

# THE WEALTH OF HOME

## A Call for Action on Affordable Housing in the ACT

*Nor need we power or splendor, wide hall or lordly dome;  
The good, the true, the tender - these form the wealth of home.*

- Sarah J. Hale [1788-1879]



## **ABOUT ACT SHELTER**

ACT Shelter is an independent peak community organisation funded by the ACT Government to provide strategic advice and advocacy to assist people on low to moderate incomes on housing issues. This includes people who are homeless or who are at risk of homelessness.

Our role is to give an informed voice on housing policy issues based on research and close collaboration and consultation with housing consumers and community based organisations working on housing and related issues.

We promote housing options for people on low incomes, including social housing (public housing and community housing), affordable housing provided through the private sector, and affordable home ownership.

ACT Shelter is a member based organisation with over 100 members including individuals and organisations who have an interest in ensuring the availability of affordable, secure and appropriate housing in Canberra. Many are actively involved in the provision of housing support and services.

## **ABOUT ACTCOSS**

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' objectives are representation of people living with disadvantage, the promotion of equitable social policy, and the development of a professional, cohesive and effective community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is funded by the ACT Government.

ACTCOSS and ACT Shelter acknowledge Canberra has been built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage traditional owners have suffered since European settlement. ACT Shelter and ACTCOSS celebrate the Ngunnawal's living culture and valuable contribution to the ACT community.

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# TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b> .....	<b>4</b>
<b>PREFACE: HOUSING IS A HUMAN RIGHT</b> .....	<b>6</b>
<b>OBJECTIVES AND PRIORITIES FOR ACTION</b> .....	<b>8</b>
<b>Objective 1: Improving the sustainability and effectiveness of public housing</b> .....	<b>8</b>
<b>Objective 2: Promoting investment in affordable housing</b> .....	<b>8</b>
<b>Objective 3: Better Planning and Development</b> .....	<b>9</b>
<b>Objective 4: An integrated and evidence-based strategy for affordable housing</b> .....	<b>10</b>
<b>IDENTIFYING THE PROBLEMS</b> .....	<b>11</b>
<b>The Housing Boom</b> .....	<b>11</b>
Rent levels and house prices have increased rapidly .....	11
There are complex reasons for the housing boom .....	13
Low-income and disadvantaged people are worse off .....	13
<b>'Affordable Housing'</b> .....	<b>15</b>
There are different definitions of affordable housing .....	15
A single affordability measure is insufficient .....	16
After-housing income is the best single indicator of housing affordability .....	17
Housing affordability has likely got worse in recent years .....	18
<b>The National Context</b> .....	<b>20</b>
Federal Government Housing Programs .....	20
Commonwealth tax exemptions .....	21
The beginnings of national co-operation .....	21
<b>The Economics of the Housing Market</b> .....	<b>22</b>
Complexity and Market Failure .....	22
The housing market is heterogenous .....	22
Housing serves multiple economic and social functions .....	23
The housing market is unresponsive .....	23
Housing investors are risk averse .....	24
Rental market problems .....	25
Housing as a merit good .....	25
<b>THE FUTURE OF PUBLIC HOUSING</b> .....	<b>27</b>
The current challenge .....	27
Targeting and security of tenure .....	29
Future location of public housing .....	32
<b>TAXATION AND SUBSIDIES</b> .....	<b>34</b>
Property taxes form a large part of ACT Government revenue .....	34
Federal subsidies for the housing market are extensive .....	34
Principles of taxation .....	35
General rates .....	36
Land tax .....	37

Duties on conveyances (stamp duty) .....	37
Change-of-use charge .....	38
Concessions .....	38
Large scale changes are difficult, but some changes are possible .....	39
Adjusting the taxation system .....	39
Affordable housing rebates.....	40
Affordable housing subsidies .....	40
<b>FINANCING AFFORDABLE HOUSING .....</b>	<b>42</b>
Debt financing.....	42
Hypothecated revenue stream .....	42
Headleasing properties from the private sector.....	43
Public-private partnerships: outsourcing and joint ventures .....	44
Affordable housing bonds.....	46
A housing investment vehicle .....	47
Shared equity .....	47
Shared housing .....	48
Regulating and supporting community housing and not-for-profit growth providers .....	49
<b>BETTER PLANNING AND DEVELOPMENT.....</b>	<b>52</b>
<b>Inclusionary Zoning: Models and Possibilities .....</b>	<b>52</b>
Inclusionary zoning is common internationally .....	52
Inclusionary zoning is a low cost option to boost supply .....	52
Arguments against inclusionary zoning are often unfounded.....	53
Costs and incentives .....	54
Mandatory inclusionary zoning is superior to voluntary schemes .....	55
Size of developments and percentage of affordability .....	56
Alternatives to on-site construction .....	57
Size and appearance of affordable units .....	59
Rental and for-sale units.....	59
Tenancy allocation and management .....	60
Maintaining affordability.....	61
<b>Other Planning Considerations .....</b>	<b>63</b>
Building and Design .....	63
Retaining existing affordable housing.....	63
<b>Land Supply 64</b>	
Increasing the supply of land.....	64
Restricted Land Ballot.....	64
Planning for affordability in land development .....	64
Land grants to public housing .....	65
Concessional leases.....	65
<b>CONCLUSIONS: AN INTEGRATED APPROACH .....</b>	<b>67</b>
Towards a National Housing Strategy and Agreement .....	67
A variety of policy responses across a range of portfolios.....	67
Evidence-based policy .....	68
An evaluation framework .....	68
<b>BIBLIOGRAPHY .....</b>	<b>69</b>

## PREFACE: HOUSING IS A HUMAN RIGHT

Safe, secure, appropriate and affordable housing is an essential human right, without which a number of other rights cannot be effectively exercised. Housing is also a crucial basis for a stable, prosperous and happy life, both for individuals and communities. It is the foundation on which people build their lives.

ACTCOSS and ACT Shelter have prepared this paper in anticipation of the ACT Ministerial Housing Summit to be held on 28 February 2006. We wish to preface our comments by stating that given our time and resources we have chosen to focus on the issue of housing affordability as a core concern.

Yet this is not to say that there are a great variety of additional issues that also warrant attention. ACT Shelter and ACTCOSS both have large numbers of member organisations that are involved in a multiplicity of issues that impact upon the provision of adequate housing. These are all important and deserve to be heard. Given the strength of these concerns, it is important to highlight that affordability is just one component of the right to adequate housing.

Australia is a party to the International Covenant on Economic, Social and Cultural Rights (ICESCR). All Australian Governments, including the ACT Government, are obliged to implement and protect the rights contained in the Covenant. In 1991, the United Nations Committee on Economic, Social and Cultural Rights (UNCESCR) published its General Comment 4 on the right to adequate housing, and articulated 7 aspects of the right that they consider to be protected under the Covenant.

ACTCOSS and ACT Shelter consider that these are fundamental to any discussion about the future of housing policy in the ACT. They are:

- **Legal security of tenure:** All persons should possess a degree of security of tenure which guarantees legal protection against forced eviction, harassment and other threats;
- **Availability of services, materials, facilities and infrastructure:** All beneficiaries of the right to adequate housing should have sustainable access to natural and common resources, safe drinking water, energy for cooking, heating and lighting, sanitation and washing facilities, means of food storage, refuse disposal, site drainage and emergency services;

- **Affordability:** Personal or household financial costs associated with housing should be at such a level that the attainment and satisfaction of other basic needs are not threatened or compromised. Steps should be taken by State parties to ensure that the percentage of housing-related costs is, in general, commensurate with income levels;
- **Habitability:** Adequate housing must be habitable, in terms of providing the inhabitants with adequate space and protecting them from cold, damp, heat, rain, wind or other threats to health, structural hazards and disease vectors;
- **Accessibility:** Disadvantaged groups must be accorded full and sustainable access to adequate housing resources. Thus, disadvantaged groups such as the elderly, children, people with physical disabilities, the terminally ill, HIV-positive individuals, persons with persistent medical problems, the mentally ill, victims of natural disasters, people living in disaster-prone areas and other groups should be ensured some degree of priority consideration in the housing sphere;
- **Location:** Adequate housing must be in a location which allows access to employment options, health-care services, schools, childcare centres and other social facilities. Similarly, housing should not be built on polluted sites nor in immediate proximity to pollution sources that threaten the right to health of the inhabitants; and
- **Cultural adequacy:** The way housing is constructed, the building materials and the policies supporting these must appropriately enable the expression of cultural identity and diversity of housing.

The ACT Government has shown its commitment to human rights by enacting the *Human Rights Act 2004*. However, this legislation does not contain the human right to adequate housing, an exclusion which undermines the understanding of human rights as interdependent and complementary.

While we recognise that all of these principles are of vital importance, in this paper our focus is on the principle of affordability as an overarching aim to improve community wellbeing through the provision of more low-cost housing, which should be accessible, appropriate and secure.

Housing remains a fundamental prerequisite for the enjoyment of a fulfilling life for the people of the ACT. An integrated whole-of-government approach to realising the human right to housing, in conjunction with the not-for-profit and private sectors, is necessary to ensure that everyone in the ACT can attain a decent standard of living.

# OBJECTIVES AND PRIORITIES FOR ACTION

## Objective 1: Improving the sustainability and effectiveness of public housing

Greater support should be given to expanding the supply of affordable housing provided by public housing and for the long-term social and financial sustainability of the public housing system.

### Priorities for Action

- **Immediate capital injection:** That capital funds of \$10million per year for the next 3 years is allocated to Housing ACT, as promised in the ACT Government's 2004 election platform, as a minimum investment in public housing.
- **Explicit targets for public housing:** That an explicit long-term target is adopted requiring public housing to be maintained at a minimum of 9% of total residential dwellings in the ACT.
- **Security of tenure:** That security of tenure for public housing tenants is maintained, in the interests of tenant and community wellbeing and encouraging the social and financial sustainability of Housing ACT.
- **Income diversity in public housing:** That the financial sustainability of Housing ACT is strengthened by setting a minimum target for rent receipts and encouraging a diversity of rebated and market renters to achieve this aim.
- **Location of Public Housing:** That the location of public housing properties continues to be guided by a policy of encouraging social diversity and ensuring access to facilities, including public transport, schools, medical care, shops and Centrelink offices.

## Objective 2: Promoting investment in affordable housing

The ACT Government's taxation, investment and regulatory policies should place greater emphasis on encouraging and achieving the ongoing provision of affordable housing.

### Priorities for Action

- **Support by taxation and subsidies:** That ACT taxes are altered and appropriate subsidies put in place to provide better incentives for the development of affordable housing

- **Economic analysis of financing models:** That new models to encourage greater investment in affordable housing are developed for the ACT context and assessed on their relative social and economic effectiveness
- **Encouraging investment in the not-for-profit sector:** That regulation of non-for-profit affordable housing growth providers is pursued with the objective of assisting the sector to attract private investment
- **Ensure PPPs meet social needs:** That any proposed public-private partnerships are assessed before proceeding to ensure that:
  - Value is clearly demonstrated in terms of provision of affordable housing, including for a proportion of people with high needs;
  - There is no overall loss of public housing as a result of a redevelopment; and
  - That Government does not enter into any partnerships or ventures with the private sector that involves contractual limits being placed on Government's capacity to develop policy.

### **Objective 3: Better Planning and Development**

Consideration of provision of affordable housing should be structured into all levels of planning including zoning, development assessment and land supply, and mandated through the appropriate legislative instruments.

#### **Priorities for Action**

- **Inclusionary zoning:** That all new developments include a mandatory proportion of affordable housing, or contribute an equivalent amount to an ACT Affordable Housing Fund. The ACT Government's Affordable Housing Taskforce recommended that this begin at 3-4%.
- **Encouraging affordable housing:** That the ACT's planning, development assessment and building regulation systems are reviewed to provide greater emphasis on enabling the construction and retention of affordable housing.
- **Land supply:** That an adequate supply of land is maintained, including by direct grants or concessional leases to public and not-for-profit affordable housing growth providers.

## **Objective 4: An integrated and evidence-based strategy for affordable housing**

The ACT needs a co-ordinated strategy to address housing affordability and a strong ACT presence is needed in the development of a coordinated national approach to affordable housing through a National Housing Plan for achieving specified affordability benchmarks.

### **Priorities for Action**

- **National Housing Plan and Agreement:** That the ACT Government supports the development of a National Housing Plan, and is an active participant in the negotiation of a five-year National Affordable Housing Agreement between Commonwealth, State, Territory and local governments, as called for by the National Summit on Housing Affordability.<sup>1</sup>
- **Evidence-based policy:** That the ACT Government commission research into current and projected unmet need for affordable housing in the ACT, with the aim of developing evidence-based policies at both a local and national level.
- **Affordability objectives:** That the ACT Government commits to mandated affordability targets utilising affordability benchmarks based on after-housing income levels.
- **An evaluation framework:** That the ACT Government develops an evaluation framework to assess the impact of affordable housing initiatives.

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<sup>1</sup> Joint Meeting of Housing, Local Government and Planning Ministers (2005)

# IDENTIFYING THE PROBLEMS

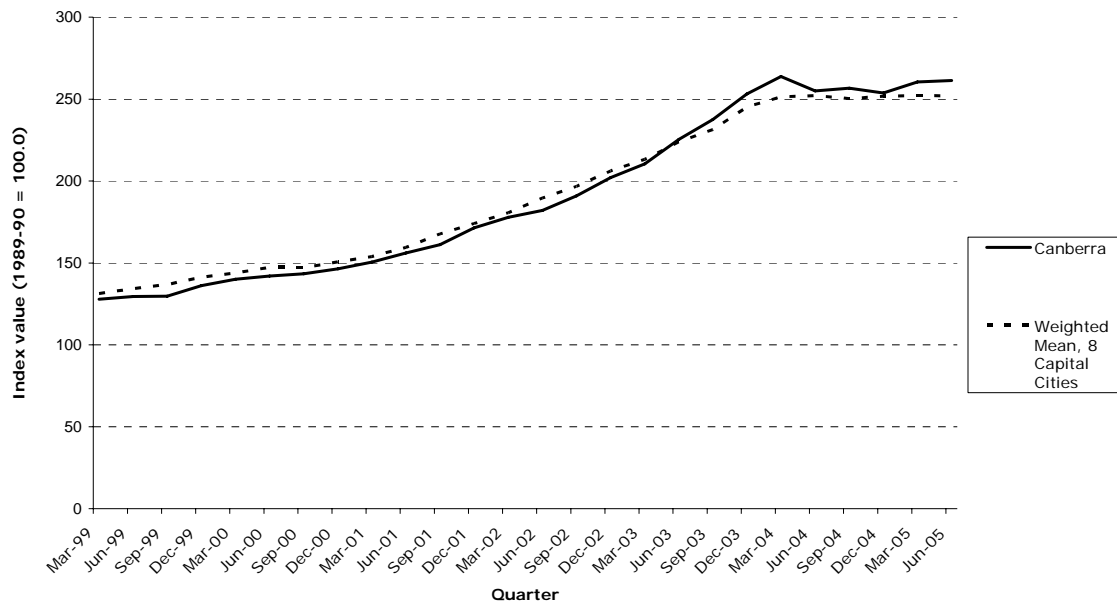
## The Housing Boom

From the late 1990's into the early part of this decade, Australia experienced an unprecedented increase in residential house prices, surpassing even the property booms of the 1980's. Compared with previous upswings in the housing market, it was more prolonged, and occurred during a time of low inflation.<sup>2</sup>

### Rent levels and house prices have increased rapidly

Figure 1, below, gives some indication of the sharp rise in house prices in the ACT. In the five years to March 2004, the ABS House Price Index doubled, indicating the enormous increase in asset values of Canberra residential properties.

