



**Community Housing**  
FEDERATION OF VICTORIA

## **Submission**

**from the Community Housing Industry Association, the NSW Federation of Housing Associations, the Community Housing Council of South Australia and the Community Housing Federation of Victoria**

## **on the Smart Cities Plan**



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**Executive Summary**

- Australia's major cities are home to three in four Australians and are responsible for producing more than 80 per cent of the nation's economic output. The Commonwealth Government's renewed national focus on our cities is a most welcome development. To succeed our cities need to be productive and accessible but also liveable and life enhancing for all their citizens.
- The Community Housing Industry Association, the NSW Federation of Housing Associations, the Community Housing Federation of Victoria, the Community Housing Council of South Australia and their member organisations appreciate the invitation to join this important conversation. Together we assist around 300 plus community housing providers, serving over 80,000 households residing in affordable and community housing and accommodating around 170,000 household members.
- This joint submission flags the community housing industry's desire to make an ongoing contribution to the development of the Smart Cities agenda from a rapidly growing and dynamic part of the not-for-profit sector.
- We wholeheartedly support the goal of helping Australian cities reach their full potential starting with a framework, a national Smart Cities Plan, to help secure our future prosperity and global competitiveness.
- Affordable housing is now essential economic and social infrastructure for generating greater productivity and broadening participation in what our cities and regional centres have to offer.
- However, there is a real risk that if the problem of unaffordable housing grows unchecked, it will cause a polarising effect that results in the very opposite outcomes to those envisioned for a smart city - producing an altogether unwanted outcome that spatially separates a city's communities into those who benefited from government investment from those that did not.
- We therefore applaud that the Smart Cities Plan makes affordable housing supply one of its prime objectives.
- While these reforms aim to bring benefits to all Australians, special attention needs to be given to low income renters in the Smart Cities Plan and its City Deals.
- Increasing general housing supply alone is not sufficient for this group. Commonwealth Treasury has recently noted that if housing is to be affordable to these renters, the risk return profile of affordable housing becomes a key impediment for the general market to deliver. A dedicated below market affordable rental housing response is also required.
- The community housing industry is both willing and able to respond to these new opportunities and to work across government with private sector partners and financiers. A proven track record, rapid growth and capacity building have propelled members of the industry to become key frontline partners in many major housing project developments across the country. The industry stands ready to perform an even larger role in market facilitation in City Deals.

- Community housing providers can bring to the table a number of wider economic benefits to the Smart City agenda: helping to unlock new opportunities to deliver new housing products and services, effectively leveraging the benefits that transport infrastructure can provide; more efficiently delivering services by bringing people, employment and support and supply networks closer together; and achieving tangible improvements in human capital through the provision of affordable housing in the right location with a mix of other social infrastructure.
- We welcome the Commonwealth's agenda for:
  - a renewed national focus on our cities, which can through City Deals respond flexibly to diverse locational opportunities and constraints
  - a Smart Cities focus on the people and the development of human capital not just infrastructure for a more productive future
  - Smart Cities which give particular attention to affordable housing as an integral part of an urban strategy for more vibrant and liveable cities.
- As the framework for City Deals is progressed, our industry would greatly welcome further advice around the Commonwealth's commitments to fund and resource these game changing infrastructure initiatives. Community housing providers are keen to understand the opportunities to engage with these long term rolling investment programs.
- An integrated policy and program approach will also be important to achieve a whole-of-government perspective and drive inter-jurisdictional reform. Tackling reduced housing affordability will require better problem definition and a detailed understanding of who could be detrimentally affected. To translate the bold policy intent of Smart Cities into outcomes for residents, new policy prescriptions, targets and measures will be required.
- To quickly take forward the Smart Cities agenda and enable the industry to play an expanded role across jurisdictions, new national architecture is required to respond to the challenges ahead.
- City Deals will need new national institutional responses that can promote the community housing industry's access to sound market analysis, private finance, funding and effective national regulation. A challenge for the Commonwealth will be to co-design, coordinate and streamline these arrangements in time to address the size and scale, project approval deadlines and other business demands of City Deals, as they roll out.

***This submission proposes the following recommendations for the consideration of the Department of Prime Minister and Cabinet:***

1. The adoption of a set of equity and productivity principles that can be applied to all Smart City initiatives to ensure that the entire community gets to enjoy the greater opportunities presented by Smart Cities.

In the affordable rental housing arena, these equity and productivity principles would support:

- the targeting of affordable rental housing to low and moderate income earners in housing stress.<sup>1</sup>
- measurable person centred outcomes
- special attention to communities displaced by urban transformations that are part of City Deals
- attracting finance from institutional investors to fund new affordable housing supply

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<sup>1</sup> This would focus on households receiving incomes below the national median household income while giving attention to those in the bottom two income quintiles.

- the exploration of new and innovative housing models that deliver a variety of housing options across different affordability points
  - Strategic Commonwealth funding (incentives) being tied to improving consumer and community outcomes.
2. Support for the mandatory provision of affordable rental housing in City Deals, where there is a demonstrable shortage of rental housing that is affordable to low and moderate income households, as a discrete adjunct to increasing general housing supply.
  3. As part of a concerted national approach to foster the delivery of affordable rental housing as social infrastructure within City Deals, the Commonwealth Government would develop a national co-investment and delivery strategy. While led by the Commonwealth, the national approach would be co-designed with the community housing industry and State and Territory Governments.

Four complementary elements of the strategy should include:

- the establishment of a National Affordable Housing Finance Corporation to enable the community housing industry to access wholesale institutional finance for affordable housing projects
  - the establishment of a National Affordable Housing Securities and Investment Bureau for marshalling, layering and distributing Commonwealth funding and loans, incentive payments, Commonwealth land contributions and loan guarantees for affordable rental housing supply. The Bureau would also record and track matching jurisdictional City Deal contributions and advise on the release of incentive payments.
  - the broader penetration of the National Regulatory System for Community Housing to all jurisdictions
  - the establishment of a National Housing Supply Office to assist in the rigorous merit based assessment of affordable housing proposals. Assessments would take into account broader supply and demand measures as well as indicators of innovation, diversity and affordability outcomes.
4. Establish as part of City Deals, smart supply targets that include targets for social and affordable housing provision in urban renewal projects, that reflect a community's needs and opportunities for achieving new housing supply.
  5. Formalise avenues for the community housing industry and its members to participate fully in the ongoing development of the Smart Cities Plan, City Deals and the national social infrastructure required to expand affordable housing supply.

## 1 Introduction

- With three in four Australians now living in Australia's major cities, the Commonwealth Government's renewed national focus on our cities is most welcome. To succeed our cities need to be productive and accessible but also liveable and life enhancing for all their citizens.
- The Community Housing Industry Association, the NSW Federation of Housing Associations, the Community Housing Federation of Victoria, the Community Housing Council of South Australia and their member organisations appreciate the invitation to join this important conversation. This joint submission flags the community housing industry's desire to make an ongoing contribution to the development of the Smart Cities agenda from a rapidly growing and dynamic part of the not-for-profit sector.
- We wholehearted support the goal of helping Australian cities reach their full potential starting with a framework, a national Smart Cities Plan, to help secure our future prosperity and global competitiveness.
- While housing is our primary interest, a long term overarching framework with a clear focus on serving all its citizens can enable us to become smarter investors in our cities infrastructure, coordinate Smart City policy, and improve the sustainability of our cities through the take up of smart technology. It can also tackle congestion, poor access to jobs and services, reduced housing affordability and increasing pollution that would challenge our quality of life and constrain everyone's participation in its benefits.
- Community housing providers are important stakeholders in our urban centres, operating in all capital cities and nearly all regional ones across the nation. Community housing has doubled in size since 2008.<sup>2</sup> Mainstream community housing providers have much to offer, managing around 80,000 homes<sup>3</sup> and billions of dollars of assets nationally. No doubt with around two thirds of these households living in the major cities<sup>4</sup> investment in the Smart Cities Plan will also help to shape their lives for the better.
- In particular, we welcome the Commonwealth's agenda for and commitment to:
  - a renewed national focus on our cities, which can through City Deals respond flexibly to diverse local opportunities and constraints
  - Smart Cities focus on the people, and the development of human capital not just infrastructure for a more productive future
  - Smart Cities which give particular attention to affordable housing, as an integral part of a bigger urban strategy for more vibrant and liveable cities.
  - the first three City Deals announced in: Townsville, Queensland; Western Sydney, NSW: and Launceston, Tasmania.
- Australian cities each have different DNAs, cultures and communities but also have some common problems and challenges. This submission aims to make a contribution to the development of a framework that balances a flexible approach to local needs and opportunities complemented by a national set of principles that ensure the benefits of Smart Cities are widely shared and distributed across the entire community.
- The need for affordable housing as part of the redevelopment mix is at times an uncomfortable truth for some planners and developers grappling with already complex and controversial transport infrastructure projects. However, housing stress in our cities is real and can't be

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<sup>2</sup> <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129555384>

<sup>3</sup> <http://www.aihw.gov.au/housing-assistance/haa/2015/social-housing-dwellings/>, for June 2014. These property numbers include affordable housing dwellings often counted separately to community housing.

