

Models of affordable housing within the Queensland context

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Introduction

Despite much rhetoric and apparent activity on new affordable housing initiatives in Queensland and at the national level, there continues to be just a relatively small number of examples of where new, innovative forms of delivering social or other affordable housing have actually taken place. This is not to say that little is being done in this area. The commitment among governments and the non-government sector to finding new forms of affordable housing – whether as alternatives or supplements to more traditional forms such as public and ‘classic’ grant-dependent community housing – remains strong. In fact, I would argue that the search for suitable policy responses to the issue of affordable housing has been the outstanding – the number one - policy challenge for the social housing sector as a whole for the last decade and a half.

It started with the National Housing Strategy, and has been there through Inquiries by the then Industry Commission looking at Public Housing, the Senate looking at housing assistance, the now Productivity Commission looking principally at first home owners’ access to housing. It has been the subtext of all CSHA negotiations over the past 15 years, and has employed many a researcher, government analyst and community advocate. It has bubbled onto the mass media agenda from time to time, but it has never disappeared from the work of the social housing sector, nor from the lives of low income people struggling to make ends meet.

There are a range of affordable housing initiatives in place which hold the promise or potential of achieving much. However, significant barriers remain to finding new, effective and wide-scale solutions to the need for affordable and social housing, which include the attitudes and behaviours of governments at all levels, existing community / not-for-profit agencies and the private sector. Recent experience and research further suggests that the quest for a ‘magic bullet’ to solve all of our problems concerning affordable housing won’t be found; at least not in the short term. Instead, we need to acknowledge that a loose patchwork of ideas and models is the likely path to success. We should recognise the importance of smaller scale community and government-based initiatives as perhaps a necessary beginning but not a sufficient end .. if I can mix my metaphors a little!

Overview of the presentation

In this presentation, I want to talk about three issues. Firstly, I want to take this opportunity to remind ourselves that ‘affordable housing’ is about delivering affordability to people - this is not some abstract issue ... this is a real, everyday life effort for many people. Secondly, I want to review and critique some of the ideas which have previously been floated, or are currently being discussed. Finally, I would like to suggest a couple of areas where I think opportunities exist for establishing models of affordable housing within the Queensland context.

To the disappointment of some, but no doubt to the relief of others, I will not be speaking directly about a piece of research that I have just conducted or have recently been involved in. Instead, I will attempt to offer my own perspectives on where we are going with finding affordable housing solutions in Queensland. Despite being based at a university, I will not be taking an academic perspective on what I am about to say. My comments will be based on my experiences in and out of community and government sectors and in the research environment.

In this regard, the views expressed here are my own, and are intended to be polemical – to generate discussion. I want to be a bit challenging, perhaps a tad controversial, and potentially unpopular as a consequence! This is all in the hope that we can question some of the dominant beliefs or contemporary views about affordable housing. I will not only seek to be Socrates – being the great questioner! I will also try to outline some alternatives. However, most ideas I will discuss are not new. Indeed, I suspect that it is difficult to say anything about affordable housing that is still original; so much has already been written about the issues, and the literature continues to expand on a daily basis.

Why affordability is important

I will not attempt to provide specific numbers of people or households that are in unaffordable housing, nor of rent trends or house price inflation. There is already an abundance of research, data, analysis, interpretation and general commentary to recognise the basic things we need to know. The numbers are big, they vary spatially and across tenures, and things generally have not been getting much better (with the occasional short term trend suggesting otherwise).

Affordability means different things to different people, and the affordable housing needs of some vary from the needs of others. These are complicated issues - there are no clear answers, indeed the nature of the problem is complex and contested. It is easy for some policy makers to forget that this is not merely a technical or administrative issue, challenging

the analysts and advisers to come up with an approach that is ever clever, intricate, statistical. This is about human experiences – about individual outcomes and societal well-being.

In the end affordability must take some account of the adequacy of what income is left after housing costs, and ultimately is a relative and subjective concept. Conceptually and practically, this is what I see ‘affordability’ as about, as opposed to a range of other concepts, meanings etc which may be related to ‘affordability’ in some way but are not the same as it. At the same time, I see a conceptual and practical distinction between ‘affordable’ and ‘low cost’ or ‘submarket’ housing – which may nor may not be affordable.