Figure 1: Established House Price Index

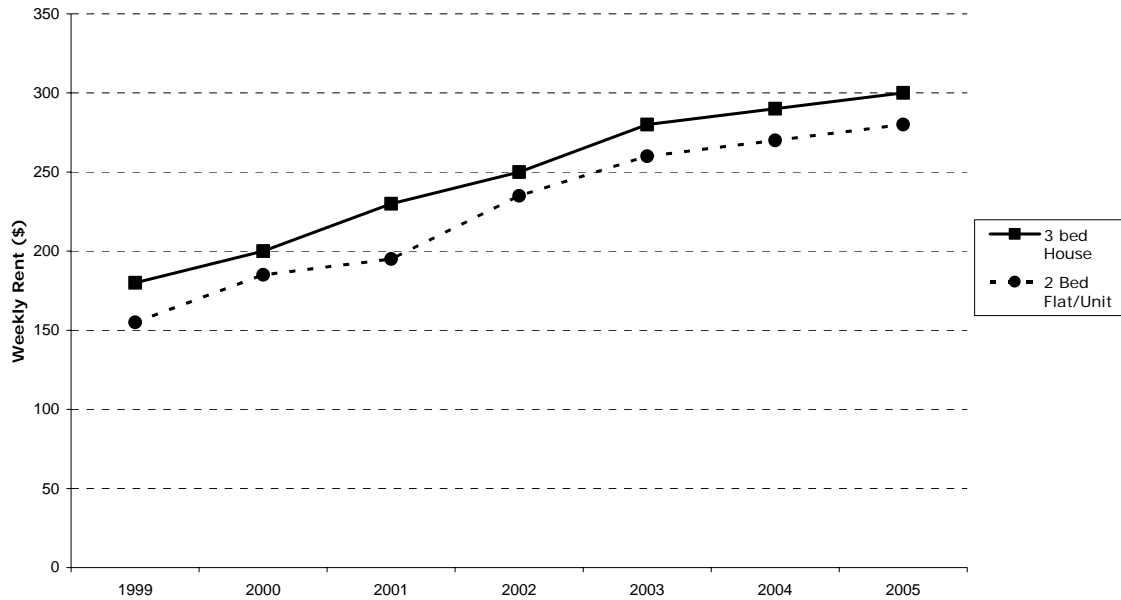


Source: ABS (2005) House Price Index: Eight Capital Cities

Similarly, median rental prices during the same period shot up dramatically. Figure 2 shows the increasing trend, where the median rental price of a 3-bedroom house in Canberra has increased from \$180 per week in the June quarter of 1999, to \$300 per week by the June quarter of 2005.

<sup>2</sup> Productivity Commission (2004), p.20

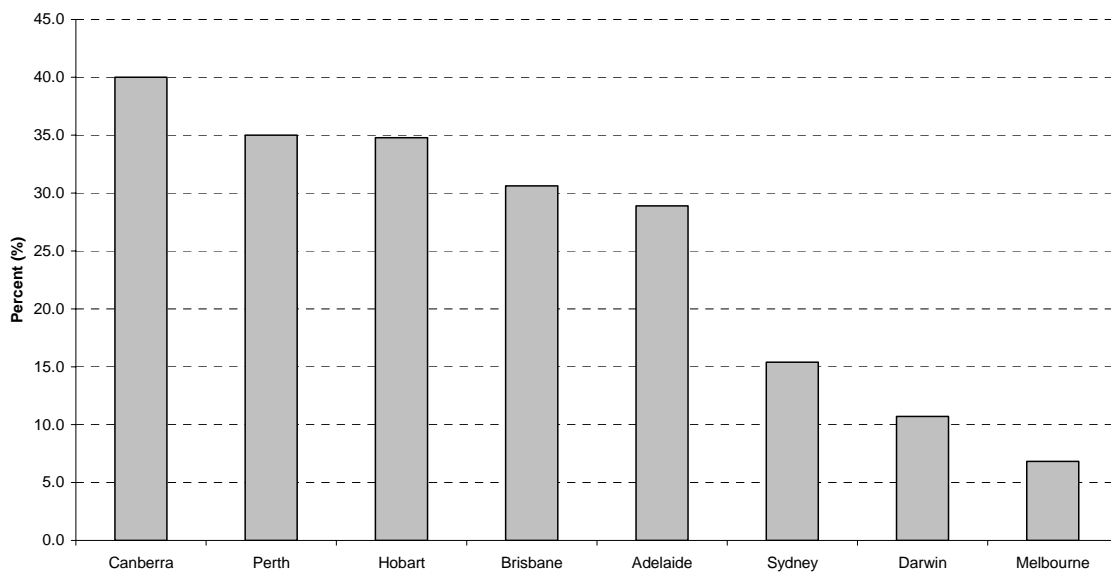
**Figure 2: Median Rents, Canberra, June Quarter**



Source: REIA (Various Years) Real Estate Market Facts

According to some indicators, the price boom in Canberra has been greater than other Australian cities, particularly in the rental market. Figure 3 shows the nominal price growth in median rent in the six years since the June quarter of 1999, indicating Canberra's price increases are the highest of the 8 capital cities.

**Figure 3: Nominal Price Growth in Median Rent for 3 Bedroom Houses, 1999-2005 (June Quarter)**



Source: REIA (Various Years) Real Estate Market Facts

## **There are complex reasons for the housing boom**

A myriad of explanatory factors have been put forward to explain the large increases in house prices and housing investment during this period. A prominent factor was the advent of a sustained low interest rate environment from the mid-1990's, coupled with financial deregulation. This new competitive environment in the home loan market, supplemented with low interest repayments, meant that households could borrow far more heavily than in the past, and this increased capacity for debt rapidly increased the supply of investment funds for households' principle investment: property.

Three other proximal factors may also have played a role in sustaining the rapid increase in house prices. The first was the introduction of the First Home Owners Grant, which encouraged households to bring forward home purchases and further tightened the market. The second factor was the low returns in the share market, particularly after the so-called 'tech-wreck' of 2000, where successive years of low or negative share market returns, prompted investors to rebalance their portfolios with higher holdings in property. Thirdly, the 1999 changes to capital gains tax increased the relative attractiveness of investing in housing.

In the broader demographic and macroeconomic environment, it is also probable that longer-term trends such as migration, increased household formation rates and rising real wages growth played a role in supporting the boom.

## **Low-income and disadvantaged people are worse off**

While the increase in housing prices was initially seen as a positive economic development demonstrating the continuing strength of the Australian economy, particularly after the Asian financial crisis, the problems associated with such a prolonged rise in the price of residential property soon become apparent. While the effects were myriad – including a sudden expansion of State and Territory revenues due to the boost from property revenues, increasing household debt, construction labour shortages and inflationary pressures – the most important impact was the sharp decline in housing affordability.

In the ACT, the affordability effects materialised in numerous forms. The proportion of first home buyers in the residential property market declined as higher prices presented an additional barrier to home ownership. Rental prices increased, placing a greater proportion of households in housing stress, particularly those on low incomes or those dependent on government transfer payments. Waiting lists for public housing increased, as a greater proportion of those eligible for public housing attempted to enter the public system to reduce their housing costs.

Homelessness services experienced increasing requests for service, as a more expensive and selective private rental housing market locked people experiencing disadvantage out. Exit points from homelessness services also declined, further accentuating the stress on that sector. Emergency relief services have also reported sustained increases over the past decade, and the increasing proportion of low income households in unaffordable housing is likely to be a major cause.

With hindsight, the housing boom has had a deleterious effect on the living standards of people in the ACT, particularly those on low incomes. The boom has resulted in a large redistribution of wealth towards owner-occupiers and property investors. This increase in asset values has resulted almost solely from a rise in demand in a market with relatively unresponsive supply, meaning that despite higher prices, the housing stock has seen only marginal improvement in quality, and so contributed little to improving the well-being of the people of the ACT. The biggest losers in this environment have been disadvantaged Canberrans, who have seen their incomes eroded and their choices constrained.

## **'Affordable Housing'**

While the term 'affordable housing' is frequently used by policy makers and commentators, there is often disagreement about its precise definition. However, before briefly delving into some of the complexities of the definition debate, it is worth stressing that affordability alone is not sufficient to ensure people have access to adequate housing. Again referencing UNCESCR's 7 elements of the right to adequate housing, it is apparent that the fact that a household is able to pay for a particular dwelling does not mean that it will be suitable for their needs.

Some counter-examples will suffice to demonstrate the point. For instance, while squatting is a time-honoured means of securing affordable shelter, the illegality of the practice and constant threat of eviction hardly make it a suitable solution. Similarly, while a 2-bedroom flat might be affordable for a household of five, it is hardly suitable for the needs of a growing family. Furthermore, a person with a disability may well be able to afford to rent a small 1-bedroom apartment, but the presence of stairs might make it entirely inadequate. Finally, a person might be able to afford to rent a property in Charnwood, but if they are employed as a shift-worker in Woden and have no access to a motor vehicle, this option would quickly leave them unemployed. In view of these issues, while affordability remains a key concern, it cannot be viewed in isolation.

### **There are different definitions of affordable housing**

A universally accepted definition of 'affordable housing' has not yet been settled upon. However, the various characterisations of the concept have revolved around 2 major themes. Firstly, one group of definitions tends to emphasise the needs of a target population, and the second relies on a comparison between income and housing expenditure.

The first group of definitions tends to emphasise the type of disadvantaged groups that might need affordable housing. For instance, the United Kingdom Government explicitly states that affordable housing caters for the needs of those who have very low incomes, those who are having difficulty achieving home ownership or people with special needs that may require support.<sup>3</sup> Similarly, a recent stakeholder forum on housing policy in Sydney, instead of formally defining the concept of affordability, came to a similar conception of the target recipients for affordable housing solutions. It should be noted that, particularly in the UK, these types of definitions frequently emphasise the delivery vehicles for affordable housing, such as housing associations or explicit reference to government subsidies.

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<sup>3</sup> Berry, Whitehead, Williams and Yates (2004)

A second group of definitions relies on some measure of housing costs, income, or the relationship between the two. For instance, the Framework for National Action on Affordable Housing<sup>4</sup> identifies households earning less than \$56,219 as the target group for affordable housing. Alternatively, not-for-profit housing providers are considered eligible for tax concessions if they charge less than 75% of market rent for their properties for lease.

More sophisticated measures try to compare the resources of a household with the costs of housing. A frequently utilised concept is that of housing stress; where a household is paying more than 30% of their income towards housing. This is frequently accompanied by including only households in the bottom 40% of incomes.

Another useful concept is that of 'after housing income' – the amount of disposable income a household has after paying for housing costs is used as a measure of their standard of living. This can then be compared to a poverty line or budget standard to determine the effective resources of the household. This measure has the benefit of giving the best measure of a household's ability to access basic goods and services, and so is a preferable indicator of housing affordability. Unlike housing stress measures, it ensures that middle income households that have simply chosen to consume higher quality housing are not included.

A number of private sector indices make some connection between income levels and housing costs, such as the HIA-Commonwealth Bank Affordability Indicator, which compares the costs of new mortgages with median income levels to represent changing patterns of affordability. These indicators focus on affordability for middle-income households, and give little information on how low-income households are faring.

### **A single affordability measure is insufficient**

ACT Shelter and ACTCOSS acknowledge that the affordability definition debate can become highly contentious, particularly as the type of measurements used can produce significantly different outcomes. While this paper does not intend to go into these problems in detail, a few principles and problems should be enunciated.

Virtually all indicators can produce a number of methodological or classification problems, not least in that none of them capture whether the housing in question is adequate to the household's needs. This means that reliance on any one indicator is unwise, and tracking the extent of the problem and the effectiveness of policy interventions should concentrate on a series of indicators rather than a single measure.

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<sup>4</sup> Joint Meeting of Housing, Local Government and Planning Ministers (2005)

In addition, a few shortcomings should be briefly noted. Firstly, an indicator such as housing stress that relies on the proportion of income spent on housing does nothing to indicate whether the income was adequate in the first place. Thus, while a household may well be spending less than 30% of its income on housing, if that income is very low to begin with, it is likely the household will still be under severe financial stress.

Secondly, the analysis can be affected by what is included as 'income' or as a 'cost'. As pointed out in a recent paper by UNSW's Social Policy Research Centre (SPRC)<sup>5</sup>, the imputed income from owner-occupied housing (not to mention any capital gain) is rarely included in affordability indicators, thus frequently depicting mortgagees as more disadvantaged than they might otherwise be. A similar argument could be made about repayments of the principle on a mortgage, or the inclusion of income tax payments as income. On the other side of the ledger, what is included as a housing cost varies, and often analyses only rely on rent and repayments for this estimate. In particular, the design and locational costs of housing are rarely considered, such as the additional costs of poor environmental design on utility bills, or the extra transport costs of housing located far from employment and services.

Finally, it is important to note that households vary in size and that the question of what is affordable needs to explicitly address this fact. Using a single household income 'cut-off' can lump relatively well-off single-person households with large families that are struggling if they are not equivalised. The point is especially important in developing policy interventions, for instance, a tax concession that is not adjusted for household size will tend to discriminate against larger families.

### **After-housing income is the best single indicator of housing affordability**

So far as a single indicator can represent housing affordability, ACT Shelter and ACTCOSS would consider the concept of 'after housing income' as the best. This was adopted, at least in principle, by the ACT Affordable Housing Task Force, and flows from earlier versions of the Commonwealth's National Housing Strategy, which defined affordable housing as: 'housing costs that leave households with sufficient income to meet reasonable living costs such as food, clothing, transport, energy, medical care and education'. This type of definition followed from the ground-breaking research from the 1975 Henderson Inquiry into Poverty, and lends itself to quantitative analysis, especially when combined with a quantitative poverty line or with the more recent tool of developing budget standards for different households. However, this type of information is difficult to find good data on, and recent statistics have focussed more heavily on providing quantifications of housing stress levels.