<sup>4</sup> <http://www.aihw.gov.au/housing-assistance/haa/2015/social-housing-tenants/>

airbrushed away. Rather than creating an additional hurdle, affordable housing offers an important way of building social and economic capital and gaining community trust.

- Our industry is seeking more opportunities to contribute to the development of this new agenda especially around urban renewal and the provision of affordable housing supply.
- Accordingly, most of the submission's recommendations are focussed on the central role affordable housing needs to play in Smart Cities thinking and financing.
- Importantly this submission is a standing industry offer to continue to partner in this exciting process.



## 2 Joining the conversation: The Community Housing Industry

- Community housing is now a large and growing part of the social housing system along with public housing and Aboriginal housing. For over twenty-five years, community housing providers have been at the vanguard of innovative attempts to add to the country's social housing stock.
- For some parts of government and the transport infrastructure sector, community housing is a well-kept secret that goes largely unnoticed, not doing justice to its size, financial clout and capacity to lift people out of poverty and change people's lives for the better. This also bears testimony to the way community housing provision seamlessly blends into its communities right across Australia.
- The community housing industry is skilled in delivering quality, secure accommodation to a wide range of client groups. They are experienced providers of all facets of housing management with increasing numbers also engaging in construction and property development.
- The majority of community housing provided is subsidised by government and is part of the social housing system's funding arrangements. However, housing associations and other community housing providers are increasingly taking on a wider range of affordable housing services as an adjunct to their role as social housing providers.
- In February 2015, there are around 30 Tier 1 style, high capacity providers in Australia, including 20 or more registered under the National Regulatory System, eight housing associations in Victoria and a couple of leading providers in Western Australia.<sup>5</sup> In July 2014, the top 20 community housing providers managed around 48,000 tenancies nationally with a few providers operating in more than one jurisdiction.
- Community housing has a well-deserved reputation for innovation. It is 'people centred' and approaches housing issues locally. It has a strong emphasis on involving tenants in decisions about their housing. It also has a good track record for performance and client satisfaction that is underpinned by a government outcomes focussed registration system operating in each jurisdiction. The National Regulatory System operates in ACT, NSW, Northern Territory, Queensland, South Australia and Tasmania. Victoria and Western Australia have State

### **Unity Housing: Northern Region Affordable Housing Initiative, South Australia**

- Unity's Northern Region Affordable Housing Initiative is a strategic partnership focussed on delivering new affordable housing. The project is an innovative partnership driven by Unity with the Commonwealth Government, the South Australian Government, three regional councils, three Regional Development Australia offices, and the corporate sector. The project was tenanted in January-February 2015.
- The initiative involves a \$23 million investment in affordable housing made possible by Unity's ability to leverage its existing asset base and work with stakeholders to enable borrowings of \$12

million. The project aimed to deliver 80 affordable housing outcomes in locations where there is significant need for appropriate accommodation but would be a marginal exercise for the private market to deliver.

- The project consists of 102 new homes, 22 for sale to the market, 60 rented to key workers and 20 provided to people living with a disability and older South Australians. The properties are built in 14 different locations and 11 regional towns. The project provides each of the houses retained by Unity with a 1.5KW photovoltaic solar generation system to reduce tenant electricity bills by up to 50 per cent.

<sup>5</sup> [http://www.tonygilmour.com/yahoo\\_site\\_admin/assets/docs/Housing\\_Works\\_-\\_March\\_2015.12303153.pdf](http://www.tonygilmour.com/yahoo_site_admin/assets/docs/Housing_Works_-_March_2015.12303153.pdf)

regulators.

- The industry already provides a range of housing – from housing that is affordable to moderate income working households, through to housing for people with very high needs (usually in partnership with a specialised support provider).

### **Contemporary Housing Cooperatives**

Housing cooperatives provide another option for providing affordable housing.

Under the cooperative housing model tenants:

- become members, and hence owners of the co-operative, and
- play an active role in running the organisation.
- Individual members build skills, take care of their home and find a supportive environment to enter the workforce or pursue education.

In his report, *We're all landlords and tenants, Contemporary housing co-operatives building*

*sustainable communities*, (2012), Dr Tony Gilmour found:

- Housing co-operatives are a cost effective way of delivering affordable housing
- They provide a multiplier effect that leads to high social returns on public investment.

- Increasingly community housing providers are working in partnership at various scales– with local government, with public housing providers, with private sector partners and with support providers. The industry is well positioned to become full partners in Smart Cities and deliver key housing outcomes in City Deals.
- To illustrate this point:
  - the NSW community housing industry now manages a comparable number of properties and tenants to the WA Housing Authority.
  - In Victoria community major renewal programs in Kensington and Ashwood Chadstone were undertaken by Urban Communities and Port Phillip Housing Association respectively.
  - On a regional scale the Brisbane Housing Company (BHC) has rapidly grown from its incorporation in 2002 to become a tier 1 community housing provider delivering housing and asset management services to wholly owned 1,500 affordable housing properties in inner and middle rings of Brisbane. BHC has undertaken property development and project management to create a number of award-winning homes for Queenslanders from all walks of life.
- Currently the community housing industry is represented by four peak organisations who have jointly prepared this submission: The Community Housing Industry Association, the NSW Federation of Housing Associations, the Community Housing Federation of Victoria, and the Community Housing Council of South Australia.



## 2.1 Community housing providers will make good City Deal partners

- Many registered community providers have attributes that resonate with the foundational principles of Smart Cities and City Deals. They are well positioned to become solid and reliable project partners and consortia members.
- Many providers possess a unique set of outstanding organisational strengths and capacities:
  - *People focussed, outcomes oriented and consumer driven organisations* that are shaped by customer, community and government expectations and underpinned by a not-for-profit housing ethos.
  - *Innovative thinking* that tries and tests fresh ways of doing business, using new ideas and cutting edge technologies that are based on emerging evidence and research from universities and best practice
  - *Integrators of transformational agendas* connecting reforms, communities and Commonwealth, State and Local Government imperatives in the development of their business plans and working relationships. They bring a holistic view that is oriented to optimising community wellbeing and growing social capital
  - *A long term, practical and strategic interest that is* informed by a commitment to their clients' wellbeing and their socio-economic outcomes during their life course. This long term perspective is also informed by the need to make long term asset investments in their communities for current and future clients. This long term mindset promotes a holistic concern for the improvement and sustainability of the physical, social and economic environment, a deep engagement with employment and support services, and an abiding interest in the productive use of well-located and well maintained assets
  - *A flexible, adaptive local approach* that lends itself to operating in specific cities and neighbourhoods. Managing housing and housing services creates a deep two-way connection with a street, a place, a city: with a family, a neighbourhood and a community
  - *Experienced and entrepreneurial business mindset* developed from working in partnerships and consortia formed with other business organisations, investing in asset based projects, developing business cases that use private finance to leverage assets, and competing to win government housing tenders. They already have made significant investments in cities and have strong incentives to see them function more effectively and productively.
  - *A privileged tax position* which includes exemptions on GST, land tax and stamp duty that lowers their operating cost structure
  - *Clear, well-functioning governance* centred on accountable, professional, cross disciplinary boards that drive efficiency, are used to routinely reporting on their performance and risks, and pride themselves on a track record transparently reflected in their organisation's registration status
  - *Not one size fits all*, but rather a diversity of large and small organisations flexibly operating at different scales: some generalist services and others focusing on particular communities, or target groups in local niches.

The ***Social Value of Community Housing in Australia study*** (August 2011) by Net Balance quantified the economic benefits of community housing. It found the benefits extend beyond individual tenants to the broader community. It identified four categories of outcomes:

- **economic benefits:** greater financial flexibility for low income households as a result of the alleviation of housing stress;
- **educational benefits:** enhanced educational performance for children in community housing; educational or training

opportunities for adults, that will improve their employment prospects

- **health benefits:** improved overall health, reduced demand for health services for 'heavy' users and people with a disability
- **community inclusion benefits:** greater empowerment of tenants; emergence of support networks that foster self-reliant and independent communities.

## 2.2 Working with the Commonwealth Government

- The community housing industry has a long and productive history of engagement with affordable housing, as a major participant in the National Rental Affordability Scheme and more recently with the Commonwealth Treasury's Affordable Housing Working Group's focus on the financing affordable housing.
- Our industry welcomes the Australian Government's early commitments to translating the reform agenda into a platform for long term investment and coordinated planning: the \$50 million funding for infrastructure planning; the establishment of an Infrastructure Financing Unit; and the invitation to State and Territory Governments to partner in City Deals.
- The decision to build on the initiatives of the Affordable Housing Working Group is also commended and strongly supported.

## 3.3 Opportunities for structured engagement

- The community housing industry is eager to engage with the Smart Cities consultation process and make a constructive contribution at a number of levels:
  - At the *national level* - further developing the framework for operationalising the *Smart Cities Plan* through engagement with the peaks represented in this submission.
  - At the *state and territory level* - helping to formulate *City Deals* for urban centres, through the peak body operating within the jurisdiction. The community housing industry peak, in liaison with industry experts, would be keen to contribute industry advice and data to the development studies undertaken by governments.
  - State and territory peak bodies would like to canvass jointly hosting with state governments (and their infrastructure agencies) regional fora that enabled our members to meet informally with other proponents and investors to discuss city strategies, options and opportunities for forming project partnerships and co-designing the supply of affordable housing.

