



# **Lazy Assets Leading to a Lack of Social Housing**

A Thought Leadership Paper  
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## Executive Summary

The long term provision of adequate social housing services across Australia is currently under significant strain. Australian State & Federal Governments are lacking the funds to build enough new and also revitalise the existing, deteriorating social housing stock. Demand for social housing continues to increase at a rate that outstrips supply. A new approach to developing new, and maintaining the existing portfolio is required.

There is no single 'silver bullet' to addressing this housing crisis. Subsequently, this paper recommends the implementation of a range of options, in parallel, and to a much larger scale in order to address the significant shortfalls in housing availability and quality. This recommendation is based upon a range of proven local and internationally successful programs, including:

- Public Private Partnerships;
- Sale of redundant asset and recycle of capital.
- Transfer of stock to non-for-profit-organisations;
- Joint Ventures;

By adopting all of these strategies to varying degrees, yet on a significant scale, Australia may anticipate an additional 105,000 renovated and newly constructed housing units nationwide. This strategy will also address a range of broader social challenges, including housing de-centralisation and resident quality of life. The majority of these procurement options also create financing, development & asset management opportunities for the private sector - allowing wider benefits to be captured across the whole of the Australian economy.

## 1 Introduction

As of June 2009, the NSW Government owned 145,000 dwellings to support families and individuals in need. The VIC and QLD Government owned more than 77,800 and 68,800 dwellings respectively. The total number of government owned social housing dwellings nationwide exceeds 406,000 of which a majority, 81% reside in public housing and 9.3% in mainstream community housing (Refer to Table 2-1).

The provision of social housing is a mechanism adopted by Local, State and Federal Governments aimed at solving the housing affordability problem in Australia. The objective of social housing is to supply accommodation on a priority needs basis to households with urgent need. The social housing portfolio in NSW is primarily affordable and long-term rental housing encompassing:

- **Public Housing-** Dwellings owned and managed by State and Territory housing authorities
- **Community Housing-** Social housing provided by 3 main types of not for profit organisations namely:
  - Housing associations- Not for profit housing providers
  - Cooperative housing- Subsidised by the Government but managed by tenants

- Church based agencies- Church in partnership with Government to provide local housing needs
- **Aboriginal Housing-** State owned and managed indigenous housing and Aboriginal community housing

**Table 1-1 - AIHW 2010 Dwellings in Australia**

Program type		NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Public rental housing	No.	117,242	62,565	50,579	30,616	40,774	11,364	10,620	4,976	328,736
	%	81.5	82.6	75.8	77.8	84.6	91.8	93.6	58.9	81.0
SOMIH	No.	4,083	1,198	3,048	2,152	1,758	343	..	..	11,582
	%	2.8	0.3	4.6	5.5	3.6	2.8	..	..	2.9
Mainstream community housing	No.	16,639	7,556	5,610	2,650	4,329	406	643	n.a.	37,833
	%	11.6	10.0	8.4	6.7	9.0	3.3	5.7	n.a.	9.3
Indigenous community housing <sup>(a) (b)</sup>	No.	4,429	1,701	6,192	3,366	1,031	135	24	3,354	20,232
	%	3.1	2.2	9.3	8.6	2.1	1.1	0.2	39.7	5.0
Crisis Accommodation Program <sup>(a)</sup>	No.	1,511	3,705	1,326	543	293	127	60	122	7,687
	%	1.1	4.9	2.0	1.4	0.6	1.0	0.5	1.4	1.9
<b>Total households</b>	<b>No.</b>	<b>145,230</b>	<b>77,822</b>	<b>68,854</b>	<b>39,327</b>	<b>48,185</b>	<b>12,375</b>	<b>11,347</b>	<b>8,452</b>	<b>406,070</b>

(a) Total dwellings are provided in lieu of households.

(b) Includes improvised dwellings. Dwellings managed by the Australian government but located in Victoria, Queensland and Tasmania are included in the respective state's totals.

