of a class of landlord operation which is rapidly assuming dominance in the lower income sector in the UK, and which has been a major force in continental Europe, especially Northern Europe, for much of the past 6 decades.

Housing Associations receive capital grants or stock transfers from their host Governments but they are legally separate from these governments. They are governed by independent boards and may enter into commercial dealings in their own right. However, as the recipients of asset transfers from taxpayers, the Associations must comply with a highly specific charter focussed on affordable housing delivery in a fair and efficient manner. They are tightly regulated to ensure that their tenancy and asset management practices conform with their charter and with the underlying policy objectives of the host government.

In the emergent Australian practice, Housing Associations are required to target broadly the same group of households as that eligible (or prioritised for) public housing. However, they have greater flexibility within this broad band and tend to house those at the higher end of the low income range and those with fewer special needs. In a sense, they perform the role of housing ‘ordinary working Australians’ which the public housing sector fulfilled prior to its residualisation into ‘welfare housing’ from the mid 1980’s onwards.

Housing Associations offer a number of advantages in framing a Territory affordable housing strategy. They inject a degree of competition and choice into the low income rental sector thereby promoting innovation and improved accountability. Housing Associations are also free to work their balance sheets much harder than traditional public housing providers. This means that options for attracting private sector investment in affordable rental housing expand greatly.

Successful implementation of a Housing Association in the Territory is the key catalyst to a range of innovative levers canvassed in this paper, including those focussing on joint ventures and demonstration projects.

The Territory should avoid ‘reinventing the wheel’ on Housing Association policy. It has the opportunity to take the best from the extended period of experimentation and policy development which has been pursued in other jurisdictions. In terms of regulatory frameworks for the Third Sector, Victoria seems to be the most advanced. This framework is generic in nature and could translate readily to the Territory.

As far as seeding an initial Housing Association is concerned, there is merit in approaching an established company – say the Brisbane Housing Company – with a view to it ‘franchising’ an operation in Darwin/Alice Springs. This could be a cost effective way of fast tracking relevant skills development and organisational capability in the Territory.

Role of Planning System

Whereas once the provision of affordable housing was seen as a simple, ‘aspatial’ transfer payment to alleviate housing stress, there is now growing recognition that affordable housing underpins social mix which is a vital ingredient in healthy, harmonious and prosperous communities. Under this view, questions of social mix in new and established communities become a legitimate planning consideration, potentially leading to the use of land use controls to extract various forms of contributions from developers for affordable housing. Recent years have seen a plethora of ‘innovative affordable housing measures’ creep into Australian planning practice. However, some of these can have adverse effects on housing market efficiency and / or are patchy and small scale in their impact on the affordability problem.

This report favours the application of a blanket Inclusionary Zoning approach across whole suburbs or urban sub-regions. This approach best reflects the need to achieve social mix across all communities and is most consistent with the environmental sustainability rationale for applying the planning system to affordable housing. Moreover it establishes the broadest possible base for raising affordable housing contributions, thereby limiting any adverse effects on housing production costs and mitigating any threat of ‘capital flight’.

Strategic Direction

Greatest advantage would be gained from focussing a NT affordable housing strategy on the development of Housing Associations and planning reforms featuring Inclusionary Zoning. These anchor elements would provide the integrating platform for the second order levers identified as worthwhile via the analysis in this report.

In parallel with the development of this strategy, the NT should continue to press the Commonwealth for the national structural reforms required to encourage institutional investment in affordable housing.

Recommendations

The report recommends that:

1. The Territory Government prepare a strategy for accelerated development of the Housing Association sector in the NT;
2. The regulatory regime developed by the Victorian Government for Housing Associations be adopted as an initial best practice model on which to formulate a suitable framework for the Territory;
3. The Territory Government undertake discussions with leading, large scale Housing Associations already operating in Australia (e.g. Brisbane Housing Company) to explore options for how these Associations might franchise suitable Territory operations;
4. The Territory Government undertake financial and risk analyses of these options, based on a range of scenarios regarding tenant mix and initial capitalisation of an NT Housing Association.
5. The Territory Government amend the Planning Act to include an wholistic definition of environmental sustainability and, in particular, to clarify that issues of social mix and housing diversity can be legitimately considered as ‘planning matters’ in the formulation of town planning schemes and the determination of development approvals;
6. The Territory Government prepare an overarching planning policy for the promotion of affordable housing featuring Inclusionary Zoning applied on a simple and consistent suburb / region wide basis plus a range of regulatory and land release reforms to support more cost effective housing development; and
7. The Territory Government utilise COAG and other Ministerial forums to make the case to the Australian Government for the taxation and/or subsidy programs required for large scale institutional investment in affordable housing.

1 Introduction

In September 2006, NT Shelter commissioned SGS Economics and Planning Pty Ltd (SGS) to investigate new models for expanding the range of affordable housing options in the Northern Territory. The study concentrated on levers that can affect the affordablility of housing in the urban contexts of Darwin and Alice Springs.

Recent years have seen a growing debate in the Australian policy community regarding innovative strategies to meet affordable housing needs. A number of factors have prompted this. One has been the diminution - over many years now - in fresh capital commitments by the Commonwealth to public housing. State public housing authorities are struggling to maintain their existing stocks let alone invest in stock expansion.

The need left unmet by shrinking public housing programs has not been addressed by Commonwealth Rent Assistance (CRA). Australia wide, more than 330,000 low income private renters continue to suffer housing stress after taking their CRA payments into account[1].

The debate has also been fuelled by concerns regarding the residualisation of social housing. The tight targeting of this stock to those in greatest need, the consequential lower turnover of stock and the concentration of older stock in particular neighbourhoods has created pockets of social disadvantage. Here, locational factors compound the disadvantage of low income and can set in train an adverse cycle of unemployment, social dysfunction and health problems. Meanwhile, ordinary working households that are vital to positive labour market outcomes are shut out from what once was a key source of affordable housing.

Such issues are no less evident in NT, except that the great size of the Territory, its small population and its limited infrastructure combine to make some of the problems even more difficult to manage.

In 2004, it was observed that the Northern Territory had the lowest levels of home ownership in Australia: 42.4 per cent compared to the national rate of 66 per cent[2]. Furthermore, in 2001, the Northern Territory was found to have the highest rate of homelessness of any State or Territory in Australia (5423 people, representing 288 persons per 10,000 of the population). This rate was more than four times that found in the next highest jurisdiction, Queensland (70 persons per 10,000 population), and is exacerbated by the high incidence of homelessness among the Indigenous population.

These trends occur against the background of a generally buoyant NT economy, powered by commodity exports and strong Commonwealth expenditures. NT Treasury forecasts suggest that GDP growth in the Territory will be a healthy 5.8% in 2006/07[3], albeit that the economy is battling

[1] Senate Community Affairs Reference Committee, 2006, retrieved from www. aph. gov. au on Jan 2, 2007)

[2] Speech made by John Ah Kit MLA, Minister for Housing at the Crown Plaza, Darwin 16 June 2004

[3] www. nt. gov. au/ntt/budget, retrieved on Jan, 2, 2007

significant skill shortages. This economic strength and the associated influx of workers is reflected in high housing prices and tight vacancy rates in the rental sector. According to Treasury reports, vacancy rates for private rental houses in Darwin and Palmerston were just 1.7% and 1.4% respectively in the September Quarter 2006. Median dwelling prices for the quarter were $385,000 in Darwin and $385,500 in Palmerston[4].

1.1 Study Brief & Required Outcomes

The focus of this study was to determine levers that can affect the affordability of housing and to recommend a package of mechanisms that could make a positive contribution to affordability issues in the urban contexts of Darwin and Alice Springs.

To achieve the aim of the study, the following was undertaken:

- Investigation of housing issues specific to the urban context of the Northern Territory;
- Establishment of assessment criteria for classifying and comparing various models that can positively affect affordable housing;
- Review of literature regarding relevant models of affordable housing operating interstate and elsewhere;
- Shortlisting of models applicable to the Territory (in conjunction with the combined expertise of the Steering Committee);
- Determining the financial implications of the selected models and identifying any funding avenues; and
- Finalising the most appropriate ‘package’ of affordable housing mechanisms and identifying recommendations regarding legislative changes (if required) and other implementation requirements.

The required outcomes of the study included:

- Investigation of models of financing and expanding the capacity of the NT housing sector to deliver viable social housing options for people on low incomes and those who are disadvantaged in the housing market;
- Financial assessment indicating the impacts on government should the recommendations of the research be taken up;
- The identification of private and other possible forms of finance supporting the recommended affordable housing levers;
- Recommendations for any changes to legislative and planning frameworks in the NT which may be required to introduce the model/s; and,
- Any other recommendations for implementation

1.2 Structure of the Report

This report presents the findings and detailed assessment of the shorlisted levers as identified in the initial stages of this project. It further outlines recommendations of final packages for the Northern Territory.

[4] NT Treasury Economic Review – December 2006

Specifically:

- Section 2 provides a brief background review of affordable housing issues within the Northern Territory;
- Section 3 details Affordable Housing Mechanisms and the criteria used to assess the relevance of individual levers for the NT;
- Section 4 explains the method that was used for shortlisting the preferred list of levers (this section also provides a final list of levers that were perceived to be pertinent to the NT);
- Section 5 provides a detailed analysis of all shortlisted levers to determine whether they are worth pursuing in the Northern Territory; and
- Section 6 presents recommendations regarding final packages of levers that might assist low income renters as well as those on the margins of homeownership in the Territory. It further details the necessary requirements for implementation.

2 Context

2.1 Affordable Housing

'Affordable housing' is defined as accommodation that is appropriate for low-income households in terms of size, standards, and access to services and facilities. Under this definition, housing is only truly affordable if it is well serviced, well-located, safe, secure, and accessible to people in need. 'Affordable housing' is therefore considered broadly in terms of the relationship between the dwelling and residents, and their capacities and needs; it is not solely a physical or financial characteristic of the dwelling and cannot be measured in financial terms alone.

For the purposes of this study, households in need of affordable housing are defined to include those in the lowest 40% of the income distribution whose housing costs (rent or mortgage payments) exceed 30% of gross income.

2.2 Housing Demand & Impacts of Housing Stress

Housing demand emanates from a number of processes, including new household formation due to:

- Population increases, and dependents leaving the family house and forming their own household;
- Couples and families separating / divorcing and requiring separate households; and
- Couples and families seeking different household types due to changes in family/personal lifecycle – such as an addition/subtraction of family members, or through aging, or because of disabilities.

Over recent years housing demand generally has been changing due to population increases, changing household structures, changes to affordability and increased homelessness. This is placing further pressure on public housing and this is forecast to continue at a high rate into the future.

These trends have many implications on the future provision and demand of housing. The challenge is to ensure an adequate housing supply is present to meet a diversity of demands and that, most importantly, the housing in question is affordable, accessible and appropriately located.

Housing has become less affordable for a myriad of reasons, including:

- The cost of housing has increased significantly (well above consumer price index and full time earnings);
- Areas formerly occupied by low income households are under threat from gentrification. In particular, rental stock is being converted to owner occupation, particularly by higher

income households buying their way into central locations close to services and employment;

- Social trends have contributed to more diverse and smaller households, which often have a lower level of income (i.e. single parent families, lone person households etc); and
- Changes in employment circumstances (e.g. casualisation of the workforce and growth of part-time employment opportunities) are contributing towards less certainty of income.

Many people therefore find themselves in a position of housing stress. The consequences of housing stress include a lack of money for food and other essential items such as clothes, education, transport or health care. Housing stress can also impact negatively upon factors such as the incidence of crime, employment prospects, and family and community relationships.

The physical manifestation of housing stress may be shown through over-crowding and under-occupancy, homelessness, spatial segregation differentiated by socio-economic status, and physical dilapidation.

Wider impacts include:

- Hindering economic competitiveness if areas cannot attract and retain diversity in occupation type and status within the local labour market. A robust economy will include moderate and low paid key workers (i.e. nurses, teachers, police officers, various maintenance operatives etc), as well as more highly paid knowledge workers.
- Lack of community cohesion if high and low income earners are spatially segregated. This can then increase the incidence of crime and mistrust within the community. In addition, a segregated community can have negative impacts on local industries. The tourism industry, in particular, is one sector which draws upon the image and substance of a region's social (and physical) environment.

2.2.1 Northern Territory Specific Issues

Just as in other Australian jurisdictions, there are many challenges for the Northern Territory with respect to the provision of affordable housing. The geographic size of the Territory coupled with its small population and its limited infrastructure combine to make some of the problems even more difficult to manage.

Consultation with the steering group for the project has indicated a number of specific issues generated by, or compounded in, the Northern Territory context, which included:

- A proportionally large and relatively strongly growing indigenous population with particular affordable housing needs;
- Land supply constraints, in some cases due to Native Title claims; and
- Increasing construction costs due to higher material costs, shortages of labour and difficulty with retention of tradespersons. Limitations in numeracy and literary skills are seen to exacerbate these issues, as does the transient nature of the population.

Broader macro issues such as taxation regimes, and particularly negative gearing, was also seen by some stakeholders as a contributor to the housing affordability issues in the NT.

3 Affordable Housing Mechanisms

Several mechanisms can potentially be applied to positively affect housing affordability. These can be generally assembled under 6 categories as follows[5].

1. **Housing market efficiency.** These are policies and programs designed to improve the operation of the housing market generally so that it produces and allocates dwellings at lowest cost and prices for a given quality rating. These measures generally relate to the promotion of competition, removal of barriers to entry and the improvement of information flows in the market to promote more rapid adjustment to changing demand / supply conditions. Other measures include undertaking demonstration projects in new tenures, housing forms and financing products; and overcoming market failures involving, for example, land assembly difficulties in urban consolidation locations.

2. **Affordable housing market efficiency**. These policies and programs are designed to improve efficiency in the management / delivery of *affordable housing* that is, housing opportunities specifically targeted to households in the bottom two quintiles of the income distribution. Whereas the initiatives in the first category all apply to the housing market in general, the levers in the second category specifically ease the operation of affordable housing suppliers/financiers, etc. In general these can be regarded as institutional arrangements more than policy levers as such. They are likely to be useful, even essential, channels for some of the other policies to be effective.

3. **Supply side subsidies**. These levers provide explicit or implicit supply side subsidies for the expansion of the stock of affordable housing. Many of these mechanisms require the State/Territory or another agency to forego revenue in order to assist particular players in the housing market.

4. **Demand side subsidies**. These are policies and programs that provide explicit or implicit income assistance for lower income renters and buyers.

5. **Fund raising regulatory or taxation measures**. These include administrative and taxation measures designed to raise cash or in-kind resources to fund the subsidies deployed in the mechanisms described in categories three and four.

6. **Ethical investment and charities**. These are measures and initiatives designed to tap ethical investment and benevolence as a means of funding affordable housing subsidies.

Almost 60 levers have been identified under these headings. These are listed in Table 1 and briefly profiled in Appendix A.

[5] This discussion draws extensively from a review of housing affordability 'levers' conducted by SGS & KPMG in 2003 for the State & Territory Members, Housing Ministers Advisory Committee.

Table 1 Levers to Promote / Support Affordable Housing

1	**Housing Market Efficiency**
1.1	*Housing Finance*
	Superannuation applied to deposits
	New finance products
	Government backed mortgage insurance
	Development of community banks
1.2	*Planning and Infrastructure*
	State and Local Government Planning Policy
	Efficient infrastructure provision & equitable user pays
1.3	*Land Supply*
	Government businesses - competition in land supply
	Government organisations to engage in land banking
	Assemble land in urban consolidation areas
	Punitive rates to promote release of land for development
1.4	*Other Housing Market Efficiency*
	Demonstration projects promoting innovation
	Appropriately structured and skilled workforce in housing sectors
	Provision of improved market information
2	**Affordable Housing Market Efficiency**
2A	Support cost effective, not for profit delivery models
3	**Supply Side Subsidies**
3.1	*Tax Based Subsidies*
	Low income housing tax credits
	Concessions to affordable housing rental investment
	Capital gains tax indexation for affordable housing
	Land tax rebates for affordable housing
	GST exemptions for social and affordable housing
	Accelerated depreciation for affordable rental housing
	Local Government rate rebates and fee waivers
3.2	*Other Subsidies and Transfers*
	Government issued bonds for affordable housing
	Fast tracking development assessment and approvals
	Rent Controls
	Government guarantees for recognised affordable housing providers
	Affordable housing subsidy program
	Capital grants
	Developer assistance
	Public Private Partnerships
4	**Demand Side Subsidies**
4.1	*Taxation concessions / incentives for low-moderate income homebuyers*
	Housing lifeline loans
	Stamp Duty rebates
	Deposit assistance
	Below Market Interest Rate Loans
	Reduced threshold mortgage eligibility
	Mortgage interest deductibility
	Converting rent assistance to subsidy for purchase
4.2	*Taxation concessions / incentives for low-moderate income renters*
	Direct rental subsidy
	Bond Assistance
	Tenancy Laws
5	**Fund Raising Regulatory or Tax Measures**
5.1	*Mandated Use or Management of Funds*
	Mandated super funds investment in afford housing
	Regulation of financial institutions
	Housing first policies
5.2	*Development Related Contributions*
	Developer contributions to affordable housing – via DCP
	Developer contributions - as impact mitigation payments
	Developer contributions - as negotiated arrangements
	Bonus/ incentive schemes for affordable housing
	Betterment taxes
	Inclusionary Zoning
	Linkage fees – for major non-residential developments
5.3	*Other Contributions or Levies*
	Broad based LG levy for affordable housing
	Hypothecation of 'landcom' dividends
6	**Ethical Investment and Benevolence**
	Ethical investment stream
	Joint venture projects with charities / community organisations
	Community Housing and Land Trusts
	Joint venture projects with AH providers
	Sweat equity schemes

The levers noted in Table 1 and outlined in Appendix A were assessed in relation to the Northern Territory context with a view to developing a package of levers that could assist in alleviating affordability issues to some degree.

A number of issues were taken into account when assessing the merit of these various levers for the Northern Territory context. These included:

- Cost effectiveness
- Political acceptability
- Sustainability (of benefits, funding)
- Consistency with existing policies (NCP, labour laws, non-discrimination etc.)
- Legality
- Perceived equity
- Avoidance of poverty traps
- Consistency with other initiatives (existing Territory housing programs and other levers being considered)
- Administrative complexity and compliance costs
- Transparency
- Allowance for choice, expression of preferences
- Openness to adjustment
- Minimisation of unwanted market distortions
- No or limited negative impacts on market efficiency

These various considerations were synthesised into 4 key evaluation criteria as follows:

- **Criterion 1;** Demonstrated effectiveness and practicality. A mechanism would be rated highly on this front if there are existing examples of its successful implementation in Australia.
- **Criterion 2;** Cross program harmonisation. Mechanisms which actively contribute to other (non housing) social, economic and environmental policy objectives rate strongly on this criterion. For example, a particular mechanism may have the effect of improving the target households' access to education, training and employment, or it might otherwise develop household skills that will assist with avoidance of welfare dependence.
- **Criterion 3;** Implementation readiness. This relates to the institutional, legislative, administrative resources and skills required to put the mechanism into practice. Here, special attention has to be given to the institutional and resource constraints of the NT.
- **Criterion 4;** Likelihood of broad stakeholder support. This criterion addresses the implementability of the mechanism from a political perspective. A mechanism would attract a lower rating if key stakeholder groups are on the record as being strongly opposed to the measures in question.

The assessment method and outcomes are indicated in the next section.

4 Assessment of Levers

4.1 Method for Shortlisting Levers

Figure 1 illustrates the method and approach that was taken to determine the most relevant levers for the Northern Territory. The approach included 5 phases, as follows (see also Figure 1):

Phase One: Presentation of the candidate levers to a focus group/workshop comprising representatives from:

- NT Shelter;
- Territory Housing;
- TIO;
- CDU;
- Treasury;
- Darwin City Council; and
- FaCSIA

Phase Two: Once the levers were presented to the focus group and issues relating to levers were discussed, an overview of the key criteria was presented. All representatives were asked to individually score the different levers against the criteria.

Phase Three: Once the scoring was completed, an amalgamation of all scores was produced by SGS. An average of scores against each of the levers was seen as the most appropriate method for synthesising and articulating the outcomes of the scoring.

Phase Four: Levers with an average score of 2.5 or greater were considered significant and placed on a shortlist. This shortlist was then presented to the focus group for further discussions.

Phase Five: The final phase involved a discussion regarding the shortlist of levers in relation to the NT. This discussion resulted in some levers that fell outside the 2.5 score range being re-included into the shortlist as they were viewed as important to the Northern Territory context.

Figure 1 Method for Shortlisting Levers

Phase One

PRESENTATION OF LEVERS TO FOCUS GROUP	Presentation of Levers – individual levers to be summarised and presented to focus group for consideration.

Phase Two

INDIVIDUAL SCORING OF LEVERS	Presentation of Criteria – assessment of 4 key evaluation tests.
	Individual Scoring – each representative from individual departments score levers based on criterion.

Phase Three

SYNTHESIS OF SCORES	Average of Scores – compilation of all scores to determine average.

Phase Four

OUTCOMES – INTERIM SHORTLIST	Short listed Levers - levers that rate 2.5 or greater considered significant and placed on shortlist.

Phase Five

OUTCOMES – GROUP SUMMARY	Assessment of Interim Shortlist – discuss shortlist in relation to NT appropriateness and additional gaps identified by focus group.
	Summary – final iteration of short listed levers.

Final shortlist of levers for further investigation

4.2 Shortlisted Levers

The shortlisted levers noted for further investigation are shown in Table 2.

Table 2 Shortlisted Levers for Further Investigation

Category			**Mechanism / Lever For Further Investigation**
1	Housing Market Efficiency	1B	New finance products
		1E	State and Local Government Planning Policy
		1K	Demonstration projects promoting innovation
2	Affordable Housing Market Efficiency	2A	Support cost effective, not for profit delivery models
3	Supply Side Subsidies	3I	Fast tracking development assessment and approvals
		3K	Government guarantees for recognised affordable housing providers
		3L	Affordable housing subsidy program
		3M	Capital grants
		3N	Developer assistance
		3O	Public Private Partnerships
4	Demand Side Subsidies	4B	Stamp Duty rebates
		4C	Deposit assistance
		4H	Direct rental subsidy
		4I	Bond Assistance
5	Fund Raising Regulatory or Tax Measures	5C	Housing first policies
		5E	Developer contributions - as impact mitigation payments
		5F	Developer contributions - as negotiated arrangements
		5G	Bonus/ incentive schemes for affordable housing
		5I	Inclusionary Zoning
		5J	Linkage fees – for major non-residential developments
6	Joint venture projects with AH providers	6A	Ethical investment stream
		6B	Joint venture projects with charities / community organisations
		6C	Community Housing and Land Trusts
		6D	Joint venture projects with AH providers

It is noted that many of the levers can be programmatically linked. Accordingly, the assessment of the levers in the following section focuses on:

- **Planning mechanisms**, such as the Territory Government Planning Policy, and related development measures (inclusionary zoning, impact mitigation payments, linkage fees, fast tracking development[6])
- Initiatives to better utilise **surplus government assets**, such as housing first policies;
- Creation of **new housing vehicles**, such as cost effective, not-for profit housing companies and housing associations, and supporting mechanisms such as demonstration projects, government guarantees, affordable housing subsidy programs, capital grants, developer assistance;
- Mechanisms to support **joint ventures and PPPs**, utilisation of ethical investment streams;
- Initiatives to assist those on the margins of home ownership, such as **new finance products, stamp duty rebates, deposit assistance**;
- Initiatives to assist low income people access rental properties, such as **bond assistance** etc.