- At the *city scale* - through member organisations (Tier 1 and 2 community housing providers) participating in consortia. First as proponents, and then as contracted parties, they can inform project proposals and help articulate responsibilities for the development and ownership of the affordable housing
- In response to urban renewal plans being led by others, community housing providers can look to align their investment plans and services to maximise benefits for communities and residents they already assist.

### *3.4 Need for early engagement to deliver on the promise*

- There is also a strong interest in getting involved at an early stage of planning and project development, to provide a focus on innovative affordable housing opportunities and ultimately help accelerate them to delivery.
- With the goals of providing well integrated community focussed solutions, better managing project risks and containing already lengthy project development timeframes, early initial engagement makes lots of sense.
- Through confidential exploratory discussions with community housing providers, this process could enable consideration of a greater range of potential options, assist with the development of a more robust business cases, and make the most of community housing provider's capacity to leverage finance and potentially contribute their assets.

## 4 The housing challenge with its focus on affordable housing

This section outlines the housing challenge being faced in our cities and the need for embedding an affordable rental housing response.

### 4.1 The housing challenge for our cities

- The Smart Cities Plan recognises the central role housing plays in making our cities. It is a key to more productive and liveable cities that enhance people's lives. Ed Glaeser, author of *The Triumph of the City*, notes that there is no such thing as a successful city without human capital. Housing provides a platform for many of life's benefits, including stable employment, connection to the community and a sense of home. It is a critical part of putting people at the centre.
- Significantly the Plan identifies **affordable housing** as one of its four strategic objectives along with jobs, accessibility, and healthy environments<sup>6</sup>. Investment in infrastructure projects that deliver on affordable housing and the three other broader economic and city objectives are to be prioritised for funding attention.
- Placing the delivery of affordable housing as a central policy plank is a most welcome development. A focus on affordable housing supply will give more concerted attention to working and work-ready households, enabling them to take full advantage of what Smart Cities have to offer.
- Reduced housing affordability along with congestion, poor access to jobs and services, and increasing pollution are challenging the quality of life our cities offer<sup>7</sup>. Secure and affordable housing is fundamental to people's wellbeing.
- As economic activity becomes more concentrated, demand for housing and land in nearby areas rises. In Australia's cities—especially Sydney, Melbourne and Perth—rapid house price growth in inner city areas has made living near work unaffordable for many. To deal with rising prices, Australians have taken on relatively high levels of household debt or moved to outer suburbs, or both<sup>8</sup>.
- The proportion of renters has risen to 35 per cent of Australian households. Analysis of historical data in the Rental Affordability Index published by SGS Economics and Planning, Shelter Australia and Community Sector Banking, reveals a marked deterioration in rental affordability since the early 2000s, especially in NSW and Queensland. More young Australians are being squeezed out of the owner-occupier property market due to high housing costs, and this is driving up demand and prices for rental accommodation<sup>9</sup>.
- As the Smart Cities Plan notes, all governments in Australia, and the private sector, have a role in increasing housing supply in the right locations. The community housing industry can play a critical role in delivering more affordable rental housing.
- Affordable housing well connected to transport and services is a central part of the infrastructure value proposition. It means selecting transport projects on their ability to provide a network wide solution and drive well located jobs and housing, in addition to direct transport benefits such as travel time savings.

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<sup>6</sup> Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan 2016, page 4

<sup>7</sup> Ibid page 2

<sup>8</sup> Ibid page 10

<sup>9</sup> <http://www.smh.com.au/nsw/blacktown-joins-the-list-of-unaffordable-sydney-suburbs-in-which-to-rent-20160615-gpk3me.html>

- For some people affordable rental housing is stepping stone. It assists some work able tenants within the social and affordable housing systems, to enter or return to the workforce, connect with effective support, and transition through the housing continuum to secure tenure in the mainstream system. For others on static relatively low incomes, affordable housing provides a secure housing destination enabling continued economic and social participation in their community.
- Producing affordable housing will require new planning and policy measures and concerted effort for it to be built in the right locations:
  - Increasing housing supply near job opportunities and transport connections
  - Increasing jobs growth closer to where people already live
  - Improving connectivity between housing and job centres.

It will entail more than increasing general housing supply in the market.

#### *4.2 What is affordable housing*

The Smart City Plan makes frequent reference to the term affordable housing, housing affordability and housing stress.

Some confusion comes about in part because affordable housing can mean quite different things depending on a person's income, and how and where they are trying to obtain it.

In a well-functioning private housing market, it often refers to simply more affordably priced housing, be that rental or homeownership, secured through normal market processes by anyone who can pay (usually middle income earners) and meet other contract terms. It is affordable by virtue of it being cheaper than other similar market housing that is available, e.g. \$500,000 apartment is more affordable than a nearby unit for \$600,000 or \$400 per week rental is more affordable than a similar sized unit for \$500 per week rental in the same vicinity.

However, affordable housing can also refer to a specific type of rental housing, where the rents are set at below market rents, by the landlord's rental policy and is provided to eligible low and moderate income earners exclusively, e.g. \$400 per week rental offered at a discount of \$300 per week to a low income working household.

A common shared definition is important for Smart Cities, not just to avoid confusion but also for identifying those residents to be assisted. It is also critically important for the parties undertaking the housing financing, management and reporting.

It is therefore proposed that the Smart Cities Plan and City Deals adopt definitions of affordability and affordable housing that are used by the Commonwealth Treasury, Affordable Housing Working Group: Issues Paper (January 2016).

*Households in all of these categories may experience rental or mortgage stress, generally defined as spending more than 30 per cent of their income on housing costs.<sup>10</sup>*

*Affordable housing is that which reduces or eliminates housing stress for low-income and disadvantaged families and individuals in order to assist them with meeting other essential*

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<sup>10</sup>Commonwealth Treasury, Affordable Housing Working Group: Issues Paper, January 2016. page 2

*basic needs on a sustainable basis, whilst balancing the need for housing to be of a minimum appropriate standard and accessible to employment and services.*<sup>11</sup>

This submission focuses on the private renters in the bottom two income quintiles (40 per cent of the population with the lowest incomes) as the group of households most likely to be adversely affected by market failure and/or as a by-product of an urban transformation agenda. It also includes a focus on housing key workers facing housing stress despite them earning a moderate income. These lower-paid workers make up a critical component of a productive workforce that boosts a city's economy and the growth capacity of its service industries.<sup>12</sup>

Affordable rental housing under this definition will offer eligible tenants an affordable rent. This will be set at price points below market rents to relieve housing stress - either in the form of a discount to market rents (e.g. 75% of a property's market rent), or rents geared to a proportion of the household's income (e.g. 25% of household gross income).

Housing that is affordable to purchase by first home buyers is largely outside the scope of this submission. However, community housing industry is well placed to offer shared equity housing as an entry point to home ownership. Generally, this will involve the resident/tenant and the housing provider each owning some form of equity in the housing.

Essentially affordable rental housing makes renting for people with reduced means more accessible in terms of price and location.

#### *4.3 Benefits of Increasing Affordable Housing*

Our major cities are now home for more than three quarters of our population and almost 80 percent of our economic activity, making their performance critical to national prosperity. While the benefits for co-location of economic activity are when known for businesses, this is also true for work-ready households and job seekers as well as those outside the workforce.

Affordable housing can play an important role in providing a sustainable environment for investment, collaboration and growth for the 24-hour city. More jobs today entail flexible working hours and shift work. Affordable housing is a complement and not a replacement for social housing that now targets those most in need.

Well targeted affordable housing can provide businesses with an effective pool of potential employees for key worker positions and other critical support jobs - enabling teachers, police, child care workers, hospital ancillary staff, retail sales personnel, cleaners and hospitality workers etc. to live and work in relative close proximity to our growing service industries.

Well managed affordable housing supply can be a powerful instrument for increasing citizens' wellbeing and sharing a city's wealth, helping renters participate economically in new job opportunities while at the same time reducing the negative outcomes associated with housing instability, social exclusion and poverty.

Big gains can be made by improving the productivity of the low and moderate income working population through increased workforce participation and giving children the chance to be consistently engaged in their education by offering stable housing. Businesses can attract and retain the key workers and lower paid workers they need to grow. Helping people to move from welfare delivers substantial returns to the Commonwealth Government and the Australian taxpayer.

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<sup>11</sup> Ibid page 3

<sup>12</sup> <https://theconversation.com/high-housing-costs-create-worries-for-city-tourism-and-hospitality-57347>



### **Nexus Bowden, SA: Key Worker Housing**

This \$13.1 million development will provide affordable accommodation close to the city for key workers who work in essential services. The South Australian Government through Renewal SA has facilitated this project to provide housing for key workers - such as emergency services personnel, teachers and nurses - on moderate incomes who meet affordable housing criteria set by the Government.

The Nexus apartments consists of 42 apartments at Bowden with 26 long-term accommodation units owned by Unity Housing,

and 16 units being sold to market through development partner, Build Tec.