Location, physical condition, size and amenity are all very important, and all connected to the overall definition of good housing outcomes, but not principally about the cost of housing to the consumer. Addressing affordability often involves some sort of trade-off between costs and other features of housing, but we should not confuse the issues, and bury the notion of affordable housing or housing affordability (I will take these broadly to be the same) within some broader range of planning, design and other matters.

For practical purposes, we need to acknowledge that rent setting rules, eg % of income, may be used as shorthand for thinking about affordability, but at the same time, we should ensure that affordability does not become synonymous with ‘viability’ for housing providers. Such discussion is not merely academic or theoretical – I suspect that subconsciously, perhaps in some quarters consciously, we have been trying to define our way out of our inability to find truly affordable housing solutions. In other words, if we expand our definition of what we mean by affordable housing far enough, we will eventually find opportunities for action. However, there is a danger that in the process, we forget what it is that we are seeking to address when we talk about affordable housing.

The policy environment for affordable housing initiatives in Queensland

The policy environment for affordable housing suggests that there are a series of tensions - some positive, some negative – concerning governments’ priorities. At the national level, we have conflicts over spending on public housing versus Rent Assistance. No doubt we have all seen the graphs about this, but for the benefit of anyone who has not (and in the interests of conforming to the dictum that all presentations need at least one graphic) I have attached a chart to this paper!

Renters vs home owners has also been a recent feature of housing policy debates. Did you know that in Queensland for 2001-02, the Commonwealth provided c\$185M through the CSHA?. During the same time, roughly \$400M was provided in grants by the Commonwealth to first time home buyers in Queensland. This suggests a polarisation of

housing policy, based on tenure, and a tale of two housing systems, two sets of values and priorities, two approaches to accountability and targeting. However, what it also highlights is that there is money to be spent on housing, given the political will. Don't believe the hype about lack of public funds for housing, especially from governments who are the largest takers of taxation in history!

The new Commonwealth State Housing Agreement includes requirements to secure a greater role for the private sector in affordable housing. This may provide an opportunity to experiment, which is what we need! It should be noted that, with the exception of the Brisbane Housing Company, we have pretty much the same suite of housing programs as we did 10 or so years ago, namely:

- Public housing provision
- Grants and support to community and local government housing
- Bond loans, rental grants etc
- Small home ownership loans program
- Tenancy advice and advocacy

We have a new (State) Housing Act in Queensland, which is an important development, but which in text seems to dwell more on enforcement and penalties than on how people will be assisted. The first main object of this Act is “to improve the access of Queenslanders to safe, secure, appropriate and affordable housing”, but the Act offers no firm commitments in this regard. Enabling legislation is fine, but we need action to take advantage of the new ‘enabled’ environment. The Queensland Government via the Department of Housing has also produced, or is in the process of compiling resources and information for local governments, community agencies and private developers delivering affordable housing. These include a Strategic Plan for Affordable Housing and a ‘Developers Kit’. Again, important initiatives which promote the atmosphere of latent opportunity, but which need to be taken advantage of.

Existing ideas on new affordable housing

The starting point for considering ‘models of affordable housing within the Queensland context’ is to identify what sorts of models have been previously mooted and researched. Traditionally, these have included:

- Attracting institutional investment into rental housing, via
 - Superannuation
 - Taxation dispensations or inducements
 - Education of investors
 - Social responsibility

- Developing new finance instruments for investors:
 - Bonds
 - Lending mechanisms
 - Ethical investment finance
 - Trusts
- Using the public sector stock to leverage finance:
 - PPPs
 - Borrowing for social housing
 - Transferring stock to community or non-government organisations
- Taxing urban development:
 - Levies on new development
 - Stock contributions within new developments
- Establishing housing associations or companies such as the Brisbane Housing Company
- Niche marketing / targeting to specific groups

These are all fine ideas and initiatives, and should be seriously considered by governments. But, most of these ideas have been around for some time and have to date made little impact. I don't really have the time or space here to go into detail on what they each of these options seeks to achieve and how, what differences they might potentially make, what successes they have had to date, and the key challenges are to their broad implementation, and so on. Instead, here are a few passing comments on each idea; the main positives and negatives.