[6] Initiatives such as negotiated arrangements and bonus densities were also shortlisted, but for the reasons stated in Appendix … these mechanisms are not considered appropriate.

5 Assessment of Levers for NT

Some guiding questions were used to determine whether the short listed levers were worth pursuing in the Northern Territory context. These related to; application of the lever elsewhere; current use of the lever in the NT; scope for expanding application of the lever in the NT; lessons learned to date from application of the lever in the Territory and elsewhere; and the likely benefit and impact on affordable housing.

A summary of the assessment of the levers against the guiding questions is provided in Table 3. A detailed appraisal of each lever follows.

Table 3 Summary of Shortlisted Levers against Guiding Questions

Mechanism/Lever For Further Investigation	Targeted Specifically to Low Income Households?	Relevance to Home Ownership vs Rental housing stress	Successful Application Elsewhere?	Currently Used in NT?	Scope for Expanding the Lever in the NT	Lever to be Included in NT Package?
PLANNING MECHANISMS						
1E Territory Government Planning Policy on Affordable Housing	An affordable housing policy would focus on choice and efficiency in the residential market generally, but could also include specific measures to assist in the provision of housing affordable to households in the bottom two quintiles of the income distribution	Likely to be more relevant to rental housing stress, by requiring some form of development contribution for social landlord housing.	Yes, SA and NSW	No.	Yes, however, the legislation would need to be amended to explicitly acknowledge social mix and affordable housing as 'planning matters'	**Yes**.
3I Fast Tracking Development	Yes, fast tracking could be targetted specifically at affordable housing projects	Can be made to be equally relevant to the production of affordable housing for owner occupancy or rental tenure	No specific evidence of this	No.	Yes, but will need to make amendments to current planning policy & legislation	**Not recommended**, if it compromises the efficiency of the wider development approval system
5E Developer Contributions – as impact mitigation measures	Yes	Limited to rental housing stress	Yes, NSW	No	Yes, but will need to make amendments to current planning policy & legislation	Application of this measure by making appropriate adjustments to the planning legislation is **supported**. However, this mechanism is not recommended as a 'mainstay' of an affordable housing strategy in the NT.
5F Developer Contributions – as negotiated arrangements	Yes	Likely to be restricted to rental housing stress and the generation of funds/stock for social rental housing	Yes, especially in NSW and Vic	No	Yes, but will need to make amendments to current planning policy & legislation	**Not recommended**, as this approach may compromise the efficiency of the wider development approval system
5I Inclusionary Zoning	Yes	Can be made relevant to the production of affordable housing for owner occupancy, though more likely to be used for rental tenure	Yes, NSW	No	Yes, but will need to make amendments to current planning policy & legislation	**Yes**
5J Linkage Fees for major non-residential development	Yes	More likely to be relevant to rental tenure	Not in urban settings, though have been applied for resource and tourism developments	Not in urban settings	Yes, but the incremental and small scale nature of development in the Territory militates against the use of this option	**Not recommended** as a core measure due to limited / unreliable affordable housing yield, though can be applied on a case by case basis if major urban projects arise.

Table 3 (continued)

NEW HOUSING VEHICLES & SUPPORTING MECHANISMS						
Mechanism/Lever For Further Investigation	**Targeted Specifically to Low Income Households?**	**Relevance to Home Ownership vs Rental housing stress**	**Successful Application Elsewhere?**	**Currently Used in NT?**	**Scope for Expanding the Lever in the NT**	**Lever to be Included in NT Package?**
1K Demonstration Projects	Yes, can be, though demonstration projects typically cover a broader spectrum of income groups including moderate income home buyers	In most Australian experience to date, the focus has been on making home ownership more accessible to marginal buyers	Yes, NSW, Vic, WA, SA	No.	Yes, though the Territory would probably need to set up a development corporation to joint venture with appropriate private sector partners	**Yes.**
2A Support Cost Effective, Not-For-Profit Delivery Models	Yes, though not for dividend housing companies tend to concentrate on tenants at the 'higher end' of the low income spectrum, compared to public housing and traditional community housing providers.	Primarily relevant to low income renters, though experience overseas, especially UK, shows that Housing Associations can diversify into affordable home ownership products such as various shared equity schemes	Yes, for example, Brisbane Housing Company, City West (Sydney), Vic Housing Associations	No	Yes, but significant institutional capacity constraints need to be overcome	**Yes.**
3K Government Guarantees for Recognised Affordable Housing Providers	Yes. However, as these guarantees would most likely be used with not for dividend Housing Associations or the like, the flow of benefit will favour those at the higher end of the low income spectrum.	Primarily relevant to low income renters.	No	No	Could potentially be applied in the Territory, providing the institutional capacity to support not for dividend providers is developed. However, these guarantees may dilute commitment to sound financial management in these providers.	**Not recommended**
3L Affordable Housing Subsidy	Yes	Only relevant to rental tenure	Yes	Yes	Yes, but requires improved institutional framework / capacity to support expanded not for dividend sector	**Yes**
5G Bonus/Incentives Schemes for Affordable Housing	Yes	More likely to be used to generate affordable stock for rental tenure	No. Was applied in NSW but use of this mechanism has been overturned by the Land and Environment Court	No	Could be applied using the general conditioning powers under the planning legislation, but this could have adverse amenity effects, or compromise efficient use of available developable land.	**Not recommended**

Table 3 (continued)

JOINT VENTURES AND PRIVATE PUBLIC PARTNERSHIPS						
Mechanism/Lever For Further Investigation	**Targeted Specifically to Low Income Households?**	**Relevance to Home Ownership vs Rental housing stress**	**Successful Application Elsewhere?**	**Currently Used in NT?**	**Scope for Expanding the Lever in the NT**	**Lever to be Included in NT Package?**
30 Public Private Partnership	Yes	More relevant to rental housing	Yes.	Yes, Bernard Street complex Katherine.	Yes, though there may be limits in terms of private sector scale and NT Government institutional capacity	**Recommended** as an important supplementary / opportunistic tool
6A Ethical Investment Stream	Yes, though more likely to target households in the upper end of the low income spectrum	Could be relevant to both tenures, with focus on renters in the initial development phase	Not as yet	No	Yes, but only as part of a national framework	**Supported** in principle, but given **low priority** as this lever is unlikely to be implementable in the short to medium term.
6B Joint Venture Projects with charities/community organisations	Yes. The community partners involved may want to reserve nomination rights for occupancy of the affordable housing created under these ventures	More relevant to rental housing	Yes	Yes	Yes, though not likely to yield substantial volumes of affordable housing. Better integration of support services with accommodation is likely to result from the cross fertilisation between the joint venture partners. Will need to overcome institutional capacity constraints to make this option work.	**Yes**
6C Community Housing and Land Trust	Not necessarily	More relevant to buyers	Not in Australia (other than the indigenous housing area)	No, other than the indigenous housing area.	Yes, but unlikely to have significant impact on affordable housing either in volume or quality	**Supported** in principle, but given **low priority.**
6D Joint Venture Projects with AH Providers	Yes, though more likely to target households in the upper end of the low income spectrum	More relevant to rental housing	Yes, most Australian jurisdictions	Yes, but very limited outside of the indigenous sector	Yes, though institutional capacity constraints need to be overcome	**Yes**

Table 3 (continued)

UTILISATION OF SURPLUS GOVERNMENT ASSETS						
Mechanism/Lever For Further Investigation	**Targeted Specifically to Low Income Households?**	**Relevance to Home Ownership vs Rental housing stress**	**Successful Application Elsewhere?**	**Currently Used in NT?**	**Scope for Expanding the Lever in the NT**	**Lever to be Included in NT Package?**
3M Capital Grants	Yes	Only relevant to rental tenure	Yes, general funding method under the CSHA	Yes	Yes	**Yes**
3N Developer Assistance	Yes, though not necessarily. Could be targetted at moderate income home buyers	Potentially relevant to both tenures	Yes	Not as yet	Yes, though institutional capacity constraints are an issue	**Supported** in principle, but given **low priority.**
5C Housing First Policies	Not necessarily	Potentially relevant to both tenures	Yes, though mainly limited to local government. Most State jurisdictions still apply 'highest and best' use approaches to the valuation and management of surplus government land.	No	Yes, but would require more aggressive implementation of the Home Territory 2010 commitment to a 'whole of government' approach to affordable housing. This lever is unlikely to generate substantial stocks of affordable housing.	**Supported** in principle, but given **low priority.**

Table 3 (continued)

INITIATIVES TO ASSIST THOSE ON THE MARGINS OF HOME OWNERSHIP						
Mechanism/Lever For Further Investigation	**Targeted Specifically to Low Income Households?**	**Relevance to Home Ownership vs Rental housing stress**	**Successful Application Elsewhere?**	**Currently Used in NT?**	**Scope for Expanding the Lever in the NT**	**Lever to be Included in NT Package?**
1B New Finance Products	No, mainly focussed on moderate income households on the margins of affording commercial loans	Relevant only to home purchase	Yes	Yes	Application of this lever is already comprehensive in the Territory	Ongoing application of current arrangements is **supported**, but no special priority given to expansion of these schemes.
4B Stamp Duty Rebates	No, mainly focussed on moderate income households on the margins of affording commercial loans	Relevant only to home purchase	Yes	Yes	Yes, though NT already offers relatively generous Stamp Duty concessions	**Not recommended**, as unlikely to assist households in bottom two quintiles of the income distribution.
4C Deposit Assistance	No, FHOG is available to all first home buyers regardless of income. A Territory deposit assistance scheme could be targetted to households on the margins of home ownership	Relevant only to home purchase	Yes, through FHOG, though this is untargetted	Yes (through FHOG)	Yes, NT could offer up front grants in lieu of Stamp Duty concessions.	**Not recommended**, as unlikely to assist households in bottom two quintiles of the income distribution.

Table 3 (continued)

OTHER INITIATIVES TO ASSISTS PEOPLE ACCESS RENTAL PROPERTIES						
Mechanism/Lever For Further Investigation	**Targeted Specifically to Low Income Households?**	**Relevance to Home Ownership vs Rental housing stress**	**Successful Application Elsewhere?**	**Currently Used in NT?**	**Scope for Expanding the Lever in the NT**	**Lever to be Included in NT Package?**
4H Direct Rental Subsidy	Yes	Relevant only to renters	Yes (CRA)	Yes (CRA)	Yes, in theory the Territory Government could introduce its own income supplement scheme.	A supplementary NT income supplement scheme is **not recommended** as it would not directly support expansion of the affordable housing stock.
4I Bond Assistance	Yes	Relevant only to renters	Yes (all Australian jurisdictions)	Yes	Yes (though only a palliative measure)	Ongoing application of current arrangements is **supported**, but no special priority given to expansion of this scheme as it does not directly expand affordable housing supply.

5.1 Planning Mechanisms

5.1.1 1E Territory Government Planning Policy on Affordable Housing

State/Territory Planning Policies represent an acknowledgement by the Government that the subject matter involved is of Territory-wide concern. A Territory Affordable Housing Planning Policy would promote affordable housing provisions that could be incorporated into the Territory Planning Scheme to support a range of housing options that satisfy the diverse housing needs of the Territory.

This lever is the wider framework that if implemented would incorporate a number of more specific sub-components and policy reform measures. In general, the reform suggested here would

- Reward, encourage or permit lower cost forms of construction in areas where housing affordability is a priority outcome.
- Allow other fund raising initiatives to be considered in newly developing and redeveloping areas;
- Include measures that ban / mitigate the loss of affordable housing.

Measures may include

- Setting targets for the achievement of affordable housing in key locations that are accessible to employment and services;
- Developing policies to permit higher densities in appropriate locations or the facilitation of alternative housing types such as mobile homes, demountable homes, rooming/boarding houses, studios, shop top housing, and mixed use developments;
- Incorporating reforms concerning improvements to the administration of planning policy, whether measured in time taken, predictability of outcomes or consistency of application. (Maintaining this 'administrative efficiency' is an ongoing challenge that is necessary in its own right);
- Allowing inclusionary zoning measures for affordable housing where the diversity and retention/enhancement of low income housing in areas are considered to be an important environmental outcome;
- Developing impact mitigation requirements to compensate for the loss of affordable housing;
- Developing 'linkage fees' whereby commercial operations are required to contribute to affordable housing to ensure their workers can be appropriately housed.

Application of the lever elsewhere

With a few notable exceptions (see below), planning regulation in Australia has had only a minor role in the direct creation of housing which is affordable to households in the lower two quintiles of income distribution. Rather, planning regulation has typically focused on efficiency in the housing production market, particularly with respect to land release and development standards.

This is starting to change however, and many jurisdictions are acknowledging that affordable housing needs to be addressed by a multitude of players. The Northern Territory has a great opportunity to join with SA and NSW in being a leader in combatting the issues associated with the erosion of affordability.

In South Australia, the government has linked planning and development policies with housing objectives, establishing a target of 15% affordable housing in all significant new developments.

The NSW Government has produced an Affordable Housing Strategy that aims to work in partnership with Local Governments to develop innovative affordable housing strategies and products that assists those placed at a disadvantage. In addition, the aim of the strategy is to increase and expand local council awareness of, and capacity to develop, affordable housing strategies and products. This will require Local Governments to identify opportunities to deliver affordable housing[7].

The WA and Tasmanian Governments have both announced intentions to promote affordable housing through their respective planning systems, but implementation details are unclear at the time of writing.

South East Queensland's Regional Plan binds all local governments to achieve the Desired Regional Outcome of Housing Mix and Affordability, however stops short of including appropriate levers to directly affect affordability and raise further revenue to support the creation of affordable housing.

Current use of the lever in the NT

The NT Government does not currently have planning policies to promote and secure stocks of affordable housing. Unlike most jurisdictions in Australia, affordable housing is not identified as a relevant planning matter in the NT legislation, even implicitly.

Planning frameworks within the Northern Territory are centralised within government and the local authorities see themselves as having a limited role in the provision of affordable housing. However, many would agree that the current planning instruments and policies do not appropriately address desired social outcomes and affordability objectives and that there is much scope for improving this in the Territory.

Scope for expanding the lever in the NT

A consistent, best practice suite of planning policies and provisions would appear to be important for the provision of affordable housing. However, first the elements which comprise a 'best practice' model must be defined and agreed upon. Planning policies need to be responsive to local environments and contexts and thus 'best practice' policies will vary across individual settings.

It is envisaged that for the lever to function successfully in the NT, government policies across departments will need to adopt and incorporate affordable housing objectives and outcomes.

A good starting point for the NT Government would be to revise existing development frameworks to create better integration with local planning policy, allowing for any potential affordable housing development to be more flexible and cost effective in implementation. Often planning reform for affordable housing involves streamlining the permit process, extending 'as of right' provisions for housing developments and speeding up the appeal process. In addition, consideration should also be given to the development of a Housing Strategy that defines affordability objectives in the NT, highlights areas of priority and timeframes for provision, and considers housing products/types – this will ensure consistency.

[7] Source: http://www. sheltersnsw. infoxchange. net. au/ahn/ahn-post0410strat-nsw. pdf

Given that planning and legislation is controlled and facilitated by the Minister for Planning (as opposed to Local Government Authorities as in other States and Territories), changes to the planning system might be more readily implemented than in other states.

Likely benefit and impact on affordable housing

This lever is seen as vital in setting the foundations for implementing and co-ordinating the provision of affordable housing.

The lever should be the overarching framework and incorporate other mechanisms as noted above. Thus, the assessment of levers 5I – Inclusionary Zoning, 5E – Impact Mitigations for the Loss of Affordable Housing, 5J – Linkage fees for key worker housing and 3I – Fast tracking approvals where appropriate relating to affordable housing, should all be considered sub-components of this initiative. These initiatives are noted directly below this lever.

A potential downside of this lever is that it embodies recognition that the provision of affordable housing can no longer be seen to be the sole responsibility of the tax-transfer system, that is, Commonwealth funding of public housing and CRA. The running down of the public housing system, in particular, has made it necessary to search for other mechanisms, including the planning system, to help fund the subsidies inevitably required in housing which is affordable to households in the bottom two quintiles of the income distribution. In promoting the use of the planning system to address affordable housing, care must be taken to keep the pressure on the Commonwealth to meet 'base-load' demands for affordable housing. The planning system can only ever meet a small proportion of aggregate need. Its main contribution will be in the creation of balanced/mixed communities; that is, ensuring a sustainable spatial distribution of affordable housing.

Lessons learned to Date

The preparation of appropriate planning policy and legislative changes can be a time consuming exercise, requiring much input from a range of sources. Without the proper integration of stakeholder interests, including the community, the use of the planning system for affordable housing provision could fall short of best practice.

5.1.2 3I Fast Tracking Development Assessment and Approvals

Lengthy approval processes increase development costs and housing prices. Reform of the approval process may produce cost savings for developers, which – in efficiently operating and competitive housing markets – would be passed on to home purchasers and renters. Under this lever, planning authorities would 'prioritise' affordable housing development applications in order to minimise delays.

Application of the lever elsewhere

A number of municipal councils have implemented ‘fast track’ approval systems for particular types of development. To date, affordable housing has not been a major feature of such policies, though the recent affordable housing strategy adopted in SA alludes to such approaches.

Whether the lever is currently in place in the NT & Scope for expanding the lever in the NT

This mechanism is not in place in the NT, but could be implemented rapidly should it be adopted as policy.

The fast tracking approach has a serious conceptual flaw in that ***all*** development applications should be dealt with expeditiously in the interests of an efficient housing market. Otherwise, prioritising affordable housing projects may simply result in a higher cost structure for general development, and this would ultimately work against affordable housing objectives.

A variation on this mechanism would be to create a special funding program whereby the proponents of affordable housing projects may receive assistance with the documentation of their proposals so that they might be ready for a smooth passage through the approval process.

5.1.3 5E Developer Contributions – as impact mitigation measures

‘Impact mitigation’ measures are conditions attached to a development approval to compensate for an identified adverse environmental impact of development. For example, redevelopment of existing affordable housing may be permitted if the proponent replaces it with an equivalent supply of affordable housing (whether as part of a larger development on the site, or in another location). Alternatively, a cash contribution, or relocation costs for displaced residents, may be payable.

Application of the lever elsewhere

NSW’s State and Environmental Planning Policy (SEPP) 10: *Protecting Low Rent Housing* is the only Australian example of an explicit, pre-notified planning policy to preserve existing low income housing which is threatened by redevelopment. In other jurisdictions, sympathetic Councils sometimes use their ‘bargaining’ power through the approval process to negotiate impact mitigation conditions. Occasionally these have been upheld in appeal courts.

Whether the lever is currently in place in the NT & scope for expanding the lever in the Territory

This mechanism is not currently applied in the NT.

Such measures can only be applied where the impact on the supply of affordable housing (i.e. through loss of or increased demand for stock) is directly attributable to a proposed development.

At best, this measure would only prevent loss of large and identifiable clusters and forms of affordable housing (e.g. low cost rooming houses). The measure would struggle to cope with affordable housing through incremental redevelopment.

Adopting impact mitigation measures could be construed as directly penalising owners who have been 'socially responsible' in the past and provided low rental housing.

Likely benefit and impact on affordable housing

Impact mitigation measures can provide a comprehensive and consistent basis for the protection of affordable housing or to partially mitigate its loss. However, as noted, they are only useful for the maintenance and preservation of the existing level of affordable housing. In areas where affordable housing is required, these mechanisms would need to be coupled with other strategies.

This lever requires the planning legislation to acknowledge that social mix can be a valued aspect of "environment".

5.1.4 5F Developer Contributions – as negotiated arrangements

Developers may enter into a negotiated agreement with a Council with regard to the provision of affordable housing (or other benefits of a community or public character) in conjunction with a development, whether on-site or off-site, in cash or in kind.

Application of the lever elsewhere

Negotiated contributions for affordable housing have been used extensively by a small number of Councils around Australia. A good example is the City of Port Phillip in Victoria.

Whether the lever is currently in place in the NT & scope for expanding the lever in the Territory

To our knowledge this mechanism has not been practiced in the NT, partly because the planning legislation does not recognise affordable housing as a 'planning matter'.

The uncertain and optimistic nature of negotiated agreements suggests that given the increasing need for affordable housing such a mechanism could not provide a reliable outcome. Rather, affordable housing provided through negotiated arrangements could be considered additional to the target set by other means.

Also, negotiated arrangements should only be allowed where other planning parameters are not being compromised, including certainty and efficiency in the planning approval process.

Likely benefit and impact on affordable housing

The benefits of this lever are likely to be only minor to moderate. In particular, they are only likely to be effective in high price/high volume development markets.

Negotiated agreements are arbitrary and depend on the willingness of both the local government and the developer to enter into discussions. As a result, this method of securing contributions offers no certainty or consistency.

Also, these arrangements often take many person-hours of negotiation and a system of case-by-case negotiation can be said to be open to abuse, if processes are not transparent.

Transaction costs per affordable dwelling yielded tend to be high, as demonstrated by the UK system of negotiated development contributions for affordable housing, operated under Section 106 of the Town and Country Planning Act.

5.1.5 5I Inclusionary Zoning

Inclusionary zoning requires, as a condition of approval, that a development project includes a proportion of affordable housing, or if this is physically impossible or inappropriate, the payment of cash in lieu of the requisite number of dwellings. The application of these inclusionary requirements can be limited to multiple-unit residential projects and large-scale developments, or they can apply as a blanket provision across all types of development within a precinct, suburb or region. The resulting affordable housing can be offered for purchase by eligible moderate income households or could be retained as permanent lower rent housing stock, in which case, these units are typically vested in a registered community housing organisation.