Source: AIHW 2010.

By any measure this is a massive pool of valuable assets valued conservatively at \$121 billion.

However, the social housing system is facing a crisis as a result of:

- A lack of available funding to build, renew and maintain housing units to cater for the growing demand;
- An unsustainable asset management approach and under-utilisation of private expertise, putting the provision of social housing services at risk.

## Mismatch in Demand and Supply of Housing

At the centre of the issue, the demand for public housing in Australia far exceeds the supply of appropriate stock available. Illustrated by the fact that over 100,000 people are on the waiting list for social housing nationwide, there are more than 83,000 people on the waiting list for social housing in

NSW alone of which 60,444 applicants are waiting for public housing<sup>1</sup>. To put this into perspective, NSW social housing management systems are currently supporting more than 300,000 people.

## Old and Dilapidating Stock

Given the high cost in subsidising rent and utilities coupled with the reduced rental revenue from housing stock, based on current funding models, public housing will continue to operate in deficit. This ongoing deficit is reducing funds available for preventative maintenance causing significant dilapidation and deterioration in the asset base. The result, of course is an ever-increasing maintenance cost to government; Creating a further deterioration in the mismatch of housing supply and demand. Currently over 120,000 dwellings in NSW are considered in inadequate condition with a total asset value worth approximately \$48 billion.

## Centralisation and Social Problems

Historically, there has been a high degree of development centralisation. This centralised development on certain 'estates', coupled with deterioration of the asset is resulting in an increase in the occurrence of social problems. The Federal and State Governments are challenged in implementing a strategic approach in sustainable development and management of their assets to combat the social problems that can arise from centralised development. This is essential for a competitive, diverse and productive economy and is vital in alleviating social problems such as homelessness, unemployment, crime, family instability and poverty.

In summary, the under-funding of this massive asset is jeopardising the long term viability of the provision of social housing in Australia. Australian Governments are currently not appropriately leveraging their land and housing assets and are providing inadequate budget to fund the construction, renewal, operation and maintenance of housing stock. This paper seeks to outline a range of options to enable Federal and State Government agencies to harness the financial horsepower of these assets and use them to create a significant increase in new housing stock. The transfer and leveraging of this "Lazy Asset" on a large scale will achieve a range of benefits including:

- Increased numbers of available housing;
- Revitalisation of existing stock;
- Stimulation of economy;
- Improved property and asset management outcomes;
- Improved socio-economic outcomes;
- Utilisation of the best of both public and private sectors to achieve these outcomes.

<sup>1</sup> Parliament NSW, 2011, *Social housing e-brief*, NSW Parliamentary Library Research Service.

## 2 Options for Social Housing

Holders of large portfolios of Government funded housing in both the United Kingdom and United States of America have used a variety of tools to overcome similar social housing problems. These options have included:

- Public Private Partnerships;
- Sale of redundant assets and recycle of capital;
- Transfer of stock to not-for-profit organisations (NFPO) to manage;
- Joint venture relationships with private sector developers.

We propose that, within Australia, all of the above options must be implemented to varying degrees, and on a much larger scale, to ensure the appropriate impact and to achieve necessary economies of scale.

### Public Private Partnerships

The strategy of using Public Private Partnership involves public housing stock transfer via a 25 to 50 year partnership agreement with the private sector. A Special Purpose Vehicle (SPV) is established to manage the financing, design, construction, operations and maintenance of the public housing. The intention is that existing transferred land & housing stock is redeveloped using private sector expertise and ultimately the asset reverts back to Government ownership at the end of contract tenure.

This approach has proven highly successful in the US Military Housing Privatization Initiative (MHPI) which saw the need to replace more than 540,000 dwellings to provide low income housing for US military service members. To date, the program has privatized over 187,972 dwellings and created 53,266 newly constructed units. Refer to US Military Housing Privatisation Initiative Case Study.