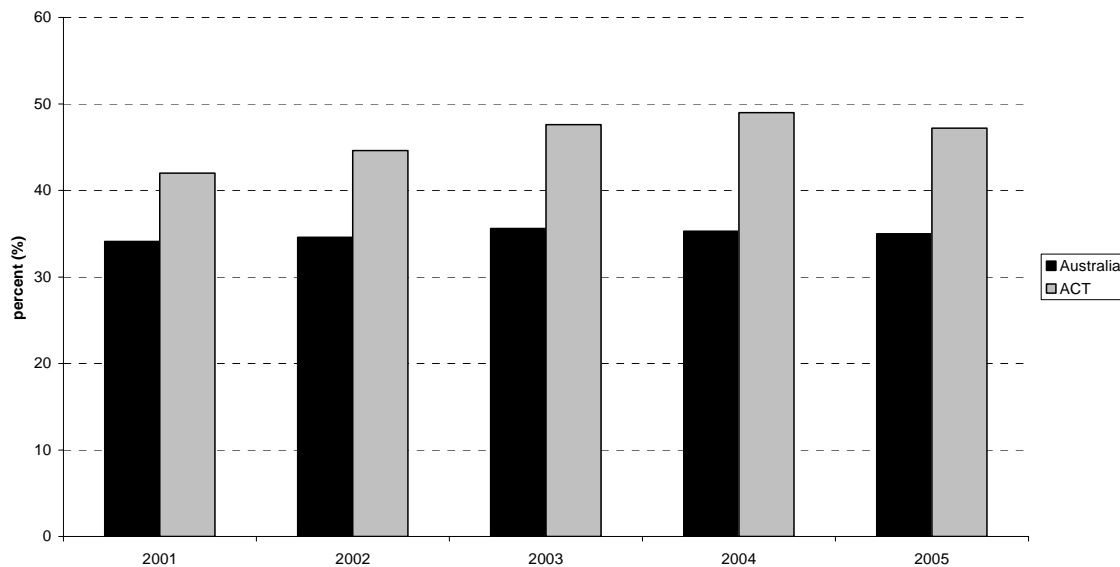
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<sup>5</sup> Saunders and Siminski (2005)

## Housing affordability has got worse in recent years

The most comprehensive data available on ACT housing affordability remains the background studies commissioned by the ACT Affordable Housing Taskforce, particularly the two-stage analysis provided by the National Centre for Social and Economic Modelling (NATSEM). This estimated the number of ACT households in housing stress that were also in the bottom 40% of equalised Australian household incomes at some 9,200.<sup>6</sup> However, the data was based on the 2001 census, and every indicator of housing stress or affordability indicates that the situation became considerably worse in the following years. For instance, Figure 4 shows the proportion of Commonwealth Rent Assistance (CRA) recipients who were in household stress has increased markedly over the years since the census, and at a faster rate than the rest of the country.

Figure 4: Proportion of CRA recipients paying more than 30% of income in rent



Source: Productivity Commission (2006) Report on Government Services

Since 2001, house prices and rents have continued to rise, affordability indices have worsened, and while up-to-date data is not available that is directly compatible with the NATSEM study, we can be almost certain that the number of Canberra households living in unaffordable housing has increased.

<sup>6</sup> Percival, Phillips and King (2002), p.22

While the issues with defining and measuring housing affordability will persist, this is by no means an excuse to neglect data collection or for policy paralysis. While measures of affordability are imperfect, they are far from meaningless. The estimation of the extent of affordability problems are useful both for the estimation of the impacts of unaffordable housing and the costs and effectiveness of policy interventions. Even more important is the ability to infer whether the problem is getting better, or continuing to deteriorate.

## **The National Context**

While this paper is focussed on the possible strategies available to the ACT Government to increase the provision of affordable housing to disadvantaged and low-income people in Canberra, these do not occur in a vacuum. The effects of the most recent property boom have been felt nationally, and it is important to be aware of the policy environment the ACT Government must work within, or indeed, advocate to change. It is also important to observe that there are the beginnings of national co-operation between Federal, State, Territory and local governments to address the issue, particularly with the development of the Framework for National Action on Affordable Housing. However, while ACTCOSS and ACT Shelter strongly support a co-operative national approach to addressing these issues, this should not be an excuse for policy torpor at the Territory level.

### **Federal Government Housing Programs**

The Commonwealth Government has a significant impact on the housing market, both through its spending programs, most notably the Commonwealth-State Housing Agreement, Rent Assistance, and the First Home Owner's Grant, and through its taxation treatment of housing assets.

The Commonwealth-State Housing Agreement represents the Federal Government's most significant commitment to the provision of finance for public housing. However, the contribution of the funds for this purpose has declined in real terms in the last decade, although it still accounts for in excess of \$1billion of Commonwealth expenditure. State and Territory Governments have been faced with declining real Commonwealth support for their public housing systems, which has added to their stress and decline.

Commonwealth Rent Assistance (CRA) accounts for nearly \$2billion of Federal Government expenditure, and is paid to recipients of various income assistance programs. As has been previously noted, on the latest available figures nearly half of the ACT's recipients of CRA are still in housing stress. The continuing rise in housing stress despite the provision of CRA, as well as its possible effects in expanding demand and placing additional pressure on rental prices, has lead some commentators to criticise CRA as ineffective. That being said, the situation would be far worse without the payments, and CRA will remain an important element of housing assistance for the foreseeable future.

The First Home Owners Grant was introduced by the Federal Government in 2000, and is received by first home buyers. The scheme cost around \$2billion per annum at its zenith, although this is likely to have been reduced since the quantum of payment has been cut.

## **Commonwealth tax exemptions**

The largest costs to the Federal Budget are not its spending outlays but its foregone revenue from the taxation treatment of housing assets. The Commonwealth Government exempts owner-occupiers from capital gains tax, and gives a discounted rate on investment properties held for more than a year. There are significant tax advantages created by opportunities for negative gearing of investment properties. In addition, the imputed rent from owner-occupied housing is not taxed, despite its inclusion as income in the national accounts.

A study by AHURI<sup>7</sup> found that the non-taxation of capital gains for home-owners resulted in up to \$13billion of foregone revenue for the Federal Government and a further net \$8billion from the non-taxation of imputed rent. Perhaps most tellingly, the study found that the beneficiaries of these tax benefits were high-income, high asset groups, rather than those on low incomes. Despite its contribution to social housing and rent assistance, the net effect of Commonwealth policy settings gives the greatest benefits to those at the higher end of the income scale.

## **The beginnings of national co-operation**

In August 2005, the Framework for National Action on Affordable Housing was released by a joint meeting of Housing, Local Government and Planning Ministers. The Framework outlines a number of commitments to improve co-ordination between governments on housing issues, and investigate and plan for future developments in affordable housing, although it is likely to be some time before there is any significant change in expenditure settings as a result, particularly by the Commonwealth.

ACT Shelter and ACTCOSS acknowledge that the Commonwealth has a central and critical role to play in the provision of affordable housing across Australia, including the ACT, particularly in light of its positive financial position and greater capacity to gather revenue. The Framework is an important step forward in this regard, despite its emphasis on non-government provision of housing. Yet it remains to be seen how far the Federal Government's commitment will extend, and the Framework does not preclude the ACT Government from making headway in this area on its own initiative. The Framework should be seen as an opportunity for the ACT to lead by example in developing its affordable housing policies.

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<sup>7</sup> Yates (2002)

# The Economics of the Housing Market

## Complexity and Market Failure

Unlike other economic markets, such as commodities or consumer goods, housing markets have numerous features that mean they do not operate in the same way, and indeed, will not necessarily produce efficient or socially optimal outcomes without regulation and government intervention.

In economic parlance, the term 'market failure' is used when markets do not operate effectively to produce efficient and optimal results. As other reports on affordability have noted; *"inefficiency and market failure are seen as endemic in the housing market. The complexity of the interactions within the market means that there is a high degree of noise and uncertainty about the nature and meaning of market signals"*.<sup>8</sup>

ACTCOSS and ACT Shelter would contend that loss of economic and social welfare is resulting from the housing market's failure to meet people's changing needs and wants in the ACT. The housing boom is ample evidence of market failure: in what rational economic system could the price of a good double with virtually no change in its quality or the quantity available?

This section will examine some of the economic features of the housing market. However, perhaps it is just as important to remember that a house is also a home: an emotional and social investment as well as a financial one.

## The housing market is heterogenous

One of the greatest complexities in dealing with the housing market is that it is not really a single market, but is far better described as a set of interlinked sub-markets, characterised by size, tenure-type, quality, and location. This means that simply because one market segment has an oversupply, this does not necessarily extend to the market as a whole. For example, recent media coverage has speculated that an overdevelopment of high-cost luxury apartments *"will send the ACT property market, already reeling from depressed prices and slower sales, into further decline"*.<sup>9</sup> In reality, this will have no effect on the level of affordable housing for low-income earners, who are unlikely to see prices drop at the other end of the affordability scale. Indeed, these so-called "depressed prices" are likely to describe a movement from the outrageous to the merely exorbitant.

From a policy context, this heterogeneity means that differential attention needs to be paid to housing for low-income earners or those relying on income support. This segment of the market behaves differently from the market as a whole, and needs separate policy attention.

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<sup>8</sup> Harris (2003), p.18

<sup>9</sup> The Canberra Times (23-01-06), p.1

## **Housing serves multiple economic and social functions**

Part of the complexity arising from the housing market is that housing is both an investment good as well as a consumption good. That is, housing serves as a (generally) appreciating asset class while at the same time providing a service to the consumer (i.e. shelter). There is a tension between these two roles, for while investors seek greater rates of return, occupiers are concerned with their cost and standard of living, although these two functions are combined in the case of owner-occupied housing.

Similarly, housing has contrasting roles as both a basic social need and a luxury good. While for low-income earners and income support recipients housing consumption represents a necessary expenditure simply to have a basic standard of living, for others housing consumption can represent discretionary expenditure in order to pursue a luxurious lifestyle. It is interesting to note that the ACT has the greatest amount of spare room per dwelling of any Australian jurisdiction.<sup>10</sup>

Related to this is the use of housing as a 'positional good', that is, a purchase designed to display one's relative wealth and success, rather than to meet intrinsic personal needs. This leads to an escalating cycle of 'Keeping up with the Jones', inflating house prices and leading to housing 'over-consumption' by wealthy households, at least in the eyes of some.

This complex interplay between housing for the uses of investment, shelter, and luxury means that the housing market may not be able to be optimised for all purposes. Governments may need to make decisions prioritising which purposes are most important from a public policy perspective. ACT Shelter and ACTCOSS would advocate that the basic need for shelter by Canberrans should supersede the goals of profitability or luxury.

## **The housing market is unresponsive**

The housing market exhibits a number of features that make it unresponsive to price changes. In most markets, suppliers will quickly react to increasing prices, producing additional output to meet the increased demand. This does not occur to the same extent in the housing market for a number of reasons:

- Purchases are highly infrequent; meaning only a tiny proportion of the market is active at any one time, and so small changes in demand can have a large effect on market prices;
- The housing stock takes a very long time to turn over, meaning that new or redeveloped housing stock accounts for a very small proportion of the total housing stock. This means that even a very large increase in construction activity will have a limited effect on supply;

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<sup>10</sup> Percival, Phillips and King (2002), p.8

- Housing is a long-term investment, as well as having important social and emotional attachments, so there is a high propensity to 'hold' assets regardless of changing prices;
- Land purchase, design, financing, construction and sale of residential property take a long time. This means both that the housing market contains a significant lag in responding to price changes, and that development becomes speculative on future, not current, housing prices; and,
- The building and construction industry can quickly hit capacity constraints, as it requires an extensive pool of skilled labour in order to expand its capacity.

All of these factors work together to produce 'supply-side inelasticity' in the housing market. This means that a contributing factor to housing market failure is the inability of the price mechanism to quickly and efficiently transmit allocative signals to the market.

Moreover, when housing markets are tight, it gives greater market power to the supply side in deciding the type of housing to be built. This means property developers are more likely to construct high-yielding dwellings aimed at wealthier consumers in a high-priced market, and conversely are less likely to cater for lower-return 'budget' dwellings, further intensifying affordability problems.

From a policy perspective, this analysis also suggests that demand-side policy instruments (such as subsidies to home-buyers or personal tax incentives) are likely to be less effective at increasing affordability than policy instruments designed to increase supply-side activity (such as reducing barriers to development or investing in public housing construction).

### **Housing investors are risk averse**

Unlike other asset classes, such as shares or bonds, residential property is dominated by 'retail' investors, and has a comparatively small proportion of institutional investors. For retail investors, including home-owners and small property investors, their property assets constitute a large proportion of their wealth, often invested in a single indivisible, illiquid asset. This situation means investors are frequently unwilling to invest in risky assets, because even a small fall in prices could result in large losses, particularly if property assets are heavily geared.

The situation is compounded by investors' inability to spread risk: there is no insurance against falling house prices. Alternatively, large institutional investors, who are better able to manage risk over a diverse asset base, face difficulties in entering the market, such as heavier tax liabilities, problems in monitoring property managers and tenants, and difficulties aggregating a large portfolio over which to spread risk. This aversion to risk in the market means that investment opportunities are not fully exhausted, in turn allowing prices to be maintained above the socially optimal equilibrium.

### **Rental market problems**

Landlords are similarly risk averse. In terms of choosing tenants, there is a perception that particular groups of people pose an increased risk to their investment. This, in turn, leads to discriminatory practice which affects particular people from disadvantaged backgrounds. In a tight rental market, there is also a tendency to rent to people who have the greatest resources, thus further marginalising low-income or disadvantaged groups.

Similarly, there is an informational asymmetry about rental property quality and running costs. This is particularly an issue for things like water usage, heating, and environmental design. The tenant can not be sure exactly how much the house will cost to run, and so may not be prepared to pay a premium for properties whose running costs are low. Thus, landlords who invest in achieving low running costs may not find that they get a good return on their investment.

In addition to this asymmetry, there is a misalignment of incentives for making houses more cost-effective, as improvements to the housing stock require capital expenditure by the landlord, yet the reduced running cost of housing benefits the tenant.

### **Housing as a merit good**

Housing has many of the characteristics of a merit good. A merit good is a product that may be under-consumed by individuals if left to market forces. Other examples of merit goods include education and preventative health care.

Housing consumption has multiple positive externalities for both the individual and for the broader community. ACTCOSS and ACT Shelter would consider that these include:

- Greater prospects of employment and shorter periods of unemployment;
- Improved health outcomes;
- Greater access and ability to improve education and skills acquisition;

- Greater financial security – an improved ability to manage household finances, save money, and plan for the future;
- Greater individual resilience – provides an enhanced ability to avoid and recover from addiction, domestic violence, mental illness, and other social problems;
- An increased sense of personal security and safety, and a decreased likelihood to be the victim or perpetrator of crime; and,
- Increased social capital formation – provides a greater ability to form connections with friends and neighbours and contribute to the well-being of the community.

Additionally, the community has a baseline expectation for everyone to be able to access adequate housing. As with other merit goods, governments should intervene to increase the consumption of housing for low-income and disadvantaged households in order to produce the greatest social benefits for the community as a whole.

# THE FUTURE OF PUBLIC HOUSING

It is becoming increasingly clear that significant changes are needed in order for the ACT's public housing system to achieve a secure and successful future. We believe that a key aim must be to make the public sector sustainable and broadly accessible, moving away from the current situation of large deficits, narrow targeting and unacceptably long waiting lists.