The Nexus meets the Green Building Council of Australia's 5 Star Green Star design requirements through ample natural light, large overhangs and airflow centred around an open air communal space.

The housing project will give priority access for people with a connection to the local community either through living in the area or working in the surrounding districts.

Gains can also occur by reducing social and economic costs of spatially excluding those currently outside the workforce from the emerging opportunities and the benefits of stronger cities arising from the impact of unaffordable, escalating rents. Stable affordable rental housing as an early intervention measure can help to reduce avoidable societal imposts and costs of leaving parts of our community behind, expressed through: truancy; crime; poor health; drug and alcohol abuse; isolation; family breakdown; poverty; and homelessness.

Our cities need smarter investment to distribute the costs and benefits of publicly funded infrastructure to attract the talent with skills, experience and enterprise and assist those less well-off whose lives are being impacted by the urban transformation.

#### **4.4 More housing supply is not enough**

- Nationally, four in five private rental households in the lowest 20% of incomes are in unaffordable housing situations (paying more than 30% of income in rent). Additionally, more than 30% of the second lowest quintile is also experiencing housing stress<sup>13</sup>. 'In Australia's cities especially Sydney, Melbourne and Perth - rapid house price growth has made living near work unaffordable for many'<sup>14</sup>. This is especially true for the lower paid, requiring many renters to move to outer suburbs and commute. Many single parents find that the cost and strictures of child care on top of long travel times effectively keep them from entering the workforce.
- Australia has a shortfall of housing supply, estimated by the most recent reputable assessment as over 500,000 rental dwellings which are both affordable and available to the lowest income households<sup>15</sup>.
- Where demand for housing exceeds supply, this would lead to an increase in the supply of housing stock by the private market. Increasing general rent supply is therefore an important part of the answer but by itself not a sufficient response.

<sup>13</sup> Kath Hulse, Margaret Reynolds and Judith Yates (2014): Changes in the supply of affordable housing in the private rental sector for lower income households, 2006- 2011, AHURI

<sup>14</sup> Smart Cities Plan, page 10

<sup>15</sup> National Housing Supply Council (2012): State of Supply Report 2012. The actual figure is 539,000. The figure of 539,000 is arrived at as follows: In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households - a shortfall of 539,000.

- New housing supply usually comes at a higher cost for a significant segment of private market renters (especially those in the lowest income quintile) who have little discretionary disposable income to pay higher rents.
- The Commonwealth Treasury *Affordable Housing Working Group Issues Paper* cited two key reasons why the supply of affordable housing has not grown at an adequate pace:
  1. restrictive planning, zoning and land release policies that have the effect of limiting the available supply for new housing. *However Treasury has concluded that recent significant increases in dwelling approvals, commencements and completions has done little to increase the supply of affordable rental housing, as the majority of construction has been at the less affordable end of the market*<sup>16</sup>.

Based on UK market data, key housing economists, Professor Glen Bramley, and Professor Geoffrey Meen undertook separate statistical modelling of (rental) housing supply and demand. The modelling showed that a rebalancing of the market that lowers rents substantially is going to be a very long term exercise, due to the sheer size of the market. The inevitable property cycle downturns are likely to make this even more challenging<sup>17</sup>.

2. the risk return profile of affordable housing. *Tenants accessing affordable housing generally have lower levels of income, or potentially fixed or relatively static levels of income. This reduces the ability of property owners to increase the income streams they can generate from raising rents, increasing the risk borne by the property owner. The low income of affordable housing tenants can also reduce the attractiveness of the yield that can be generated from affordable housing assets, especially in periods of low capital growth.*<sup>18 19</sup>
- Long run loss making rental housing cannot be expected to be supplied by the market. With upper limits on individual rental subsidies (Commonwealth Rent Assistance) there is a growing number of people in housing related financial stress after paying for their rent. This lack of a return (the yield and subsidy gap) poses a lower yet real barrier for not-for-profit community housing providers. It is none the less essential that community housing providers can cover their long run costs and why some form of recurrent or capital subsidies (like inclusionary zoning or rental subsidies, cost effective private finance, or nominations of these) are still critical to operating on the thinner business margins.

#### 4.5 Why is affordable rental housing needed not just more supply?

##### *Private renters are most at risk of being detrimentally impacted*

- While these reforms aim to bring benefits to all Australians, special attention needs to be given in the impact of Smart Cities Plan and *City Deals* on low and moderate income private renters. Rental unaffordability is dividing Australia, according to the Executive Officer of National Shelter, Adrian Pisarski based on the analysis of rental data.

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<sup>16</sup> Affordable Housing Working Group Issues Paper, page 4

<sup>17</sup> Professor Bramley's sub-regional housing market model showed that, in the case of Greater Bristol (in the SW of England), an increase in planned supply ('provision') of 18,900 (22.2%) leads to a change in 'affordability' (% of under-40 households able to afford to buy) from 28.0% to 29.3%, that is a change of 1.3% points or a proportional change of 4.6%. Supply needed to increase very substantially over a long period of time to have a moderate impact on affordability (ISPHERE Presentation, at Sydney University, 22 March 2016). Meen, G. (2011) A long-run model of housing affordability. *Housing Studies*, 26 (7-8). pp. 1081-1103 also demonstrated similar conclusions.

<sup>18</sup> Affordable Housing Working Group Issues Paper, page 4

<sup>19</sup> Several research studies and reports have demonstrated the operating deficit associated with public housing.

- This challenges the aspiration of making more liveable cities for all comers. The latest report on Australia's Rental Affordability Index (RAI) highlights many rental households are falling into poverty and are being pushed to suburban fringes due to high rents.
- Low and many moderate income private renters in existing communities undergoing redevelopment will:
  - frequently be living in older houses and apartments built originally at lower densities and now targeted for redevelopment
  - unlike existing property owners will not financially benefit from the value uplift of the proposed urban renewal
  - often comprise one parent families with dependent children (around half of this group are renters), significant proportions Indigenous Australians, and vulnerable older people primarily women living on their own.<sup>20</sup> Many will no longer be able to afford the new apartments, reflecting the higher rents charged for the improved amenities and their greater transport connectivity
  - unlike the renters on higher incomes, it is more likely that they will be dislocated and displaced to the fringe, further concentrating disadvantage and transferring social and economic costs to those communities. Displaced households may well be further from their jobs, experience longer travel times and more tenuous child care arrangements.
- "Low and moderate income households are being forced out of inner-city areas into fringe suburbs where there are fewer jobs, less infrastructure such as transport, and fewer opportunities, which is only entrenching their disadvantage. Essential service workers teachers, nurses and police are also being affected, potentially leaving service gaps in the like suburbs they're being priced out of."<sup>21</sup>
- While all governments in Australia, and the private sector have a role in increasing housing supply in the right locations, they also have a responsibility for ensuring the supply of affordable housing is an essential component of new housing to avoid creating costly, economically divided communities in other locations.

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<sup>20</sup> Australian Institute of Health and Welfare, Australia's Welfare 2015. Australia's welfare series no. 12. Cat. no. AUS 189. Canberra: AIHW. Bricks and Mortar, Changing trends in homeownership.

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[http://www.sgsep.com.au/application/files/8714/6597/3111/RAI\\_Media\\_Release\\_Australians\\_Falling\\_Into\\_Poverty\\_As\\_Rents\\_Chew\\_Up\\_Incomes\\_FINAL.pdf](http://www.sgsep.com.au/application/files/8714/6597/3111/RAI_Media_Release_Australians_Falling_Into_Poverty_As_Rents_Chew_Up_Incomes_FINAL.pdf)

## 5 How to best to deliver affordable housing under the Smart City agenda

This section examines the opportunities and challenges of supplying affordable housing within the Smart Cities agenda, options for connecting with City Deals and participating in value capture. It also highlights other mechanisms and measures that will help facilitate better outcomes.

### 5.1 Engaging with the big opportunities and challenges

Potentially there are many benefits arising from a planned strategic engagement with the development of our cities that incorporates new affordable rental housing supply.

These benefits include transitioning to more liveable cities where all people can enjoy a better quality of life. This might be experienced as:

- material improvements to people's lives like shorter commuting times
- renewed economic dynamism with more jobs of the future
- environmentally sustainable places to live and make home
- urban renewal, innovation and culturally enriched communities
- collaboration by all levels of government, business and community organisations together with resident participation giving rise to more socially and economically inclusive communities.

This submission argues that housing that residents can afford is an essential platform from which a city's residents can then participate in this vision. Not-for-profit community housing providers can make an important contribution to the Smart Cities vision as investors, developers and managers of new affordable rental housing.

However, delivering this promise to all a city's residents brings this aspirational vision into sharp focus and helps ground it in reality. It begs the question how to design and fund this transformation so that all can share in it, in our mixed market driven economy?

There are many successful examples around the world that we can draw upon in the USA and UK. Major global cities like London, New York, Hong Kong as well as regional cities like San Francisco, Seattle and Manchester have responded to this challenge with graduated responses of affordable housing provision.

This section seeks to highlight some suggestions on how a framework for the Smart Cities Plan can be enhanced to more fully realise these benefits.