Importantly, cash in lieu arrangements under Inclusionary Zoning ought not to be confused with taxes or 'user pays' levies on development. They are an option offered to development proponents to enable them to meet mandated requirements off-site, in the same way as proponents may avail themselves of options to pay for their required parking to provided off-site. In this context, Inclusionary Zoning is justified on environmental grounds. That is, if social mix is defined as an essential component of environmental sustainability in the relevant planning statutes, it is reasonable for planning schemes made under those statutes to require incorporation of affordable housing in development projects, to preserve existing environmental values in neighbourhoods characterised by diversity, or to create these values in a new suburb.

Application of the lever elsewhere

Inclusionary Zoning for affordable housing is not a new concept in Australia. It has been successfully applied for many years in Ultimo/Pyrmont in Sydney. More recently, the NSW Government has extended the use of this technique to other, mainly inner city, precincts.

The South Australian Government has announced a plan to apply a form of Inclusionary Zoning, but implementation details are still unclear.

In other places this approach has met with strong developer opposition, premised mainly on the argument that the cost of providing affordable housing should be met by the wider community (through the tax transfer system and public housing) rather than by developers or the purchasers of the housing built in areas affected by Inclusionary Zoning. These critiques have a degree of merit, but they overlook the environmental sustainability rationale for Inclusionary Zoning (homogeneous communities are unlikely to be socially sustainable) and the fact that the tax transfer system is no longer performing the social housing task it once did.

Whether the lever is currently in place in the NT

The NT planning legislation does not allow for Inclusionary Zoning at present. The Act would need to be amended to at least define 'environmental sustainability' to include social mix.

Scope for expanding the lever in the NT

Local needs and circumstances would determine the nature of Inclusionary Zoning requirements. Inclusionary Zoning requirements aimed at housing outcomes could range from requiring all non-exempt development to dedicate a proportion of their developments to:

- Higher density dwellings; and/or,
- A mix of allotments, including smaller allotments, so that a variety of housing types may be accommodated; and/or,
- Units/dwellings that would be retained as affordable for a period of time in or in perpetuity.

There would be scope for applying Inclusionary Zoning in the Territory for both ownership and permanent rental tenures. In the former case, appropriate safeguards would need to be put in place to avoid the situation where the first generation of buyers of the affordable stock enjoy a windfall upon resale. A common safeguard in these circumstances involves a registered community housing provider or Housing Association retaining an equity share in the dwellings in question, this value being the difference between the market price and the affordable price offered to eligible buyers.

Were this option to be taken up in the Territory, significant effort would be required in establishing an appropriate institutional framework to register and supervise the Housing Associations which would perform the custodial role for the affordable dwellings generated via Inclusionary Zoning.

Likely benefit and impact on affordable housing

Inclusionary zoning is effective in providing affordable housing on a comprehensive and consistent basis within designated precincts or areas, though it is never likely to substitute for 'base load' social housing programs such as public housing.

Developers operating under an Inclusionary Zoning framework, as opposed to negotiated contributions for affordable housing, would have certainty regarding their obligations and could factor this into land bids, potentially passing some of the affordable housing cost burden back to land sellers. Relatively small per square metre cash in lieu payments, spread over a large number of developments would provide a significant cash flow that could be used in conjunction with private finance leveraging schemes to generate sizeable expansion in affordable housing stocks.

5.1.6 5J Linkage Fees – for major non-residential developments

Linkage fees are levied on commercial development in order to meet the increased demand for affordable housing that result from the development. In this way, affordable housing is treated as "support infrastructure" for development in much the same way as water supply, sewerage, drainage and roads. The underpinning argument is that major retail, commercial and tourist developments in particular generate a requirement for a range of low and middle income workers like cleaners, security officers, policy officers, teachers and so on. If these "essential" and lower paid workers cannot find accommodation close by, they will have to commute, thereby generating a requirement for more roads and public transport infrastructure. To overcome the need for this additional infrastructure investment, development is required to be relatively "self contained" in terms of affordable housing.

Application of the lever elsewhere

The precedents for this approach in Australia include resource projects in remote locations, where the proponents readily acknowledge the need to provide housing for their workers. Similar approaches have been applied in some tourist resort developments where local worker housing is required.

Linkage fees have been used more extensively in urban settings in a range of US cities.

Whether the lever is currently in place in the NT

The general power to place conditions on development approvals could be used to apply linkage fees for affordable housing in the Territory, but this is a legally untested possibility at present.

Scope for expanding the lever in the NT

Linkage fees have the greatest potential in areas where there is strong commercial development, in particular large projects. They can only work in municipalities that can demonstrate a direct link between commercial development and housing shortages. In a relatively small development market such as the NT, linkage fees will therefore have limited and/or sporadic applicability, notwithstanding the current resources and investment boom.

Likely benefit and impact on affordable housing

As development in Darwin and Alice Springs will typically be incremental and relatively small scale, the affordable housing yield from linkage fees will be difficult to predict. However, in areas with unbalanced growth (e.g. tourist areas), linkage fees can help address the affordability issue and defuse calls for growth controls.

Linkage fees are problematic because it is difficult to justify the provision of affordable housing as support infrastructure in the same sense as roads, drains, water supply and sewerage.

Municipalities trying to attract commercial development may shy away from imposing linkage fees.

5.2 New Housing Vehicles & Supporting Mechanisms

5.2.1 1K Demonstration Projects Promoting Innovation

Demonstration Projects promote and exemplify the advantages of innovations in land development, housing design and construction practices.

Innovations might include efficient lot packaging, efficient infrastructure provisioning, changes to construction practices and the use/source of materials, efficient construction management, environmentally sustainable design and the tapping of economies of scale in house and land packages. The programs may incorporate an emphasis on suitable housing types and construction techniques for a specific target group, such as low income first home buyers, or they may inform the development of more cost effective social housing. There may also be opportunities to broker arrangements with suitable manufacturers and housing related businesses, resulting in further cost savings. These initiatives can also be directed to general housing developments.

Application of the lever elsewhere

With regard to demonstration projects in the affordable housing arena, the NSW Government's property development company, Landcom, sponsored a Smart Housing Project competition in Parklea, Blacktown in 2000. Developers were invited to create a development which had a variety of housing for people with low incomes. The local government granted development flexibility for design on the condition that affordable homes be built and maintained. The dwellings developed in Parklea are significantly more affordable than comparable dwellings in their respective localities, while their external design and quality is not markedly different.

Private sector developers have also been important players in demonstrating innovative approaches to affordable housing. For example, Lend Lease is involved in two key projects with affordable housing commitments in NSW – Ropes Crossing and New Rouse Hill. The New Rouse Hill project aims to create a regional centre with a diversity of housing types in Sydney's north-west, including a transport hub and town centre with community facilities. The NSW Government and Lend Lease's project team at Ropes Crossing have been developing the affordable housing strategy for the site for more than two years and it is currently being finalised[8]. In Victoria, Lend

[8] Gibson, G. (2006) United Fronts on Affordable Housing, Community Housing Federation of Australia

Lease is a partner in an innovative affordable housing project within the otherwise high priced precinct of Docklands.

Current use of the lever in the NT

The NT Government has not fostered these types of mechanisms in the past. However, there is scope to adopt this mechanism as the Territory has a unique environment and could utilise demonstration projects as a catalyst to encouraging better design outcomes that relate directly to a tropical or desert climate. This mechanism would also be useful in educating people and creating awareness of initiatives that promote affordability without detracting from quality of environment.

Scope for expanding the lever in the NT

For the NT Government to initiate this lever it would be useful for a list of preferred developers to be determined and a protocol/draft agreement regarding general terms be developed. In addition, the NT Government could also subsidise and host affordable housing innovation competitions as incentives for developers to showcase innovative ideas for the provision and design of affordable housing. These houses can then be sold at less than market value to people on low to medium incomes, with appropriate safeguards (e.g. shared equity schemes as noted above) to prevent harvesting of windfalls by the first group of buyers.

Likely benefit and impact on affordable housing

Depending on the resources put to this type of initiative, a lever such as this can increase affordable housing stock, and at the same time showcase to developers and the community how innovative housing design can result in affordability and quality. Given the perceived positive outcomes of this lever, the NT Government should consider this lever. Territory Housing could adopt this role, or the NT Government could consider developing its own development arm, such as VicUrban in Victoria, or Landcom in NSW.

Lessons learned to date

In the case of Parklea, Beer (2004) argued that a high rate of oversubscription by the target group compared to the number of houses produced underscores that this type of initiative has limitations in delivering significant quantities of affordable housing. However, if efficiently implemented, and several projects adopted then this initiative can assist affordability. It is noted that implementing this initiative alone (or any other initiatives alone) will not solve affordability issues.

5.2.2 2A Support Cost Effective, Not-for-Profit Delivery Models

Cost effective, not-for-profit delivery models are vehicles that aim to directly increase the stock of affordable housing by tapping new sources of subsidies, as wells as utilising mixed financing approaches - especially with regard to bringing in various forms of private finance.

Application of the lever elsewhere

The Brisbane Housing Company (BHC) is a good example of a supportive, cost effective, not-for-profit delivery model. BHC is an independent, not-for-profit organisation which draws its primary funding from the Queensland State Department of Housing and the Brisbane City Council. Although largely funded by the Government, BHC is a fully independent public company with community representation. It draws on the business and professional expertise of its Board to deliver cost effective public housing to complement existing initiatives by the State Government and the Brisbane City Council.

The company receives referrals from the waiting list operated by the Department of Housing and also accepts direct applications and referrals from health and welfare agencies. By June 30 2004 the BHC had assisted 139 households of whom over 90% were from the public housing waiting list. Nearly half of all households assisted were registered as disabled and once assisted by BHC all but two were paying a rent that represented less than 30% of their income.

BHC provides a mix of boarding houses, studio units and 1, 2 and 3 bedroom apartments. The housing is offered at below-market rents to households on low incomes.

Financials and Operations

Over the years the Brisbane Housing Company has received around $99 million in grant funding from the State Government and some $10 million from the Brisbane City Council[9].

Rents are determined by modelling their affordability compared to various income types and range of dwelling types on offer. Therefore it is the choice of the tenant whether to pay a rent for a unit within an affordable range or to pay a higher rent for a larger or better unit.

The BHC out sources its tenancy management which means that the organisation can focus its operational efforts on financial and asset management. Outsourcing tenancy management has the advantage of utilising experienced social housing providers for the more “social” aspects of its business. This has required BHC to be very clear about its expectations of service standards and to establish policies on how the key tenancy management processes are to be conducted, for example, waitlist management, tenant selection, neighbourhood disputes, rental arrears and eviction.

At the 2005-06 financial year end, the BHC held 372 completed and occupied units with 208 under construction and 221 at the advanced design stage. There were also more than 200 in the preliminary feasibility stage. The total number of properties is in excess of 900 units (BHC Ltd 2006).

Other Examples

- NSW has had the longest experience with a specialised vehicle for developing and managing affordable housing. The City West housing company, established in 1994, is

[9] Source: http://www. brisbanehousingcompany. com. au/documents/AnnualReviewFinal. pdf

funded through equity grants from state and federal governments and proceeds of the Inclusionary Zoning scheme that operates in the local area (Pyrmont/Ultimo).

- In 1999 the ACT government established a public company, Community Housing Canberra Ltd (CHC), to hold assets transferred from public housing, with the initial purpose of improving the viability of community managed housing in Canberra. This organisation may now play a role in developing new affordable housing. In 2002, CHC completed a project in partnership with a private sector developer, using private sector finance. The project involved the redevelopment of an old public housing estate into new affordable and market-priced housing.

- In Victoria, the Government has established a registration and prudential supervision framework for the accelerated development of UK (or BHC) style 'Housing Associations'. Some $70 million has been assigned by the Government to assist selected community housing providers build their asset base so that they might leverage private sector investment in affordable housing. While the Housing Associations will primarily target households on the public housing waiting list, they will be free to house people within the upper reaches of the moderate income range, thereby improving operating surpluses and providing the opportunity for stock expansion which is denied to mainstream public housing and traditional community housing providers. Unlike public housing providers, the Housing Associations will also be able to tap the CRA payments received by tenants. The Housing Associations are expected to diversify into affordable home ownership products, such as various forms of shared equity, in due course. Some case studies of recently registered Housing Associations in Victoria are provided in Appendix B.

Whether the lever is currently in place in the NT

The Territory does not currently have a 'not for dividend' housing company similar to BHC, though there is great interest from within the community sector to develop such a vehicle.

Scope for expanding the lever in the NT

A key issue confronting the Territory is the current lack of an institutional infrastructure or capacity to host a Housing Association. This is primarily a function of the limited scale of the NT community and economy.

In other jurisdictions, the community housing sector has typically provided the skills base and organisational frameworks through which a 'third sector' vehicle like the BHC might be nurtured. While a Community Housing Program has operated in the Territory for some time, it is still quite small in terms of housing assets under management. According to a census conducted by the AIHW[10], there were only 22 providers in the NT in the 2001/2002 financial year, with a total of 122 tenantable dwellings. Of these only 75 units were in Darwin.

[10] AIHW (May 2003) Commonwealth State Housing Agreement, National Data Reports 2001-02

Moreover, the community housing sector in the Territory is principally aimed at providing accommodation services to people requiring ongoing support. Of the 22 providers surveyed by the AIHW, 13 were focussed on people with a disability. Only one provider operated an 'untargeted' housing service.

The Steering Committee for this project has confirmed that community housing organisations in the Territory are primarily focussed on their targeted service function (disability, aged care etc) as opposed to housing operations. They rely heavily on Territory Housing, both for head leased stock and asset management services.

Skills and organisational capacity to run a not for dividend affordable housing company is therefore a significant barrier to the operation of this mechanism in the Territory.

In discussions, the Steering Committee indicated a preference for the Northern Territory Government to extend its Territory Housing Branch. There is merit in this insofar as Territory Housing probably has the Territory's largest concentration of expertise in tenancy and asset management in the low income housing arena. However, developing a not for dividend company within Territory Housing is unlikely to be workable because of limitations regarding access to CRA, charity/tax exempt status and private sector debt and equity finance. As in other jurisdictions, any not for dividend affordable housing company will need to be corporately independent of the Government, albeit that the Government will most likely have to provide the start up capital.

Likely benefit and impact on affordable housing

If the institutional capacity issue can be overcome, establishment of one or more not for dividend Housing Companies in the Territory could significantly expand affordable housing options, particularly for moderate income Territorians. However, as with all options being considered in this report, this mechanism by itself is unlikely to be 'the solution' to the affordable housing problem in the NT. As in other jurisdictions, a structural, Australia wide program to boost the CSHA or something similar is essential.

Lessons Learned to Date

Good relationships with organisations in the social housing sector need to be established when developing Housing Companies, and good communication is essential. The BHC faced considerable suspicion for a period as the community sector questioned the commitment of government funds to a new organisation when resources were needed elsewhere in social housing.

In addition, a feature of social housing, particularly in the community sector, is the opportunity for tenant participation. This not only provides for more responsive management, but it builds skills and experience in tenants as well as building relations between tenants on a site. BHC contracted the Queensland Public Tenants Association to provide it with advice about establishing tenancy participation activities and structures in its developments and it has worked well.

5.2.3 3K Government Guarantees for Recognised Affordable Housing Providers

Government guarantees would effectively reduce the risk profile attached to affordable housing providers, allowing them to more easily obtain a greater quantum of finance at a wholesale interest rate. This lever would require Governments to effectively absorb the risk attached to investment in affordable housing. It would work in tandem with the establishment of Housing Associations or Companies as discussed above under lever 2A.

Application of the lever elsewhere

SGS is unaware of any explicit borrowing guarantees offered by State or Territory Governments to not for dividend affordable housing companies. However, in some jurisdictions (e.g. Victoria) there is a history of community housing groups notionally operating at arm's length from the sponsor government and enjoying an implicit underwriting benefit.

Whether the lever is currently in place in the NT & scope for expanding it in the Territory

This mechanism is not applied in the Territory, either explicitly or implicitly. If it were to be adopted, guarantees would form part of a package of support for registered affordable housing providers, such as not for dividend delivery models (see lever 2A).

Offering such guarantees can have perverse effects, in terms of diluting the commitment of the housing companies in question to a rigorous commercial discipline and sound financial management practices.

5.2.4 3L Affordable Housing Subsidy

This is a general lever that describes the provision of an additional funding stream to affordable housing providers.

Operating subsidies provided to recognised affordable housing providers would be passed on to low income tenants.

The subsidy could be received as recurrent payments or as a capital amount representing the present value of future operating deficits given a particular tenancy profile / rent revenue stream.

Application of the lever elsewhere

Recurrent funding to meet operating deficits is the typical method by which Australian State and Territory Governments have supported community housing providers. There are notable exceptions however. Up front capital payments to compensate for anticipated future operating deficits were provided to the City West affordable housing provider in Sydney. The capital grants offered to the Brisbane Housing Company were also partly intended to negate revenue shortfalls from having to target lower income tenants. The Housing Association initiative in Victoria was initially premised on the provision of one off capital payments with no further financial assistance from the State, though we understand that this issue is still in dispute.

Whether the lever is currently in place in the NT & scope for expanded application in the Territory

According to Home Territory 2010, in 2004-05 the Northern Territory Government provided around $700,000 in funding to community housing groups. We understand this to be in the form of recurrent operating subsidies.

There is clearly scope for expansion in the application of this lever, but it requires the prior establishment of an improved institutional infrastructure for the community housing sector / not for dividend sector.

One of the important advantages of shifting low income renters from the public housing client list to those of arm's length not for dividend providers is that these renters can continue to access CRA payments. This boost to rental revenue theoretically improves the capacity to leverage private sector financing of stock expansion – an option which is largely denied to traditional public housing providers.

5.2.5 5G Bonus/Incentive Schemes for Affordable Housing

These schemes involve using a combination of 'bonuses' and/or relaxations in planning provisions as incentives to encourage the provision of affordable housing in designated areas. For example developers may be offered additional development capacity for a site through the relaxation of height and density restrictions, in return for providing affordable housing.

Application of the lever elsewhere

Waverley Council in NSW for many years operated an affordable housing program that offered a bonus to developers as part of the Council's multi unit residential development policy. The bonus was provided through planning incentives i.e. the developer was permitted an increase in the floor space ratio, develop a larger building envelope or do a combination of the two. The bonus was negotiated and assessed using the Council's Affordable Housing Calculator.

Bonus systems present a number of weaknesses. Often bonus systems compromise neighbourhood amenity or produce unreasonable costs for the land owner, depending how the bonuses are determined. If the pre bonus level of permissible development is set in line with local environmental limits, granting of the bonuses is likely to mean that the local community will bear certain costs, for example, overlooking or overshadowing, or overloading of local infrastructure networks.

It is difficult for bonuses to be applied in a comprehensive manner, as take up is voluntary. Even when developers are keen to pursue the offers of bonuses, studies have shown that in many cases considerable person-hours are required with little overall return in affordable housing provision.

Bonus systems are economically flawed as they require either arbitrary constraints on environmental development capacity (thereby driving up costs in the housing sector generally), or, as noted, the imposition of environmental costs on surrounding communities when proponents take up 'overdevelopment' rights in return for affordable housing contributions.

As a result of such critiques, decisions handed down by the Land and Environment Court in NSW has seen the cessation of explicit bonus schemes in that State. The State Government ultimately responded by legislating to enable Inclusionary Zoning for affordable housing, which involves no trade off of environmental performance.

Elsewhere, Councils continue to use their 'bargaining power' via the approval process to generate voluntary contributions for affordable housing, often with off-setting benefits in terms of density.

Whether the lever is currently in place in the NT & scope for expanding its application in the Territory

Arguably this lever could be applied in the NT using the general conditioning powers under the planning legislation, however the criticisms surrounding this lever make it an unattractive solution.

5.3 Joint Ventures and Public Private Partnerships

5.3.1 3O Public Private Partnerships

Public Private Partnerships (PPPs) seek to leverage private sector investment in affordable housing by securitising the subsidy stream which the State or Territory Government implicitly pays to low income tenants in public housing and/or by offering the private sector partner access to development opportunities on a government land asset ('land harvesting').

Application of the lever elsewhere

The Queensland government introduced its Public Private Partnership policy in September 2001. The policy only applies to major infrastructure projects where the capital value is expected to exceed $30 million during the term of the contractual relationship. This Public Private Partnership policy has been endorsed by the Urban Development Institute of Australia, the Housing Industry of Australia and the Property Council of Australia. Furthermore, the Queensland Community Housing Coalition provides the medium to develop relationships between community housing, the private sector and governments and increase the supply of affordable housing in Queensland.

The South Australian Housing Trust has undertaken several PPP's involving redevelopment of obsolete public housing estates. The main driver for private sector interest in these projects has typically been land harvesting opportunities.

The Office of Housing in Victoria is also ramping up private sector investment in the redevelopment of mainly inner city public housing assets based on land harvesting principles.

Whether the lever is currently in place in the NT & scope for expanded application in the Territory

The $1.6 million redeveloped Bernhard Street complex in Katherine is an example of a public private partnership between Territory Housing and AJL Holdings. The public housing project involved the demolition of 9 units, the remodelling of 2 units into a recreational centre and resulted in 43 refurbished units.

There is scope for expanding the application of this lever in the NT. The main constraints are again scale (are there sufficient private sector partners available with adequate financial engineering skills) and institutional capacity (do Territory Housing and NT Treasury have sufficient financial evaluation skills to identify the risks involved in these PPP?).

Whilst there is now a long history of PPP's being applied in pursuit of affordable housing objectives around Australia, the take up of this option has been sporadic and driven by case by case opportunities. The legal, financial and taxation complexities surrounding PPPs have constrained their development. The schemes must also be large enough to absorb high start up costs.

5.3.2 6A Ethical Investment Stream

This is an approach to investing that considers the investment's wider impact on society and the environment as well as the direct financial return. It is otherwise known as 'Socially Responsible Investment'. Generally, ethical investment streams come either from philanthropically motivated individuals or highly diversified portfolios. For example, some of the major industry super funds now offer members the opportunity to nominate a preferred investment mix including stocks judged to be 'ethical' or 'green'.

Ethical investors may accept a slightly reduced rate of return on their investment in order to contribute towards a social or environmental objective.

Whilst affordable housing has not traditionally been an ethical investment target, it could be more actively promoted as an asset aligned with these principles. Some of the aforementioned super funds have expressed a strong latent desire to invest in affordable housing, but have been hampered by a lack of investment opportunities. This is largely because the Housing Association sector in Australia is still in its infancy and lacks the comprehensive prudential supervision arrangements required to give comfort to institutional investors.

Application of the lever elsewhere

SGS is not aware of any Australian examples of large scale, institutional investment in affordable housing, based on ethical investment principles.

