



Recent Developments in Affordable Housing

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The election of the Rudd Labor Government has brought with it a sense of excitement about the direction of housing policy in Australia. We've had years of frustration at the growing problem of housing affordability and the lack of effective responses from State and Commonwealth Governments. Now the new government has promised a range of new policies and programs to address this problem.

This paper presents a brief summary of these initiatives; what they might mean for organisations working on the ground and their implications for housing policy generally.

Key Commonwealth Initiatives

The new Commonwealth Government has committed itself to:

- funding for an extra 20,000 social housing dwellings by the end of 2010 as part of the latest economic stimulus package
- the National Rental Affordability Scheme which will provide incentives (total \$8,000 per dwelling per year from Commonwealth and State) to attract private investment. This program aims to provide 100,000 new dwellings in 10 years – a very ambitious undertaking
- the Housing Affordability Fund which will provide grants to local governments to lower the cost of infrastructure provision in order to lower the cost of housing to home purchasers
- new “home saver” accounts which will provide tax incentives to households saving to purchase their first home
- a comprehensive review of homelessness services which could result in a lot of change in this sector.

At this point, not much is known about how the 20,000 dwellings will be delivered, although it is likely there will be opportunities here for community organisations. However, the two programs likely to be of most interest to community organisations and local governments are the Housing Affordability Fund (HAF) and the National Rental Affordability Scheme (NRAS).

Housing Affordability Fund

The Housing Affordability Fund will invest up to \$512 million over five years to lower the cost of building new homes.

The Fund's focus is on proposals that improve the supply of new housing and make housing more affordable for home buyers entering the market. It will address two significant barriers to the supply of housing:

- holding costs incurred by developers as a result of long planning and approval waiting times
- infrastructure costs, such as water, sewerage, transport, and open space.

The government announced the fund would be distributed from 1 July 2008, primarily to local governments identified through a competitive tender process. The Housing Affordability Fund will target greenfield and infill developments where high dwelling demand currently exists or is forecast.

The fund is primarily intended to provide funds to local governments, and essentially aims to support the development of "best practice" models of planning and infrastructure provision which maximise housing affordability.

The two rounds expressions of interest under this program have been flagged for August 2008 and in March/April 2009.

Further details of this fund can be found at

<http://www.fahcsia.gov.au/internet/facsinternet.nsf/housing/haf.htm>

This fund is essentially a response to repeated claims by housing industry organisations such as the HIA and UDIA that Council planning regimes add significantly to the cost of housing. These claims are quite controversial, and it is hard to guarantee that reduced planning costs would flow on into lower land and housing prices, especially in an environment of limited supply.

Despite these reservations, the program provides a good opportunity for local governments to look at their planning systems and work out how they can contribute to making housing more affordable. By placing more focus on the planning system, this program can also be a catalyst to encourage state and territory governments to look again at the housing affordability impacts of their planning legislation.

National Rental Affordability Scheme

In the 2008 Commonwealth Budget, the Rudd Government delivered on its election commitment to create a National Rental Affordability Scheme (NRAS). This scheme is designed to attract private sector investment into new dwellings for affordable rental housing by providing an incentive of \$6,000 per dwelling per year, matched by \$2,000 from the state government, for a period of 10 years. This incentive can be paid as a tax offset to for-profit organisations or as a grant to charitable organisations. In return, recipients of the incentive are expected to rent the property to households on low to moderate incomes at no more than 80% of market rent for at least 10 years.

The Government is aiming to fund 50,000 new dwellings under this scheme over the first five years of its operation, with a possibility of a further 50,000 in the subsequent five years if demand still exists. It will implement the scheme through an initial “establishment phase” in which incentives will be committed for 11,000 dwellings between 2008 and 2010, followed by an “expansion phase” in which the remaining 39,000 dwellings will be funded up to 2013.

The Commonwealth Government has released various details of this scheme, including a Technical Discussion Paper and a set of mandatory requirements and selection criteria for the first round of applications under the scheme. These can be found at

<http://www.fahcsia.gov.au/internet/facsinternet.nsf/housing/nras.htm>

The first call for expressions of interest under this scheme took place in 2008 and resulted in the allocation of incentives for 2,800 dwellings nationally. The second EOI process is open now and closes on March 27, 2009. There is also expected to be a further opportunity to apply later in 2009.

This program is generating both excitement and scepticism in the housing industry.

The excitement comes about because for the first time there is a realistic mechanism for partnerships between community housing organisations, private investors and developers. These sectors have talked to each other a lot over the past few years, trying to find ways to work in partnership. The main stumbling block has always been that low income tenants just can't afford to pay enough rent to provide a return on any investment. NRAS aims to bridge this gap and make these partnerships viable. Suddenly the long-running discussions have new impetus.

The scepticism comes about because a lot of potential investors believe the incentive is still not enough to make investment competitive with other investment opportunities, especially in the current credit squeeze. The next two years will show whether this scepticism is justified.

What does it mean for the housing sector?

Both these programs are attempts to engage the private sector in solving housing affordability problems. While this is a common approach overseas it is a radical departure for Australian housing policy. We have been used to thinking in terms of an open market for most housing (with large tax subsidies, but no explicit expectations about affordability), supplemented by a small government-funded sector providing housing for those who can't compete in the private market. Over the past decade this approach has become less and less effective as the number of people excluded from the private market grows and the social housing sector shrinks.

By injecting money into privately-funded solutions, the Commonwealth is trying to break down this divide. However, it will take more than just money.

- Both community housing organisations and private sector players will need to learn not only how to talk to each other, but how to work together. In the process, they will need to release their creativity, finding new ways to fund, build and manage housing.

- For the community sector, this will mean becoming much more attuned to investment issues – returns on investment, development costs, risk management and so on. It will also mean being able to be hard-nosed negotiators.
- For the private sector it will mean gaining an understanding of social objectives in housing provision. It will mean overcoming prejudices about low-income tenants and understanding the ways in which non-profit organisations do their business.
- The state and territory governments will also need to develop a new understanding of their business. Over time the significance of their direct funding and management roles will decrease, and they will need to develop greater skills in facilitating partnerships. This will mean they will need to work in a more open, relationship-oriented mode.
- For everyone, there will need to be a much more sophisticated understanding of how housing markets work, and a higher level of creative thinking about ways to intervene.

This is an exciting time in housing policy and we can't wait to see what happens next!