Key elements include options for incorporating affordable rental housing into City Deals through:

- Commonwealth incentives to drive performance
- targeting affordable rental housing to people who need it
- introducing measurable outcomes and smart targets
- leveraging new policy, planning investment synergies and regulatory reform
- national institutional infrastructure
- value capture for funding affordable housing
- fostering transparent governance.

### 5.2 City Deals

- Under the Smart Cities Plan, City Deals offer a key mechanism to develop collective strategic plans for growth and commit to actions, investments, reforms and governance needed to implement them in our urban centres. City Deals can be effectively tailored to the local and national objectives, with the focus on economic growth, jobs creation, housing affordability and environmental outcomes.

- Different Australian cities have very different DNAs. City Deals need to respond to these differences, however some common principles and outcomes need to provide an umbrella to ensure fairness and equity is a common platform for the national Smart Cities Plan.
- The development of assessment criteria for City Deals will help to ensure core priorities and principles stay in focus. From a housing outcome perspective, they could usefully include the extent a proposal addresses housing affordability and poor housing conditions.
- The type and size of a city will always be important. The Smart Cities Plan aim to encompass a broad spectrum of Australian conurbations: with cities of all sizes - from global financial cities like Sydney and Melbourne, State and Territory capitals to smaller regional centres.
- This contrasts the approach of UK City deals which started with the largest and most economically important English cities and city regions outside of London (known as wave 1). Subsequent waves or rounds extended this approach to the next largest cities and cities with high growth. The Smart Cities Plan covers a more diverse group of urban centres at its outset - some of which are growing rapidly while others will have static or declining populations.
- There is, however, opportunity in change. Undoubtedly establishing some different categories within Smart Cities Plan with corresponding outcomes and metrics would be helpful. This would recognise that one size can't fit all situations or respond to their diverse trajectories. Each housing strategy should provide a nuanced response to: changing demand; inadequate housing conditions; and unmet need for affordable housing supply.
- It is through City Deals that affordable housing new supply will be leveraged. Accordingly, the leading registered community housing providers are eager to join with governments, business and communities to participate in their formulation.
- Analysis of the UK City Deals experience revealed a number of strengths of the approach that are instructive despite their different context<sup>22</sup>:
  - City Deals had been successful in bringing people to the table and creating closer working relationships incentivised by large scale and long term capital grant transfers from the central government to city-regional institutions
  - Deals empowered local actors to identify and make the case for bespoke and tailored approaches to their local needs using local knowledge in the process
  - Deals encouraged and promoted innovation amongst local actors that through a competitive appraisal process identified the best opportunity for delivering net economic growth
  - Deals provided a device for the centre to enable local governance reform.
- In the Manchester City Deal, for example, an additional £41.3 millions of National Affordable Housing Program was generated for Greater Manchester as a direct result of the Local investment Plan resulting in 981 additional new homes.<sup>23</sup>
- Greater Manchester authorities, Homes and Communities Agency and Registered Providers worked together, monitoring take-up and ensured that an additional reserve of deliverable, high priority schemes continued to be available.

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<sup>22</sup> Peter O'Brien and Andy Pike, National Institute of Economic Review No.233, August 2015, City Deals, Decentralisation and the Governance of Local infrastructure Funding and Financing in the UK, page R19-R20.

<sup>23</sup> Ibid R 21

- A deal making approach can also have its own pitfalls and risks that need to be managed.
- A city deal should be about more than delivering what is already planned - providing something additional that builds on existing commitments. Establishing a baseline of what already exists and prior commitments will provide a shared picture for proponents and communities alike and help underpin a more transparent results based accountability.
- The UK Smart Cities program that has run since 2011. While conscious of the different context, early analysis of the agreed 28 City Deals offers some helpful and instructive lessons for deal making and governance:
  - clarity around the local capacity cities have at their disposal is important
  - governance that helps overcome opaqueness in decision making is needed to bolster accountability, efficacy and transparency
  - resolving uneven power relationships and the need for working collaboratively and in an at times competitive process need to be considered, and
  - the inherent ad hoc nature of City Deals requires strengthened evaluation techniques to help prioritise infrastructure projects, capture learnings and transfer them between Deals.
- Appendix 1 highlights some of the key risks and suggests some mitigating policy and governance options associated with implementing Australian City Deals.

### *5.3 Commonwealth Incentives to drive performance*

- Infrastructure Australia has suggested the use of Commonwealth funding incentives tied to a reform agenda as one way of embedding affordable housing in developments.<sup>24</sup>
- Commonwealth incentives paid to states, territories and local councils can provide a catalyst for embedding affordable rental housing as an integral part of a City Deal. The judicious use of incentives can drive change by making the attainment of performance targets a condition and trigger for their payment. In this way financial incentives can ensure that City Deals which set long term housing supply targets for the provision of a diverse and seamless mix of market, affordable and social housing are carried through on.
- While no single project is likely to solve a city's affordability problems by itself, a City Deal should not make things worse - but rather work to ensure there is no net displacement of lower income renting households and leave a net improvement to affordable housing supply as its lasting legacy.

### *5.4 Targeting affordable rental housing to those who need it*

- The idea of planning for cities where residents can access employment, schools, shopping, services and recreational facilities within 30 minutes of home is likely to be unattainable for those with incomes in the bottom quintiles without some form of targeted and concerted intervention.
- There is typically displacement of renters on static low and moderate incomes as the redevelopment process replaces existing older housing. This causes the less well-off to manage a longer commute, change jobs or move back home if this is an option.

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<sup>24</sup> As noted in the Infrastructure Australia's, Australian Infrastructure Plan, Priorities and reforms for our nation's future report, February 2016, Recommendation 2.1



- In the name of progress, those with the least voice or economic power can be unintentionally pushed to the side in a rush to achieve the larger transformational agenda.
- A transparent access strategy will be needed to ensure that the affordable housing that is created benefits those it was intended for. When rents are below market fairly conferring an affordable rent will undoubtedly require some eligibility and assessment criteria without being too heavy handed.
- Community housing providers can make a positive contribution to solving these access issues. Potentially this could occur through their judicious engagement as a strategic stakeholder working with local and state governments around setting household eligibility and assessment criteria based on their deep experience as administrators and managers of existing affordable rental housing.

### *5.5 Introducing measurable outcomes and smart supply targets*

- City Deals with a focus on infrastructure investment reflect a major shift in accepted transport assessment methodologies. The growth benefits associated with infrastructure now become the central focus for the value for money assessment.
- With prioritisation of infrastructure investment being made on the basis of the capacity of that infrastructure to deliver benefits such productivity improvements, jobs growth and affordable housing supply, new assessment tools will be needed.
- The stated intention to measure the success of the Smart Cities Plan and City Deals is commended. A rigorous commitment to greater accountability for spending and measuring progress will constructively focus all proponents. Participating community housing providers along with other proponents should be expected to play their part in an effective accountability framework.
- Elements of this accountability framework should include:

#### *A baseline: 'a picture of where we started from'*

- A key step will be establishing a baseline of key city metrics and related data to assess project performance. These metrics should be developed carefully through structured stakeholder consultations to ensure they don't duplicate existing data collections.
- A baseline for each city will be critical to the design of target policies, reforms and capital investments to keep faith with their communities. Baselines, for example, will help to clarify whether new affordable housing is merely replacing existing dwellings or is achieving an overall net increase in the supply.

#### *Setting measurable targets for deliverables*

- Setting unambiguous targets for all the key deliverables, accountabilities and timeframes will be critical to determining if we are achieving the desired impact. Setting targets for new housing including dedicated affordable rental housing supply will be an important part of this story.

#### *Person centred outcomes*

- The goal of a 'people centred' approach will require this fine intention to be translated into measurable outcomes for diverse city users: commuters; tenants; homeowners; residents; and service users; employees; and employers.
- Person centred outcome measures will also be important for assessing whether people's lives have been improved by the changes and genuine productivity gains have been achieved. These metrics should be designed to show the penetration of reforms throughout the community. Importantly the measures should show the distributional affects across different income deciles.

### *Smart targets for affordable housing (and other outcomes areas)*

- To support more effective tendering, it is proposed that further work be undertaken to produce *smart targets* for proponents to deliver. A smart target would be formulated to identify and respond to the provisioning gap and capacity limits. It would take into a range of pertinent supply and demand side factors and be set relative to the existing baseline.
- For example, a ‘smart target’ for affordable rental housing (as well as social housing and market rental housing) might take into account:
  - assumptions and principles about rent the tenant can afford to pay
  - relevant subsidy and return gaps for assisting each of the bottom four income deciles in the rental housing market (This would also provide a measure of the discount to market rent required and the extent market supply can address this need)
  - the incremental number of existing renters in housing stress who are affected by the City Deal renewal projects
  - the current supply of social housing
  - the negative impacts of living in alternative housing ‘catchments’
  - the potential amount of new housing supply yield that will be possible
  - the amount of government infrastructure investment applied in the City Deal
  - the value of the any rezoning uplift associated with the City Deal to property owners
  - the minimum number of affordable housing years to be provided
  - the scheduling of when the new housing will be available for letting.
- Tender proposals for major renewal and rezoning projects would then be assessed against these smart targets to demonstrate the degree to which they delivered on the vision of ‘liveable and productive city for all’.