Whether the lever is currently in place in the NT & scope for expanded application in the Territory

This source of investment is only ever likely to be tapped in the NT when there is an appropriate national framework in place. This would feature a substantial 'third sector' (Housing Associations) operating within a comprehensive prudential supervision regime, supported by reform of CRA or the CSHA so that the Housing Associations can operate viably whilst targeting lower and middle income tenants and buyers.

5.3.3 6B Joint venture Projects with Charities/Community Organisations

Joint venture projects with non-profit organisations are generally designed to attract not-for-profit land, capital or management contributions to the provision of affordable housing.

In its simplest form, a joint venture could involve the partner organisation making land available at less than market value. Other projects involve leveraging the equity / capital provided by Government against contributions made by a range of third parties.

Application of the lever elsewhere

Berry (2001) states that "a number of States have developed partnerships with private investors and non-profit organizations to deliver housing services involving leasing, sale-and-leaseback, and corporate vehicle arrangements. In Victoria, for example, the Office of Housing's head-leases dwellings and farms out management to selected community housing organizations. The Community Tenancy Scheme in New South Wales involves housing associations head-leasing from private landlords and on-renting to low income tenants. Similar schemes exist in Queensland and the A.C.T."

This lever is used worldwide and, as noted, has an extensive track record in Australia. A good example is provided by the partnerships created by the South Australian Government under its South Australian Community Housing Authority.

> *South Australia Community Housing Authority*
> The South Australia Community Housing Authority has established many partnerships with Community Housing Organisations, local government, churches, support bodies and service organisations. These partnerships help establish innovative, sustainable housing and support arrangements, for people on low incomes and with varying levels of need. Listed below is a sample of joint ventures and partnerships projects completed during 2004-05[11]:
>
> > *Auburn*
> > A joint venture between South Australia Community Housing Authority and Auburn Services for the Aged Inc. The project involved completing two 2-bedroom adaptable houses in Main North Road, Auburn, to house the aged. The joint

[11] http://www. sacha. sa. gov. au/webdata/resources/files/RptAR04-05Final. pdf

venture contributed cash of $40 000 to the project, or 14. 6% of the total project cost of $273 850.

Tintinara

The South Australian Community Housing Association undertook a joint venture with the Coorong District Council and the Coorong Housing Association Inc to build three 2-bedroom houses for aged citizens, low income families and disabled persons from the Tintinara district. The Coorong District Council contributed $41 000 of the total project cost of$472 770.

Pinnaroo, Lameroo and Karoonda

A partnership between the Southern Mallee District Council, the District Council of Karoonda East Murray, the Anglican Community Care Housing Association and SACHA was developed to provide long term accommodation for young people. The project encompassed a total of six 2-bedroom units at these locations.

Whether the lever is currently in place in the NT & scope for expanded application in the Territory

Territory Housing has some experience in these types of joint ventures via the Community Housing Program.

It was noted in discussions with the Steering Committee that the Northern Territory has plenty of scope to expand this lever. The comment was made that the NT Government needs to be more pro-active in identifying potential partners and establishing 'templates' for joint venture arrangements.

Likely benefit and impact on affordable housing

These joint ventures are never likely to yield substantial volumes of affordable housing, though they can have a significant impact in particular niches. An important benefit from these schemes is the cross fertilisation between different organisations involved with affordable housing and community support, resulting in a higher quality housing outcome for the low income tenants in question.

5.3.4 6C Community Land Trusts

The Queensland Department of Housing provides the following description of community land trusts:

> *"Community Land Trusts (CLTs) are non-profit organisations operating under a charter to acquire land for the benefit of the community, and provide residents with access to land and housing. Long - term leases, which are renewable and inheritable, allow low-income households to build a permanent home without incurring the financial burden of outright*

ownership of the land, which remains with the community. CLTs are popular in some rural areas of the United States where sizeable parcels of land are available"[12].

Application of the lever elsewhere

SGS is not aware of Australian examples of CLT being used for affordable housing. However, the concept of permanently reserving private land for a community or environmental purpose is widely practiced. For example, private owners of high quality or endangered habitat can apply covenants to their titles to ensure that these environmental values are respected and preserved in perpetuity. Similar principles could be applied to affordable housing.

Whether the lever is currently in place in the NT & scope for expanded application in the Territory

Outside of the indigenous housing area, this lever is not practiced in the NT.

There is scope for its expanded application, but it is likely that Government or an ethical investor would need to provide a proportion of the up-front capital required to secure the land which would be subject to the Community Trust. This land would need to be paid off over an extended period at less than commercial rates, otherwise participants in the CLT would receive a negligible affordability benefit.

There are also doubts as to whether this form of tenure would be attractive to marginal home buyers.

5.3.5 6D Joint Venture Projects with Affordable Housing Providers

This lever represents a particular version of the more generic 'joint venture projects with charities/community housing organisations' option discussed above. The current lever has a special focus on established community housing providers which are in a position to leverage other resources to boost affordability outcomes.

Application of the lever elsewhere

In Victoria, the Social Housing Innovations Project was established by the Office of Housing to maximise State funding of $94.5 million to encourage innovative joint venture housing solutions which were complementary to public housing provision. Over four years from 2004 to 2008 this initiative aims to produce 800 properties in partnership with the not for profit sector and local government.

In the ACT, City Edge was a joint venture project between Community Housing Canberra, a development consortium and ACT Housing to redevelop a deteriorating public housing site. If ACT

[12] (2003, http://www. housing. qld. gov. au/new_approaches_to_housing/discussion/response. htm)

Housing had simply sold the site to the developer, it would have only been able to acquire 8 new social housing dwellings. However, under the joint venture model ACT Housing was able to utilise the financial advantage of Community Housing Canberra to construct 30 new social housing dwellings.

Whether the lever is currently in place in the NT

The aspiration to foster these types of joint ventures has been declared by the Territory Government. For example, Objective Two in Home Territory 2010 includes a strategy to '*encourage the construction industry and the community sector to participate in the Housing Minister's Round Table'*, presumably with a view to boosting the potential for collaboration on 'on the ground' projects.

Scope for expanding the lever in the NT

A principal criterion of this approach is that partnering agencies bring an equity contribution to the project. In Victoria this was in the order of 30 per cent of total project costs, generally in the form of cash, land or borrowings. Therefore, it is important that these projects be financially sustainable through their rental revenue stream, without recourse or ongoing rental subsidies by government.

There is a trend by other State governments to consolidate and streamline joint venture arrangements so as to alleviate the high cost of entering into one-off project arrangements.

As noted earlier, the limited scale of the community housing sector in the Territory is a key constraint to the rapid expansion of joint venture models to boost affordable housing.

5.4 Cash Grants & Utilisation of Surplus Government Assets

5.4.1 3M Capital grants

Capital grants can be made to recognised affordable housing providers as direct funding or via land gifting or land price discounts.

Capital grants are the primary form of housing assistance provided under the current Commonwealth State Housing Agreement (CSHA). The CSHA is a multilateral agreement between the states, territories and Commonwealth to fund the provision of public housing, as well as other housing related purposes. The Commonwealth allocates grants on a per capita basis, which are then matched by State contributions.

Application of the lever elsewhere

Application of this lever is common to all Australian jurisdictions.

Whether the lever is currently in place in the NT

The NT is well practiced in the application of housing grants in the indigenous housing sector. Under the Indigenous Housing Construction Program which is managed by the Indigenous Housing Branch (IHB), the Government directs capital works funding to the Indigenous Community Housing Organisation (ICHO)[13].

The process whereby funding is allocated to the various Housing Organisations is based on the recommendation by the IHB to the Minister for Housing and the Northern Territory Indigenous Housing Advisory Board (NTIHAB). Generally this is informed by a 'Housing Needs Report' covering the area in question. Once the funding has been allocated and approved by the Minister, the IHB works with DPI to deliver the Capital Works program. IHB oversees the distribution of the funds according to the recipient organisations' new construction and major renovation needs.

Scope for expanding the lever in the NT

The models and experience developed through the indigenous housing program in the NT can be extended to the wider community housing program in the Territory, potentially overcoming some of the institutional capacity constraints discussed above.

5.4.2 3N Developer Assistance

The primary aim of any developer assistance would be to lessen the risk and/or cost burden attached to the provision of affordable housing. Developer assistance inevitably involves some form of subsidy transfer from the Government to the developer. This lever may be considered to be a form of public private partnership. It is given separate standing in this report because of the public sector's contribution is relatively passive.

The provision of bridging finance for affordable housing developers would be a form of assistance that lessens the cash flow burden associated with overlapping debt and / or land holding costs. Proponents wishing to develop affordable housing would receive bridging finance for a defined period of time. To be effective, the bridging finance would need to be provided at below market interest rates, or on better terms and / or at greater risk than would be accepted by private financiers. In each of these cases a subsidy is apparent. Alternatively, Government may make land available to a developer at market price but agree to deferred payment, or payment linked to the proponent's revenue stream.

This lever is extremely wide ranging in scope. The amount of subsidy involved will directly influence the lever's impact on affordable housing outcomes. An initiative such as Government

[13] Source: http://www. dcdsca. nt. gov. au/dcdsca/intranet. nsf/pages/ntihcp

provided bridging finance would be most effective if provided as part of a wider package of initiatives.

Application of the lever elsewhere

Lend Lease's development of an affordable housing component in its Victoria Harbour project in the Melbourne Docklands is one example of this lever in action.

Whether the lever is currently in place in the NT & scope for expanded application in the Territory

From time to time, the NT Government is likely to be offered opportunities to support affordable housing via private sector initiated subsidy schemes. These may or may not present good value.

The key issues in terms of expanded application of this lever in the Territory are, firstly, institutional capacity to judge the merits of the schemes and, secondly, the likely limited throughput of offers and, therefore, the limited impact on affordable housing needs.

5.4.3 5C Housing First Policies

"Housing First" policies require government agencies to consider the suitability of surplus land and buildings for the development of housing, including a component of affordable housing, as a priority when contemplating sale or redevelopment. Use for facilities and services, needed to improve the sustainability and amenity of nearby residential neighbourhoods, is also given priority.

In such policies, the notion of the "highest and best use" for a property incorporates the contribution the property might make to the achievement of the government's strategic priorities and social objectives, as well as calculations of the level of financial return.

Application of the lever elsewhere

The City of Port Phillip in Victoria has adopted policies with some of these features.

Whether the lever is currently in place in the NT

Housing first policies have not been formally adopted in the Territory, although the Home Territory 2010 strategy calls for a 'whole of government approach' to the promotion of affordable housing. Presumably this would impact on the land disposal and valuation policies of the Government, and would bind agencies like Treasury.

Scope for expanding the lever in the NT

This kind of policy could be applied to any sphere of government, and could also be the subject of a protocol or understanding between State and local governments.

This type of policy requires an overarching affordable housing or sustainability policy commitment by relevant government agencies. A calculation of the cost benefits and an assessment of priorities would inform such a commitment.

Likely benefit and impact on affordable housing

The availability of land in areas of high need could facilitate significant affordable housing outcomes. High profile surplus sites in the inner city may provide opportunities in this regard.

A limitation of this approach is that site availability is "opportunistic" and uncertain. This approach, by itself, cannot provide a certain or continuous "yield" in housing or community sustainability.

5.5 Initiatives to Assist those on the Margins of Home Ownership

5.5.1 1B New Finance Products

New finance products refer to innovative products that assist people in entering into home ownership. New commercially available finance products generally result from deregulation and competition within the banking and finance sector. Whilst some products may be of benefit to low income households or households living in housing stress, most are not explicitly targeted at these groups.

Application of the lever elsewhere

There are many examples of where new finance products have been applied in Australia. Some of these are indicated below:

- **Low start loans.** These are loans where repayments are low initially but increase as income and asset values rise over the period of the mortgage. Low initial repayments have the effect of extending the period and the overall cost of the loan. Whilst low start loans were readily available in the 1980's, they are less common today – especially amongst commercial lenders.
- **Interest only loans** where repayments are made on an interest only basis for a defined period of time, after which principal repayments are made. Interest only loans are used most commonly by investors and high income earners seeking the taxation advantages. Whilst – in strong housing markets - interest only loans for housing purposes are relatively low risk (recovery of the principal is effectively guaranteed by rising real estate values), commercial lenders are not likely to offer interest only loans to low-income borrowers, especially in more volatile housing markets.

- An example of this type of loan is currently in place in Queensland through the Queensland Police Credit Union Limited. Its Interest Only Loans are for up to 5 years and are available at the standard variable home loan rate. [14]
- **Fixed interest loans** are normally at a higher interest rate but provide a hedge against interest rate rises. Cost savings are apparent in markets where interest rates are escalating, however in markets where interest rates are stagnant or declining, relative debt servicing costs are increased. These loans are generally available throughout Australia.
- **Interest saver loans** are a product that links a mortgage account balance to a saving or cheque account balance in order to reduce the mortgage principal on which periodical interest calculations are made. Interest saver loans are commonly offered to, and are most effective when used by, higher income households. The cash flow patterns of low-income borrowers make these products less attractive.
- **Shared Equity** loan schemes are a recently revived finance product that vest part of the asset value in a dwelling with the occupier and part with another investor. This arrangement reduces the amount of capital to be borrowed by the occupier in order to establish a part ownership interest in a dwelling. Recent reports released by the Prime Ministerial Taskforce on Home Ownership strongly advocate for the introduction of (shared) equity housing finance. The report contends that "when a 'representative' younger family use a mixture of debt and equity, the upfront costs of home ownership, and the interest and principal payments required thereafter, decline by around 30 percent. There is also a dramatic reduction in the household's risk of default, and a 70 percent rise in their liquid assets once they leave the workforce…" (Joyce *et al* 2003, p. 15). Critics of shared equity loan schemes suggest that by simply improving access to housing finance, increased housing consumption will catalyse further escalation in housing prices. Concerns also surround the equitable sharing of risk and returns between the dwelling occupier and silent investor (usually a bank or financial institution).

Current use of the lever in the NT

Initiatives of the Northern Territory Government through its Territory Housing Branch that relate to this lever are the HomeNorth Scheme and the new HomeNorth Extra (commenced in 2005). These Schemes are administered through the Territory Insurance Office (TIO) on behalf of the Department of Local Government, Housing and Sport. Both Schemes aim to help low to medium income Territorians buy their own homes through three types of loans and assistance packages. These include:

1. HomeNorth Xtra Standard Variable Loan – offers low deposit loan
2. HomeNorth Xtra Shared Equity Loan – allows successful applicants to purchase between 70% - 99% of a property with the Northern territory Government purchasing the rest[15].)
3. HomeNorth Xtra Fee Assistance – covers the add-on costs associated with buying a home i.e. stamp duty, loan set up fees etc.

[14] Source: http://www. qpcu. org. au/page_loans_home_options. php

[15] Source: http://www. territoryhousing. nt. gov. au/dcdsca/web. nsf/Files/homenorth/$file/brochpg1_sel_1307. pdf

Scope for expanding the lever in the NT

It would seem that the TIO initiatives cover much of this initiative. The Steering Committee indicated that it would be useful to determine what (if any) gap lies between the services offered by HomeNorth Xtra and the private sector. A partnership approach with financial institutions in the private sector could be useful.

Likely benefit and impact on affordable housing

Given that relatively few households in the lowest 40% of the income distribution are potential home buyers, the impact of this lever on the target group is likely to be minimal, unless application were to be accompanied by very substantial upfront subsidies (which would bring into question the fairness of such arrangements vis a vis the treatment of low income households permanently confined to the rental sector). Nevertheless, HomeNorth and HomeNorth Extra have a positive impact for people who are on the margins of home ownership.

Recommendation for Pursuing Lever

The Northern Territory Government has already taken the necessary steps to put in place new finance models that assist people on the margins of home ownership and no major change to this initiative is warranted. Further liaison and coordination with private sector financial institutions may be beneficial.

5.5.2 4B Stamp Duty Rebates

This lever would involve a reduction in the amount of stamp duty payable upon purchase of a dwelling. The rebate would be targeted to low-income households or first home buyers, or both. Stamp duty rebates would be a State based subsidy.

Application of the lever elsewhere

This lever is currently practised throughout Australia. Each jurisdiction offers a somewhat different package of concessions for first home buyers. Some give buyers the option of an outright grant that can be used in conjunction with the Commonwealth funded First Home Owners Grant.

Whether the lever is currently in place in the NT

The Northern Territory Government assistance package for first home buyers includes a Stamp Duty concession on the first $225,000 of a property’s value, representing a saving to the buyer of some $8015.60 if the property in question is worth more than $225,000.

Scope for expanding the lever in the NT

Home purchase concessions in the Territory are already relatively generous. The Stamp Duty payable in the Territory on the purchase of a median priced first home is the third lowest in

Australia and well below the State average of $6690[16]. There is, of course, scope to further extend this benefit, though it is unlikely to have a major impact on households within the bottom two quintiles in the income distribution, as few of these will have the opportunity to purchase houses.

This lever does not directly support the expansion of affordable housing stocks.

5.5.3 4C Deposit Assistance

Deposit assistance is a one-off grant designed to supplement the recipient's savings towards a home deposit. Individuals on the fringe of home ownership are most advantaged by deposit assistance. Being a fixed amount, deposit assistance provides a greater proportional contribution to lower cost housing than to more expensive dwellings.

Application of the lever elsewhere

The Commonwealth Government First Home Owners Grant (FHOG) is an example of a deposit assistance scheme. However, the FHOG was implemented to offset increases in home purchaser costs resulting from the introduction of a GST, rather than to enhance first home ownership affordability per se.

The FHOG is available to all first home buyers, regardless of income. It has been argued that this lack of targeting has contributed to housing price increases, which have in turn undermined the utility of the grant.

Targeting the FHOG to means-tested recipients may reduce the total subsidy cost to government as well as lessening the levers impact on general housing price escalations.

Alternative methods of structuring deposit assistance include:

- Structuring the assistance as a savings incentive;
- Providing contributions in proportion to savings; and
- Providing tax-free interest or an interest rate bonus on savings in a recognised deposit account

All schemes require a cap on the amount of assistance provided and/or means testing to ensure eligibility. Whilst the FHOG is a Commonwealth program, deposit assistance may be provided by any level of government.

Whether the lever is currently in place in the NT

As in all other jurisdictions, the FHOG is available in the Northern Territory. It is administered by the Territory Revenue Office.

[16] ibid

Scope for expanding the lever in the NT

The Victorian Government offers first home buyers the option of taking an up front grant in lieu of the Stamp Duty concession. This may be advantageous to some buyers depending on the price of the dwelling and the particular arrangements they have negotiated with a lender.

Such an option could also be offered in the Territory, though the impact on households below the 40th percentile in the income distribution will be limited.

5.6 Other Initiatives to assist people access rental properties

5.6.1 4H Direct Rental Subsidy

Direct rental subsidies are received by tenants (as opposed to rental housing providers) in the form of an income supplement. Typically, the amount of subsidy is determined by the low-income recipients' rental costs and their income. Structuring the subsidy in this way enables the recipient to make housing choices that reflect individual values concerning housing type, location and affordability.

Application of the lever elsewhere

The Commonwealth Rent Assistance (CRA) is fully funded by the Commonwealth and is available in all States and Territories. CRA is a non-taxable income supplement and is provided to people who are on low incomes and to individuals trying to secure housing in the private rental market. In 1999–2000 in excess of $1.5 billion was outlaid on the provision of Rent Assistance[17].

Whether the lever is currently in place in the NT & scope for expanded application in Territory.

CRA is payable in the Territory as in all other jurisdictions. In theory, the Territory Government might 'top up' Commonwealth rent assistance payments but this would expose the Government to open ended outlays and the possibility of a shift of responsibilities from the Federal Government.

Likely benefit and impact on affordable housing

Research conducted by the Australian Institute of Health and Welfare (AIHW) on the impacts of the CRA on affordability has revealed positive outcomes. Table 4 below illustrates the distribution of the CRA recipients by the proportion of income spent on rent before and after CRA is received.

[17] http://www. aihw. gov. au/publications/aus/bulletin14/bulletin14-c00. pdf

Table 4. CRA recipients, by proportion of income spent on rent without and with CRA payment and state/territory, June 2002

Proportion of income spent on rent	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust.
Without CRA					(per cent)				
30% or less	27.2	29.7	32.0	32.4	35.8	37.6	28.4	27.8	30.3
More than 30% to 50%	41.1	42.1	42.7	43.0	40.2	43.1	38.0	40.0	41.8
More than 50%	31.7	28.2	25.3	24.6	24.0	19.3	33.6	32.2	27.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
With CRA					(per cent)				
30% or less	59.9	65.5	68.1	70.3	71.5	77.8	56.3	61.0	65.3
More than 30% to 50%	28.1	25.2	24.6	23.2	22.4	18.2	31.2	29.2	25.6
More than 50%	12.0	9.2	7.3	6.4	6.1	4.0	12.4	9.8	9.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total CRA recipients	**305,773**	**194,507**	**227,827**	**83,626**	**62,161**	**21,891**	**7,631**	**5,558**	**908,974**

Source: http://www. aihw. gov. au/publications/aus/bulletin14/bulletin14-c02. pdf

In the Northern Territory the percentage of people who were paying more than 50% of their income on rent fell dramatically with the Commonwealth Assistance Scheme.

With the relatively recent volatility within the housing market, housing has become less affordable in the urban centres of the Territory. Over the last four years, the median house price in Darwin has increased by 32% and the median house price in Alice Springs has increased by 50%[18]. Consequently, housing affordability in both the home ownership and private rental market has been severely affected.

It has been argued that while the CRA in the Northern Territory improves affordability for low income earners in the private rental market to a certain extent, it is not sufficient. For instance, low income earners in the private rental market are four times more likely to be experiencing housing stress than those on similar income levels in public housing[19].

It is also argued that the CRA contributes to higher market rents, whilst at the same time failing to increase the supply of affordable housing. This argument is supported by observations of general inelasticity in the lower cost rental market, where the value of CRA payments has been absorbed by increases in rental pricing. In markets where housing supply is adequate or in surplus however, CRA results in increased housing affordability.

It is clear that the scope and scale of the current CRA program is insufficient in taking the majority of low-income households out of rental stress, particularly in the higher cost metropolitan markets. This is partly because the present formula for assistance is insufficiently responsive to substantial regional differences in rents.

[18] http://www. nt. gov. au/cdsca/hometerritory/position. htm

[19] ibid

5.6.2 4I Bond Assistance

Target groups in the private rental market would receive a grant to assist with paying the bond required to secure a rental property.

Bond assistance has been a long-standing component of housing assistance to low-income families in both State and charity supported housing programs. Whilst the programs are effective and desirable, they may not be of sufficient scale or scope to significantly increase housing affordability over the longer term.