## **The current challenge**

The last two decades have seen serious difficulties emerge for ACT Housing, with the public housing sector moving from a modest operational surplus in 1991 of \$528 per dwelling to a larger deficit of \$1,161 per dwelling in 2001.<sup>11</sup> This has been the result of funding cutbacks at Commonwealth and Territory levels, more intensive targeting to tenants on very low incomes or with complex needs, the ageing of the housing stock itself, and higher quality requirements for housing services. Public housing shortages and CSHA undertakings to prioritise applicants in greatest need has meant that between 1991-2001, the proportion of tenants receiving rebates has increased and, more significantly, the proportion of crisis and emergency allocations has risen from 35% of new allocations to 80%, the second highest in Australia.<sup>12</sup>

These developments in many ways reflected the broader national situation; Australia-wide, real capital funding for public housing decreased by 25% between 1991 and 2001, and all states and territories were urged to increase their targeting of public housing to tenants most in need, under the terms of the 1995-96 Commonwealth State Housing Agreement.<sup>13</sup> As public tenant households Australia-wide move towards heavier targeting of those on very low-incomes or relying on government transfers, the amount paid in rent will further decrease.

The results of these cutbacks and deficits for Canberra residents seeking to live in public housing have been severe, as waiting lists for allocations and transferrals have lengthened greatly. The number of applicants for Early Allocation Category 1 (EAC1) – who are deemed to be functionally homeless and in urgent need of housing – has more than tripled in the last four years. Figure 5 shows the escalation in the numbers of applicants waiting for public housing in the early allocation categories.

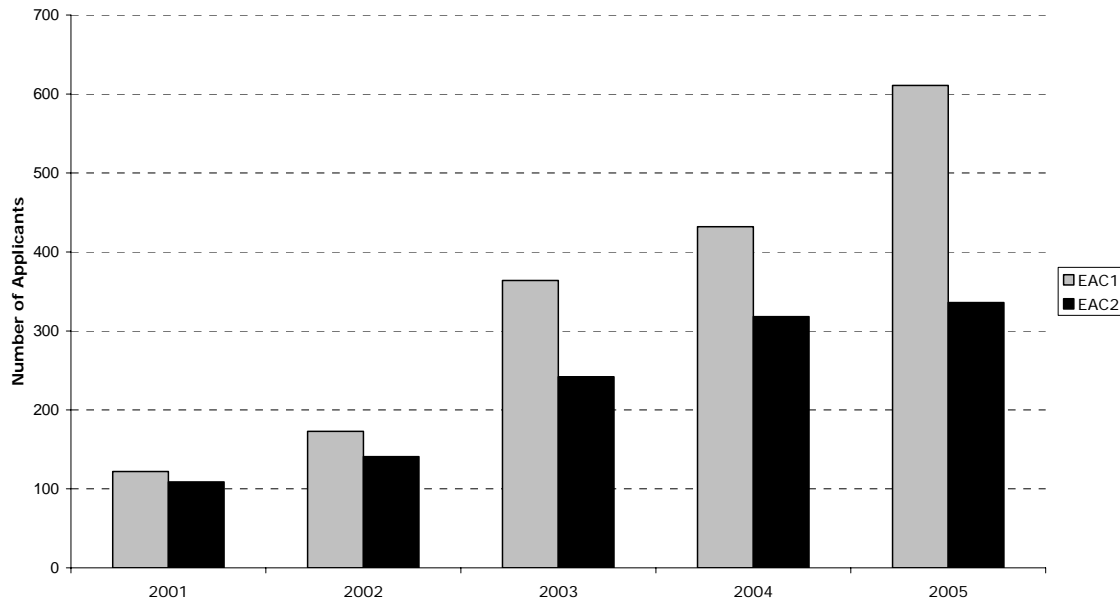
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<sup>11</sup> Berry (2004), p.10

<sup>12</sup> Hall and Berry (2003), p.20

<sup>13</sup> Berry (2004), pp.10-11; Hall and Berry (2003), pp.11, iv

**Figure 5: Numbers of Early Allocation Applicants for ACT Housing**



Source: DHCS (2005) Fact Sheets: Housing Register and Transfer Register

The average waiting time for EAC1 allocations in August 2005 was 189 days. In some areas this has meant a waiting period of up to a year for people who are acknowledged to be without a safe, affordable, secure home. Meanwhile, public tenants classified as EAC1 waiting for transfer wait an average of 351 days. Those seen to be in less urgent need of transfer – although agreed to be in unsuitable accommodation – wait an average of 724 days for EAC2 and 919 days for Standard Allocation Category 4.<sup>14</sup>

While population growth is difficult to predict precisely, the Canberra Spatial Plan identifies a projected demand for an additional 58,000 to 90,000 new dwellings in the ACT over the next thirty years.<sup>15</sup> It seems likely that the main growth will be in single person households and couples without children.<sup>16</sup> We would strongly recommend that public housing, at the very least, continues to comprise 9% of the ACT's total housing stock.<sup>17</sup> Given the consistently low amount of low-cost housing provided by private landlords, and other difficulties in private sector housing, it is critical that a strong and diverse public housing sector is maintained to supplement the private market.

<sup>14</sup> DHCS, *Fact Sheets: Housing Register and Transfer Register* (August 2005)

<sup>15</sup> ACT Planning and Land Authority (2004), p.36

<sup>16</sup> ACT Government (June 2005) p.15

<sup>17</sup> ACT Government (June 2005) p.15

The ACT should heed the dangers of adopting a public housing system similar to that in many other states (notably New South Wales), where a critical shortage of stock combines with increasingly punitive tenancy arrangements to create a dysfunctional, “ghettoised” housing system. Increases in Canberra’s public housing stock over the next 15 years will be needed to maintain the current percentage. However, even with this commitment in place, further innovative steps are still recommended to secure the future of Canberra’s public housing.

### **Targeting and security of tenure**

One solution that has been proposed for dealing with the problems experienced by Housing ACT is to only provide public housing to people in extreme crisis and to remove security of tenure, particularly for tenants paying market rent.

While this approach has a certain simplistic appeal, there is ultimately little to be gained by targeting public housing so tightly that its financial sustainability is threatened. In addition, there may be increased social costs that accompany this approach.

Recent changes in NSW to public tenancy laws illustrate the pitfalls of this approach. Some of the more problematic changes introduced in NSW include:

- Public housing will be targeted more tightly to people on very low incomes and/or with high and complex needs. Housing applicants will now be assessed explicitly for their social needs as well as their financial circumstances;
- Different tenants can be allocated leases of different lengths according to the severity of their situation; and,
- Tenants who have met all their obligations can still lose their housing when their fixed-term leases expire and they are deemed to be no longer in need.<sup>18</sup>

Such a system effectively ghettoises public housing as a last-ditch option for only the very poor, increasing social stigma and directly discouraging tenants from trying to improve their financial and personal circumstances. NSW housing and social advocacy groups fear these policies will in fact serve to mask the real extent of poverty by defining people in urgent need of public housing only as those with extremely low incomes and high personal needs. People who are simply poor and struggling will no longer be prioritised.

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<sup>18</sup> NCOSS (October 2005); Shelter NSW (May 2005); Shelter NSW and NCOSS (April 2005); Shelter NSW (December 2005) pp.4-6

Furthermore, such tight targeting combines ominously with social stigma and new punitive laws to punish difficult behaviour. This combination of factors may well lock some tenants (particularly those with mental illness) into a vicious cycle of needing to hit rock-bottom before they can access public housing, only to find reduced security and increased threat of eviction, which lands them homeless again.<sup>19</sup>

The removal of security of tenure for tenants who become able to afford market rent is also an issue of concern. Secure and affordable public housing has a vital role to play in enabling people to improve their personal circumstances. In a recent study by the Australian Housing and Urban Research Institute of 178 new public housing tenants, the majority reported that six months after moving into public housing, they had more money, less stress, fewer physical dangers around the home, and higher self-esteem. Over half the parents surveyed thought their children were now doing better at school.<sup>20</sup> While many factors contributed to these improvements, the relevance of having stable and secure housing should not be underestimated. In another 2005 study of 2326 households on public housing waiting lists, AHURI found that over half (57%) of the applicants surveyed nominated security of tenure as a major reason for wanting a public house.<sup>21</sup> It is clear that security of tenure remains an important element of the financial and emotional security that public housing offers.

While it might be argued that market renters can clearly afford to shift to the private market, this is not always the case. Being a public housing tenant by itself can be interpreted by some landlords as having a poor rental history. As discussed elsewhere, affordable housing in the ACT, even for people on middle incomes, is becoming increasingly difficult to access. Furthermore, certain households face particular economic and social uncertainties which may make the private market risky or inaccessible. These households include:

- people who face discrimination in the tight private market;
- people with disabilities who have trouble finding accessible private housing;
- people whose family members currently live with them and contribute to rent but will not always do so (this can include parents with young adult children who have just entered the workforce); and

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<sup>19</sup> NCOSS (October 2005); Shelter NSW (May 2005); Shelter NSW and NCOSS (April 2005)

<sup>20</sup> Phibbs and Young (2005)

<sup>21</sup> Burke, Neske and Ralston (2005)

- people whose job situations are unpredictable and changing. This may include people in casual employment, and people whose disability, mental illness or family responsibilities hinder them from sustaining well-paid jobs in the long term. (It should be noted that the numbers of people in uncertain employment circumstances will almost certainly increase with the recent introduction of Federal industrial relations reforms.)

For these tenants, having a higher household income at one stage in their lives is no guarantee of future security in the private housing market. This is also evident from HACT's 2004 finding that about a fifth of tenants moved back and forth between rental rebates and market rent over three years.<sup>22</sup> Pushing them out of public housing either through removing security of tenure or through charging them a flat 25% of their income in rent (over and above market costs), as has sometimes been proposed, makes it harder for them to save money or plan for a secure future.

The costs of such policies would impact not only on tenants but on the public housing system as a whole. As of 2004, market renters contributed about 40% of the total rent collected, despite making up only about half this percentage of tenants.<sup>23</sup> In its 2004 report "Review of Housing ACT Market Renters", DHCS ACT concluded:

*"Housing ACT, like other public housing authorities, uses rental income from market renters as an important component to help finance services it provides. ... market renters play an important role in the viability and sustainability of Housing ACT, both as an income source to help pay for services the organisation provides, and as an important contributor to the broader role of public housing being more representative of the community, and helping to sustain tenancies."*<sup>24</sup>

*"...The revenue derived from market renters can be viewed as a primary resource for the long-term sustainability of public housing in its current form."*

*As outlined throughout this report, Market Renters provide a significant source of revenue for public housing outside of the Commonwealth and ACT grants under the Commonwealth-State Housing Agreement (CSHA), amounting to around \$19m per year, or 18% of total revenues available to Housing ACT."*<sup>25</sup>

Proponents of removing security of tenure for market renters rarely provide a mechanism to replace the lost revenue. Moving toward a system where virtually all tenants are on rebated rents will quickly impose a heavy additional cost on the public housing sector, not only in terms of forgone rent but also due to the high levels of personal and tenancy support required by tenants with complex needs.

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<sup>22</sup> Department of Disability, Housing and Community Services (2004), p.27

<sup>23</sup> *ibid.*, p.37

<sup>24</sup> *ibid.*, p.6

<sup>25</sup> *ibid.*, p.43

Naturally, this is not to argue that people with very low incomes or high needs do not urgently require public housing. Rather, it is an argument in favour of expanding the public housing system to encompass a greater social and financial mix.

ACT Shelter and ACTCOSS advocate that the policy of security of tenure be retained, and that an objective of recovering a certain percentage of funds through leasing to market renters be adopted. While more work will be required to calculate the precise amount of returns needed, the funds recovered from market renters should be sufficient (along with other sources of Housing ACT funding) to enable the public housing system to operate sustainably – including a reasonable expansion and maintenance of stock – without going into serious long-term deficits.

It should be stressed that the issue here is not simply the question of whether market renters should be permitted to stay in public housing (although we believe they should), it is also the question of how to ensure the long-term sustainability and survival of the public housing system. As Hall and Berry point out, one reason for the financial success of a number of social housing bodies in Europe is the fact that their tenancies are not rigidly targeted; their comparatively large numbers of tenants in paid work allows them to meet their costs whilst also providing housing for other tenants on lower incomes.<sup>26</sup> Some European countries, including the Netherlands and the Scandinavian countries, have long-running social mix policies in their social housing sectors.<sup>27</sup> While any similar changes in the ACT would of course have to be negotiated in terms of the Territory's targeting obligations under the Commonwealth State Housing Agreement, an expanded system should still be able to house high numbers of priority applicants whilst also becoming more accessible to people in less urgent need.

### **Future location of public housing**

The question of where new public housing properties should be located remains important. The Minister's Housing Advisory Forum (2005) has recently observed that the redevelopment of existing public housing sites provides an opportunity to sell off a proportion of sites and build new properties elsewhere. This, they note, is especially relevant in light of the fact that applications for public housing as of November 2005 demonstrated slightly less demand for housing in the Inner North and a greater demand for housing in Belconnen/Gungahlin.<sup>28</sup>

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<sup>26</sup> Hall and Berry (2003), pp.viii, ix, 120-21; see also Milligan, Phibbs, Fagan and Gurrans (2004), pp.27-28

<sup>27</sup> Milligan, Phibbs, Fagan and Gurrans (2004), p.33

<sup>28</sup> DHCS (December 2005)

While the supply of public housing obviously must be linked to where people wish to live, we would urge some caution in the geographical transfer of housing stock. More centrally located housing is important for a significant proportion of tenants (particularly people with disabilities or transport difficulties), for whom housing is more appropriately located near the City centre or close to Town Centres. We would also emphasise the importance of maintaining the ACT's positive policy of social mix, to avoid public housing being "ghettoised" in the poorest suburbs (which in turn makes it additionally difficult for tenants to access the best employment, educational and social opportunities). It should be noted, too, that if some public housing stock is shifted away from the inner suburbs, the priority of ensuring that this housing is still located close to public transport, shopping facilities, medical facilities, schools and Centrelink becomes, if anything, more important.

# TAXATION AND SUBSIDIES

## **Property taxes form a large part of ACT Government revenue**

Property taxes and charges contribute a large component of the ACT's own-source revenue. In 2005-06, the Territory is expected to reap some \$366 million from the four major ACT property taxes, being rates, land tax, stamp duty, and the change-of-use charge.<sup>29</sup> At the same time, the Government has appropriated some \$32 million for Housing ACT, plus a capital injection of \$5.6 million, although it receives some \$18.8 million from the Federal Government for this purpose through the CSHA. While the ACT also expends considerable resources on services for the homeless, it is clear that the ACT receives far greater revenues from the housing sector than it spends.

Of course, property taxes have always been used by State and Territory Governments as a source of general revenue. Yet while acknowledging the importance of property taxes as a source of funds for government services, it is also critical to examine whether there are ways to improve revenue collection to minimise the impact on low-income households, as well as to maximise opportunities to promote affordable and appropriate housing.

## **Federal subsidies for the housing market are extensive**

While this paper intends to focus upon ACT Government policy, it is worthwhile briefly noting the Federal policy environment, which has large effects on the investment decisions in the ACT.

A recent paper examining the value of housing taxes and subsidies found that the Commonwealth provided in excess of \$30.4 billion in subsidies to the private housing market, the bulk of which comprised tax concessions resulting from not taxing imputed rent, concessions on capital gains tax, and not charging GST on rents.<sup>30</sup> However, this was substantially offset by Commonwealth, State, Territory and Local Government taxes on property amounting to some \$23.4 billion, resulting in net housing subsidies of around \$7 billion from all levels of government.