Developer contributions ... as idea which has had a lot of attention over the years. But despite the many strong arguments in its favour, it requires government commitment and recent history has not been good in Brisbane City!

Attracting institutional investment into rental housing has been promoted as the best option for delivering large volumes of affordable housing. Institutional investors are seen as being the only ones capable of using economies of scale to reduce costs, and the bigger end of town is regarded as sufficiently economically rational to treat investment in affordable housing in an objective and informed way. But, unfortunately this is precisely the problem for us ... they understand all too well that the returns from such investment are likely to be less than those they would normally accept as viable. As well as the 'return gap' other issues that create barriers to institutional investment include risks, lack of familiarity with the issues, not to mention the enormity of having to persuade a new class of investor to commence large scale new dwelling investment.

Overall, I suspect that most investors are too sophisticated. They understand precisely the risks, returns and other issues, and largely do not like what they see! Either the incentives are

either going to have to be pretty substantial, or government will need to waive a big stick, or all alternative forms of investment will need to crash.

Superannuation ... great potential, all it really needs is a stroke of the pen to say that all large commercial Super funds must invest 1% of their funds in affordable housing. Politically, this is very touchy it could be seen as mucking around with all of our retirements, although of course, if we all had affordable housing maybe we wouldn't need quite so much in our super!

Public-community-private sector partnership delivery approaches ... Although Public-Private Partnerships or 'PPPs' have become buzz-words in recent times, in practice there are very few examples of such partnership arrangements in the area of affordable housing. A very small number of public-private sector partnerships have been created, with perhaps the most significant of these being the Kelvin Grove Urban Village development in inner north Brisbane. This development involves land now owned by the Queensland Department of Housing, but which will involve a mix of housing developments, including some lower cost housing delivered by the private sector (in addition to BHC managed housing).

There are a range of examples in Queensland of smaller scale community-private sector partnerships, where community-based or not-for-profit organisations have been entrepreneurial and established links with private developers to manage affordable or lower cost housing. Such arrangements are limited and ad hoc, and suit specific locations and contexts, but indicate that some limited delivery of lower cost or affordable housing is possible without direct government funding. There also continues to be some partnership or brokerage deals struck between the Department of Housing, and church or other not-for-profit agencies, where the latter are able to provide land and/or housing.

Brisbane Housing Company... has some important advantages around tax and Rent Assistance capture (of course, nothing new in community housing); it has successfully attracted \$s from Brisbane City Council; has tried to redefine what counts as an affordable rents. Many policy makers see this as a great leap forward; others are more sceptical.

Notwithstanding the euphoria locally and among other State Housing Authorities which sometimes accompanies talk of BHC, it is worth noting that it couldn't function without huge injections of cash or resources from the State. BHC only works because the Queensland Government is injecting \$50m into the scheme (money which it could have spent on public housing), so the model remains heavily dependent on public funding. Private sector contributions play little role if any in the finances; other than the State dollars (and that's a big 'other'!) and the BCC funds, the model is based around a combination of taxation exemptions, Rent Assistance harvesting and rental income which all help to balance the books.

In practice, the 'model' is not that different from many other examples of traditional community housing. The BHC approach as a model is hamstrung by the likely inability to replicate the approach in other locations, other than perhaps interstate capital cities (not much good to Qld unless there are royalties!!). There are few other local governments in Queensland with the financial capacity to make such a significant contribution to housing delivery, it is doubtful that the State would commit to similar subsidies elsewhere. It is also not clear precisely who gets into (or will get into) BHC accommodation. Where are tenants drawn from? Are they people who have been on the public housing wait list for some time? I want to stress that I am not knocking the huge effort that has gone into developing up the BHC, nor of what it has or will achieve. What I am trying to do is take an impartial view of what it is and how it works. The model essentially needs to have been around for a little while and then to be fully and objectively evaluated before we can really know how successful it is, and whether its low cost housing delivery has been affordable.