Application of the lever elsewhere

This lever has been used in all Australian jurisdictions. Each State utilises a similar framework whereby the bond assistance is offered as an interest free loan to people who meet the requirements. The loans are usually administered by a Housing Department or equivalent. Some examples are provided below:

> *Western Australia:*
> The Western Australian Department of Housing and Works offers bond assistance as an interest-free loan to help people obtain accommodation in the private rental market. The loan is repaid in regular payments of at least $15 per fortnight. In addition, applicants must meet the public housing income limits and not have assets above $2500 for singles and $5000 for couples. Anecdotal evidence suggests that this loan scheme is extremely popular and effective, with more than 13,000 loans approved each year[20].
>
> South Australia:
> In South Australia the equivalent to Bond Assistance is Bond Guarantees. These are interest free loans, worth up to 4 weeks of rent and are available to people who are on low incomes and are unable to pay their bonds to move into affordable private rental accommodation. Bond loans are repayable at the end of the tenancy and must be repaid before any further financial assistance is given[21].

Whether the lever is currently in place in the NT and scope for expanded application in the Territory.

In the Northern Territory, Bond Assistance is provided through Territory Housing. This takes the form of an interest free loan that is available to eligible people who are unable to access private rental housing, which includes permanent on site caravans.

There would be scope for expanded application of this mechanism; however, it provides only a palliative measure in dealing with the affordable housing problem. The main issue is lack of supply of affordable stock.

[20] http://www. dhw. wa. gov. au/404_446. asp

[21] http://www. housingtrust. sa. gov. au/site/page. asp?swId=1&pgId=2

6 Discussion and Recommendations

6.1 Context for Preferred Levers in the NT

Some overarching issues need to be acknowledged before moving to a discussion of which levers would work best in the NT.

Firstly, none of the mechanisms reviewed in this report can provide ‘the answer’ to the Territory’s affordable housing crisis. As in all other Australian jurisdictions, the affordability problem in Darwin and Alice Springs reflects a severe and structural shortage of rental housing which is accessible at a reasonable price to lower and moderate income households. This, in turn, reflects the virtual absence of any national program specifically designed to create affordable stock. In its heyday, the CSHA was directed to this purpose. However, fresh capital allocations under this Agreement have been static or declining for almost 2 decades. In most jurisdictions, annual funding flows from the Agreement are wholly taken up in maintenance and renewal of existing stocks of public housing.

Successive Commonwealth Governments have concentrated their housing efforts on topping up the incomes of lower income renters in the private sector through CRA, and providing cash payments to non-means tested first home buyers through FHOG. While the former is undoubtedly a welcome income supplement, it is unlikely to add to the stock of affordable rental housing because of supply side inelasticity. Meanwhile, FHOG may have actually exacerbated the affordability problem by bringing forward housing demand and pushing up prices.

Structural national reforms are necessary if a significant dent is to be made in the affordability issue in the Territory. The nature of these reforms has been canvassed in a range of previous studies. The simplest approach would be to reinstate the CSHA to its previous role and greatly increase capital commitments to the expansion of public housing. Other options would see the Commonwealth making recurrent outlays to bridge the gap between the return achievable on National Affordable Housing Bonds and the return required by commercial investors. A comprehensive scheme of tax credits to bridge this ‘return gap’ has also been proposed.

The second overarching issue relates to the question of prioritising levers on the basis of which tenure they support. By definition, housing stress covers those households in the bottom two quintiles of the income distribution who are outlaying more than 30% of gross income on accommodation costs. Given the rapid escalation of housing prices under Australia’s current ‘long boom’, very few households in this income range would be even on the margins of home purchase, unless they have access to assets through bequests, family assistance and the like. It is theoretically possible to lift the ‘highest’ income households in the low income band into home ownership and thereby make savings in future recurrent payments in CRA or public housing rental rebates. However, the home ownership subsidies in question would need to be extraordinarily deep. This would raise serious equity issues and would constrain the ‘reach’ of the limited public sector resources available for housing assistance.

Bearing in mind the extent of housing stress amongst those 'permanently' anchored in the rental sector, and the fact that the Territory already has a reasonable suite of home lending products in place to assist marginal home buyers, including an innovative shared equity scheme, we believe that NT should focus on levers designed to expand the supply of affordable rental housing in Darwin and Alice Springs.

6.2 Development of the 'Third Sector'

Having made the point that national reforms are a precondition for successful affordable housing policies at the State and Territory level, the analysis in this report shows that there are a number of local initiatives which can be taken in the NT to boost the effectiveness of whatever structural assistance is forthcoming from Canberra.

The principal requirement or opportunity is to seed and accelerate the growth of a 'Third Sector' within the rental tenure sphere. The Third Sector relates to not for dividend Housing Associations which are dedicated to the provision of affordable and appropriate housing outcomes for their tenants. The Brisbane Housing Company and City West Housing in Sydney are early Australian examples of a class of landlord operation which is rapidly assuming dominance in the lower income sector in the UK, and which has been a major force in continental Europe, especially Northern Europe, for much of the past 6 decades.

Housing Associations receive capital grants or stock transfers from their host Governments but they are legally separate from these governments. They are governed by independent boards and may enter into commercial dealings in their own right. However, as the recipients of asset transfers from taxpayers, the Associations must comply with a highly specific charter focussed on affordable housing delivery in a fair and efficient manner, and they tend to be tightly regulated to ensure that their tenancy and asset management practices conform with their charter and with the underlying policy objectives of the host government.

In the emergent Australian practice, Housing Associations are required to target broadly the same group of households as that eligible (or prioritised for) public housing. However, they have greater flexibility within this broad band and tend to house those at the higher end of the low income range and those with fewer special needs. In a sense, they perform the role of housing 'ordinary working Australians' which the public housing sector fulfilled prior to its residualisation into 'welfare housing' from the mid 1980's onwards.

Housing Associations offer a number of advantages in framing a Territory affordable housing strategy. They inject a degree of competition and choice into the low income rental sector thereby promoting innovation and improved accountability. In the UK, Housing Associations have been at the forefront of innovative practice including urban regeneration, mixed tenure housing, local economic development and land value capture.

Housing Associations are also free to work their balance sheets much harder than traditional public housing providers. This means that options for attracting private sector investment in affordable rental housing expand greatly.

There are downsides to the establishment of Housing Associations. As noted, they tend to target the 'higher income', 'less management intensive' tenant groups. This is essential if these companies are to generate the modest operating surpluses required to leverage private sector investment. In the process, there is inevitably a leakage of subsidies away from those most in need.

Another downside is that the build up of affordable housing stock may be reduced over the long run under leveraging schemes versus direct government investment, as there is a siphoning off of revenues into interest repayments, as opposed to ploughing these back into stock acquisition. (Offsetting this long term disadvantage is the opportunity to more rapidly expand stock in the near term).

Notwithstanding these shortcomings, it is clear that emergence of a Third Sector is more in keeping with the broader social reforms which have been pursued in Australia over the past two decades, focussing on market efficiency, competition and choice. It is important for the Territory to find ways of kick starting this sector. We see successful implementation of a Housing Association in the Territory as the key catalyst to a range of innovative levers canvassed in this paper, including those focussing on joint ventures and demonstration projects.

As noted in the foregoing Chapter, the main issue facing the Territory regarding development of Housing Associations is the lack of institutional capacity. Other jurisdictions (e.g. Victoria and SA) have generally used the community housing sector as a launching pad for Housing Association initiatives because of the pool of skills and experience available there. However, the community housing sector in the Territory is very small (outside the indigenous housing area) and specialised.

We see little point in the Territory attempting to 'reinvent the wheel' on Housing Association policy. It has the opportunity to take the best from the extended period of experimentation and policy development which has been pursued in other jurisdictions. In terms of regulatory frameworks for the Third Sector, Victoria seems to be the most advanced. This framework is generic in nature and could translate readily to the Territory.

As far as seeding an initial Housing Association is concerned, there is merit in approaching an established company – say the Brisbane Housing Company – with a view to it 'franchising' an operation in Darwin/Alice Springs. Depending on the franchise fee, this could be a cost effective way of fast tracking relevant skills development and organisational capability in the Territory.

6.3 New Subsidy Streams

Even with major structural reforms at the national level, it is likely that the subsidy streams for the provision of affordable housing will need to be diversified. In part, this reflects a re-conceptualisation of the funding rationale for affordable housing, away from a simple, 'aspatial' transfer payment to alleviate housing stress, towards recognition that affordable housing underpins social mix which is a vital ingredient in healthy, harmonious and prosperous communities.

As part of this trend, many jurisdictions (though not the NT) now define the scope of planning regulation to include the social and economic facets of sustainability as well as the impact of development on the built and natural environment. This means that questions of social mix in new and established communities become a legitimate planning consideration, potentially leading to the use of land use controls to extract various forms of contributions from developers for affordable housing. As shown in Chapter 5, recent years have seen a plethora of 'innovative affordable housing measures' creep into Australian planning practice. However, many of these can have adverse effects on housing market efficiency and / or are patchy and small scale in their impact on the affordability problem.

We favour the application of a blanket Inclusionary Zoning approach across whole suburbs or urban sub-regions. This approach:

- Best reflects the need to achieve social mix across all communities and is most consistent with the environmental sustainability rationale for applying the planning system to affordable housing;
- Establishes the broadest possible base for raising affordable housing contributions, thereby limiting any adverse effects on housing production costs and mitigating any threat of 'capital flight';
- Offers the greatest opportunity for the Inclusionary Zoning cost burden to be passed back to the sellers of development sites as opposed to being absorbed by developers in reduced margins, or passed forward to home buyers;
- Is the fairest in terms of treatment of developers; all would be caught by the requirement, regardless of scale of their project and land use type;
- Maximises the chances of generating significant stock or cash flows which can be teamed with base load funding from the Commonwealth and Territory Government to leverage substantial private sector investment in affordable housing; and
- Is more likely to generate reliable cash and stock flows to support steady development of the Housing Association sector.

Notwithstanding the sound environmental arguments for mandating social mix, the development sector will be cautious if not outright antagonistic to an Inclusionary Zoning measure being applied across Darwin and Alice Springs, if it sees this initiative as a straight 'cost shift' from the general taxpayer (who is primarily responsible for alleviating housing stress across the community) to particular groups in the community, notably buyers of units / floorspace in new developments. To mitigate this anticipated resistance, it will be important for the Territory Government to offer a package of 'sweeteners' to accompany the Inclusionary Zoning measure, including, for example, accelerated release of any surplus government land for development, streamlining development approval processes to provide greater certainty and timeliness and revising development standards to allow for more (cost effective) innovation on the part of proponents.

The Inclusionary Zoning measures plus the wider reforms of the development approval system to promote affordable housing could be consolidated into an integrated planning policy as per lever 1E, discussed in the foregoing Chapter.

6.4 Financial Implications

An NT affordable housing strategy configured around development of Housing Associations and planning reforms featuring Inclusionary Zoning would provide the integrating platform for the second order levers identified as worthwhile via the analysis in Chapter 5.

The cost of this strategy very much depends on what objectives the Territory Government sets in terms of stock expansion. With respect to recurrent outlays, the package could be budget neutral or positive if, for example, the Government chose to kick start the Housing Association sector through major stock transfers from the Territory Housing Branch.

A more measured approach would see a gradual build up of Housing Association stocks through annual capital allocations from the Territory Government. However, this strategy runs the major risk of delayed achievement of economies of scale and the requisite skills base in the Territory.

The cash flow from Inclusionary Zoning will be a direct function of the targeted stock acquisition rate and the commitments made by the Territory Government in terms of matching capital allocations. Clearly, the Inclusionary Zoning rate per square metre of development floorspace will need to be absorbable by the development sector. This is likely to require a significant phase in period so that developers can clear current projects initiated prior to the inception of Inclusionary Zoning requirements.

6.5 Recommendations

It is recommended that:

1. The Territory Government prepare a strategy for accelerated development of the Housing Association sector in the NT;
2. The regulatory regime developed by the Victorian Government for Housing Associations be adopted as an initial best practice model on which to formulate a suitable framework for the Territory;
3. The Territory Government undertake discussions with leading, large scale Housing Associations already operating in Australia (e.g. Brisbane Housing Company) to explore options for how these Associations might franchise suitable Territory operations;
4. The Territory Government undertake financial and risk analyses of these options, based on a range of scenarios regarding tenant mix and initial capitalisation of an NT Housing Association.
5. The Territory Government amend the Planning Act to include an wholistic definition of environmental sustainability and, in particular, to clarify that issues of social mix and housing diversity can be legitimately considered as ‘planning matters’ in the formulation of town planning schemes and the determination of development approvals;
6. The Territory Government prepare an overarching planning policy for the promotion of affordable housing featuring Inclusionary Zoning applied on a simple and consistent suburb

/ region wide basis plus a range of regulatory and land release reforms to support more cost effective housing development; and

7. The Territory Government utilise COAG and other Ministerial forums to make the case to the Australian Government for the taxation and/or subsidy programs required for large scale institutional investment in affordable housing.

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APPENDIX A
PROFILES OF AFFORDABLE HOUSING MECHANISMS

Housing Market Efficiency

Housing Finance

1A Superannuation applied to deposits

This is a proposal to enable fund holders to draw upon their superannuation assets to pay a deposit on a home. The fund holder would not be required to repay the principal amount borrowed. Under some proposals, repayments would be made on an ‘interest only’ basis, at a rate nominated by the fund holder. Other proposals also allow the fund holder to borrow in excess of the superannuation account balance and service this ‘debt’ in part or in full through regular superannuation contributions.

At present, preserved superannuation funds cannot be readily drawn upon for housing needs in Australia. A recently proposed NSW model would allow means tested households to withdraw up to a maximum of $20,000 from their superannuation fund to use towards a home deposit[22] (Davies 2003). This proposal does not allow the fund holder to ‘overdraw’ or access all of their superannuation capital.

Proposals which do not incorporate means testing have been criticised. It is contended that households with sufficient income to have established significant superannuation capital are less likely to be suffering from non-voluntary housing stress. Without means testing, the proposal may have the perverse effect of increasing housing consumption amongst higher income groups, causing house prices to rise whilst being of limited relative value to lower income groups.

Without sufficient controls, allowing superannuation funds to be drawn upon for housing needs may also result in low-income households being significantly worse off upon retirement. Whilst such a mechanism may reduce Government housing support costs in the short term, it is possible that an increase in aged pension payments may be sustained in the long run.

[22] This proposal assumes that an average couple in their early thirties would have approximately $37,00 in combined superannuation savings

1B New finance products

New commercially available finance products generally result from deregulation and competition within the banking and finance sector. Whilst some products may be of benefit to low income households or households living in housing stress, most are not explicitly targeted at these groups. Products available in the Australian marketplace include:

- **Low start loans** where repayments are low initially but increase as income and asset values rise over the period of the mortgage. Low initial repayments have the effect of extending the period and the overall cost of the loan.

  Whilst low start loans were readily available in the 1980's, they are less common today – especially amongst commercial lenders.

- **Interest only loans** where repayments are made on an interest only basis for a defined period of time, after which principal repayments are made. Interest only loans are used most commonly by investors and high income earners seeking the taxation advantages .

  Whilst – in strong housing markets - interest only loans for housing purposes are relatively low risk (recovery of the principal is effectively guaranteed by rising real estate values), commercial lenders are not likely to offer interest only loans to low-income borrowers, especially in more volatile housing markets.

- **Fixed interest loans** are normally at a higher interest rate but provide a hedge against interest rate rises. Cost savings are apparent in markets where interest rates are escalating, however in markets where interest rates are stagnant or declining, relative debt servicing costs are increased.

- **Interest saver loans** are a product that links a mortgage account balance to a saving or cheque account balance in order to reduce the mortgage principle on which periodical interest calculations are made.

  Interest saver loans are commonly offered to and are most effective when used by higher income households. The cash flow patterns of low-income borrowers make these products less attractive.

- **Shared Equity** loan schemes are a recently revived finance product that vest part of the asset value in a dwelling with the occupier and part with another investor. This arrangement reduces the amount of capital to be borrowed by the occupier in order to establish a part ownership interest in a dwelling.

  Recent reports released by the Prime Ministerial Taskforce on Home Ownership advocate for the introduction of (shared) equity housing finance. The report contends that "when a 'representative' younger family use a mixture of debt and equity, the upfront costs of home ownership, and the interest and principal payments required thereafter, decline by around 30 percent. There is also a dramatic reduction in the household's risk of default, and a 70 percent rise in their liquid assets once they leave the workforce…" (Joyce *et al* 2003, p. 15)

Critics of shared equity loan schemes suggest that by simply improving access to housing finance, increased housing consumption will catalyse further escalations in housing prices.

Concerns also surround the equitable sharing of risk and returns between the dwelling occupier and silent investor (usually a bank or financial institution).

- **Reverse or equity release mortgages** allow existing homeowners to access the equity vested in their home. This can assist households with significant housing assets but low incomes to meet living expenses, without having to relocate or leave their established residence.

  Equity release products are not of any benefit to non-home owners or those without significant equity in their home.

  Equity release products may also have the perverse effect of encouraging the under-occupancy of dwellings in cases where older homeowners choose to draw upon their equity rather than relocating to a more suitable, lower cost dwelling.

In addition to the abovementioned products, a range of other innovations in finance products were outlined in the Reserve Bank of Australia's (RBA's) Submission to the Productivity Commission Inquiry into First Home Ownership. (RBA 2003, pp. 46-47). The RBA's description of these innovations is presented in the text box below.

Home-equity loans
"These loans provide a line of credit secured by a mortgage against an existing property and can be used for a range of purposes, including renovations or the purchase of an investment property. In some cases no repayments are required for a number of years, provided the outstanding debt remains below an agreed limit (generally up to 80 per cent of the value of the property).

Mortgages with flexible repayment schedules and redraw facilities
These arrangements allow borrowers to manage a temporary loss of loan servicing ability or to access loan repayments that have been made in excess of the minimum repayments required by the lender. As such they reduce the need for borrowers to maintain precautionary savings in low-interest deposit accounts and can offer a tax-efficient form of saving. The most flexible of such arrangements combine a home loan account, a transactions account and credit card account into the one facility".

Deposit bonds
"These bonds remove the need for the purchaser of a property to pay a deposit at the time contracts are exchanged. Instead, the purchaser pays the bond's issuer (typically an insurance company) a fee in return for a guarantee that an amount equivalent to the deposit will be paid at settlement. For short-term bonds, this fee can be measured in hundreds of dollars rather than the tens of thousands required for a conventional deposit. Even bonds with terms of up to three years, used to purchase property "off-the-plan", are relatively cheap, allowing investors to gain a highly leveraged exposure to the property market during the property's construction phase. Developers report that deposit bonds have been used by up to 70 per cent of purchasers in some projects. It

is estimated that they are used in up to 20 per cent of Sydney residential transactions, the market where their use is most widespread".

High loan-to-valuation ratio (LVR) loans

"A range of financial institutions offer loans of between 97 per cent and 110 per cent of the property's purchase price. While such products have been available for at least two years, most high LVR loans have been made in the past six months. Various restrictions on the type of property (for example, investor and/or inner city) are imposed in an effort to reduce the lenders' credit exposure. In addition, high LVR loans usually attract a higher interest charge".

Low documentation loans

"These loans are designed for borrowers that are unable to gain approval for traditional lending products due to insufficient documentation – usually due to their employment situation (self-employed, seasonal or contract workers). These loans typically carry an interest rate 60–80 basis points above the standard variable mortgage rate and have a maximum LVR of 75–80 per cent".

Acceptance of other security

"One financial institution has recently introduced a home loan that allows customers to use the equity in their car as part of the security for the loan. The loan is principally designed for borrowers who wish to consolidate an existing mortgage and other outstanding debts, but are otherwise unable to meet minimum LVR requirements".

Split-purpose loans

"These loans allow a borrower to split a loan into two sub accounts, one for a home loan and the other for an investment loan. In the initial years, all loan repayments are directed to the home loan account with the interest due on the investment loan being capitalised. Subsequent interest payments and tax deductibility relating to the investment property are thus greater than otherwise. The Commission of Taxation has recently been granted leave to appeal to the High Court regarding the Federal Court's decision that this type of product is not primarily designed to obtain a tax benefit".

Vendor finance loans

"Under these arrangements, a "mortgage wrapper" obtains a standard mortgage over a property from a mainstream lender and on-sells the property to a third party (who occupies it) under an installment sales contract. The wrapper retains ownership of the property until the occupant makes all of his/her installments, that is, until the wrapper's loan to the occupant is fully repaid. The interest rate paid to the wrapper is typically 2–2½ percentage points higher than the standard mortgage rate. In addition, the mortgage wrapper usually requires the occupant to make repayments of principal well in excess of the purchase price paid by the wrapper – sometimes up to 25 per cent in excess".

1C Government backed mortgage insurance

Mortgage insurance is currently offered by private sector insurers, with premiums established according to an assessment of risk. Arguably, the re-introduction of a government-backed mortgage insurance scheme would enable a greater number of households to gain housing finance.

This argument is centred around the contention that, relative to a Government backed scheme, private sector insurers may be excluding marginal borrowers through their risk management techniques, tighter credit controls on lenders and aggressive competitive action (Berry 2001, p. 12).

From the early 1960's until late 1990's, the Commonwealth owned Housing Loans Insurance Corporation (HLIC) underpinned Australia's mortgage finance insurance market. The HLIC was privatised in the late 1990's when purchased by GE Capital Services (Berry 2001, p. 12).

The re-introduction of a Government owned mortgage insurer may result in greater access to housing finance and marginally reduced finance costs, however it may be argued that the impact would not be sufficient enough to drastically improve home ownership affordability, particularly for those most in need.

1D Development of community banks

Encouraging and facilitating the development of Community Banks and Credit Unions in Australia may represent a method of directing the finance sector to be more responsive to local needs. Community Banks and Credit Unions may also act as a vehicle for securing local capital for investment in local affordable housing initiatives. The attraction of this investment would be primarily derived from the institutions local market knowledge and commitment to viable local housing outcomes.

In Australia's regional areas particularly, the Community Banking sector is expanding in response to community dissatisfaction regarding the customer service and infrastructure networks offered by major banking institutions. Generally, Community Banks and Credit Unions add positive competition to the finance and banking sector, particularly in relation to their locally responsive approach to housing and business / regional development objectives.

Whilst the growth in Community Banks and Credit Unions is positive, as a policy lever directed at the provision of affordable housing specifically, potential impact is limited.

Planning and Infrastructure

1E State and Local Government Planning Policy

A lack of consistency in planning policy and development frameworks can result in delayed, inflexible and inefficient development processes, in turn adding to the 'unit' cost of developing individual dwellings. In addition, objectives regarding the provision of affordable housing may not be explicit, or they may be contradictory to objectives associated with other recognised environmental attributes. In many cases, the need to provide affordable housing in key locations needs be considered against the need to preserve and recognise other, environmental, economic and social values. An outcome that maximises community benefit needs to be achieved.