Viewed from this perspective, the housing taxation and subsidy system in Australia is a case of 'swings and roundabouts', with concessions and subsidies at one level of government being clawed back by taxes at another – with the net result a transfer of funds from the Commonwealth to the States and Territories. It is also apparent that the high level of both taxes and subsidies in the property market mean that this market is highly distorted; a fact which is unlikely to change in the foreseeable future.

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<sup>29</sup> Department of Treasury (2005)

<sup>30</sup> Abelson (2005), p.9

A recent report of the Productivity Commission found that the tax concessions for housing substantially privileged owner-occupiers.<sup>31</sup> This distortion means that owner-occupier housing likely has a greater share of the housing market than would otherwise be the case. While owner-occupied housing clearly has a number of social benefits, the 'over-investment' in owner-occupied housing has implications for affordability, in particular for the provision of affordable private rental housing.

## Principles of taxation

There are a number of different and often competing objectives for taxation policy. These are often summarised as general principles for the design of taxation systems. In this context, they can also be used to assess the appropriateness of ACT property taxes, including their effect on affordability. The European Commission has summarised the principles as follows:<sup>32</sup>

- **Vertical equity:** Taxes should fall more heavily on those with a greater ability to pay. This is particularly useful in assessing the impacts on affordability and income-inequality in the ACT.
- **Horizontal equity:** People in the same situation should receive the same taxation treatment. One application of this concept might be whether those paying similar housing costs are paying similar property taxes, regardless of their tenure.
- **Efficiency and neutrality:** Taxes should minimise any resulting changes in economic behaviour, with the exception where the government is explicitly correcting 'market failures' or stimulating the consumption of 'merit goods'.
- **Effectiveness:** Taxes should generate the required amount of revenue and set the desired incentives.
- **Simplicity, Transparency and Certainty:** Taxes should minimise the administrative costs of collection, the level of taxation should be observable, and both taxpayers and government should be able to accurately predict the level of taxation.
- **Consistency and coherence:** The nature of the transaction should not affect its taxation treatment. For example, this would mean that the purchase or hiring of equipment by a business should be treated equally (i.e. by accounting for depreciation). Similarly, it is arguable that properties should be taxed similarly regardless of their tenure.
- **Flexibility:** A tax regime should be able to anticipate changes in the taxable base over time so as not to threaten its revenue-generating ability.

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<sup>31</sup> Productivity Commission (2004)

<sup>32</sup> European Commission (2004)

- **Enforceability:** Taxes must have a proper basis in law and be able to be enforced; systems with poor enforceability are unlikely to be either equitable or efficient, and lead to tax avoidance or even corruption.

Naturally, it is virtually impossible to satisfy all of these criteria, meaning that governments need to prioritise those principles that they hold to be the most important. ACTCOSS and ACT Shelter would contend that the equity principles should be considered the most important, even if they impinge on the achievement of some of the others.

The four main ACT taxes and charges on property are leveraged on a different basis and at different rates. As such, they are likely to have differential effects on affordability in the housing market. In addition, the possibility of providing rebates or concessions on these taxes may be a useful strategy to leverage additional investment into affordable housing, or assisting in better allocating housing stock to those most in need. This section briefly outlines the nature and effects of these taxes.

### **General rates**

General rates are estimated to generate some \$142 million in 2005-06.<sup>33</sup> Rates are levied on the 'average unimproved value' (AUV) of a parcel of land, which is a statistical estimate of the value of a piece of land excluding the value of any buildings on it, averaged over 3 years. Currently, rates are charged at a fixed \$392, plus 0.03622% of the AUV in excess of \$22,000.

Rates have the advantage of having a large tax base, a relatively low rate, are paid at regular intervals, meaning they are a holding tax rather than a transaction tax, which is less distortive. Further, rates are levied on owners equally, irrespective of whether the property is used for owner-occupier or rental accommodation, and the total taxable base is able to be reasonably predicted and tax rates adjusted to secure a given amount of revenue.

However, rates are levied on the unimproved value rather than the total value of a property. While the rationale for this is that the land supply is relatively inelastic and that this taxable base does not interfere with development incentives, it also arguably is less equitable in terms of horizontal equity, as the proportion of land value in the final property value varies widely. Furthermore, the tax is relatively flat, and so does little to provide an incentive for affordable housing. Finally, the rates do not take into account the size or type of property, so that an 'affordable' family house may pay proportionately higher rates than a 'luxury' one-bedroom apartment.

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<sup>33</sup> Department of Treasury (2005), p.110

## **Land tax**

Land tax is estimated to generate some \$58million in 2005-06.<sup>34</sup> Land tax is levied on the same tax base as general rates; however, it is only paid on property that is for rent or is owned by a company or trust. Unlike rates, land tax is levied at a progressive rate, rising from 0.6% to a top marginal rate of 1.4% for properties with an AUV of over \$275,000.

The historical rationale for levying a separate tax on residential property used to generate income is that commercial landlords have a greater ability to pay. However, this does not take into account the fact that at least part of this tax is passed onto tenants, who may be financially disadvantaged, and are likely to have fewer resources than owner-occupiers. In addition, this additional tax may reduce the supply of rental accommodation generally, meaning that it places two-fold pressure on rental prices. Consequently, it also privileges owner-occupied housing, which is exempted from the tax.

Secondly, while the progressive tax structure will have some effect in terms of directing investment towards the affordable end of the market, it shares the same problems as general rates in that it only taxes unimproved values and does not account for differing housing size.

Finally, land tax is leveraged on a narrower base at higher tax rates, and so is far more distortive than general rates.

## **Duties on conveyances (stamp duty)**

After payroll tax, stamp duty is the ACT Government's largest source of self-generated tax revenue, estimated to generate \$161million in 2005-06.<sup>35</sup> Like land tax, it is levied on a progressive scale, stepping up from 2% to a maximum marginal rate of 6.75% for purchases over \$1million. As such, it can add a significant amount to the cost of property purchases.

Unlike general rates and land tax, it is levied on the total price of a property, not simply the unimproved land value, and is levied on a far more progressive scale. However, as a transaction tax, it has a far greater potential to affect economic behaviour, particularly through a 'lock-in' effect, whereby purchasers face a disincentive to change to a more appropriate property as this would mean having to pay an additional taxation charge. Furthermore, it falls more heavily on home purchasers, who are likely to be less wealthy than those who have remained in their homes for a long time. Moreover, it acts as a disincentive to potential landlords, who need to recoup the tax from their investment, as well as reducing the liquidity of the asset.

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<sup>34</sup> *ibid.*

<sup>35</sup> *ibid.*

Another drawback of stamp duty, which has become particularly salient recently, is that it is an unreliable and volatile source of revenue. The recent housing boom produced a 'windfall' in stamp duty revenue, through both increasing prices as well as increased property transfers. Yet after the boom, revenue has ceased to grow at the same pace, and the Territory has found, once again, that its costs are growing faster than its revenue.

### **Change-of-use charge**

The change-of-use charge is a 'betterment tax' that is levied when a lease variation is approved for a property resulting in a more valuable land usage (e.g. the ability to build unit development). The charge seeks to capture 75% of the 'value added'. Compared to the other property taxes, the change-of-use charge is not a significant revenue source, estimated to contribute only around \$4million in 2005-06.<sup>36</sup>

At various times ACT Governments have suggested abolishing the change-of-use charge, or replacing it with a more effective tax, such as an 'infrastructure charge', although what this might entail is not entirely clear. The change-of-use charge is also considered to be administratively complex, taking a proportionately large amount of resources to calculate and collect.

### **Concessions**

A number of concession and exemption schemes accompany these taxes. These frequently serve a number of different public policy purposes, although they are primarily targeted at reducing housing costs. That being said, it is questionable whether the foregone revenue is most effectively utilised by the existing system.

The general rates system is subject to a pensioner rebate, whereby eligible pensioners receive a discount on their rates bill. This equals 50% of the rates due for pensioners who became eligible for assistance before June 1997, or up to \$365 for those who became eligible afterwards. In addition, pensioners and other people in need are eligible to defer their rates bill until their property is sold (which may be after their death).

In addition to the general exemption for owner-occupiers, the land tax system includes exemptions for retirement villages and aged care facilities, as well as for not-for-profit housing organisations. Exemptions also apply to rural and broadacre land, or for compassionate reasons.

The Government also has a home buyer concession scheme which exempts purchasers from stamp duty. The scheme has a (fairly generous) means-test, adjusted for family size, and gives a full or partial exemption from stamp duty for properties costing up to around \$390,000.

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<sup>36</sup> *ibid.*, p.118

The change-of-use charge has a number of circumstances in which it can be waived, which are not always clearly defined. For instance, the Land Regulations state that the charge must be remitted in circumstances where "it is necessary or desirable to promote development in an area".

### **Large scale changes are difficult, but some changes are possible**

It is necessary in any discussion of taxation reform to take account of the political environment in which this occurs. Changes to taxation tend to attract a great deal of popular attention, and so while a radically different tax structure might be theoretically more attractive, in practice it can be difficult to implement. Similarly, large-scale tax cuts might be politically popular, but may well undermine the revenue capacity of government to fund necessary services.

Despite this, it is also not true that tax policy remains changeless. Taxes are frequently indexed or readjusted, for example, the exact rate for general rates is slightly altered each year to maintain the revenue base. By altering the means of tax adjustments, a different taxation system can be progressively introduced.

Alternatively, well-targeted rebates or concessions can alter housing consumption and investment decisions without undermining the tax base. Through these mechanisms, rebates and concessions targeting the supply of affordable housing could improve the relative returns to low-cost housing and stimulate the retention, utilisation and construction of affordable housing.

### **Adjusting the taxation system**

Currently, the taxation rates for general property rates are adjusted each year by systematically altering the exact tax rate leviable. However, the same revenue could be collected by instead altering the size of the fixed component, or by increasing the tax threshold. While the change each year would only be marginal, consistent changes over the long term would result in a far more progressive taxation system, making lower-cost land parcels relatively more attractive for both purchasers and investors.

Similarly, in the last budget, the thresholds for land tax were adjusted to maintain the real levels of taxation for existing properties. However, this could have been as easily achieved by introducing a tax-free threshold, altering the relative attractiveness of low-cost properties. A further consideration for land tax is to follow the practice in other jurisdictions and extend land taxes to high cost properties regardless of their ownership, or include second houses (e.g. holiday houses) despite the fact that they are not formally tenanted. This additional revenue could offset cuts to lower-priced properties or other exemptions or concessions for affordable housing.

By the same token, while the rates of stamp duty have not been altered for some time, there is scope to continue to steepen the progressivity of these taxes to reduce the burden on lower-priced properties.

Alternatively, there may also be capacity to review the targeting of existing schemes, particularly as these tend to favour owner-occupiers.

There is further scope to make more radical changes, such as moving to a system of taxation based on market values rather than AUV, or at least some interpolation that moves closer to this ideal. This could involve some complex legislative changes, not least to protect government revenues against legal challenges. Yet it is certainly possible, as the market rent-setting policies of the public housing system demonstrate. Such a system would likely be more equitable, particularly if combined with a heavily progressive tax scale.

### **Affordable housing rebates**

One possible effective way to leverage additional supply of affordable housing could be to exempt not-for-profit housing associations from rates, stamp duties, and the change-of-use charge (they are already land tax exempt). This could help cross-subsidise the provision of affordable rental housing, and help build the financial capacity of the not-for-profit sector. It could also assist not-for-profit housing providers attract to additional private sector investment. Given the existing size of the not-for-profit housing sector, this would also have only a small impact upon revenue in the short term.

A similar proposition would be to exempt private providers of low-cost rental accommodation by remitting rates, land taxes, and/or stamp duties for private investors. This would increase the attractiveness of investing in this part of the market. Any such program would need to be tightly targeted in order to minimise the impact of foregone revenue, but a number of targeting or contractual methods could be utilised. These include tying any rebates to rent levels, for example through the registration of residential tenancy agreements. Other possibilities might include a requirement to house tenants otherwise eligible for public housing assistance; ensuring that dwellings are fully occupied in order to qualify for assistance; or time-limiting rebates to new housing in order to stimulate construction. Given the extent of taxation of the property sector, there is a great deal of leeway to use tax differentials to leverage greater supply of affordable housing

### **Affordable housing subsidies**

Naturally, it is equally possible that the ACT Government could devise a scheme to provide direct subsidies for non-government affordable housing providers, whether not-for-profit or otherwise. Indeed, there is already substantial funding allocated to the community housing sector, and ACT Shelter and ACTCOSS understand that a more transparent system of allocating these funds is nearing completion.

Despite this development, direct subsidies are likely to be required at increased levels if the ACT Government intends to facilitate an expansion of the affordable housing stock through non-for-profit growth providers, or the private sector. Like tax rebates, an affordable housing subsidy could be narrowly targeted to ensure efficient use of public expenditure to promote affordable housing, using a variety of mechanisms.

There are a number of considerations that might be brought to any tax rebate or subsidy scheme, and full costings as well as the legal ramifications, including privacy laws, would need to be examined in greater detail than is possible here. ACTCOSS and ACT Shelter would encourage the ACT Government to engage in a detailed scoping of the potential for tax reform, rebates and subsidies to stimulate not-for-profit or private sector development of affordable housing, with a view to determining the best model for maximising leverage from expenditure or foregone revenue.

# FINANCING AFFORDABLE HOUSING

As housing affordability has increasingly declined over the last decade, there has been additional interest in examining the options for generating additional investment, whether public or private, in affordable housing. This section briefly outlines a number of options.

## **Debt financing**

With the increased focus on economic management in political debate, the possibility of debt financing is frequently overlooked. While debt financing for recurrent expenditure is universally agreed to be poor fiscal management, housing is a productive, appreciating asset that can strengthen a government's asset base as well as promote social stability. Governments need to be able to develop the appropriate accounting tools in order to distinguish between debt financing and deficit expenditure.

Indeed, while the ACT Government is currently predicted to be in deficit, it has an extremely good credit rating and is able to borrow against its large asset base. Ironically, it is precisely the ACT Government's comparatively large holdings of public housing that make up a large part of these assets. From this perspective the ACT Government's relatively high proportion of public housing assets contributes to the strength of its economic management.

The major strength of debt financing is that the ACT Government has an extremely good credit rating, and can thus borrow funds at low interest rates. The low cost of capital that the government can purchase is thus one of the most efficient means of raising capital for affordable housing, as the private sector and not-for-profit providers generally face a higher cost of capital.

## **Hypothecated revenue stream**

A barrier to direct government funding of affordable housing, particularly through funding public housing or providing support for community housing, is finding the requisite revenue among a large number of competing priorities. However, if the ACT government designated all or part of a particular revenue stream to provide this funding, or alternatively, implemented new revenue initiatives that were assigned to the provision of housing, part of this barrier could be more effectively overcome.

While the ACT Government has previously been reluctant to implement hypothecated revenue streams, it recently committed to legislating for a “City Heart Levy” – a specific tax on businesses in Civic hypothecated to improve the attractiveness of the city centre. Similarly, the ACT currently hypothecates the interest revenue from rental bonds to fund an advice service for tenants. It is also notable that other jurisdictions are increasingly using hypothecated revenue streams. The NSW Government, for example, hypothecates a number of revenue streams to a transport infrastructure fund, and recent increases in gaming machine taxes were hypothecated to provide for hospital services.