On the subject of *Housing Companies or Associations*, you know, one logical thing to do would be to create 17 such Associations or Companies from the 17 Department of Housing Area Offices. Think about it – you've already got plenty of stock, lots of management experience and local knowledge, and so on. Of course, this begs the question of *transferring stock to community or non-government organisations*. Far be it from me to raise the ugly spectre of debating these issues in depth right here and now, but this is an important issue which needs open debate and reflection. All I would like to say is that, for me, if the end result from such transfers is not some significant increase in the overall level of supply – if the process were to merely end up with roughly the same number of dwellings as before – I fail to see why the effort would really be worthwhile.

Niche marketing / targeting to specific groups ... in community housing the focus has been on population groups, such as young people, sole parents, Indigenous people, people with a disability etc. In more recent private developments, the focus has tended to lie more on the style or design of the accommodation to efficiently house certain groups ... older people, students, boarders and lodgers, etc. The outcomes achieved are not clear, but most of these do not appear to conform to the more narrowly defined concept of affordability.... This is not to say that they are unpopular!

So what of the future in terms of affordable housing models?

Let me reiterate that I believe there is very interesting and sometimes experimental work occurring on the ground – important, but mostly small scale, often one off etc. There is a clear need to create and exploit such opportunities and assist people where we can. But, these

will not produce affordable housing in any magnitude, and will not create structural changes, new institutional ways of thinking, and so on.

However, there are some other possibilities which I think need more exploration - two in particular, which are not exactly revolutionary, but which at present could be termed as semi-radical. One concerns making far better use of a whole load of housing that is already on the ground. The other concerns some good old fashioned logic. Each involves a change of philosophy about affordable housing supply, but both are eminently do-able. And yes, public housing features prominently in one set of possibilities!

An expanded role for the private rental sector

The first area of opportunity for me lies not in the community sector but in the existing private rental market, but with potential links to the community housing management. I think we need to make far better use of the private rental market. After all, it has had no shortage of investors, no problem in supply, no barriers in facilitating finance, no issues with risk which seem to impact on investor behaviour. Thus, if we were to use private rental housing as the base for more affordable housing, there would be no need to convince financiers to underwrite a new and unfamiliar form of investment; no need to necessarily seek to rapidly increase supply; indeed, no need to convince housing consumers about a product they know little about.

Other potential benefits of using the private rental sector include the fact that housing stock is often already in locations where we may want it, the risks are carried by the private sector, the supply response can be flexible, and it need not be costly. The main problem right now with the sector is about where, in rental cost terms, the bulk of supply is ending up. As we should all know by now, there has been a huge shrinkage of supply at the very low cost end of the market. But in the middle segments and upper, growth has been strong.

Carving out a greater role for the private rental sector could be achieved through a range of ways. The following are just a few of the ideas that seem available:

- low income housing tax credits, where there is a tax benefit delivered to investors who provide rental housing at affordable rents. In the US, such instruments have been used to attract institutional investment, but there is no reason why they could not be developed and targeted at individual, household-based investors.
- targeting negative gearing – similar to the previous point in terms of structure and outcomes.

- Direct head-leasing by the Department of Housing – could be used to increase supply in general, but also to facilitate access for some who face barriers otherwise (eg tenancy database)
- Leasing through an intermediary ...eg community housing providers, Housing Associations, Trusts, etc
- Subsidised, tied investment loans. In other words, finance with strings attached, designed to encourage the provision of affordable private rental housing.
- Rental assistance supplementation.

What are the main challenges with some of these ideas?

Low income housing tax credits - What would be required would be federal policy to allow for their implementation, but this does not create any new outlays for the Commonwealth Government, merely some taxation income foregone. People like Gavin Wood, who have looked into LIHTCs, have suggested that they could replace existing mechanisms like the depreciation allowance for new rental construction (most of which goes to the upper end of the apartment market) at zero net cost.