Creating a consistent, best practice, just and efficient suite of state planning policies and provisions would appear to be a priori desirable. However, the elements which comprise a 'best practice' model must first be defined and agreed upon. The need for planning policies to be responsive to local environments and contexts means that 'best practice' policies will vary across individual settings.

This lever incorporates a potentially wide ranging suite of planning policy reform measures. In general, the reforms would reward, encourage or at least permit lower cost forms of construction in areas where housing affordability is a priority outcome. Measures may include policies to permit higher densities in appropriate locations or the facilitation of alternative housing types such as mobile homes, demountable homes, rooming/boarding houses, studios, shop top housing, and mixed use developments.

In addition, the lever incorporates reforms concerning improvements to the administration of planning policy, whether measured in time taken, predictability of outcomes or consistency of application. Maintaining this 'administrative efficiency' is an ongoing challenge that is necessary in its own right.

A number of the levers profiled in latter sections are more specific sub-components of this general reform framework.

1F Efficient infrastructure provision and equitable user pays arrangements

User-pays infrastructure charging arrangements generally refer to a transferring of the infrastructure funding burden from recurrent charging and taxing mechanisms (e.g. local rates), to up-front and pre-notified developer charges. These charges are usually apportioned according to the projected share of beneficial usage which the development is expected to generate (Development Contributions Review Steering Committee 2001, p. iv).

Ensuring that infrastructure is supplied efficiently and equitably may contribute to increased housing production efficiency and therefore to increased housing affordability. This process would occur in two primary ways. Firstly, if user pays infrastructure charging plans (ICP's) are prepared on the basis of genuine 'cost reflectivity', that is, with adequate differentiation of charges in line with differences in the cost of servicing the lands in question, a pricing signal is sent encouraging the early use of land which can be more readily supplied with infrastructure. Provided steps are taken to combat land withholding, the use of more efficiently serviced land should reduce housing production costs, all other things being equal (SGS P/L 2003, p. 20)

Secondly, pre-notified infrastructure charges remove the element of uncertainty (and therefore commercial risk) attaching to how infrastructure items will be funded. Where the providers of debt or equity capital for housing projects are subject to ad-hoc negotiation arrangements, a premium is required to cover the risk of delays and adverse outcomes. This premium is ultimately passed on to home buyers.

Pre-notified user pays infrastructure charging plans are employed most notably in Victoria and Queensland. In the latter state, a development sequencing model (QDS) has also been implemented. The QDS aims to balance the competing objectives of a demand responsive land market and the timely delivery of social infrastructure (SGS P/L 2002, p. 137)

The majority of mechanisms related to efficient infrastructure provision are founded on robust strategic land use planning, in order to accurately forecast development, assess current and future infrastructure requirements, calculate charges and determine 'roll out' strategies. Ideally, this process would be formalised by the development of metropolitan development and 'sequencing' plans, such as the QDS.

Whilst the general efficiency of the housing market is enhanced by all of the processes involved with developing efficient and equitable infrastructure funding and delivery systems, no element of targeting is explicitly apparent.

Land Supply

1G Government businesses - competition in land supply

Government owned organisations with significant land holdings would be principally engaged with stabilising land prices by responding to land supply and demand imbalances as they occur in the market. This role may range in scope from strategic land release, to complete land development and finished lot retailing. Ongoing monitoring of supply and demand would inform the organisation and 'trigger' market entry. Such organisations would normally be commercially viable and return dividends to their owner (the respective State Government).

Landcom in NSW, VicUrban in Victoria and the Land Management Corporation (LMC) in South Australia are examples of currently operating, Government owned land management and development organisations (LMDO's). Whilst Landcom and VicUrban engage in comprehensive land development and finished lot retailing projects as well as strategic land release, the LMC is primarily concerned with the latter of these tasks.

Although Government owned LMDO's do not require any subsidy to remain viable, most capture 'betterment' value when land on the urban fringe is released for development (the value of the land – which was originally purchased as a Greenfield site - increases once it is released for urban development). In this way, LMDO's may be seen as a vehicle for ensuring that, wherever possible, betterment is captured for public good, rather than private.

Whilst LDO's may improve general market efficiency and contribute to stabilising housing prices, as commercially oriented organisations operating without subsidy they have limited application regarding the direct provision of affordable housing.

1H Government organisations to engage in land banking

Generally, land banking initiatives would be designed to empower the market efficiency role of Government owned LMDO's (see lever 1G above). In this way, land banking refers to the strategic purchasing of land to ensure that an affordable supply of land is available into the future. This land may or may not be used specifically for the provision of affordable housing. The need to maintain fair competition in the market would need to be weighted against the need to release land at a discounted or subsidised rate if affordable housing outcomes beyond those created via enhanced market efficiency were required.

The South Australian Land Management Corporation (LMC) is an example of an LMDO that has traditionally engaged in significant land banking initiatives. Approximately 40 percent of South Australia's total un-serviced future land supply is 'held' be the LMC and other South Australian Government agencies (South Australian State Housing Plan 2003, p. 31).

Whilst the opportunity cost of land banking schemes requires consideration (it may be more effective to utilize the required funds in another way, rather than 'hold them up' in a long-term land banking scheme), there may be potential for Government agencies to strategically purchase land in areas where development is either directed or forecast to occur. As described under lever 5H, betterment value is effectively captured upon later release of this land, generating a significant public windfall. The betterment value captured upon land release may be directed towards the provision of affordable housing.

As land banking is primarily designed to empower Government owned LMDO's, the initiative has merit as a general housing market efficiency tool, but limited application for specifically generating affordable housing in the shorter term.

1I Assemble land in urban consolidation areas

In many cases, land in urban consolidation areas is owned by a number of stakeholders. Government owned LMDO's (see lever 1G) could play a role in assembling sites that would otherwise be passed over by 'standard' market players because of the difficulties in dealing with multiple property owners.

Land assembly in urban consolidation areas can be seen as a similar initiative to land banking and land release initiatives, all of which are administered by Government owned LMDO's. Whilst the latter two initiatives are primarily associated with land and development on the urban fringe, land assembly initiatives are particularly focussed on established urban areas.

Whilst land assembly in urban consolidation areas is warranted and has merit as a general tool for expanding the supply of affordable housing in key urban areas, the scope of the initiative is limited to negotiations based on 'ad-hoc' opportunities.

1J Punitive rates to promote the release of land for development

Punitive rates and charges would be designed to discourage the withholding of land that is 'in sequence' and ready for development. Generally, such land would have been identified through a development plan and the anticipated sequence and timing of its development made clear. Punitive measures could include the imposition of urban rates on broad hectare sites that have passed beyond a certain time threshold with respect to their designation for release and development under the respective development plan.

A development sequencing plan may also be backed by an explicit system of infrastructure acceleration charges in the case of out of sequence development. In this way, proponents would be required to meet the marginal cost of servicing land at an earlier stage than was planned for (it is more expensive to provide infrastructure services on land that is remote or 'out of sequence').

Development sequencing models that are backed up by punitive and acceleration charges generate greater efficiency in the housing market, equitable and efficient infrastructure services provision and therefore reduced costs. However, they are not mechanisms that are specifically targeted towards the provision of affordable housing, especially for those most in need.

Other Housing Market Efficiency

1K Demonstration projects promoting innovation

Programs would be put in place to directly utilize or facilitate the use of demonstration projects to promote and exemplify the advantages of innovations in land development, housing design and construction practices.

Innovations might include more efficient lot packaging, more efficient infrastructure provisioning, changes to construction practices and the use of materials, more efficient construction management, environmentally sustainable design (ESD) and the tapping of economies of scale in house and land packages.

The programs may incorporate an emphasis on suitable housing types and construction techniques for a specific target group, such as low income first home buyers, or they may inform the development of more cost effective social housing.

There may also be opportunities to broker arrangements with suitable manufacturers and housing related businesses, resulting in further cost savings.

Example: Landcom Smart Housing, NSW[23].

The Landcom Smart Housing program was launched as a design and construct competition, aimed at encouraging architects and developers to design innovative housing products to meet the needs of changing household structures and low income households.

[23] Adapted from: Climo, D, 'Landcom Launches Building Competition', in *Building Products News,* November 9, 2000

http://www. infolink. com. au/articles/d0/0c0026d0. asp

All Landcom Smart Housing projects incorporate a mix of household styles, with dwellings designed to suit varying income levels. One of the principles of the program is that affordable housing must not be drastically different from regular housing in external quality or design.

Dwellings in the Smart Housing projects of Forest Glade and Parklea are significantly more affordable than comparable dwellings in their respective localities. Forest Glade incorporates 63 ‘smart’ homes, of which 20% are set aside for households with means tested, moderate incomes (Landcom 2003).

Innovative housing programs are a positive feature of the contemporary responses to housing affordability and environmental issues, which should be encouraged per se. However, as a policy lever the potential impact of such programs is difficult to assess, particularly with regards to scale and scope.

1L Appropriately structured and skilled workforce in housing sectors

The viability and effectiveness of the housing sector is directly affected by the availability of an appropriately skilled workforce. In regional areas particularly, relatively small labour pools and the lure of higher income potential in urban locations act to exacerbate skill shortages.

Of particular concern is the ageing profile of workers in the construction industry - a trend that is underpinned by a diminishing numbers of new entrants into the trade industries.

Skill shortages can result in lengthy construction times, artificially inflated costs and general market inefficiency.

In facilitating the availably of an appropriately skilled workforce, factors such as workforce entry points, training and education systems, barriers to entry, and licensing and regulation frameworks would be reviewed and amended to ensure that the labour market operates as efficiently as possible.

1M Provision of improved market information

More detailed and improved market information concerning pricing trends and housing sector changes can raise investor confidence and stimulate activity. The wider availability of robust information for major housing sub-markets would also remove a major barrier to institutional and professional investor participation in those markets.

While such information is available in some markets, it is not widely published. Other Australian housing markets depend on the reporting of median or average sale prices, complied into trend data. These data sets are often skewed by shifts in market composition, and can be misleading (for example, the price effects of improving the condition of a property are not usually separated from general price trends).

Whilst improved market information may result in more robust market analysis, it is not possible to say that investment in affordable housing will be increased as a result. If housing is revealed to be an attractive investment for professional and institutional investors, additional funds will be directed to the sector, however the supply of affordable housing may even diminish, rather than escalate.

Affordable Housing Market Efficiency

2A Support cost effective, not for profit delivery vehicles[24]

Catalysed by growth in the Commonwealth Rent Assistance program, a declining public housing system and a small community housing sector, governments around Australia are exploring the potential benefits of new "affordable housing delivery vehicles" (AHDV's). These AHDV's aim to leverage more housing from government capital by tapping new sources of subsidies, as wells as utilising mixed financing approaches - especially with regards to bringing in various forms of private finance.

New AHDV's are being created to manage the roles spanning the raising of finance, portfolio development and management, and socially responsible tenancy management. To be successful in all roles, the AHDV's need to manage the involvement of several sources of funds (both public and private sector sources), take a long term portfolio management approach to their assets, and recognise the link between the financial viability of the housing and the way it is priced, targeted and managed. These organisations also need to ensure that tenancy management operations and client services are consistent with community expectations about a supportive housing environment.

Examples of Australian Affordable Housing Delivery Vehicles

- NSW has had the longest experience with a specialised vehicle for developing and managing affordable housing. The City West housing company, established in 1994, is funded through equity grants from state and federal governments and proceeds of a developer contribution scheme that operates in the local area (Pyrmont/Ultimo).

- In 1999 the ACT government established a public company, Community Housing Canberra Ltd (CHC), to hold assets transferred from public housing, with the initial purpose of improving the viability of community managed housing in Canberra. This organisation may now to play a role in developing new affordable housing. In 2002, CHC completed a project in partnership with a private sector developer, using private sector finance. The project involved the redevelopment of an old public housing estate into new affordable and market-priced housing.

[24] Information presented to describe this lever has been adapted from: SGS Economics and Planning P/L (2003), *Preserving Affordable Housing in South Australia: Regulatory and Market Mechanisms*, for Planning South Australia.

- In 2002, the Queensland Government has established the Brisbane Housing Company (BHC) in partnership with the Brisbane City Council. The Brisbane Housing Companies primary objective is to develop new affordable housing in the inner suburbs of Brisbane. The BHC has also received considerable equity funding from the government partners as well as the proceeds of voluntary developer contributions for affordable housing.

Each of the abovementioned organisations is an "arms length" entity, essentially owned by government but operating with sufficient separation to achieve public benevolent institution and charitable institution status.

Although included in the final group of levers, AHDV's are in effect an administrative means to manage affordable housing programs and subsidy sources, they are not a direct source of housing production or finance. Modelling may take account of the specific tax or other circumstances that may apply to AHDV's in delivery of housing services.

Supply Side Subsidies

Tax Based Subsidies

3A Low income housing tax credits

The income earned on housing provided for low-income households would be subject to a reduced taxation rate. The recipient of the tax credits would need to guarantee that the housing being provided would remain affordable to the target group for a defined period of time.

This lever is specifically aligned with the need for an increased supply of new affordable housing, as it makes investment in new dwellings that are leased at an affordable rate more attractive. Low income housing tax credits (LIHTC's) would be a subsidy provided by the Commonwealth Government.

Whilst LIHTC's are not currently applied in Australia, they have been a feature of the affordable housing policy framework in the U. S. A since 1986. Berry *et al* state that "the program delivers tax credits to selected developers who must contract to maintain low to moderate income occupancy of the dwellings for a period of thirty years" (2001, p. 106).

The U.S.A experience reveals a number of issues with LIHT's, including the following:

- The scheme wanes in escalating housing markets because strong capital gains attached to 'regular' properties outweigh the benefits of the subsidy. Preventing an exodus in strong housing markets can be achieved by appropriately managing the rules of eligibility and exit (if permitted).

- Social mix has not been achieved as most LIHTC developments are uniformly low income in nature

- LIHTC's do not generate the same level of housing affordability as other subsidy programs (public housing provision for example). The dwellings produced under such programs do not always reach those most in need.

3B Concessions to affordable housing rental investment

This lever is primarily associated with restructuring the existing ***negative gearing*** framework to make investment specifically in affordable housing more attractive relative to investment in other property assets. It may be possible to do this in such a way that net tax revenues are unchanged.

Arguably, increasing the scope for depreciation claims on affordable housing as well as increasing the ability to offset tax losses on affordable housing (against other income streams) would generate further investment at the lower end of the housing market. These changes may be commensurate with a restructuring of the framework as it applies to the 'higher' end of the market.

Example of the importance of negative gearing in Australian property investment

In a submission to the Productivity Commission Inquiry into Home Ownership, the Reserve Bank of Australia state that:

"The overall importance of negative gearing and depreciation deductions in Australia is evident in the fact that in 1999/00 (the latest year for which relevant data are available), 54 per cent of Australian taxpayers earning rental income recorded a tax loss on their investment. 25 In both 2000/01 and 2001/02, as in a number of other years over the past decade, investors, in aggregate, recorded an income tax loss on their investment in rental properties. In each of the other countries studied, investors, in aggregate, earned a positive return." (2003, p.42)

It is argued that negative gearing is most attractive when applied to properties that benefit from capital gain (assuming that it does not make financial sense to purchase a 'loss making' property if it is not accruing capital value). Consequently, an investor intending to maximise the benefit from negative gearing will select properties according to capital gains potential, which may preclude housing at the lower end of the market.

It may also be argued that low value housing achieves its greatest capital gain when located in an area subject to rapid gentrification. In this scenario, it is in the interest of the investor to aid the process by converting low value housing to higher value in order to capitalise on that gain.

A biased form of negative gearing would require evidence that tenants are in the target group and that affordable rentals were being charged. It would also only be applicable where negative gearing applies.

Overall this lever presents administrative complexity and is constrained by a variety of factors. The RBA suggest that "any modifications to the current taxation system should apply, wherever practical, to all investments so as to ensure the neutrality of the taxation system across investment classes". (2003, p. 55)

3C Capital gains tax indexation for affordable housing

Capital gains taxes associated with the sale of affordable housing would be reduced according to the length of time the housing had been offered for rent at affordable rates, and also according to the 'degree' of affordability which the housing represented. Either or both of these indexes could be adopted or modified. An entirely different index may be developed. This would be a subsidy by the Commonwealth.

Arguably, this lever provides a targeted subsidy for investment in affordable housing with little or no effect on other housing. Capital gains taxation rates are not indexed to affordable housing in Australia at present.

This lever is potentially susceptible to perverse effects in escalating housing markets. Investors would maintain affordable rents during their period of ownership, however when gentrification and price escalations were apparent, the investor would be encouraged to 'cash in' and sell the property. In this way, the investor receives a tax break whilst contributing to the process of gentrification and the loss of affordable housing.

3D Land tax rebates for affordable housing

Land tax rebates would be applied to properties offered as affordable housing. In this way, the return on investment in affordable housing would be maximised. As the rebate would be linked to land value (i.e. a percentage amount), escalations in the size of the subsidy would be commensurate with the increasing need for affordable housing in high value areas. The rebate may also be scaled according to the 'degree' of affordability that the housing represented.

A verification and compliance system would need to be implemented to ensure that the housing on the land subject to land tax rebates was appropriate and affordable, relative to the needs of the target groups.

As this lever would be a recurrent state Government subsidy that applies only when land is used for affordable housing, it avoids the perverse effect of increasing housing consumption at the 'higher' end of the market, leading to housing price escalations.

Whilst land costs and land holding costs are significant drivers of housing costs and affordability - particularly in inner urban areas – the impact of this lever may be limited as land tax represents only a small part of the total cost of housing.

Land Tax rebates would be a state Government subsidy that applies to both private investors and not-for-profit housing providers.

3E GST exemptions for social and affordable housing

Affordable housing landlords (including public housing authorities) would not be required to pay the GST on items associated with the operation, maintenance or administration of their housing investment. The specific processes and items being exempted from GST would need to be carefully considered. To the extent that GST income is directly transferred to the States, this would effectively be a subsidy by the States.

It may be argued that the Commonwealth has already compensated for the effect of GST on housing prices by implementing the FHOG, which was principally designed to offset the GST cost burden sustained by first home buyers. Government may also be resistant to setting a precedent for 'giving in' to other GST exemption pressures.

Should the argument be won that GST exemptions for affordable housing are acceptable, the initiative may only have a modest impact on housing costs. Ostensibly the initiative would reduce applicable costs by 10%, however the reduction would not affect the basic cost of dwellings unless the reductions also applied to construction costs.

The impact would be relatively greater on older housing stock if maintenance expenses were included. The proportional impact would be less in inner city housing where land prices dominate.

3F Accelerated depreciation of affordable rental housing

This lever would reduce the costs of establishing new affordable housing by way of tax relief for a defined period of time. This would be a subsidy by the Commonwealth.

Ensuring that benefits apply only to affordable housing in the longer term may be problematic. Houses constructed and initially leased at affordable rates could be sold after the majority of the depreciation benefit had been captured. Unless a covenant were attached to the land requiring that the dwelling be used for affordable rental for a fixed length of time or in perpetuity, there would be no controls over the buyer's use of the property. The impost of such a covenant is likely to reduce the properties value, substantially offsetting if not eliminating the benefit of accelerated depreciation.

Restricting this lever to not-for-profit housing organisations would overcome the abovementioned problem to some extent. However, these organisations may subsequently look to maximise their flow of benefits by continuously building and selling housing, rather than retaining it for useful periods of time.

3G Local Government rate rebates and fee waivers

General rates and fees would be reduced or removed where the subject property is classified as contributing to affordable housing. Rebates and waivers would most likely be attached to privately owned rental housing or newly developed affordable housing. The timing and duration of rebates would need to be considered. This would be a subsidy by local government.

Any taxation and subsidy measures applied at the local government level would be subject to the effects of differentiation between adjacent Local Government Area's (LGA's). If a municipality becomes more attractive to low-income households and less attractive to higher income households –relative to adjacent LGAs – an overall 'distillation' of the LGA's population toward lower average incomes would occur, creating a number of undesirable outcomes. A state-wide approach to the subsidy scheme would be required to ensure that at least a minimal degree of uniformity and social mix between LGA's was encouraged. Such an initiative may be politically challenging.

Any targeted reduction in rates or fees would require some form of compliance monitoring.

In broad terms, affordable housing is already subject to lower rates because of its lower value. Fees are less related to housing type or value however, relative to rates, they are a smaller component of housing costs.

Other Subsidies and Transfers

3H Government issued bonds for affordable housing

State Governments would raise money to invest in affordable housing by issuing fixed interest rate bonds to the market. (i.e. investors would buy bonds from the Government as an investment vehicle with a fixed rate of return). The funds raised would be allocated to the State Housing Authorities or other recognised affordable housing providers for direct investment in affordable housing.

The difference between the actual rate of return on the affordable housing properties and the guaranteed commercial rate paid to investors would be met by a subsidy provided by the Commonwealth Government. The State government would have to absorb any other financial losses arising from the investment.

Affordable housing bonds represent an alternative method of raising funds for capital expenditure, in preference to general taxation mechanisms.

3I Fast tracking development assessment and approvals

Lengthy approval processes increase development costs and housing prices. Reform of the approval process may produce cost savings for developers, which – in efficiently operating and competitive housing markets – would be passed on to home purchasers and renters. Under this lever, planning authorities would 'prioritise' affordable housing development applications in order to minimise delays.

A number of municipal councils have implemented 'fast track' approval systems for particular types of development. At this stage, affordable housing is not an explicit subject of the reforms.

These programs and proposals have been most controversial where a net gain to the community is not explicitly apparent.

This lever is essentially a sub-component of lever 1E.

3J Rent Controls

Rent controls apply a limit to the amount of rent that can be charged for a particular dwelling. In general, the permissible rent is benchmarked to a defined affordability objective and indexed to inflation or another cost index.

Rent controls effectively reduce the returns available to landlords without compensation (the permissible rental value is lower than market value). Whilst rent controls are of short run benefit to tenants, they can result in under-investment in housing (both construction and maintenance) and, consequently, greater long term housing stress. Rent controls also impose a substantial burden on the authority responsible for their administration and enforcement.

Rent controls are not the same as regulated rent increases which benefit from government subsidy and/or fiscal concessions.

There are no rental controls on housing in the private rental market in Australia.

3K Government guarantees for borrowings by recognised affordable housing providers

Guarantees would form part of a package of support for recognised affordable housing providers, such as State and Community Housing Authorities and Affordable Housing Delivery Vehicles (see lever 2A). Government guarantees would effectively reduce the risk profile attached to affordable housing providers, allowing them to more easily obtain a greater quantum of finance at a wholesale interest rate. This lever would require Governments to effectively absorb the risk attached to investment in affordable housing.