#### **A Social Value Bank for Australia**

The Housing Alliance (Homes North, Housing Plus and North Coast Community Housing) and the NSW Federation of Housing Associations are working together to bring to Australia a version of the UK Social Value Bank. They are working with [Daniel Fujiwara](#)\*, SIMETRICA, and the Housing Associations Charitable Trust (HACT) in the UK to create a bank of methodologically consistent and robust social values for Australia. The “bank” provides access to financial proxies for a wide

range of well-being values which can be used to conduct a basic assessment of social impact, provide evidence of value for money, and/or compare the impact of different programs. The values can also be used within a full SROI or Cost-Benefit Analysis.

### **5.6 Leveraging new policy reform, planning and investment synergies**

- City Deals can be used to incentivise coalitions of government and non-government actors to develop strategies under the Smart Cities Plan that leverage other major program reforms and business developments occurring nationally, within states and territories and more locally within particular cities.
- The Prime Minister highlights this opportunity in the Forward of *The Smart Cities Plan*, “The global lesson is that cities collaborate to compete. Success requires all tiers of government, the private sector and community to work together towards shared goals.”<sup>25</sup>

<sup>25</sup> Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan 2016, page 5.

- Exploration of these synergies can lead to credible propositions that better connect cities and their citizens to the Commonwealth Government's wider policy agenda. The same process can also enable local communities and businesses to tailor responses to local circumstances in creative and more productive ways.
- The Commonwealth's ground breaking reforms in Age Care; the National Disability Insurance Scheme; Clean Energy; and Welfare to Work are four immediate examples. Unambiguously most of the consumers of these large reform programs will reside in our cities.
- Another important synergy is around the efforts to create a mechanism for institutional investors to become involved in financing affordable rental housing. Proposals for exploring collaboration with the Commonwealth Treasury's *Affordable Housing Working Group* are strongly supported.
- This work can usefully investigate financing that minimises the impact on the Budget and synergies between their two agendas. Potentially the Working Group can help to unlock large scale private institutional finance for affordable housing, with the debt carried by community housing providers and other partners.

#### **Affordable Housing Financial Intermediary Project**

The NSW Federation of Housing Associations with funding support from the NSW State Government is undertaking a project to improve access of the Australian community housing industry to wholesale institutional finance. Access to institutional financial markets will:

- provide the industry with diversified financing options,
- develop institutional recognition of the underlying credit quality of the industry, and
- provide a better capacity to match financing tenor to asset life, reducing refinancing risk.

These developments will improve the availability and efficiency of financing to the affordable housing rental industry. The project proposes to develop a business case for the establishment of such a vehicle covering the legal structure; governance and regulatory requirements. It will involve considerable investor and government engagement.

The proposed organisation will aim to complement Commonwealth and State Government efforts to establish long term consistent policy settings, and predictable project pipelines and so help to create confidence and liquidity in the paper/debt security being issued.

#### *smarter regulation and legislation*

- There are also regulatory synergies that can lessen the cost burden of doing business while better protecting consumers, potentially involving both state and federal laws.
- There is significant scope to investigate improving government regulation across key areas of the Cities agenda to make it easier to undertake strategic planning, invest and do business. Some of the key areas that have particular relevance to affordable housing provision (and therefore community housing providers) include:
  - Establishing affordable housing as an asset class in government tax legislation and regulation. This would, along with other measures, enhance the development of innovative and more attractive mechanisms for financing affordable housing and leveraging potentially billions of dollars of off budget investment.

- legislating reforms to planning mechanisms to incorporate mandatory provisions for affordable housing, helping to locate new housing developments close to public transport networks, enabling the creation of well-connected and safe residential precincts that allow residents to work, shop and access services closer to where they live
- There are opportunities to review state and territory based tenancy and tenure rules and regulations to modernise laws and give renters better access to affordable housing as well as greater certainty and security around their living arrangements.
- Reviewing regulations and reducing red tape impacting on the competitiveness and operation of community housing providers.
- In relation to this last issue, the current state of play in relation to the National Regulation System for Community Housing (NRSCH) is sub-optimal. Although the NRSCH, a multi-state system with mirrored legislation in all states except Victoria and Western Australia, does allow for national community housing providers operating in multiple jurisdictions, the practices of state policy and funding agencies are not similarly uniform. The practical issues arising from some states not being in the system and the lack of uniformity in the approaches of state funding and policy, underpin barriers of entry, increase costs and heighten risks for community housing providers and their lenders.
- Some of these proposals touch upon quite sensitive issues of state and territory sovereignty. One option to help overcome this would be for Commonwealth City Deals incentive payments to be strategically linked to an opt-in menu of reform settings and choices. This could maintain state and territory discretion and decision-making while providing a potent catalyst for jurisdictions to revisit and modernise previous policy positions based on their merits.

### *5.8 New national institutional infrastructure*

- New requirements for affordable housing rental supply will generate multiple, simultaneous delivery demands across the country as they will form integral parts of City Deals. To avoid wasteful duplication, higher finance costs and project delays, a concerted national approach should be adopted. All would benefit from greater consistency, lower transaction costs, business rigour and accountability.
- A national co-investment and delivery strategy has the potential to radically expedite the delivery of affordable rental housing as essential social infrastructure within City Deals. It would give private sector partners and investors greater confidence in the underlying arrangements and strengthen their ability to manage risks.
- While led by the Commonwealth Government, the national approach would be co-designed with the community housing industry and State Governments. Potentially Commonwealth incentive payments and direct investment could provide the catalyst for their establishment and facilitate their widespread adoption.
- Four complementary elements of the strategy should include:
  - the establishment of a National Affordable Housing Finance Corporation to enable the community housing industry to access wholesale institutional finance for affordable housing projects
  - the establishment of a National Affordable Housing Securities and Investment Bureau for marshalling, layering and distributing Commonwealth funding and loans,

incentive payments, Commonwealth land contributions and loan guarantees for affordable rental housing supply. The Bureau could also record and track matching jurisdictional City Deal contributions and advise on the release of incentive payments.

- the broader penetration of the National Regulatory System for Community Housing to all jurisdictions
- the establishment of a National Housing Supply Office to assist in the rigorous merit based assessment of affordable housing proposals against broader supply and demand indicators.

### 5.7 New business opportunities

Potentially community housing providers can make use of their unique position as an investor/owner/developer/builder/manager and perform new problem solving-solution seeking roles for the Smart Cities agenda. Some interesting new business opportunities for participating community housing providers and their partners are highlighted below:

- **using government land - within the orbit of a City Deal that is close to new transport infrastructure and is slated for redevelopment - to provide with a mixture of new social housing, affordable housing and private housing.** In many urban locations State Housing Authorities and community housing providers will already be significant land holders and landlords. Some City Deals will no doubt include public housing estates with dwellings at the end of their useful life.
- Potentially elements could include:
  - Master planning and community consultation building on a robust needs assessment and other evidence
  - High quality designs aligned with delivering attractive but compact urban forms
  - Partnering with support and employment providers to promote workforce participation and stable tenancies
  - Options for reducing high concentrations of social and economic disadvantage
  - Competitive tendering to encourage consortia to package land, housing, finance and community housing expertise. Potentially this approach could build on the experience of a range of programs including: *Communities Plus* (a program of renewal and new supply administered by the NSW Land and Housing Corporation); the NSW Social and Affordable Housing Fund; and Renewing Our Streets and Suburbs by Renewal SA.<sup>26</sup>
  - Independent cost benefit analysis that incorporates and values consumer outcomes.
- **rethinking and testing new quality housing design and integrated digital solutions for living in the smart city of the future**, within affordable housing demonstration projects that aim to support a wide diversity of residents. Potentially design elements could:
  - offer smart online registration for affordable home lettings
  - accommodate the (future) use of shared, driverless electric vehicles
  - provide high rise apartment living built to universal design standards complete with sprinkler services, dual lifts, communal stairs and smart sensor technology
  - enable mixed tenure arrangements through shared equity offerings to first home buyers
  - offer direct access to pedestrian friendly urban green space

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<sup>26</sup> Renewing Our Streets and Suburbs is renewing housing to offer more choice, improved housing and better connected communities in South Australia.

- Renewal of 4500 Housing Trust homes within 10km of the city by 2020
- 200 homes to have kitchen and bathroom upgrades
- Delivery Of 1000 Housing Trust Homes in 1000 days
- Transferring property management of 5000 Housing Trust homes to Community Housing

- integrate clean and renewable energy, passive solar design for climate control and improved thermal comfort - all designed to save vulnerable lives and protect living standards as well as the environment
- deliver super-fast internet service the home work space and provision for the 'internet of things' and real time devices.

- **protecting land corridors for transport infrastructure at a lower cost to State and Commonwealth governments**, particularly when compulsorily acquiring property later will be challenging for communities. The aim would be to lower infrastructure project costs by helping to secure existing housing sites in land corridors well ahead of major infrastructure construction. Community housing providers operating as consortia members would potentially:

- contribute to site purchase using off-budget private finance and share in value capture (land prices can however rise well in anticipation of investment and planning change);
- manage residential buildings prior to redevelopment;
- under contract, grant priority access and use of the site to the infrastructure partner for the construction and operational phases; and then
- on completion, receive some of any new residential apartments for sale, as an affordable housing dividend in transit- oriented developments along transport corridors.