Targeting negative gearing – seems to be a tricky customer when it comes to policy change ... how easy would it be to restructuring? The politics of the issue are significant.

Direct head-leasing by the Department of Housing or leasing by others – The main issues with this are costs and efficiency. Head-leasing may be more effective and potentially efficient in the short to medium term, but not so good in the longer term. But not everyone needs assistance over the long term! If dwellings were carefully selected to reduce outlays once affordable rents were collected, the costs could be contained. One option here is to target those lower cost dwellings already in supply, but not necessarily occupied by lower income households. And the question of lack of eventual equity can be a double-edged sword, as equity can be a liability if stock is not where you want it.

Subsidised, tied investment loans – worked well in places like Germany for several decades, but eventually the attached strings have to expire. That only becomes an issue a way off into the future, and only is problematic if it is not followed up with subsequent waves of loans or other initiatives.

Rent assistance supplementation - Affordable housing is NOT achieved systematically through RA or Bond Loans, etc. Additional assistance, delivered by the State, perhaps tightly targeted and even time limited, could provide good outcomes with a high level of flexibility. The main issue again here is cost But it need not be that significant if it is merely topping up other assistance and perhaps income. Time limits to assistance could also be applied.

An expanded role for public housing

One overriding problem with private rental housing is that its physical qualities may not always match needs. Examples include physical access and amenity issues, location, size. Which leads me nicely into the other main option I wanted to mention.... I know it is terribly unfashionable and unimaginative and 'non-innovative' in many policy circles to say this, but how about more good old, bog-standard (well, perhaps less standardised) public housing!

One impetus for renewed interest in non-publicly managed social housing comes from a level of acknowledgement that something must be done, but that government is not the right solution. I think this is a mistaken view. I think the other obvious option for affordable housing in Queensland is an expansion of public housing supply. This based on the premise that in fact, government is the right solution, at least for some people in some places and circumstances. At some point in the future, after we have finally moved away from our non-questioning commitment to neo-liberal economics, we may well come to realise that public housing does have a place in affordable housing supply, that in fact it still makes sense, can be efficient and effective, can be something to be proud of.

How would this expansion of public housing be funded? Well, the most obvious option is debt-financing. There are pluses and minuses to this approach, of course, but in the end I really can't why it is so wrong to borrow for public housing, in the same way that we do for other public infrastructure, and in the same way that business and private households borrow money to resource key purchases.

By way of conclusion

There are two main camps when it comes to assessing specific ideas and chances for affordable housing in Australia: the optimists and the sceptics. Which camp you sit in will dictate how you interpret the last decade or so of policy developments, community initiatives, etc. and how you see the future.

The more optimistic in the sector say that we are at the cusp of something really significant, are that right now we are starting to see some potentially big shifts emerging in the ways that we finance and deliver affordable housing. The sceptics tend to argue that we have seemingly been on the cusp of something big for a long time, without much evidence of significant progress. The punch line is that only time can really tell us whether we are 'on the cusp of something big', or whether present ideas and dreams are destined to linger on as nothing more than that.

Regardless of which camp you sit in, it must be acknowledged that there are no easy solutions, and implementation of any significant options will be difficult. Often the search seems to be for the one magic bullet which will deliver our dreams. Rather, we need a range of models. Organisations and individuals need to experiment and innovate, but we also need to acknowledge that the community sector has little to offer in terms of supply, but perhaps much in the way of management.

If I reflect on the findings of some of the research I have been involved in designing, contracting or doing, I am bound to conclude that

1. Many low income people may know and care very little about public housing. What they know about is the private rental market because that's where they already are. What they primarily care about is housing affordability (among other things).
2. Other people in housing need, their advocates, support agencies, indeed private developers and people in a range of government departments continue to see public housing as playing a crucial role in providing affordable housing in Queensland.

It is in these two areas – better utilising the private rental sector, and increasing public housing supply - that I believe we could strengthen our resolve to deliver more affordable housing, and achieve greater housing affordability for lower income Queenslanders.

Thank you.

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Gross CSHA and Commonwealth Rent Assistance payments, 1982/83-2002/03 (constant 2003 prices)