Any financial cost incurred would most likely be met by the Commonwealth, but could also be provided by the states.

3L Affordable housing subsidy program

This is a general lever that describes the provision of an additional funding stream to affordable housing providers.

Operating subsidies provided to recognised affordable housing providers would be passed on to low income tenants.

The subsidy would be received as recurrent payments, and would either be calculated as a percentage of costs, established on a per capita basis or set at a fixed amount. This would be a subsidy by the Commonwealth and/or State Government.

3M Capital grants

Capital grants can be received as direct funding or via land gifting or land price discounts. They are received by recognised affordable housing providers.

Capital grants are the primary alternative to the recurrent affordable housing subsidy program outlined above (lever 3M). The Commonwealth and/or State Government would provide the grant, which is effectively passed on to the affordable housing tenant in the form of rental subsidy, subsidised home purchase loans, or another mechanism designed to lesson the cost of housing.

Capital grants are the primary form of housing assistance provided under the current CSHA. The CSHA is a multilateral agreement between the states, territories and Commonwealth to fund the provision of public housing, as well as other housing related purposes. The Commonwealth allocates grants on a per capita basis, which are then matched by State contributions.

There may be opportunities to reform current CSHA arrangements by introducing new funding sources.

3N Developer assistance

Developer assistance may take a number of forms, however the primary aim of any assistance would be to lessen the risk and/or cost burden attached to the provision of affordable housing. Most forms of developer assistance would involve some form of subsidy transfer form the Government to the developer.

The provision of bridging finance for affordable housing developers would be a form of assistance that lessens the cash flow burden associated with overlapping debt and / or land holding costs. Proponents wishing to develop affordable housing would receive bridging finance for a defined period of time.

To be effective, Government would need to either provide the bridging finance at below market interest rates, offer better terms and / or accept a greater risk than private financiers. In each of these cases a subsidy is apparent.

This lever is extremely wide ranging in scope. The amount of subsidy involved will directly influence the levers impact on affordable housing outcomes. An initiative such as Government provided bridging finance would be most effective if provided as part of a wider package of initiatives.

3O Public Private Partnerships[25]

"Public Private Partnerships (PPP's) are projects jointly funded by Government and private enterprise, each providing financial leverage and reducing a variety of risks for the other." (Ballardin *et al* 2001, p.66).

Whilst PPP's have historically involved sale and lease back arrangements, Berry suggests that current Loan Council regulations and taxation rulings preclude arrangements that include buy back or explicit (or implicit) government guarantees. (2001, p.97)
It is also suggested that the legal, financial and taxation complexities surrounding PPI's have constrained their development. The schemes must also be large enough to absorb high start up costs.

The arrangements between the NSW SHA and AMP Society are a prominent example of currently operating PPP's.

Example: Public Equity Partnership Schemes (PEP1 and PEP2)

[The following information has been extracted from: Berry *et al* 2001, Policy Options for Stimulating Private Sector investment in Affordable Housing Across Australia, Stage 1 Report: Outlining the Need for Action, AHURI].

The PEP1 (1013 dwellings) and PEP2 (477 dwellings) schemes entered into between the NSW DOH and AMP have been in operation for 8 and 7 years respectively. Existing public housing dwelling units were purchased by the AMP Society for leaseback to the DOH. Any vacancy after the first 12 months (PEP1) or 2 years (PEP2) must be let to private tenants and properties can be sold at any time after the completion of the 10th year up to the end of the 21 year term.
The DOH is responsible for the overall management of the publicly let properties. However, a small number of properties which have been privately tenanted are managed by Stockland Property Management on behalf of DOH.

Under the conditions of the agreements, the DOH has certain financial obligations and rights:

- to pay a guaranteed pre-tax gross real rate of return to AMP. The subsidy paid by the DOH is equal to the difference between actual rents received and the required rate of return. A tax saving to AMP accrues because any capital gains derived from the properties are subject to the same tax treatment as in a complying superannuation fund, that is, the cost base is indexed. This indexation and the capital indemnity which is treated by the ATO as sales proceeds effectively results in tax free capital gains to AMP. Therefore the gross rate of return is reduced by the extent of taxation deductions accruing from capital gains tax indexation and other direct income deductions.

[25] The information presented on Public Private Partnerships has been adapted from: Ballardin and Trudgett (2001), 'Australia's Housing Affordability Crisis: The Policy Choices', in *Social Investment in Housing and Urban Development – Round Table Papers*, August 2001.

- to receive from the transaction 75%(PEP1), and 66. 6%(PEP2), of any real capital gains accruing from the properties.

- to pay from the capital repayment reserve or elsewhere a capital indemnity to AMP equivalent to the difference between net sale proceeds of a PEP property versus the original property price plus acquisition costs indexed to CPI+1% (PEP1) or CPI (PEP2). In the event that the net sales proceeds plus the capital repayment reserve exceed the required return the excess is returned to DOH; and

- to cover operating costs and other risks, DOH manages all properties and charges 0. 5% of market value plus 2% of portfolio value for operating expenses (including maintenance).

Under PEP2 a special trust fund, the Rental Housing Assistance Fund (RHAF) was established by the Government to secure the financial obligations of the State to AMP. An insurance policy was effected to secure these obligations under PEP1.

In the transaction the taxation treatment obtained by AMP is assumed to be fixed for the course of its operation, that is CPI indexation and a tax rate of 15% plus other deductions so no tax risk applies. However changes to inflation can affect the extent of the capital gains tax indexation deduction, and therefore the extent to which the real gross rate of return is reduced by CGT indexation. Lower inflation and real capital gains reduces CGT indexation and hence increases subsidy payments. To the extent that the combined rents from public and private tenants does not achieve the required rate of return subsidies are paid.

Demand Side Subsidies

Taxation concessions / incentives for low-moderate income homebuyers.

4A Housing lifeline loans

Housing lifeline loans are designed to deal with short-term – and often acute – housing stress. They provide a low cost loan to households facing the short-term loss of housing due to unforeseen circumstances such as unemployment, illness or accident. By providing a form of income insurance for low-income households, housing lifelines help these households to avoid slipping into long-term poverty. Housing lifeline loans address a general market failure to provide finance products for households suffering unforeseen and undue hardship (Gans *et al* 2003)

All states in Australia have experience with housing lifeline products, by way of the Mortgage Relief programs introduced in 1982. Acute housing needs (i.e. homelessness) are also addressed through the *Supported Accommodation Assistance Program* (SAAP), which is funded jointly by the Commonwealth, States and Territories (Berry 2001, p. 12).

Housing lifeline loans may be open to criticism with regards to the perverse effects of rising indebtedness amongst young people.

4B Stamp Duty rebates

This lever would involve a reduction in the amount of stamp duty payable upon purchase of a dwelling. The rebate would be targeted to low-income households or first home buyers, or both.

Stamp duty rebates would be a State based subsidy.

While stamp duty rebates may be a welcome and potentially well targeted initiative, they are unlikely to have a significant impact on the supply or affordability of housing, particularly for those most in need.

4C Deposit assistance

Generally, deposit assistance is a one-off grant designed to supplement the recipients savings towards a home deposit. Individuals on the fringe of home ownership are most advantaged by deposit assistance. Being a fixed amount, deposit assistance provides a greater proportional contribution to lower cost housing than to more expensive dwellings.

The Commonwealth Government First Home Owners Grant (FHOG) is a recent example of a deposit assistance scheme. However, the FHOG has been implemented to offset increases in home purchaser costs resulting from the introduction of a GST, rather than to enhance first home ownership affordability per se.

The FHOG is available to all first home buyers, regardless of income. It has been argued that this lack of targeting has contributed to housing price escalations, which have in turn undermined the impact of the grant.

Targeting the FHOG to means-tested recipients may reduce the total subsidy cost to government as well as lessening the levers impact on general housing price escalations.

Alternative methods of structuring deposit assistance include:

- Structuring the assistance as a savings incentive;
- Providing contributions in proportion to savings; and
- Providing tax-free interest or an interest rate bonus on savings in a recognised deposit account

All schemes require a cap on the amount of assistance provided and/or means testing to ensure eligibility.

Whilst the FHOG is a Commonwealth program, deposit assistance may be provided by any level of government.

4D Below Market Interest Rate Loans

Home loans would be provided to target groups at an interest rate below that available in the market place. The subsidy involved in such a product could be provided at any level of government.

The provision of subsidised loans for targeted groups (SHA tenants for example) has historically been part of State housing affordability policies. Whilst Commonwealth finance under the CSHA has been a significant contributor to these schemes, increasingly the SHA's are required to source funds form the wholesale debt market. Subsidised loans are also available to other target groups, such as defence personnel.

Whilst organizations such as 'Keystart' in Western Australia and 'HomeStart' in South Australia provide a range of finance services specifically for low income households (low deposit loans for example), below market interest rate loans are not a product that is explicitly offered[26].

4E Reduced threshold mortgage eligibility

Relaxing the mortgage eligibility criteria for targeted groups would allow low-income households on the margins of home ownership to access finance more readily. Relaxed eligibility criteria have been a feature of State Housing Authority loan packages in the past. Whilst a direct subsidy

[26] However, given the risk profile attached to HomeStart and Keystart finance recipients, it is fair to assume that the rate of interest obtained is in fact lower than that available in the market.

element is not apparent, the Government absorbs any increase in defaults that may arise. This implicit subsidy could be provided at any level of Government.

Reducing the threshold for mortgage eligibility may result in some households obtaining finance that they cannot afford, significantly enhancing rather than reducing housing stress. The number of households that can be helped into home ownership without this danger of 'over commitment' may be modest.

4F Mortgage interest deductibility

The interest paid on a home mortgage would be tax deductible for targeted groups.

In the some countries (for example, the United States, France, Netherlands, and – until recently - the UK) mortgage interest is a tax-deductible expense for home purchasers. Generally however, this deductibility is offset by capital gain or imputed rent tax.

In the absence of targeting, this lever is somewhat regressive in that it is of far higher value to high income, high marginal tax rate households than to those on low incomes.

Mortgage interest deductibility would be a Commonwealth based subsidy.

4G Converting rent assistance to subsidy for home purchase

This program would allow Commonwealth Rent Assistance (CRA) recipients to convert future rent assistant payments to a recurrent subsidy that would assist with home loan repayments for a given number of years. Rather than receive the subsidy as recurrent payments, it may also be possible to take a lump sum as a deposit on a home. This lever would assist CRA recipients on the margins of home ownership.

As current CRA payments do not have a 'limited' term (a recipient may receive CRA indefinitely), converting the payments to a recurrent subsidy over a fixed period may actually represent a cost savings to Government in the longer term. In the shorter term, the lever is cost neutral.

In some Australian states, public housing tenants who wish to purchase the home they live in are able to convert rental subsidies to loan assistance payments. However, the number of qualifying households in these schemes is generally small.

Taxation concessions / incentives for low-moderate income renters.

4H Direct rental subsidy

Generally, direct rental subsidies are received in the form of a payment towards the cost of rental housing. Most commonly, the amount of subsidy is determined by the low-income recipients rental costs and their income. Structuring the subsidy in this way enables the recipient to make housing choices that reflect individual values concerning housing type, location and affordability.

The Commonwealth Rent Assistance (CRA) program is a direct rental subsidy for low-income persons (welfare recipients) housed in the private rental market.

It has been argued that the CRA contributes to higher market rents, whilst at the same time failing to increase the supply of affordable housing. This argument is somewhat perpetuated by general inelasticity in the lower cost rental market, where the value of CRA payments has been absorbed by increases in rental pricing. In markets where housing supply is adequate or in surplus however, CRA results in increased housing affordability.

It is clear that the scope and scale of the current CRA program is insufficient in bringing the majority of low-income households out of rental stress, particularly in the higher cost metropolitan markets. This is partly because the present formula for assistance is insufficiently responsive to substantial regional differences in rents.

4I Bond Assistance

Target groups in the private rental market would receive a grant to assist with paying the bond required to secure a rental property.

Bond assistance has been a long-standing component of housing assistance to low-income families in both State and charity supported housing programs. Whilst the programs are effective and desirable, they may not be of sufficient scale or scope to significantly increase housing affordability over the longer term.

4J Tenancy Laws

Tenancy laws can provide relief from unfair practices and give low-income (and other) tenants more power in negotiating housing arrangements. They are a longstanding element of State housing policy and legislation in Australia. Tenancy laws may be used to enforce minimum dwelling standards and maintenance processes, provide for anti-discrimination in the selection of tenants, set minimum conditions regarding payments and recovery, and provide for dispute resolution, etc.

Like rent controls, if tenancy laws are unduly restrictive on landlords, they may have the perverse effect of reducing investment in rental housing, leading to long term under supply.

An alternative to ‘prohibitive’ regulation is to provide incentives for the achievement of desired outcomes.

Whilst appropriate tenancy laws are a necessary and highly desirable element of the housing market, they are unlikely to effectively address affordability issues in a significant way.

Fund Raising Regulatory or Tax Measures

Mandated Use or Management of Funds

5A Mandated superannuation funds investment in affordable housing

Superannuation funds would be required to invest in affordable housing products as part of their portfolio. As the returns on affordable housing investments would most likely be below those of other investments, superannuation investors would be subsidising affordable housing.

Removing this subsidy element would require Governments to reduce the gap between the required and actual rate of return to investors. Other barriers such as high risks, high management costs, illiquidity, poor market information and the lack of a track record would also need to be addressed. (Berry 2001, pp. 27-28)

There is potential for superannuation funds to generate very significant increases in the supply of affordable (and other) housing. However, it is unlikely that the abovementioned barriers can be removed without some form of subsidisation, which would most likely flow through the taxation structure attached to the investment.

Without some form of subsidised return, superannuation funds will seek to invest only in the 'upper end' of the affordable housing market (i.e. that part of the market that will return the closest rate to that available in the broader market).

At present, SHA's are unable to generate a profit from rental housing that is targeted to benefit dependent households, even when the housing has been 100% grant funded. It is therefore unlikely that the SHA's would be able to provide any return on funds received from superannuation investors. If this investment is to be mandated and the return not subsidised, it may, arguably, be cast as a tax.

5B Regulation of financial institutions

New financial institution regulations may involve measures designed to regulate fees, charges, competition and monopolistic behaviour. Alterations to prescribed asset ratios or other determinants of borrowing capacity may also be considered. In the U. S. A for example, the Community Reinvestment Act (CRA) requires all federally regulated banking and financial institutions to "meet the full range of community credit needs" (Berry, 2001, p. 104).

Whilst the affordable loan products offered under the CRA are not substantially different from those discussed previously (reduced eligibility thresholds, reduced transaction costs, higher loan to value rates, etc), CRA driven funding has underpinned a large number of affordable housing projects, including housing provided by real estate investment trusts (Berry, 2001, p. 105).

It may be difficult to gain support for regulations of the U. S. A CRA type, which require acceptance of marginally reduced returns.

5C Housing first policies

The Queensland Department of Housing provide a useful summary of housing first policies. They state that "in some jurisdictions, "Housing First" policies require government agencies to consider the suitability of surplus land and buildings for the development of housing, including a component of affordable housing, as a priority when contemplating sale or redevelopment. Use for facilities and services, needed to improve the sustainability and amenity of nearby residential neighbourhoods, is also given priority.

In such policies, the notion of the "highest and best use" for a property incorporates the contribution the property might make to the achievement of the government's strategic priorities and social objectives, as well as calculations of the level of financial return.

This kind of policy could be applied to any sphere of government, and could also be the subject of a protocol or understanding between State and local governments. Municipal authorities in Toronto and Vancouver, Canada, and the City of Port Phillip, Victoria, have adopted policies with some of these features".

In summary, the Department also make the following observations about housing first policies:

- This type of policy requires an overarching affordable housing or sustainability policy commitment by relevant government agencies. A calculation of the cost benefits and an assessment of priorities would inform such a commitment.
- The availability of land in areas of high need could facilitate significant affordable housing outcomes. High profile surplus sites in inner (cities) may provide opportunities in this regard.
- A limitation of this approach is that site availability is "opportunistic" and uncertain. This approach, by itself, cannot provide a certain or continuous "yield" in housing or community sustainability.

(2003, http://www.housing.qld.gov.au/new_approaches_to_housing/discussion/response.htm)

Development Related Contributions

5D Developer contributions to affordable housing - via Development Contributions Plans

Under a Development Contributions Plan (DCP), development proponents would contribute towards the cost of providing affordable housing. The charge would be pre-notified and levied up-front.

The principles of DCP's would require that proponents are charged for affordable housing on the basis that it is infrastructure that is beneficial to (i.e. likely to be used by) their development (charges are calculated according to the share of beneficial usage). This lever requires affordable housing to be considered as infrastructure in the same sense as roads, drainage and parkland, etc. This is a very difficult contention to defend.

Charges for affordable housing cannot be levied under development contributions plans at present.

5E Developer contributions to affordable housing - as impact mitigation payments

The relevant authority would condition a development approval to require a proponent to either include affordable housing as part of their development or provide a cash in lieu payment. This condition would be applied on the basis that the development is directly and demonstrably contributing to the loss of affordable housing.

The application of impact mitigation conditions (IMC's) would depend upon the scope of the planning legislation in the particular jurisdiction and the extent to which retention of affordable housing was supported by the legislation as a planning outcome. If upheld, IMC's could apply only in an identified area of high need and where social diversity is an identified social or environmental value.

Impact mitigation contributions can contribute to maintaining or preserving existing levels of affordable housing. Where further affordable housing is required, other means would need to be employed.

Such measures can have the perverse effect of penalising owners who have been 'socially responsible' by providing affordable housing in the past, but for various reasons need to redevelop that housing.

Impact mitigation conditions would be open to appeal on a case by case basis.

5F Developer contributions to affordable housing - as negotiated arrangements

The relevant authority would negotiate with the proponent in an effort to reach an agreement that provided for a cash or in-kind contribution to affordable housing. Proponents would not be compulsorily required to enter into such negotiations. Consequently, the potential impact of this lever is difficult to assess.

It may be argued that a system of case-by-case negotiations would be open to abuse if the processes were not transparent.

Because this approach provides no consistency of outcomes or certainty for stakeholders, any affordable housing provided may be considered as a bonus.

5G Bonus / incentive schemes for affordable housing

Proponents would be rewarded with additional development capacity (or are provided with a dispensation from meeting planning requirements) if they were prepared to make a contribution to affordable housing. Commonly known as development concessions, measures might include concessions to density, materials, car parking or open space requirements.

Bonus systems have the potential to compromise recognised environmental attributes and values. If the 'pre bonus' level of allowed development is consistent with local environmental limits, the provision of a bonus implies a loss of amenity (overlooking or overshadowing, or overloaded local infrastructure networks for example). Any loss of environmental quality would be reflected in reduced land values. In this way, the general community would be subsidising the provision of affordable housing.

Density bonuses are the most commonly employed concession in Australia; however some local authorities have also relaxed other regulations such as car parking requirements and design standards.

This lever is essentially a more specific sub-component of lever 1F.

5H Betterment taxes

A betterment tax is a specific levy designed to recover all or part of the windfall in land value when an area is up-zoned or benefits from the spending of public money on improved infrastructure. The levy is applied upon sale of the property subject to the windfall. Betterment levies seek to recover, for public purposes, "the value that regulation and major public investment confer on private land assets" (Fensham & Gleeson, 2001).

Although traditionally used in fringe localities where rural land is being up-zoned to residential land, betterment levies could also be applied in inner-urban areas where traditional industrial and other lower value uses are being replaced by residential and commercial uses. Fensham & Gleeson (2001) note that inner urban areas benefiting from government intervention, such as neighbourhood renewal areas, are ideal candidates for betterment capture.

Betterment levies have been proposed in Seattle, USA, where they are considered to be "the most equitable resolution to capital budget constraints" on providing required infrastructure (Gihring, 2001).

Application of a betterment levy would need to be cognisant of some of the practical, political and administrative difficulties that have been associated with betterment levies in the past (Smith 2000). In particular, it is important that:

- Calculations of increases (or decreases) in prices overall are undertaken in a transparent and fair manner;

- The capture of betterment is properly monitored. If not properly monitored, the betterment levy may be passed on to the end-consumer, rather than being borne from the unearned increment accruing to the land seller;

- The proceeds are clearly accounted for and dedicated to their intended purposes; and
- For equity purposes, a 'worsenment' (or compensation) fund should accompany the introduction of a betterment levy to account for those situations where Local Government actions negatively affect the land owner's development opportunity.

5I Inclusionary Zoning

Inclusionary Zoning is a planning provision requiring incorporation of a certain use or facility in approved developments. In some cases, a monetary contribution can be supplied in lieu of the facility or use. In this case, the responsible authority would use the obtained monies to provide the required use or facility on another parcel/s of land.

Under this approach, all development within a designated area would be required to include a component of affordable housing in order to retain recognised environmental and social values. Developments not able to physically provide affordable housing would be able to pay cash in lieu.

Inclusionary Zoning mechanisms currently operate in Ultimo / Pyrmont and Green Square in Sydney, NSW.

Example: City West Inclusionary Zoning Mechanism (Sydney Regional Environmental Plan (REP) No. 26)[27]

The City West Inclusionary Zoning mechanism applies to the Ultimo / Pyrmont Precinct of Sydney. Under a tripartite funding arrangement it aims to provide 600 units of affordable housing over the next 20 – 30 years (6%-7% of total stock). 200 of the affordable housing units are to be provided through Inclusionary Zoning – either as works or cash-in-lieu developer contributions.

General approach to determining the number of affordable units / monetary contribution required:

The Consent Authority prefers the provision of affordable housing within each proposed development (on-site contribution). Contributions are based on the following formula;

On site contribution =
m2 total floor area required for 200 units of affordable housing*
m2 total floor area of residential and residential – business zones in Ultimo-Pyrmont
On site contribution = 20,000m2 / 1,800,000m2
= 1. 1% of total floor area
*It is assumed that the average size of one unit of affordable housing is 100m2 total floor area

Cash-in-lieu contribution=

[27] Adapted from Williams, Australian Planner, Vol 34, No1, 1997

Total cost for 200 units of affordable housing**/ m2 total floor area of residential and residential-business zones in Ultimo-Pyrmont **Average cost of providing one unit of affordable housing = $200,000 (1994 prices, subject to indexing). . In Lieu contribution = $40,000,000/ 1,800,000m2 = approximately $23 per m2 total floor area.