There are a number of possible candidates for a hypothecated revenue stream. Fixing all, or a proportion of, revenue from land sales is one option, especially as this revenue is not actually recurrent revenue, but the proceeds from asset sales that could be reinvested in alternative property assets (i.e. housing). Alternatively, all or part of one or more of the existing property taxes could be utilised, or the proceeds from any development levy associated with an inclusionary zoning proposal.

### **Headleasing properties from the private sector**

As an alternative to procuring large amounts of capital for the purchase of public housing, it is possible to supplement the social housing stock relatively quickly by headleasing properties from private investors for a specified period. This is currently an option being pursued by the Commonwealth Government’s Defence Housing Authority.

While this option avoids the upfront costs associated with direct purchase or construction of social housing, it requires the ‘gap’ between the market rent and the rent charged to public tenants to be covered by Housing ACT, meaning that it carries a recurrent cost to the ACT Budget. Moreover, there are questions about the level of security of tenure that this system would provide, particularly if headleased properties were required to be handed back to private owners at some specified time, or in the case of a private owner defaulting on their mortgage repayments.

Furthermore, this option does nothing to expand the supply of new affordable housing. Simply shifting low-cost housing from the private sector to the public sector will do little to expand the choices for low-income and disadvantaged people in Canberra. It could actually result in a reduction of affordable rental housing in the private market for people who fall just outside eligibility criteria for Housing ACT. ACT Shelter and ACTCOSS do not view this as an optimal path to pursue.

## **Public-private partnerships: outsourcing and joint ventures**

A recurring theme in many areas of government service provision is an increasing willingness to engage with private or not-for-profit providers to improve the efficiency or effectiveness of government service delivery. There is the possibility that this could be extended to the development and/or provision of public housing.

ACTCOSS and ACT Shelter would sound a note of warning for any such arrangements. Partnerships entered into by Government with non-government bodies with the aim of increasing the provision of affordable housing, should ensure that this is of long-term social and economic benefit to the ACT community.

It must be remembered that public housing is both an economic asset and a social investment for the Territory. Given that partnerships with private bodies can result in substantial benefits to these private partners, it is important that the Government be able to demonstrate that they provide greater benefits to the community than could have otherwise eventuated. For instance, there is evidence to suggest that joint ventures to redevelop public housing blocks could result in greater retention of public housing than would ensue if the property was taken to the market as a typical sale.<sup>37</sup> However, this is only part of the issue; it is also crucial to consider whether such ventures result in greater benefits than would occur if Housing ACT retained and/or redeveloped the properties themselves.

ACT Shelter and ACTCOSS would regard joint ventures as preferable to the outsourcing of public housing management, given their contractual nature, which can place constraints on future policy and actions by Government. The Government needs to be able to respond to changing social, economic and environmental developments, and we would express concern that contracts between Government and private investors can limit the Government's capacity to develop responsive policy, particularly if the contracts extend for several decades. If any partnerships with the non-government sector are entered into, we would strongly recommend that contracts do not include items that would limit changes to Government policy.<sup>38</sup>

As a potential alternative to joint ventures and outsourcing arrangements, we would suggest that the Government investigate the possible usefulness of alliance contracting, a more equitable and collaborative method currently becoming more prominent in the business sector (although largely untried within social housing). Alliancing is based on equitable sharing of risk and reward between all contracting parties, to be conducted in atmosphere where transparency, cooperation and a shared commitment to common goals are emphasised.<sup>39</sup>

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<sup>37</sup> DHCS (December 2005), p.5

<sup>38</sup> NCOSS (2005), pp.3-4

<sup>39</sup> Association of Consulting Engineers (2005), pp.3-9

In any projects entered into with the private sector, we would urge adherence to certain basic principles. Echoing the 2005 recommendations of the New South Wales Council of Social Service (NCOSS) on private investment in social housing, we would encourage the following criteria to be adopted when assessing whether a particular proposal be supported:

Proposals for the provision of social housing involving the private sector should:

- Result in an overall increase in public or community housing stock;
- In any proposals involving the redevelopment of existing housing estates, the preferred tenure outcome is a ratio of private to social housing that favours current and future social housing residents;
- If the proposal does not lead to additional social housing stock onsite, then all revenue gained should be dedicated to increasing social housing stock in an area with good infrastructure and access to services;
- The process must be transparent and include a public interest evaluation. This evaluation should involve all stakeholders and be made into a publicly available document;
- All proposals must include a comprehensive social and environmental impact assessment;
- Any partnerships which will affect current tenants must involve consultations with these tenants prior to the development of proposals. (Lessons should be learned from the unsuccessful redevelopment of the Minto estate in NSW, where lack of proper communication and consultation with tenants caused severe stress, disruption and anxiety.<sup>40</sup>);
- Any projects must take into account the proper provision of adequate open space and privacy;
- Any projects affecting current public housing should not require tenants to relocate unless absolutely unavoidable. If tenants must relocate, care should be taken to cause only minimal disruption to their lives, and those tenants with strong connections to the local community should be given prior relocation in that area;
- The full costs of relocation should be met by the Department;
- The rights of existing tenants should be respected at all times;

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<sup>40</sup> New South Wales Federation of Housing Associations (2005), pp.8-10

- Any projects which involve the redesign of current estates should guarantee all existing tenants quality housing in the renewed estate (if they wish), as well as a clear timeframe for when this will occur;
- All projects must involve consultation with relevant peak bodies; and
- Any proposals should be of demonstrable financial benefit to the Department of Disability, Housing and Community Services.<sup>41</sup>

Particular concerns exist about using partnerships with private bodies to redevelop public housing estates. While such partnerships have the potential to help replace old and inappropriate public housing stock and promote social mix, there are some serious pitfalls to avoid. Of particular concern is the risk that such partnerships will result in great benefits to the private partners (through access to prime real estate, to be sold at high or medium prices) and severe reduction of public housing stock. Any such proposals should be approached cautiously and must demonstrate clear and significant benefits to the ACT that outweigh the Government costs involved. As NCOSS asserts, *“Private investment in human services infrastructure needs to ensure a social return to the community that is as explicit as the commercial return to the financial backers.”*<sup>42</sup>

### **Affordable housing bonds**

A national research consortium, including national peak bodies from both the community and business sectors, conducted research several years ago into the optimal means of increasing the supply of affordable housing. Their preferred option was a housing bond model, whereby Governments sold bonds to private investors with a guaranteed minimum return. This method was interpreted to be the best means of using public funds to leverage private capital, particularly from institutional investors such as superannuation funds that are seeking long-term, stable investments.<sup>43</sup> Similarly, the ACT Government’s Affordable Housing Taskforce research found that the most effective use of public funds to increase affordable housing included use of this strategy.<sup>44</sup>

The housing bond model can be utilised directly by governments for their public housing portfolios or alternatively, can be used for secondary investment into not-for-profit housing. This latter model may allow governments to share the risk, as well as building the capacity of the not-for-profit sector.

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<sup>41</sup> NCOSS (2005), pp.8-9

<sup>42</sup> *ibid.* p.3

<sup>43</sup> Affordable Housing National Research Consortium (2001)

<sup>44</sup> Affordable Housing Taskforce (2002)

## **A housing investment vehicle**

In contrast to debt financing or affordable housing bonds, which are both 'debt' instruments, there is also the possibility of leveraging private investment through 'equity' instruments. One such proposal is to create a privately listed company that includes both public and private capital, but with the limitation that the public investment is 'subordinated', that is, the government may lose its equity share to protect private investor returns. Such a company would also likely require some level of government assistance, either through tax concessions, land grants, planning bonuses, or direct subsidies in order to be viable. Over the long-term, the company would be expected to become increasingly more sustainable as it allows private investors to access the capital gains available from property investment, with reduced risks.

The model shares some of the problems with outsourcing of public housing, as it likely involves ceding control of affordable housing to a private company and transfers the appreciation of assets to the private sector. ACTCOSS and ACT Shelter believe this option needs a great deal of additional consideration before any proposal is put forward and should be tested on the same criteria as public-private partnerships, as previously listed.

## **Shared equity**

There has been increasing interest in equity models for owner-occupiers. The most commonly cited form is that investigated in a paper produced by the Prime Minister's Home Ownership Task Force<sup>45</sup>, which is designed to allow institutional investment in owner-occupied housing. The essential concept is that an institutional investor would contribute a proportion of the investment cost of purchasing housing, and receives all or part of the capital gain when the property is sold. A similar concept is the so-called 'reverse mortgage' where older people can borrow against the accumulated equity in their homes for current expenditure without losing their tenure.

ACT Shelter and ACTCOSS have a number of concerns with these proposals. Firstly, these schemes are not well-regulated in Australia and there may not be sufficient consumer protection instruments in place. Secondly, there is concern that commercial shared equity or reverse mortgage products may disadvantage consumers, leaving them financially worse off in the long term or carrying the bulk of the risk in the transaction. ACTCOSS and ACT Shelter would encourage Governments to complete a detailed investigation of any proposed shared equity models and ensure sufficient consumer protection laws are in place before any such schemes are allowed or endorsed by government.

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<sup>45</sup> Caplin et al. (2003)

There is also the possibility that shared equity schemes could be made available through public finance. There is particular interest from older people who have modest savings who wish to purchase older persons' accommodation but have insufficient funds to do so. It is possible that this could provide an option for shared investment by the public housing system, with part of any capital gain returning to public housing, while allowing the Territory to more widely disperse limited public housing capital. Thought needs to be given to how eligibility for such as program would be determined, as a shared equity scheme should not result in a reduction in public housing for people in need.

### **Shared housing**

A largely ignored part of the housing market is shared housing. It is increasingly common for low-income singles in particular to share rental properties. There is also a growing utilisation of shared purchase for people who would otherwise find it difficult to achieve home ownership alone. The core concept of this method is that two or more purchasers jointly purchase a residence, with a commensurately lower purchase price per person. With a shorter repayment period, the investors jointly reside in the property until the mortgage is repaid, and then the property is sold, allowing each participant the opportunity to accumulate capital rather than pay rent.

Yet there are complex legal difficulties with these arrangements, not least the question of how to handle a situation where one participant needs to move or wishes to liquidate their share. Improved regulatory controls may reduce the risks and increase the usage of this alternative path to home ownership.

Shared rental arrangements are also increasing as a proportion of ACT households. Shared tenancies represent one response to declining household size in a market where detached houses are the predominant housing product. In this way, shared tenancies increase the utilisation of existing housing stock, allowing the market greater time to adjust. Again, there are also difficulties with the legal and financial rights and responsibilities of multiple tenants, particularly when many are young people who may have relatively little experience with tenancy law or financial management. There may be scope to improve the legal standing of shared tenancies, or to improve public education and advice to ensure that these arrangements operate more smoothly.

## **Regulating and supporting community housing and not-for-profit affordable housing growth providers**

Like public housing, the community housing sector has also suffered from the relatively low amount of support provided through the Commonwealth State Housing Agreement, compared to the much higher amounts spent on tax incentives and home owners' grants for better-off households. The ACT's community housing sector also faces additional challenges, being comparatively small and diverse, demonstrating a range of different philosophical approaches to housing and different definitions of affordability.<sup>46</sup>

While the term "community housing" generally refers to all not-for-profit non-government providers of housing, whether subsidised by government or otherwise, this paper also considers a sub-group of the community housing sector, which will be referred to "not-for-profit affordable housing growth providers". These organisations are distinctive in that they seek to actively build affordable housing properties in addition to property management or tenant support. A prominent local example is Community Housing Canberra.

We see the not-for-profit affordable housing growth providers having an important role to play in the provision of affordable housing in the ACT. Of particular significance are the opportunities these organisations provide for strengthening communities and that they can increase their stock through private borrowing, without affecting the public balance sheet. A broad social mix across the community housing sector generally is to be encouraged, to avoid community housing being conceptualized as part of a tiered system, potentially "above" public housing. We would encourage Government support for placing the community housing sector in a position of long-term sustainability.

To this end, we would argue that not-for-profit affordable housing growth providers could be strengthened considerably through the development of a clearer and stronger overarching policy framework. But, there are several points that need to be stated more explicitly than they are currently. Firstly, a workable definition of affordability based, for example, on after-housing income could provide much greater clarity about the expectations of Government, the role of not-for-profit providers, the tenant mix and rental rates necessary to enable growth providers to achieve sustainability.

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<sup>46</sup> Community Housing Federation of Australia (2004), pp.3-5

Secondly, the community-strengthening role of community housing needs to be clearly articulated. The role that community housing organisations can play in improving housing access, personal and social development and economic participation can be very significant, but at present often remains implicit.<sup>47</sup> We would encourage social objectives to be clearly stated as part of community housing management and resourced accordingly.

Furthermore, in recognition of the fact that the expansion of not-for-profit housing will require sector growth in some areas and greater leveraging of private finances, stronger regulatory frameworks would seem to be required. Greater regulation of the whole sector is not necessarily desirable, as it is recognised that many community housing bodies are quite small and will not seek to become affordable housing growth providers. These smaller bodies should continue to be recognised and supported, but will probably not be part of significant sector growth through regulation and seeking private funds. It therefore seems reasonable to argue that future growth of the sector will require a greater focus on growth providers, and we agree with the NCHF's call for a tiered regulatory system –

*“...which acknowledges that while some community housing organisations will seek to participate in the delivery of [large scale] affordable housing, many will not. This implies that higher levels of public scrutiny and powers of intervention will be appropriate for larger growth affordable housing providers, while lower levels of accountability will be appropriate for traditional community housing organisations.”<sup>48</sup>*

For those housing bodies that seek to become growth providers, we would encourage greater regulatory frameworks with broader goals for the sector's development and clearer definitions of the degree of financial and planning support the Government is prepared to provide.

Barbato, Clough, Farrar and Phibbs' 2004 study indicated that this idea was welcomed by many providers and administrators, who saw it as encouraging greater capacity, innovation and professionalism. Significantly, this study also found that a stronger regulatory framework would make private investors more likely to invest in community housing. Here, the scale and capacity of not-for-profit housing to manage private sector loans is important, and this can be built up through continuing commitments from Government to maintain and strengthen the sector.

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<sup>47</sup> Barbato, Farrar and Phibbs (2003)

<sup>48</sup> NCHF (2005), p.6

Issues of particular importance here include Government commitments to ensuring the ongoing subsidy levels, tax benefits and adequate rent assistance needed to guarantee the future stability of the sector. Regulatory functions that would make the sector more attractive to private investors would include protecting against failure of housing organisations, enabling better risk management and providing greater transparency in management practice. As the National Community Housing Forum has pointed out, there is also a need for housing providers to be supported in building their capacity in property development, commercial law, risk analysis, performance monitoring and reporting, as well as project, financial and asset management.