**Common Equity NSW (CENSW) - Narara Eco Village – An innovative approach to expanding shared equity ownership housing in a co-operative model**

The Narara Eco Village (CENSW) offers a full equity housing co-operative which is seeking the opportunity to include a rental housing co-operative within its boundaries in its second stage of development. While not formally recognised as co-operatives, the expanding 'co-housing' trend highlights a growing

demand in the housing market for co-operation in housing design and pooled purchase power to reduce housing purchase costs and deliver a tailored outcome for residents. Research is showing that the model may attract interest from older people who want an alternative to traditional retirement villages.

### **5.8 Value capture for funding affordable rental housing**

- Value uplift of property will normally occur as a benefit of publicly funded infrastructure bringing better connections to employment and services, shorter travel times and new opportunities for investment in development and urban renewal.
- New infrastructure projects tend to make the land around them more valuable. Public investment in a new rail line or motorway can generate huge increases in surrounding land values. In part the increase derives from improved accessibility for existing residents and businesses. Value is added again when land is rezoned, and then when development is approved by government for increasing height and density. In cities where many people struggle a travelling up to 90 minutes on average to get to work housing offering a 30-minute commute will realise higher rents from people who can afford to pay.



- 'Most world class cities have invested in fast, efficient public transport systems to provide viable alternatives to passenger vehicles.'<sup>27</sup> In UK, the City Deals with a strong transport infrastructure component secured the largest additional public investments.<sup>28</sup> These developments often offered opportunities for land use rezoning and produced high densities and potential for value capture.<sup>29</sup>
- Value capture secures some of the benefits delivered by public investment to offset the costs of infrastructure provision, including socially beneficial infrastructure like schools and affordable housing.
- Infrastructure Australia recently alluded to this opportunity in its Australian Infrastructure Plan 2016. 'Increasing the delivery of high-quality, medium to high-density development in established urban areas and close to transport infrastructure will provide Australia's four largest cities with a viable path towards more compact, affordable and environmentally-sustainable urban environments.'
- Value capture mechanisms seek to claw back some of the increased business revenue or land value. These funds are then allocated towards the initial costs of infrastructure provision. In the case of planning change, land value uplift can also help ensure that affordable housing for low and moderate income groups is included in new developments.
- In Hong Kong, a significant program of public rental and subsidised homeownership has been delivered as part of this model.<sup>30</sup>

#### *Mandatory affordable rental housing contributions*

- It is private renters on relatively static, low incomes that are most challenged by the changes and are those least likely to participate in the benefits flowing from new investment.
- One consequence of infrastructure investment is that new market based housing rents rise to reflect the improved amenity and the supply of existing affordable rental housing diminishes. A price premium for locations now enjoying improved access to transport and new housing makes staying in their existing community untenable for many renters. A clear connection exists when lower income renters become priced out of their old neighbourhood.
- Because of this nexus, it is recommended that changes which encourage higher density development also activate some form of value capture or betterment gain to fund the provision of affordable housing.
- Potentially this would see some of the proceeds of a value capture agreement being made available to fund new affordable housing supply. Particular priority would be given to those situations where existing rental housing was replaced or the number of residential dwellings was substantially increased.
- A commitment to provide affordable rental housing, as part of a larger general supply strategy, is required, so that the whole of a community shares in the positive impacts of transformational infrastructure along with business owners and taxpayers.
- It is important that smart targets for affordable housing supply form part of the core package of the value capture arrangements.

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<sup>27</sup> Smart Cities Plan, page 12

<sup>28</sup> Peter O'Brien and Andy Pike, National Institute of Economic Review No.233, August 2015, City Deals, Decentralisation and the governance of Local infrastructure Funding and Financing in the UK, page R21

<sup>29</sup> Nicole Gurrán, Stewart Lawler, The Conversation June 22, 2016, What is value capture and what does it mean for cities, <https://theconversation.com/explainer-what-is-value-capture-and-what-does-it-mean>

<sup>30</sup> <https://theconversation.com/explainer-what-is-value-capture-and-what-does-it-mean-for-cities-58776>

- Notably affordable housing supply was a key component of the Greater Manchester City Deal at its outset. 'Building on this good practice and the precedent set by Government in allocating resource from the Growing Places Fund to the Combined Authority and LEP, Government and Greater Manchester should establish a Housing Investment Board, which would set up an investment fund, utilising national investment streams and locally generated resources to develop new housing, both for market sale and affordable access, initially on land in public ownership. It would also identify opportunities to bring additional empty homes back into use.'<sup>31</sup>
- Because of the competing uses for value capture, leaving considerations of affordable housing funding to the end, can see affordable supply commitments progressively traded off or excluded from the process.
- The proposal to consider value capture early on in the design of planning schemes and incorporated into business cases is strongly supported. This will help to ensure that value capture is embedded in a City Deal's infrastructure investment plans.
- The application of value capture in the Australian context will, however, need to address three issues:
  - Often land prices rise well in anticipation of investment or planning change, so a robust framework for value capture should be in place before such speculation occurs.
  - Value capture should not discourage development. This will require paying close attention to project viability when setting capture requirements
  - Robust mechanisms for collection are needed either through the planning process, as an ongoing property tax, or when land is sold.<sup>32</sup>
- However, where some other form of value capture predates a proposal, such as mandatory inclusion zoning scheme for affordable housing supply, value capture expectations would need to be adjusted to take this into account.

## 5.9 Governance

- Governance structures for City Deals are critical to their success.
- 'The governance structures employed to implement a deal are just as important as the mechanical details of the deal itself. It is important to establish a suitable structure for the specified geography, to ensure that all stakeholders are held accountable to responsibilities and that benefits from the deal are realised and shared across the combined region'.<sup>33</sup>
- Commonwealth leadership in this complex arena is especially welcome. The cross portfolio nature of City Deals risks fragmentation. A whole-of-government approach will be important to draw the many threads together, with leadership and direction from the Prime Minister. A program of City Deals may require a Cabinet Sub-committee to ensure the range of interests are harmonised and the overall program objectives are maintained.

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<sup>31</sup> Greater Manchester Combined Authority (GMCA), *Greater Manchester City Deal*, Greater Manchester Combined Authority, Manchester, 2012, viewed 28 March 2016, <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221014/Greater-Manchester-City-Deal-national\\_0.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221014/Greater-Manchester-City-Deal-national_0.pdf)>, page 21.

<sup>32</sup> Nicole Gurrin, Stewart Lawler, *The Conversation* June 22, 2016, What is value capture and what does it mean for cities, <https://theconversation.com/explainer-what-is-value-capture-and-what-does-it-mean-for-cities-58776>

<sup>33</sup> [http://atrf.info/papers/2015/files/ATRF2015\\_Resubmission\\_117.pdf](http://atrf.info/papers/2015/files/ATRF2015_Resubmission_117.pdf)

- The problems cities face are often inter-related and that all levels of government need to work productively together, and with other sectors: departmental silos within government can get in the way of strategic planning; and scarce public resources need to be invested wisely.<sup>34</sup>
- The private sector, both commercial businesses and not-for-profits, can also leverage their strengths and bring to the governance table the right mix of dynamism, responsiveness and adaptability that will be critical for success.
- Unfortunately, the process of deal making can leave vulnerable people voiceless and under-represented. The early participation of registered community housing providers in the deal making can help to redress this risk and avoid affordable housing's costs and benefits being trade-off by other proponents who do not have the same long term commitment to well-functioning communities.
- An unintended consequence of Australia's layered system of federal, state and local government regulations is that it can hold back, distort and blur decision-making, adding cost to major transport infrastructure and urban renewal projects but often without producing much benefit.
- The Smart Cities Plan and City Deals therefore creates interesting opportunities to test new governance models. Some of these options are also discussed in appendix 1.

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<sup>34</sup> <http://www.architectureanddesign.com.au/features/comment/city-deals-nine-reasons-this-imported-model-of-urb>

## 6 Recommendations

The Smart Cities Plan sets out the Australian Government's vision for our cities, and a plan for maximising their potential. The Plan intends to prioritise projects that meet broader economic and city objectives such as accessibility, jobs, affordable housing and healthy environments.

Critically it envisages that City Deals for specific urban centres will provide a focus for developing collective plans for growth, funding and investment.

The Prime Minister and the Assistant Minister for Cities and Digital Transformation launched the Plan on 29 April 2016 and have sought broad community feedback on its ideas.

In response, this submission from industry peaks representing community housing providers across Australia recognises that the problem is complex and requires problem solving that transcends our existing models.

Undoubtedly Smart City Deals, can be transformational and contribute to a larger, stronger, more productive and inclusive Australian economy.

Both equity and productivity are interrelated issues for communities and both need to be central concerns to our endeavour.

Governments are striving to increase workforce participation, improve school retention rates, reduce long term unemployment and build the skills for the future, need to extend Smart City policies to drive welfare reform, support higher educational performance and contain pension expenditure and burgeoning health costs of our ageing communities. A well housed population can positively assist with each of these challenges.