The PPP delivery method has significant benefits. It appropriately leverages funds from the private sector, transfers existing valuable assets including house and land, utilises private expertise in construction, and transfers whole-of-life risks within the contract period to the private sector who can better manage them. The primary benefit is however, the overall cost savings achieved and the ultimate increase in supply of affordable housing stock in the long term.

NSW Government have had some limited albeit small success with the Bonnyrigg PPP project which saw the replacement of 833 existing social dwellings with 2,330 new homes with a project value of approximately \$733 million. The value for money of using the PPP approach represented a 6.3% cost saving relative to traditional Government procurement methods and NSW Government has benefitted from making lower capital contributions in early stages of this project. Procured on a larger scale and in a similar manner to MHPI, this strategy has great success potential for Australia.

## Sale of redundant assets and recycle of capital

The Government could benefit by relocating assets from areas of high capital cost and low housing demand to areas with lower capital cost and higher demand. This strategy allows the proceeds from the sale of redundant housing stock to be reinvested into social housing schemes in more affordable and appropriate areas where greater housing demand can be met. In NSW for example, a limited recycling of social housing stock located in Sydney CBD and in other areas of over-dense estates has achieved tangible benefit, as proceeds from sale are reinvested to directly increase supply in more affordable areas, replacing existing stock that is in poor condition and diluting the CBD housing density.

## Transfer of stock to NFPO to manage

This approach involves the transfer of existing housing stock to 'Not-for-profit-organisations' (NFPO) to manage. The acquisition of new assets allows NFPO to secure borrowings from the private sector that can be reinvested into replacement or construction of new stock.

This strategy has been successfully used in the UK Decent Homes Standard Program which set out to bring a total of 1.7 million social homes up to a "decent" standard. The rental housing owned by local authorities was physically obsolescent and deteriorating. As a result of the program, approx. 86% of social homes were made "decent" and non-decency has reduced from 21% to 8%. Refer to UK Decent Homes Standard Case Study.

The 'Transfer of stock' approach has the benefit of enabling NFPO to strategically manage their own assets to better respond to fluctuations in housing demand and resident need. It not only frees up private funds to add to the provision of social housing, it also removes the significant costs associated with Government ownership. These are typically costs associated with asset maintenance and renewal.

In 2009, the NSW Government announced the transfer of public housing properties to community housing providers (CHP) under the "Property Transfer Program". By transferring ownership, the CHP's would have a secure asset base to leverage additional funds to provide further investment in social housing. The NSW Minister for Housing stated:

*'by transferring the ownership of our properties to the community housing sector, we give them the ability to borrow funds to build and buy more homes. The fact that they own the homes gives them greater leeway in securing private investment.'* (Borger 2009)

While the NSW Property Transfer Program attempted to utilise the transfer of stock strategy, it has however been done on a relatively small scale with only 3,000 properties transferred between Jan 2009 and Dec 2010. There remain strong incentives to supporting this strategy in the future. The success of UK Decent Homes program serves as a prime example for Australian Governments to mirror.



## Joint venture relationships with private sector developers

There exist a range of procurement structures which can be managed under a Joint Venture, or 'Development Agreement' structure between the public and private sectors. Typically these involve a transfer of ownership of land by the Government for the benefit of receiving title to a number of social housing dwellings. The private developer receives the opportunity to develop 'at market' dwellings for sale or lease.

The NSW "One Minto" project is a joint venture between the Department of Housing, Landcom/UrbanGrowth and Campbelltown City Council. The project involved the redevelopment of community networks, improvement in physical environment and will see a replacement of 1,000 existing public housing dwellings by 850 private and 350 new public housing dwellings. To date, the program has rehoused over 400 households<sup>2</sup>.

## 3 Benefits and Outcomes

The unavailability of quality social housing in Australia has become a significant drain on the public purse and is leading to increased social problems including homelessness, poverty, family instability, crime and unemployment. The problem is so great and complex that there is no one solution that will make a meaningful difference. To take immediate steps towards overcoming this crisis it will be necessary to implement the full range of options outlined in this paper, and others, on a significant scale.