Thus, in order for the not-for-profit sector to play a strong role in the provision of affordable housing, there needs to be greater strength and clarity in Government policy requirements and commitments, rules of engagement and expectations of performance, and investment in the capacity-building and skills development of the not-for-profit housing sector.<sup>49</sup>

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<sup>49</sup> Barbato, Clough, Farrar and Phibbs (2004); NCHF (2005) pp.3-9; Milligan, Phibbs, Fagan and Gurrán (2005); Milligan, Phibbs, Fagan and Gurrán (2004), p.v

# **BETTER PLANNING AND DEVELOPMENT**

## **Inclusionary Zoning: Models and Possibilities**

Inclusionary zoning policies are regulatory instruments used to encourage or require the provision of affordable housing as part of residential developments. Urban planning regulations have always had important effects on the supply of affordable housing, through their control over factors such as the availability of residential land, the design of new housing, the preservation of existing low-cost housing and the timing and costs of development. Inclusionary zoning, however, is a more proactive and systematic way of ensuring that planning regulations encourage the provision of affordable housing. The affordable units provided are usually a set proportion of the overall size of new developments, or take the form of in-lieu fees to build housing elsewhere. The resulting units are then rented or sold to qualified households at affordable prices. Inclusionary policies are usually accompanied by various incentives to developers to provide this affordable housing, which is discussed below.

### **Inclusionary zoning is common internationally**

Inclusionary zoning policies are evident in a number of countries, particularly the USA and Canada. It is also encouraged in London, as part of the city's overall target of making 50% of all new housing affordable.<sup>50</sup> Interest is also starting to develop in some Australian states. In 2005 the South Australian government undertook to ensure that 10% of new developments with 20 or more units would be set aside for affordable housing. The new Balfours / Bus station project in Adelaide has pledged 15% of its 1300 apartment development for affordable housing (about 195 units) for students and people on low-to-moderate incomes.<sup>51</sup> The NSW government's 2005 "City of Cities" metropolitan plan also allows for the provision of inclusionary zoning, a policy which had already been adopted in various forms by some local councils, including Waverley, North Sydney and Willoughby, and in some specific developments, including Green Square and City West.<sup>52</sup>

### **Inclusionary zoning is a low cost option to boost supply**

Inclusionary zoning can be an important source of affordable private rental and/or for-sale housing. It is widely regarded as an effective way for governments to generate more affordable housing without having to contribute a heavy initial subsidy. Inclusionary zoning helps to make the increasingly expensive private market accessible to people in the lower income quintiles, easing the strain on the public housing sector and promoting social inclusion and integration.

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<sup>50</sup> Shelter NSW (2004), pp.19-20

<sup>51</sup> Adelaide City Council (2004), p.1; Shelter SA (2005), pp.1-2

<sup>52</sup> Shelter NSW (December 2005), p.1

This outcome is of particular community significance at a time of growing economic and social income disparity, which can be exacerbated by uninformed planning policy. As an American research and advocacy body, PolicyLink, warns:

*“zoning has been a highly effective tool of exclusion. Though originally justified as a tool for separating incompatible land uses ... zoning’s most profound effect has been to segregate communities by income and race.”<sup>53</sup>*

The concentration of disadvantage in particular regions leads in turn to residents having trouble accessing job networks, adequate health care, transport and education. The risk of social exclusion, unemployment and crime consequently increases. Inclusionary zoning programs, particularly those which include affordable units on-site alongside market properties, can be an important tool of community inclusion. This would be in keeping with the ACT Government’s undertakings to promote social cohesion and proactively try to prevent homelessness, poverty and disadvantage.<sup>54</sup>

### **Arguments against inclusionary zoning are often unfounded**

In some areas, developers have objected to inclusionary zoning programs on the grounds that inclusionary zoning may dampen private development and reduce developers’ profits. It has also been asserted that inclusionary zoning unfairly punishes market rate households in the affected developments by increasing their housing costs to subsidise the affordable housing. More broadly, some commentators have claimed that the private market is simply not responsible for producing affordable housing.

A reasonable and efficient inclusionary zoning system should be capable of properly addressing these concerns. The claim that inclusionary zoning is automatically disastrous to the housing market need not be true. A number of studies from different American jurisdictions where inclusionary zoning exists found that it had not diminished housing production or the resale value of surrounding market-rate housing, nor had it led to home-buyer unwillingness to settle in neighbourhoods where inclusionary zoning existed.<sup>55</sup> Similarly, a recent study of affordable housing policy in Britain found that requirements for developer contributions by local authorities had gained acceptance quite rapidly.<sup>56</sup>

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<sup>53</sup> PolicyLink (2005)

<sup>54</sup> These commitments have been set out in a number of reports including Building Our Community: The Canberra Social Plan (2004), Breaking the Cycle: The ACT Homelessness Strategy (2004), The ACT Young People’s Plan, 2004-2008, and The ACT Women’s Plan (2004).

<sup>55</sup> California Coalition for Rural Housing and the Non-Profit Housing Association of Northern California, (2004), p.9; Destorel Brown, (2001), p.26; Family Housing Fund of Minneapolis (2001); Knight Ridder Business Tribune News, (13 Nov 2005) p.1; Rosen & Associates (2002), ES1-2

<sup>56</sup> Milligan, Phibbs, Fagan and Gurran (2004), p.33

A related argument against inclusionary zoning – that the cost of subsidizing affordable units will be passed on to other tenants and homebuyers – is in fact a point of controversy amongst housing researchers. As Nico Calavita points out, the impact of regulations that increase the cost of development (like inclusionary zoning) falls onto developers and sellers of raw land as well as homebuyers and renters, and it is often unclear where the majority of the burden falls.<sup>57</sup> However, appropriate incentives and compensation should work to reduce the overall price burden on sellers, developers and buyers. A range of possible incentives is discussed below.

As to the question of whether inclusionary zoning is an unfair way for governments to shift responsibility for housing onto the private sector, it should be emphasized that this paper sees inclusionary zoning as an *additional* affordable housing strategy to accompany – not replace – a sustainable public housing system. Initiatives for affordable private housing should not come at the expense of the public and community housing sectors.

The fact remains, however, that the private sector still comprises the majority of housing in the ACT and almost all low- and middle-income families will live in private housing for at least some of their lives. Therefore, as long as the ACT Government remains committed to sustaining and promoting affordable housing for all Canberrans, it will be necessary to engage with the private sector and utilise market solutions as part of any integrated housing strategy.

### **Costs and incentives**

While many jurisdictions have found inclusionary zoning to be viable and cost-effective from the state's point of view, certain costs are involved in administering the programs and there is often some loss of revenue through incentives given to developers. It is therefore important that inclusionary zoning policies be implemented in a transparent, consistent fashion that ensures any loss of public revenue is off-set by genuine and demonstrable improvements in housing affordability.

It is particularly important that a clear and reasonable definition of affordability is employed. Furthermore, if a mandatory inclusionary zoning policy is adopted, it is recommended that care be taken to amend existing legislation where necessary to clearly include a commitment to the promotion and retention of affordable housing and to enable instruments to be employed to provide, maintain, retain and regulate this housing. This would help to avoid court disputes like that which occurred in NSW in 2000.<sup>58</sup>

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<sup>57</sup> Calavita (2004), pp.7-8

<sup>58</sup> Milligan, Phibbs, Fagan and Gurran (2004), pp.19, 23

A range of options exist for governments to offset the costs to developers of including affordable housing in their new sites. In settling on appropriate incentives, it is vital that developers are fully consulted to determine which incentives are most effective and meaningful. Possibilities can include:

- **Density bonuses:** These are typically equivalent to the required set-aside percentage, enabling developers to build additional units without buying more land. In some areas, including Montgomery (Maryland) and Cambridge (Mass.), the density bonus offered is larger than the proportion of affordable housing required, enabling developers to build additional market rate units.<sup>59</sup> If density bonuses are offered, it must be ensured that there is sufficient infrastructure in place to support the resulting population intensity.
- **Parking space reductions:** This recognises the likely lower rates of car ownership amongst prospective tenants of affordable housing, and can either reduce development costs or increase development yield
- **A streamlined permitting process:** For example, in Sacramento (California), developments that include affordable housing have their permitting process expedited to a maximum of 90 days, in contrast to the usual 9 -12 months.
- **Fee rebates:** Deferral, waiver or reduction of various development fees, such as the change-of-use charge
- **Smaller affordable units or design flexibility**
- **Reduced set-back from the street**
- **Greater floor-to-area ratio allowances**<sup>60</sup>

Any such incentives or compensation offered must, of course, be transparent and reasonable and maintain a commitment to high standards of design while preserving amenity.

### **Mandatory inclusionary zoning is superior to voluntary schemes**

Inclusionary zoning policies can require mandatory developer participation, or can be voluntary. Voluntary programs generally receive less opposition from developers. However, most case studies indicate that mandatory policies produce far more affordable units, supporting Peter Williams' finding that *"realistically, the private sector – given such a choice and not being subject to any coercion whatsoever – would provide very little affordable housing"*.<sup>61</sup>

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<sup>59</sup> Knight Ridder Tribune Business News (13 Nov 2005) p.1; Shelter NSW (2004), p.19

<sup>60</sup> See also, California Coalition for Rural Housing et al (2004), pp.22-24; Destorel Brown (2001), pp. 5, 8, 9, 11, 12, 20, 25

<sup>61</sup> Williams (2000), p.206; Williams (1997), p.20

For example, in California only 6 jurisdictions employ voluntary inclusionary zoning programs (compared to 101 mandatory ones) and a 2005 study for the Los Angeles Housing Department reported that few voluntary programs had produced any affordable housing. The one effective voluntary program functioned as a mandatory one by making it very hard for developers to obtain building permits without undertaking to produce some affordable units.<sup>62</sup>

In contrast, the 15 most successful inclusionary zoning jurisdictions – which between them had produced 16, 000 units – all had mandatory programs. Similarly, the cities of Cambridge (Massachusetts) and Boulder (Colorado) recently switched from voluntary to mandatory programs after finding that the voluntary programs produced virtually no housing. Following this switch, considerable increases in affordable housing have been observed.<sup>63</sup> Closer to home, the 2002 Background Paper to the ACT Affordable Housing Taskforce also warned that developers might ignore purely voluntary arrangements, particularly if these were seen as adding increased time and complexity to a project.<sup>64</sup>

It is therefore recommended that any inclusionary zoning scheme should be mandatory.

### **Size of developments and percentage of affordability**

Different jurisdictions that employ inclusionary zoning have different regulations about what size developments inclusionary zoning should apply to and what percentage of affordable housing should be required. Percentages of affordable housing required have included 20% in Boulder (Colorado), 10% in Longmont (Colorado), 12.5 – 15% in Montgomery (Maryland), 15% in Cambridge (Mass.), and 4 – 35% across different jurisdictions in California.<sup>65</sup> In large Sydney developments which have used inclusionary zoning, percentages have included: 4% in Willoughby, 1 – 3% in Green Square and 0.8 – 1.1% in City West.<sup>66</sup>

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<sup>62</sup> PolicyLink (2005); Rosen & Assoc. (2005) p.3

<sup>63</sup> California Coalition for Rural Housing et al (2004) pp.13, 15, 27; Destorel Brown (2001), p.2; PolicyLink (2005)

<sup>64</sup> UTS Centre for Local Government to the ACT Affordable Housing Taskforce, no.3 (2002), section 5.1 option 7.

<sup>65</sup> California Coalition for Rural Housing et al (2004), p.30; City of Boulder, Colorado (2003), pp.1-2; Fischer and Patton (2001), pp.2-4; Rosen & Assoc. (2005), p.4; Shelter NSW (2004), p.19

<sup>66</sup> Milligan, Phibbs, Fagan and Gurrans (2004), p.24; Shelter NSW (2004), p.18; Williams (2000), pp.300, 303-4

Of course, the size and percentages of affected developments must be sensitive to the particular nature of the ACT housing industry. In their report to the ACT Affordable Housing Taskforce, the UTS Centre for Local Government recommended that the ACT introduce an inclusionary zoning policy that would initially require 3% of developments with 10 or more dwellings to be affordable, ultimately building up to a figure of 5-10%.<sup>67</sup> Given the above international comparisons, these figures could hardly be described as unreasonable, and we would support this recommendation, although we would encourage the higher limit of 10%.

Furthermore, in order for inclusionary zoning to operate efficiently, it is strongly recommended that all affordable units constructed under such a program be built and marketed concurrently with the market rate units. Exceptions could perhaps be made if the developer could clearly establish that doing things differently would guarantee additional affordable housing for the territory.

### **Alternatives to on-site construction**

We view the construction of affordable units on-site and concurrently with market rate units as the most desirable outcome in terms of social inclusion, and would urge any inclusionary zoning policies adopted to promote this. However, it should be recognised that on-site units may not always be possible or desirable, and other options may be needed.

One option is for developers to contribute affordable housing in a different location. This could mean building new housing off-site or dedicating existing units. It is usually a requirement that such units be at least equivalent in size to how they would be if they were built on-site. However, concerns can arise here about the concentration of disadvantage in particular suburbs, the quality of the off-site units (compared to how they would look if they were integrated into the market development), and the question of whether the off-site units have adequate access to public transport, shops, medical facilities and schools. It is therefore suggested that any inclusionary zoning policy adopted take these possible disadvantages into account by requiring:

- that any off-site units be built in locations where there is reasonable access to the amenities mentioned above; and
- that the percentage of affordable housing required through inclusionary zoning be increased if the affordable units are moved off-site – for example, from 10% to 15%, as is the case in Boston.<sup>68</sup>

Exceptions could be made in cases where constructing the housing off-site would bring demonstrable benefits; for example:

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<sup>67</sup> UTS Centre for Local Government (2002), section 5.3

<sup>68</sup> Fischer and Patton (2001), pp.4-5; Shelter NSW (2004), p.19

- if units constructed off-site were larger and better appointed than they could reasonably be if they were built into the market development; or
- if on-site units would be in locations with existing concentrations of disadvantage; or
- if off-site units were able to accommodate particular types of housing like extended family housing or disability-accessible housing.<sup>69</sup>

Another option is to permit developers to pay a fee in lieu of building the affordable units. Such a policy could potentially be adopted across the board, so that instead of inclusionary zoning, the Government simply imposes a development levy on all new projects (apart from public and not-for-profit housing). While we would favour onsite inclusionary zoning over such a levy, as onsite buildings would do more to promote social inclusion, some use of fees instead of building is probably advisable. This is particularly the case when the developments in question are quite small and donating a percentage of floor space would be difficult. The fees then go into a state affordable housing fund, which should be managed by the Department of Disability, Housing and Community Services. Such a fund must be demonstrated to be prompt, efficient and effective in increasing the supply of affordable housing. In order for an inclusionary zoning system to work efficiently, moreover, it is important that the cost of the in-lieu fee is not so low that developers have no incentive at all to build affordable units. We would therefore support the recommendation made to the U.S. National Housing Conference (2004) that:

*“the required fee should be high enough either to dissuade developers from opting out of construction or enable the city to finance construction of an equivalent number of affordable units elsewhere.”<sup>70</sup>*

Fees should be tied to the costs of construction and adjusted regularly.

Although some districts permit developers to donate land for affordable housing instead of units or fees, this may not be advisable, as it requires a higher commitment from Government to promptly construct housing there, and the land must be appropriately placed in terms of location, environment and infrastructure. This seems to present greater practical difficulties than the other models.