Affordable rental housing is critical to the central connectivity, social and economic inclusion and productivity agendas of Smart Cities. Housing located close to improved public transport services will assist with workforce mobility and provide access to training opportunities and new and better employment prospects.

Affordable rental housing provision needs to become an essential plank of the Smart Cities Plan. A stable place to live can help people to shift from welfare to work or get a better job that avoids the problems of social dislocation. Affordable housing close to services and jobs, can help families to break the cycle of disadvantage by maintaining a stable consistent educational experience for their children. It can encourage greater workforce participation by securing access to childcare services nearby to work opportunities or their home.

### ***This submission proposes the following recommendations for the consideration of the Department of Prime Minister and Cabinet:***

1. The adoption of a set of equity and productivity principles that can be applied to all Smart City initiatives to ensure that the entire community gets to enjoy the greater opportunities presented by Smart Cities.

In the affordable rental housing arena, these equity and productivity principles would support:

- the targeting of affordable rental housing to low and moderate income earners in housing stress.<sup>35</sup>

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<sup>35</sup> This would focus on households receiving incomes below the national median household income while giving attention to those in the bottom two income quintiles.

- measurable person centred outcomes
  - special attention to communities displaced by urban transformations that are part City Deals
  - attracting finance from institutional investors to fund new affordable housing supply
  - the exploration of new and innovative housing models that deliver a variety of housing options across different affordability points
  - Strategic Commonwealth funding (incentives) being tied to improving consumer and community outcomes.
2. Support for the mandatory provision of affordable rental housing in City Deals, where there is a demonstrable shortage of rental housing that is affordable to low and moderate income households, as a discrete adjunct to increasing general housing supply.
  3. As part of a concerted national approach to foster the delivery of affordable rental housing as social infrastructure within City Deals, the Commonwealth Government would develop a national co-investment and delivery strategy. While led by the Commonwealth, the national approach would be co-designed with the community housing industry and State and Territory Governments.

Four complementary elements of the strategy should include:

- the establishment of a National Affordable Housing Finance Corporation to enable the community housing industry to access wholesale institutional finance for affordable housing projects
  - the establishment of a National Affordable Housing Securities and Investment Bureau for marshalling, layering and distributing Commonwealth funding and loans, incentive payments, Commonwealth land contributions and loan guarantees for affordable rental housing supply. The Bureau would also record and track matching jurisdictional City Deal contributions and advise on the release of incentive payments.
  - the broader penetration of the National Regulatory System for Community Housing to all jurisdictions
  - the establishment of a National Housing Supply Office to assist in the rigorous merit based assessment of affordable housing proposals. Assessments would take into account broader supply and demand measures as well as indicators of innovation, diversity and affordability outcomes.
4. Establish as part of City Deals, smart supply targets that include targets for social and affordable housing provision in urban renewal projects, that reflect a community's needs and opportunities for achieving new housing supply.
  5. Formalise avenues for the community housing industry and its members to participate fully in the ongoing development of the Smart Cities Plan, City Deals and the national social infrastructure required to expand affordable housing supply.





POTENTIAL RISKS	POLICY MITIGATION OPTIONS
<p><i>City Deal making becomes veiled in secrecy with planning and performance become opaque and unaccountable to the public</i></p> <p>Structured billion dollar financial deals, commercial in-confidence agreements between high level parties, Cabinet-in-Confidence protocols and the application of strong public probity standards in the tender processes will, with all likelihood, discourage deep community engagement and undercut the process for building support for change.</p> <p>The great heterogeneity of our cities, successive governments and the long delivery timeframes can easily enable accountability for the promised benefits to be eroded and ultimately not delivered.</p> <p>An highly prescribed output based approach can stifle innovation and limit thinking about technology solutions first.</p>	<p>Provide an upfront public commitment in each City Deal to a better quality of life and more liveable cities for all through:</p> <ul style="list-style-type: none"> <li>~ clear measurable and sustainable outcomes for people and places (with smart targets) reflective of the city's DNA, population needs, local amenity and business opportunities linked to funding and financial penalties for not delivering</li> <li>~ a commitment to improve social equity and enhance the productivity and participation of people on the margins</li> <li>~open real time data reporting agenda from Government but with some support for local communities to make use of it</li> <li>~clear transparent planning parameters and processes</li> <li>~early and sustained community engagement at the key junctures of initial needs planning, solution design and implementation phases.</li> </ul>
<p><i>Unpredictable negative consequences for those at the margins of our communities</i></p> <p>A multi-layered smart 'system of systems' approach encompassing simultaneous investment in the Smart Cities Plan engaging elements of value capture, digital, new transport infrastructure, greater housing supply could give rise to unpredictable and potentially unintended detrimental consequences for the most vulnerable and voiceless in our cities</p>	<ul style="list-style-type: none"> <li>~In all City Deals place priority on assisting vulnerable groups (like the homeless, the elderly, single parents and indigenous peoples) some of whom will inevitably be displaced by redevelopment and enabling local low income households to better participate in the renewed economy with the support of proportionate and proactive funded strategies.</li> <li>~Improved access to affordable housing should be an essential and foundational element in all of the plans.</li> <li>~Rigorous cost benefit analysis would be undertaken looking explicitly at both business and social costs and benefits</li> </ul>
<p><i>Lower amenity and services result in added congestion, pollution and uneven service responses</i></p> <p>Where increased density results from planning changes, physical and social amenity could be adversely affected as well as business viability harmed as urban renewal is retrofitted in existing urban locations resulting in:</p> <ul style="list-style-type: none"> <li>~poor environmental outcomes</li> <li>~insufficient accessible public open green space</li> <li>~more traffic and public transport congestion</li> <li>~inadequate physical and social infrastructure (paths, roads, cycle ways, schools and hospitals etc.)</li> <li>~existing social and economic inequities becomes exacerbated as they are relocated or priced out of new offerings</li> </ul>	<p>Linking density increases to the development of complementary Community Sustainability Plans by state and local governments for physical and social infrastructure with appropriate funding sources and commitments</p> <p>Linking increasing densities to standards and target measures of services and amenity that will lead to meaningful improvements for local communities</p> <p>Commonwealth City Deals (and other) funding is linked to performance triggers such as affordable housing and services plans and service contributions. Adjustment funding is available to ensure benefits are realised by consumers and citizens.</p>

RISKS	POLICY MITIGATION OPTIONS
<p><i>Benefits are progressively traded off to the advantage of sectional interests</i></p> <p>Governments sometimes perform conflicting and competing roles. Governments act not only as funders, custodians, administrators, and regulators but are also hands on, as direct business investors and partners, planners, and service providers. They also have other legitimate financial priorities and political objectives beyond administering Smart Cities.</p> <p>For-profit private sector participants will need to maximise shareholder value and look to leverage their position to optimise returns.</p> <p>The risk is that Government and the private sector may not be viewed as an impartial broker for City Deals. This opens up perceptions of undue influence and cronyism, that at best undermine community support and at worst create potential avenues for corrupt behaviour</p>	<p>Developing long term City Deal funding agreements with bi-partisan, bi-lateral support based transparently on need, opportunity and rigorous cost benefit analysis.</p> <p>Funding to the project (for profit and not for profit) would be based on risks being borne and returns to investors (government and private and community).</p> <p>Exploring options for appointing impartial project brokers that work collaboratively with financiers, developers, entrepreneurs, not-for-profits and communities and governments, where this can address community opposition.</p> <p>Progressive evaluation of each plan's implementation.</p>
<p><i>Fragmentation</i></p> <p>A fragmented portfolio by portfolio and jurisdictional approach will fail to achieve a joined up approach that maximises synergies and consumer and community outcomes of the Smart Cities Plan.</p>	<p>Develop a single City Deal plan in each targeted centre. The Plan would provide a set of overarching principles linked to locational outcomes. A single governance and coordinating body would be established to oversee the continuing development of the entire plan and monitor the outcomes it realised. This governance committee could be formed from both government representatives and regional consumer and business interests as the plan's ongoing custodians. A separate implementation committee for parties involved in the plans delivery would provide advice to the steering committee and the Plan's funders.</p> <p>A single plan would sit over and guide the layered multi-sectoral plans for:</p> <ul style="list-style-type: none"> <li>• energy efficiency</li> <li>• affordable housing</li> <li>• transport infrastructure</li> <li>• clean energy initiatives</li> <li>• digital communications infrastructure</li> </ul> <p>City Deals and the Smart City Plan (and the proposed Smart targets) are well integrated with other government policy initiatives. In the housing domain this would include other urban policies like inclusionary zoning, affordable financing mechanisms for institutional investment, access to government land, preservation of existing affordable housing etc. There are also important connections with indigenous, ageing and disability policy reforms. Aboriginal and Torres Strait Islanders now live mainly in cities and need to be a visible priority. The largest population segment in the cities of the future will be the elderly. NDIS is Australia's largest human services reform. Similar cases can also be made for other population groups with unmet housing needs.</p> <p>Community Housing providers can help make these connections effective at the operational policy and service delivery levels.</p>