5J Linkage fees – for major non-residential developments

In a description of linkage fees, the Queensland Department of Housing state that:

"Many municipal authorities have established a link between commercial development and housing need. Impact ordinances (linkage fees) require commercial developers to contribute to the cost of providing affordable housing (or other facilities providing a community benefit) on the basis that employment growth in an identified area (such as the inner city) places upward pressure on housing markets. This approach has been adopted with considerable success in cities with strong commercial property markets and rising affordability problems".

The department also state that:

- Linkage programs require detailed data collection and analysis, such as an impact assessment study.
- Whilst there is potential for opposition from the development sector, the introduction of a linkage program in conjunction with inclusionary zoning provisions for residential developers may constitute a more equitable approach to mandatory charging.
- A limitation is that the impact levies are "developer-driven", and yield depends on a developer making a development proposal.

(2003, http://www. housing. qld. gov. au/new_approaches_to_housing/discussion/response.htm)

Other Contributions or Levies

5K Broad based local government levy for affordable housing

This lever may be couched as an additional levy (tax), or structured and implemented in such a way as to produce no 'net loss' to the payee (i.e. the local community). Typically, the latter option would involve reducing other local government levies by an amount that corresponds with the new levy, thus reducing revenue for other services.

If linked to property value, a rates surcharge would have the most impact in areas where the affordability crisis is most acute and where property owners have enjoyed something of a 'windfall' gain from gentrification and betterment. The surcharge could be seen as a way to maintain social mix in otherwise rapidly gentrifying neighbourhoods. This nexus would be reinforced if the affordable housing investment and funding levy were applied in the same locality.

5L Hypothecation of 'Landcom' dividends

Many jurisdictions retain land and housing development businesses as a legacy of the 'Land Commissions' set up in the 1970's to curb land price increases through open market competition. Several of these businesses have developed into robust and profitable enterprises, delivering sizeable annual dividends to their owner governments. These organisations have been referred to as Land Management and Development Organisations (LMDO's) in section 1. 3.

Landcom in NSW, VicUrban in Victoria and the Land Management Corporation (LMC) in South Australia are examples of currently operating, Government owned LMDO's.

One method of reconciling the market efficiency role of LMDO's with their link to the provision of affordable housing is to hypothecate all or part of their dividend for use in subsidy streams to support affordable housing projects and programs delivered by other agencies, such as the State Housing Authorities or AHDV's (see lever 2A). Allowing the landcoms to focus on commercial objectives in their day to day work ensures that clarity of purpose in open market operations is maintained at the same time as affordable housing outcomes are generated.

As the underlying purpose of landcoms is improved housing affordability, hypothecation of their dividends is a logical progression. In the absence of such hypothecation, it may be argued that Governments could satisfy market competition objectives through means other than owning and operating a land development business.

Ethical Investment and Benevolence

6A Ethical investment stream

Ethical investment is an approach to investing that considers the investment's impact on society and the environment. (Otherwise known as 'Socially Responsible Investment'). Generally, ethical investment streams come from highly diversified portfolios and from investors with philanthropic motivation. Affordable housing is not traditionally an ethical investment target, however it may be more actively promoted as a commodity aligned with the principles of ethical investment.

Ethical investors accept a reduced rate of return on their investment in order to contribute towards a social or environmental objective.

State and community housing organisations have always sought ethical investment streams, with the latter being particularly dependent on securing this form of investment

The capital market is steadily growing in the ethical investment sector. With effective promotion of affordable housing as an appropriate vehicle, investors in this segment could be expected to become more active.

6B Joint venture projects with churches / charities / community organizations

Joint venture projects with non-profit organisations are generally designed to attract “not-for-profit land, capital or management contributions to the provision of affordable housing” (South Australian State Housing Plan 2003, p. 56).

In it’s simplest form, a joint venture could involve the partner organisation making land available at less than market value. This may be achieved via the donation of allotments, or via cash contributions to land purchase. Other projects involve leveraging the equity / capital provided by Government against contributions made by a range of third parties.

Berry states that “a number of States have developed partnerships with private investors and non-profit organizations to deliver housing services involving leasing, sale-and-leaseback, and corporate vehicle arrangements. In Victoria, for example, the Office of Housing’s head-leases dwellings and farms out management to selected community housing organizations. The Community Tenancy Scheme in New South Wales involves housing associations head-leasing from private landlords and on-renting to low income tenants. Similar schemes exist in Queensland and the A. C. T. ” (2001, p. 96)

6C Community Housing and Land Trusts

The Queensland Department of Housing provide the following description of community land trusts:

“Community Land Trusts (CLTs) are non-profit organisations operating under a charter to acquire land for the benefit of the community, and provide residents with access to land and housing. Long - term leases, which are renewable and inheritable, allow low-income households to build a permanent home without incurring the financial burden of outright ownership of the land, which remains with the community. CLTs are popular in some rural areas of the United States where sizeable parcels of land are available”.

The Department note that:

- Communal or collective ownership arrangements require a broad degree of community acceptance.
- Some local governments make planning provision for "multiple occupancy" of land for residential development, usually for large sites in rural or semi-rural areas. CLTs could expand on these models.

- CLT's could provide opportunities to address housing needs in rural areas, however they are unlikely to be significant on a broader scale.

(2003, http://www. housing. qld. gov. au/new_approaches_to_housing/discussion/response. htm)

6D Joint venture projects between recognised affordable housing providers, industry bodies, and commercial businesses

This lever is essentially a subcomponent of Public Private Partnerships, with a specific orientation towards commercial services and supplier arrangements. Opportunities may exist to broker agreements between affordable housing providers and commercial businesses associated with the housing industry. Effectively, arrangements would be oriented towards reducing the costs attached to the goods and services associated with affordable housing construction.

Businesses would expect to derive marketing and promotional benefits from contributing towards affordable housing projects. There may also be taxation or other benefits built into this arrangement.

While not to be discouraged, as a lever in its own right, such arrangements have limited capacity to address affordability needs.

6E Sweat equity schemes

Sweat equity provides an opportunity for low-income households to directly contribute to the construction or renovation of housing for their own use. Schemes provide peer support, training and supervision to ensure that households have adequate knowledge regarding land purchase, finance, building design, construction techniques and material selections. Skilled contractors would undertake licensed trade work (plumbing, wiring, etc.) The contribution of 'free' labour to the construction of a dwelling can substantially reduce housing costs.

- Sweat equity schemes can also contribute substantially to skill development, self esteem and pride in ownership.

- The relatively high level of management and supervision required for the schemes to operate successfully can reduce the cost savings achieved.

- The number of households with the capacity and motivation to undertake self build or sweat equity schemes is only a small part of the total quantum of households in need.

- The mechanisms are liable to opposition on the grounds that substandard housing may result, or that "blighting" of adjacent properties would occur when a dwelling is left incomplete for a long period of time.

APPENDIX B
CASE STUDIES – HOUSING ASSOCIATIONS - VICTORIA

Loddon Mallee Housing Services Ltd.

Description

Mission: Loddon Mallee Housing Services Ltd (LMHS) will achieve its charter by maintaining excellence in quality management services in an environment of collaboration and partnership.

The principal activities of the company are:….

1. *Short term housing through the Transitional Housing Program.*
2. *Direct client support through our supported accommodation assistance, community links, home based psychiatric programs, community connections, housing support for the aged and indigenous assertive outreach programs.*
3. *Direct financial assistance through our housing establishment fund, emergency relief grants and flexible care funds.*
4. *The management of long term housing properties on behalf of various local governments* (LMHS 2005, p. 18).

The LMHS has a client centre which provides the following services:

- Housing information and common assessment and referral.
- Short-term case management and support.
- Housing establishment fund – assisting those in crisis or housing distress or facing homelessness.
- Emergency relief assistance.
- Outreach services to the local prisons – assisting corrections clients in developing exit planning for successful reintegration.
- Liaison with purchased accommodation providers.
- Linkages to other support services and community assistance programs.
- Providing assistance with Office of Housing priority applications.
- Networking with a broad range of services to assist the needs or clients (LMHS 2005, p. 10).

History

LMHS has been operating for 10 years and is the leading housing agency within the Loddon Mallee region which encompasses Bendigo, Echuca, Kyabram, Kyneton, Swan Hill and Mildura.

Under the Victorian Government's Strategy for Growth in Housing for low income Victorians' initiative, the LMHS was the first to be registered as an affordable housing association.

Organisation Type

The Association has 8 directors which are non-executive and provide their services to LMHS on a voluntary basis. As of 30 June 2005, the LMHS had 52 staff and 17 vehicles.

Financials and Operation

In 2004-05 financial year the total income for LMHS increased to $7.6 million primarily as a result of new funding to establish itself as an Affordable Housing Association. Specifically, the operating surplus for the same year was $3,081,867 which is also an overstated figure because it includes capital grants of $3,049,965 and unspent operating grants of $16,865. The capital grants primarily relate to Affordable Housing Association money received in advance and unspent at year-end. Therefore, the LMH estimates the adjusted surplus to be $15,037 (LMHS 2005, p. 16).

The greatest expenses were $2,283,760 for employee salaries and $624,410 for rent to owners (LMHS 2005, p. 18).

No of Houses

Transitional Housing is an interim housing solution for the homeless as a pathway to safe and secure housing – the LMHS has over 193 transitional houses

In addition, the Long Term housing program manages 57 homes across the Loddon Mallee region.

After becoming a Registered Housing Association, the LMHS provided an additional 75 residential properties across the Loddon Mallee Region for 2004-05.

Outcomes and Lessons

The President, Melanie Rogers, says 'the scope of affordable housing has also brought us into closer partnership with other agencies, with local government and with private property developers. The opportunity to make affordable housing an integral part of property projects, and to align affordable housing projects with services provided by other agencies, offers new models for integrating housing and other services' (LMHS 2005, p. 4).

Supported Housing Ltd.

Description

Vision: That all Victorians with a disability have access to high quality, secure, affordable and appropriate housing.

Together with its sister organisation Singleton Equity Housing Ltd (SEH), Supported Housing Ltd (SHL) provides affordable housing to people with a disability. The services offered include tenancy management, property management, project management and project development, housing advice, information and referral. Supported Housing Ltd. manages a range of properties and offers housing under transitional, group and community housing programs. As landlord, SHL assumes all duties associated with property and tenancy management in accordance with the Residential Tenancies Act.

SHL's objectives are….

- *To provide and manage affordable and secure housing to meet the needs of people with a disability who may require support services.*
- *To provide information and advice.*
- *To advocate for increased housing options for people with a disability.*
- *To assist and work in collaboration with organisations which have similar objectives and/or who provide support services to people with a disability.*
- *To conduct research and initiate developments relevant to the vision of the organisation (SHL 2006).*

History

Established in 1993, SHL moved from being a community-housing provider to being registered as a Housing Association in 2005. SHL made a comprehensive bid to become registered as an Affordable Housing Association and was rewarded with a nomination as one of the six preferred bidders and the only disability specific agency to be selected. SHL was officially registered on 30 June 2005.

Organisation Type

Supported Housing Ltd. is a not-for-profit organisation.

Management Structure:
Underneath the CEO, the organisation is split into four departments. These include Property and Asset Services, Corporate Services, Programs and a Housing Team.

Tenancy Management:
- Supported Housing Ltd enters tenancy agreements with tenants and fulfils the normal functions of a landlord.

- SHL is committed to working closely with tenants' support workers to achieve successful tenancies.
- SHL enters formal protocols with support agencies to govern the working relations between the two organisations.

Financial Requirements & Operations

SHL produced a surplus in 2004/05 of $864,000 with most income derived from rental and Government grants. Project and management company fees contributed significant revenue. The largest expenditure item related to rents remitted to property owners. Staff costs are also substantial (Table 5).

SHL have been developing projects and project proposals for their partner agencies. In some cases these may lead to joint Affordable Housing Association (AHA) bids with SHL while in other cases funds may be sought from other sources including the proposed Disability Housing Trust.

SHL receives financial support from the Department of Human Services, the Helen MacPherson Smith Trust and the Gandel Charitable Trust.

The Housing Establishment Fund (HEF) is distributed to SHL throughout the year; however it is insufficient to meet the demand from people with disabilities for emergency assistance to achieve or maintain housing. The total HEF funds disbursed by SHL in 2004-05 were $126,177. 02 (SHL & SEH 2005).

Table 5 - Financials for Supported Housing Ltd.

SHL Income	SHL Expenditure
Rental $2,567,000	Rents and Fees Remitted $1,194,000
Grants from DHS $1,123,000	Employment $885,000
Management Fees $219,000	Depreciation $135,000
Project Management $57,000	Repairs and Maintenance $275,000
Profit on Sale of Property $185,000	HEF Grants $117,000
Other $68,000	Depreciation $135,000
	Research Expenditure $200,000
	Other $414,000

Source: Supported Housing Ltd & Singleton Equity Housing Ltd, Annual Report 2004-2005

No of Houses

SHL and SEH provided housing and tenancy support services to 891 people with disabilities in 502 properties across Victoria. According to the SHL and SEH annual report it is likely that as a result of the Affordable Housing Association development this number of properties will grow in excess of sixty properties from 2006 to 2007.

Long Term Housing:

- Rent calculations are based on 25% of total income.

Transitional Housing:

- Rents are calculated in accordance with Office of Housing guidelines

Table 3 - SHL and SEH Properties

Property Types	Number
Joint Venture	8
Community Housing Program	74
Group Housing Program	161
Interim Long Term Financial Model	29
MHI	48
Singleton	51
Transitional Housing Management	118
Mixed Equity	9
Other	4
Total	502

Source: Supported Housing Ltd & Singleton Equity Housing Ltd, Annual Report 2004-2005

Outcomes and Lessons

The SHL & SEH's Annual Report 2004-2005 indicates that the new approach to affordable housing provision provides a number of advantages, including:

- Provision of furniture.
- Maximise stock use.
- Support and Flexibility.
- Proven Outcomes.
- Ongoing support and engagement.
- Potential savings to Office of Housing.

Community Housing Victoria

Description

Vision: Community Housing Limited (CHL) is committed to the provision of affordable housing for everyone.

Mission: CHL is an innovative and best practice social housing organisation which assists access to, develops and manages sustainable housing for people in need.

CHL carries out its mission through…

- *Being responsive to diverse needs.*
- *Commitment to individual choice in housing.*

- *Working in cooperation with partners to assist the development of sustainable communities (CHL 2006, p. 1).*

In 2005/06 the principal activities of CHL were…

- *Transitional housing management services.*
- *Management of long term community housing.*
- *Development, design and construction of housing projects (CHL 2006, p. 3).*

CHL is also a registered domestic and commercial building practitioner specialising in affordable housing and housing for people requiring special features or modifications.

History

CHL opened in 1994 with a grant of $63,000 and one employee. Today, CHL has grown to a team of over 40 people and has offices in Melbourne, Box Hill, Moonee Ponds, Morwell and Bairnsdale.

CHL was registered as a Housing Association in 2005.

Organisation Type

Community Housing Ltd. is a not-for-profit company. CHL has 54 current and active partnerships with support providers or community organisations Victoria wide, governed by executed protocol arrangements.

The Board of Directors includes 6 non-executive directors and 1 executive director. The board guides and monitors the businesses and affairs of CHL on behalf of members and is accountable to the members. Responsible to the board is a managing director, who coordinates the actions of the regional design and construction managers.

CHL partners the Gippsland and East Aboriginal Co-operative in refurbishing and managing properties in Gippsland. CHL has also partnered closely with Local Governments such as Maroondah, Darebin and Moreland.

Financials and Operations

Total CHL revenue increased from $10,329,644 to $11,977,902 between 2005 and 2006, an increase of 16%. The surplus from ordinary activities was $1,701,468 compared to a surplus of $991,604 in 2005. Total Members Funds increased to $5,122,902 (CHL 2006, p. 4).

The major cash inflows for the year were from grants while outflows were to employees and suppliers. Funding is primarily provided from the Victorian Department of Human Services.

Tenants pay rent on an income adjusted basis, resulting in rents in the range of 50 to 75% of the market rate. This represents around 25% of an individual's pension payment, which is paid electronically by the government agency before delivering a net amount to the individual. Rent charged was $2,511,758. Rent collected was $2,448,310, a 97. 5% collection rate (CHL 2006, p. 21).

No of Houses / Services

- CHL finished the financial year with 374 properties (542 tenancies).
- Transitional housing management services for people in housing crisis include providing housing advice from 10 locations in eastern Melbourne and Gippsland, distributing financial assistance to 2,400 households needing to access or establish private rental each year and managing 400 transitional properties for people in housing crisis.
- Design and construction of around 50 community housing dwellings each year.
- Management of 300 long term community housing tenancies across Victoria.
- Long term housing managed by CHL includes one and two bedroom units, self-contained studio apartments, two and three bedroom houses, shared group housing, rooming housing and properties adapted for people with disabilities (CHL 2006, p. 21).

Melbourne Affordable Housing Ltd.

Description

Vision: Melbourne Affordable Housing's (MAH) vision is to build diverse and sustainable communities through the provision of appropriate and affordable social housing.

Mission: MAH will facilitate, develop, own and manage social housing need with a broad range of partners and communities.

History

MAH was founded by the City of Melbourne in October 2000 and merged with the Ecumenical Housing Trust in 2003. The Company was registered as a Housing Association under the Amended Housing Act 1983 in September 2005.

Organisation Type

MAH is governed by a Board of eight directors. The organisation is made up of a number of sub-committees including: Finance Sub-committee, Risk Management Sub-committee, Human Resource/Employment Sub-committee, Strategic Property Working Group.

Financials and Operations

MAH finds support from State and local government, and has also developed a number of philanthropic partners over the years that have provided financial support.

Rents collected from all managed properties increased by 16% in 2005/06 to $1,019,000. Rents charged averaged 58% of market rent. The value of discounts received in this financial year by tenants was $741,000. MAH ensures that tenants pay no more than 25-30% of their income in rent (MAH 2006, p. 16).

Sources of development funds in 2005-06 were capital grants of $6. 4 million, long-term borrowing of $1 million and land donations valued at $590,000. There was an operating surplus of $243,702 which also contributed (MAH 2006, p. 18).

Capital grants in 2006 included $4.5 million to assist the spot purchase program in MAH and a further $1.9 million in support of four construction projects (MAH 2006, p. 18).

The carrying value of property assets owned by the group has increased by 52% over the two year period to June 2006 to a total of almost $25 million (MAH 2006, p. 19).

No of Houses

In 2006, the number of housing units under management was 174, an increase of 23%. The total number of properties owned is 107.

Outcomes and Lessons

According to the chairperson of MAH, David Olsson, '*this year has seen MAH mature as an organisation as it steps up its responsibilities as a registered Housing Association. Whilst increasing the scale of operations and becoming more business focused are important to MAH as an organisation, we recognise the importance of ensuring that all our developments encourage and foster strong links between our tenants and their local community*' (2006, p. 7).

David Olsson says… '*along with other registered housing agencies, we are now subject to regulation. While we welcome the intention, the increased regulation and the time it takes to bring a project on stream places strain on the organisation*' (MAH 2006, p. 7).

Since registration, MAH has seen considerable growth in funding, housing project developments and staffing resources required to undertake these tasks. As of July 2006 the staffing had nearly doubled in size.

Port Phillip Housing Association

Description

Port Phillip Housing Association Ltd (PPHA) offers…

- *A personalised service to our residents, which is mindful of their needs and is flexible enough to take account of their particular circumstances.*

- *Prompt and efficient maintenance.*
- *High-quality property upgrades.*
- *A fair approach to all tenants, as set out in the Residential Tenancies Act (PPHA 2006).*

PPHA retains a net operating surplus and also acts as a developer in its own right

History

The PPHA (formerly known as the St. Kilda Housing Association) was started by St Kilda Council in 1986 to provide property and tenancy management. It began with only one employee and two properties while today the PPHA has a team of nine staff.

In 2000, the Port Phillip Housing Association was awarded the National Award for Overall Excellence in Community Housing Management.

In 2004, Port Phillip Housing Trust was established as the future ownership vehicle for the City's Community Housing assets and Port Phillip Housing Association (PPHA) was appointed as Trustee of the Trust. On 8 October 2005 the Port Phillip Housing Association achieved Affordable Housing Association Registration.

As part of their joint application to become a Housing Association, the City of Port Phillip and PPHA submitted to the Office of Housing a package of reforms to:

- Secure ongoing joint venture funding.
- Reconstitute PPHA as a company limited by guarantee and its appointment as trustee of the Port Phillip Housing Trust.
- Expand the provider role of the new company to the inner south metro region separate from the company's role as Trustee of the Port Phillip Housing Trust.
- Eliminate the dependence on grant funding by diversifying funding sources that include leveraging bank finance.
- Enhance community housing growth through a strategic partnership with the Office of Housing involving business development (Papadopoulos and Spivak 2005).

Organisation Type

The PPHA is by and large a self driven not-for-profit organisation limited by guarantee.
It is governed by a Board of Directors which is comprised of 2 Port Phillip Council representatives, 1 tenant and 5 community representatives. The Board of Directors is responsible for the management of the business of both the Company and the Trust.

The restructure and Registration process have required the following changes:

- The migration of PPHA from an incorporated association to a company limited by guarantee.
- Development and adoption of the PPHA Company Constitution.
- Recruitment of additional expertise to the Company Board to strengthen its governance capacity.
- Development of a Business Plan (PPHA Inc 2005).

Financials and Operations

As of the year ending 30 June 2005 PPHA an income of $1,764,386 and Expenses of $1,149,421, leaving an operating surplus of $614,965 (PPHA 2005, p. 6)

PPHA had assets valued at $85 million.

No of Houses

PPHA is responsible for the maintenance and upgrade of all properties under its management – 389 units across 18 properties for the 2004-05 financial year.

At 30 June 2005 PPHA had 694 registered applicants seeking housing in the City of Port Phillip. Also, PPHA had direct management responsibility for 402 residents residing in 329 units of mixed accommodation. PPHA has nomination rights to a further 26 older persons units managed by the Prahran Office of the Department of Human Services (PPHA 2005, p. 9).

Of the total stock under management, 36% of units have been deployed as accommodation for older persons, 19% for families, 33% for singles wanting rooming house accommodation, 5% for singles in self-contained units, 5% for disabled persons in dedicated, fully disability compliant units and 2% for young people (PPHA 2006).

Outcomes and Lessons

The reform of the PPHA to a Registered Housing Association has:

- Provided enhanced capacity by pooling resources to a select provider in a gentrified, competitive housing market.
- Combines the strengths of State Government, Local Government and Housing Associations roles and a merging of objectives.
- Achieved a programmatic response for new projects that will aim over time to be opportunity driven.
- Addressed new project conflicts in a gentrified community by separating council roles as developer from planning authority.
- Continued the role of measured risk taking within an improved regulatory framework (Papadopoulos and Spivak 2005).