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<sup>69</sup> Shelter NSW (2004), p.20

<sup>70</sup> Californian Coalition for Rural Housing et al (2004), p.19

## **Size and appearance of affordable units**

Building affordable units that are smaller or different in design to the surrounding market units may make the process more convenient for the developer and might not necessarily present difficulties for residents. However, when developing policy on inclusionary zoning, the Government must keep in mind its commitment to foster housing that is diverse and culturally appropriate for different households.<sup>71</sup> In order to prevent larger families (particularly Indigenous and refugee families) and people with disabilities from being excluded from this housing, it is recommended that Government develop strategies to ensure that inclusionary zoning results in some larger units suitable for extended families and disability-accessible units.

More generally, policies must be developed regarding the external appearance of affordable units created through inclusionary zoning, particularly those built on-site. Most inclusionary zoning programs require that affordable units be at least externally similar and compatible with surrounding properties. Even when building relatively cheap townhouses alongside more expensive estates, an overall similarity of appearance can be maintained through careful design (this has been the case in Fairfax, Virginia). Such a policy helps to maintain the overall appearance of the streetscape, reducing or eliminating objections from neighbours and helping to prevent affordable housing residents from feeling stigmatised and excluded.<sup>72</sup>

## **Rental and for-sale units**

Questions arise as to whether the affordable housing created by inclusionary zoning should include properties to be sold to low- or middle-income households. While we do not oppose making a certain proportion of these units for sale, we would maintain that the majority of units should still be directed towards affordable rental housing, in recognition of the fact that many low-income households cannot afford even assisted home purchase. Another issue with selling units is how to ensure that they deliver the greatest possible benefit to the ACT community. Homebuyers could be income-tested, of course, but questions remain (and are addressed below) about how to ensure permanent ongoing affordability.

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<sup>71</sup> For instance, ACT Office for Women (2004), pp.8-9; Department of Disability, Housing and Community Services (2003), p.1

<sup>72</sup> Destorel Brown (2001), p.26; PolicyLink (2005)

## Tenancy allocation and management

It is crucial that any inclusionary zoning programs introduced are designed to ensure that the affordable housing is promptly and correctly allocated and managed. One option is for the affordable housing created to be donated to Housing ACT, which would help to ease the strain currently placed on the public housing system and to promote the social inclusion of public housing tenants. Other options involve this housing being purchased at a reduced rate by Housing ACT, community housing or landlords who will offer the properties at affordable rates. This could be encouraged by requiring developers to sell at lower rates and writing affordability conditions into the lease.

Targeted income groups for this affordable housing have varied considerably between jurisdictions. As a number of possible models for inclusionary zoning exist, there are a range of ways tenants could be selected. If the affordable housing created by inclusionary zoning is distributed to or bought cheaply by Housing ACT, the tenants would of course come from public housing waiting lists.

If this housing becomes managed by not-for-profit bodies or offered for sale, however, attention will have to be paid for securing an appropriate mix of very low, low and middle-income residents. We would strongly discourage the imposition of a minimum income for residents of affordable inclusionary zoning units (a policy that exists in some jurisdictions like Loudoun, Virginia),<sup>73</sup> as this would exclude people on very low incomes and place inclusionary zoning within an unfairly tiered system. If this housing is managed by Housing ACT, this will not be a concern, but it is a pitfall to be guarded against if other management systems are adopted.

Important questions necessarily arise about security of tenure and changing incomes, particularly the basic problem of whether tenants whose income increases during their affordable tenancy should be able to remain in this housing. While we would support rents being raised to market rate for tenants who become able to afford this, we would oppose a policy which terminates leases for people whose incomes improve. This would seem to contradict one of the aims of inclusionary zoning, which is to assist tenants to become included and integrated into their neighbourhoods, and could potentially discourage people from trying to improve their financial situation. Profits made from renting at market rate should then be put back into improving, replacing or increasing the stock of affordable housing.

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<sup>73</sup> Destorel Brown (2001), p.10

## Maintaining affordability

The incentives provided to developers to participate in inclusionary zoning programs can represent a significant loss of state revenue. While the state has a responsibility to appropriately house all members of the community, its duties do not extend to providing homeowners or landlords with future investment properties. It is also unlikely that the need for subsidised affordable housing will vanish in the near future. It therefore seems reasonable to recommend that any units designated affordable through such programs – particularly the rental units – be kept permanently affordable.

One pitfall to avoid is permitting developers to convert unsold affordable units to market rate a short period of time after the zoning permit has been issued if no suitable tenants have been found. In Loudoun (Virginia), this has meant that some “affordable” housing has become converted to market rate before it has even been built.<sup>74</sup>

More generally, different inclusionary zoning programs require the new housing built to remain affordable for different lengths of time, ranging from several years for rental units and no time for sale units (following the initial sale), to 20-30 years, to perpetuity. While there is no widespread consensus on how long affordability should be written into the new units, lessons from one of America’s oldest and most successful inclusionary zoning projects, in Montgomery County, demonstrate concerns about limiting affordability. Montgomery’s inclusionary program, which has run since 1974, has provided 11, 000 affordable units. However, many of these were constructed during the 1980s housing boom, and have now outlasted their affordability timeframe. The result of this was that by 1999 only 3805 of these units were still governed by inclusionary zoning rules of affordability.<sup>75</sup>

There seems to be, therefore, a strong argument in favour of keeping properties permanently affordable. While keeping public and community housing permanently affordable should be comparatively simple, sale units present a challenge. Homebuyers typically want their property to be an investment as well as a home, but it is not in keeping with the objectives of inclusionary zoning for government and developers to forgo revenue for housing that will not remain affordable past first sale. This could be an argument in favour of keeping the housing created by inclusionary zoning solely within the affordable rental sector.

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<sup>74</sup> *ibid.*, p.11

<sup>75</sup> *ibid.*, pp.4-5

If housing is offered for sale, a number of models have been developed overseas to deliver various degrees of ongoing affordability. In some Californian districts, for instance, the city places deed restrictions on the unit which are reset each time the unit is sold, and the city retains the right to purchase the unit upon resale.<sup>76</sup> In Montgomery, for-sale units can only be resold within 10 years of original sale if the owner asks for the original sale price, plus cost of living adjustments based on CPI, plus approved improvements, sales commission and closing costs. Furthermore, the unit must be initially offered only to income-eligible buyers. If these affordable units are sold *after* 10 years, the owners are still only eligible to keep \$10,000 or half the total profit, whichever is greater, while the rest of the profit goes back into state funds to create more affordable units.<sup>77</sup>

A slightly different system has been implemented in Loudoun (Virginia), where profits on units sold after 15 years are split between the homeowner and the state, while owners can keep all the profits if they sell 50 years after the initial purchase.<sup>78</sup> There must be investigation as to what sort of model would be most helpful in the ACT context, but it is important to recognise that permanent affordability should be a crucial element of any inclusionary zoning policy.

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<sup>76</sup> California Coalition for Rural Housing et al (2004), pp.24-25

<sup>77</sup> Destorel Brown (2001), pp.6-7

<sup>78</sup> *ibid.*, p.10

## **Other Planning Considerations**

### **Building and Design**

There are any number of planning and building regulations that impact upon the ability of developers, including not-for-profit developers, to build low-cost housing. It would be possible to generate a long list of the cost factors that add to the cost of home construction, and, indeed, it is almost certain that industry bodies would happily provide government with this information, and do so more easily and productively than is possible here. However, the more interesting investigation is to ascertain whether building regulations can be altered to assist in the increased development of low-cost housing, as opposed to delivering existing housing products at lower cost to developers, with a correspondingly higher profit margin.

Many of these possibilities have already been mentioned in the previous discussion of inclusionary zoning, but may be considered more generally as policy proposals in their own right, although they may prove more effective as part of an inclusionary zoning scheme.

Particular attention might be paid to planning requirements that restrict the ability for otherwise well-designed, low-cost developments to proceed. In part, the ACT Planning and Land Authorities proposed track assessment system – specifically the ‘merit’ assessment track – may alleviate some of these concerns. However, these issues deserve to be addressed in the specific context of affordable housing, rather than the general development assessment process.

### **Retaining existing affordable housing**

A further issue surrounding development is the loss of affordable housing through residential redevelopment. It is frequently the case that existing cheap housing, often used for low-cost rental purposes and frequently located close to amenities, is bought up by developers to amalgamate or otherwise construct new, high-cost residential accommodation. It is obvious, but often overlooked, that any effort to increase the supply of affordable housing can be easily undermined if existing affordable housing properties are being lost through urban redevelopment.

In response, the ACT Government should examine its planning policies to determine suitable means of ensuring that existing low-cost housing is not lost through redevelopment, or perhaps better still, is required to be replaced in the new development. If inclusionary zoning policies apply, then this system should be in addition to retaining the existing supply of affordable housing stock.

## **Land Supply**

### **Increasing the supply of land**

One factor influencing housing prices is the supply of land. While land availability tends to affect property values generally, rather than specifically at the affordable end, a constant and responsive land supply will assist in preventing land price inflation.

While the ACT Government has been criticised for being unable to provide an adequate land supply during the housing boom, the creation of the Land Development Agency (LDA), combined with a more flexible and responsive approach to land release will help reduce these circumstances in the future.

### **Restricted Land Ballot**

As a response to the report of the Affordable Housing Taskforce, the ACT Government has implemented a restricted land ballot in selected new land developments. In 2004-05, land ballots were held for Wells Station and Ginninderra Ridge, pricing the blocks at less than \$150,000 and making them available only to households earning less than \$100,000 per year. However, only 27 out of 63 available blocks sold through the ballot and subsequent purchases.<sup>79</sup>

There are a number of concerns with this approach. The low take-up rate suggests that affordable housing may not be effectively delivered by owner-builders, as this is a small market segment that tends to be focussed at the higher end of the income scale, and the scheme completely excludes low-income groups that are most marginalised in the housing system.

Furthermore, there is no guarantee that the resulting housing will remain affordable, as despite the discounting of blocks, the savings will tend to be capitalised in the land value, so that subsequent purchasers or renters will receive no benefit.

### **Planning for affordability in land development**

We would strongly encourage the Land Development Agency to play a more active part in supporting affordability initiatives. This could include the Land Development Agency taking stronger action to ensure that the principles of affordability inform future residential developments, for example, by integrating small and large blocks interspersed through new land developments. Moreover, the option exists for the LDA to expand its own development role to promote affordable housing.

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<sup>79</sup> Land Development Agency (2005), pp.8, 11, 18

Consultations conducted by ACT Shelter in 2003, involving both public housing tenants and community organisations, found widespread support at all the forums held for the possibility of the Government acting as a developer in its own right. The *Planning and Land Act 2002* specifically includes a function "to carry out strategic or complex urban development projects" for the LDA, and ACT Shelter and ACTCOSS would consider the provision of affordable housing an important strategic goal. This method of development has the potential for profits from house sales to be reinvested into the public housing system, as an alternative to the large current deficits.<sup>80</sup>

### **Land grants to public housing**

Because it has relatively large holdings of land, the ACT government is well placed to use its land holdings to leverage increased public housing assets. There may be specific opportunities to provide well-located affordable housing in the proposed development of the Molonglo valley. ACTCOSS and ACT Shelter would strongly support plans to make land grants available to Housing ACT, as the Government undertook to do in their 2004 response to the Affordable Housing Taskforce Report, promising up to 60 blocks each year.<sup>81</sup>

This option reduces the cost of additional dwellings for Housing ACT, as well as directly adding to the supply of affordable housing in contrast to spot buying properties, which restricts the supply in the private market. In addition, if land grants were made for properties with the potential for multi-unit development, this could be developed to provide mixed public and private housing, with or without a private sector partner. This would further reduce the cost to ACT Housing. A further attraction for this option is that stand alone public housing properties could be strategically interspersed with private housing, maintaining diversity of housing choice and a broad social mix.

### **Concessional leases**

Using a similar strategy, the Government could grant concessional leases to non-for-profit housing providers which could be developed into affordable housing, either alone or with a private partner. This could provide a valuable injection of capital into non-for-profit growth providers without needing to find additional cash assets to transfer, and would assist in growing the non-for-profit sector.

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<sup>80</sup> ACT Shelter (2003), p.10

<sup>81</sup> ACT Government (2004), pp.7-8

There need to be clear and transparent ways, however, of assessing how any such concessional leases are granted. In particular, leasehold conditions or other contractual arrangements should accompany any transfer of land, to ensure continuing affordability into the future and that the asset is not simply liquidated without providing a clear and continuing social dividend.

# **CONCLUSIONS: AN INTEGRATED APPROACH**

## **Towards a National Housing Strategy and Agreement**

The Framework for National Action on Affordable Housing is a meaningful step forward in creating cohesive inter-governmental policies to increase access to affordable housing in Australia. A core message of this analysis is that there is no 'magic bullet' to solving housing affordability, and it will be best addressed by co-operation backed by action by all levels of Government.

It is clear that the incentives set by both Federal and Territory affect housing affordability, and that a co-ordinated response will be far more effective in solving the issue. At the same time, it is also the case that the Territory has substantial policy levers at its own disposal, and that some progress can be made without immediate Federal assistance. While a joint approach would be better, it should not be used to justify doing nothing.

ACT Shelter and ACTCOSS echo the recommendations of the National Summit on Housing Affordability, in particular, not only should a National Housing Strategy be formulated to guide policy, but that this should be solidified in a National Affordable Housing Agreement, which sets out the respective responsibilities of governments and incorporates the Commonwealth-State Housing Agreement.

## **A variety of policy responses across a range of portfolios**

The problems facing affordable housing need to be tackled on a number of fronts simultaneously to achieve observable results, and this paper has covered a long list of policy responses that could be of assistance, some better than others. But just as important, an assessment needs to be made not only of whether policies are effective, but whether they work in harmony, and not at cross-purposes. The ideal goal is a set of interlinked policy proposals that reinforce one another, creating a multi-layered solution to an equally complex problem.

This means that whole-of-government approach is required. This paper has already pointed to a number of agencies that may have a prominent role, including DHCS, Treasury, ACTPLA, LDA, DUS and CMD. Other agencies, including Environment ACT, ACTION and DED are also likely to be important sources of policy input. Thus, an effective solution cannot come from one area of government or a single Minister. A universal consensus to address the issues needs to be realised, or the job will only get half-done.

## **Evidence-based policy**

No strategy will succeed based purely on rhetoric, or finding a quick fix. There is already an extensive body of research inquiring into these issues, and this needs to be utilised to find effective policy solutions that will actually work, rather than trying to create a perception of action. It is central that the ACT Government fund the necessary analyses and modelling to determine those policy responses that the most effective way to tackle the problem, given the finite public resources available.

Moreover, the Government needs the ability to examine the full spectrum of policy responses, even if they have been previously criticised or rejected. Even if they are ultimately found to be unsatisfactory, it is unwise to immediately reject a particular option without examining it with an open mind, in order to ensure that a potentially important tool is not overlooked.

## **An evaluation framework**

Government and the community need to be able to observe our successes and learn from our failures. This can only occur if an evaluation framework is included in any affordable housing strategy, not only to observe the overall impact of the policy package, but to determine which parts are working and identify those areas that might need to be re-thought. Building in a capability to monitor and assess implementation can only increase the chances of success.

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