A multi-pronged approach will:

- Achieve the quantity and critical mass of funding and new development required,
- Avoid putting all eggs in one basket and the risks of failure of any one approach will be mitigated,
- Ensure economies of scale,
- Capture the attention of the private sector and heighten competition,
- Utilise the best of both the public and private sector expertise working in partnership,

As recently seen on a small scale via the Nation Building Economic Stimulus Program, a renewed and revitalised social housing portfolio across Australia can transform the lives of tenants and remove the perceived stigmas associated with living in Social Housing. Tenant's quality of life can be significantly improved, social problems are mitigated and Government maintenance spend is significantly reduced – freeing-up funds for other client services and more new housing development.

Our families in need and the most vulnerable in our society deserve to have adequate, quality social housing. As a country, we have dabbled around the edges of this problem for too long. A bold approach to the implementation of these initiatives, as outlined, will have a greater chance of success in addressing our social housing crisis.

<sup>2</sup> Annual Report 2007/08, Housing NSW p. 40.



## 4 Case Studies

### 4.1 US Military Housing Privatization Initiative Case Study

The Public Private Partnership (PPP) approach to the provision of economic infrastructure has delivered a number of successful infrastructure projects in the past. A notable success which solved the US Military Family Housing (MFH) problem was the establishment of Military Housing Privatization Initiative (MHPI) in 1996. The basis of this approach was that the Department of Defence (DoD) would work with US private sector to finance and operate in order to provide housing more efficiently than traditional Military Construction (MILCON) processes would allow.

Prior to MHPI, the military services found given the current level of government funding and market conditions that it could no longer afford to build and maintain family housing for all of its service members. In spite of its endeavours to maintain the quality of life of its service members, DoD owned approximately 900,000 housing units of which more than 60% needs to be renovated or replaced. Such scale of a project under traditional MILCON practices would cost taxpayers nearly \$20 billion and take 30-40 years to complete the required renovations and improvements.<sup>3</sup>

At the heart of the issue, DoD family housing requirements have far outpaced MFH funding for unit construction and operation. MILCON budgets were tightly controlled and the processes of executing housing need were excessively long. On-base housing units had an average age of 33 years with 25% being over 40 years.<sup>4</sup>

The MHPI overcame the shortcomings of the MILCON approach above by including authorities that allowed DoD to obtain private financing and construction expertise:

- **Guarantees-** DoD was able to provide loans and rental guarantees to ensure rent and occupancy levels were occupied to specified level.
- **Leasing-** DoD was able to lease housing units or land.
- **Differential Lease Payment-** DoD paid the difference between rent and Basic Allowance for Housing (BAH).
- **Investments-** DoD was able to make investments involved in construction of family housing of up to 33 1/3% of capital cost.
- **Direct Loans-** DoD was able to offer direct loans.

The success of the program could be attributed to the mutually beneficial relationship that PPP offered between the public and private.

<sup>3</sup> Department of Defense 1996, *The Private Financing of Military Housing*, Housing Revitalization Support Office, Arlington.

<sup>4</sup> Office Of The Deputy Under Secretary Of Defense Installations and Environment, 2012, <<http://www.acq.osd.mil/housing/housing101.htm>>

DoD saw an increase in housing units constructed to market standards and an increase in overall occupancy rate. As at June 2010, the program has eliminated over 133,000 inadequate homes and privatised almost 188,000 homes with 53,266 newly constructed units and 36,535 unit renovation completed across all 3 military services. The occupancy rate of 91% is expected to continue to increase as favourable construction and market conditions develop<sup>5</sup>. Figure 5-2 compares new construction units completed with new scheduled construction. It shows an increasing number of units constructed from Dec 2008 to June 2010.

DoD had significant financial and operational risks transferred to the private sector while also created significant venture capital opportunities for the private sector. As of June 2010, the program has awarded projects with over \$28 billion in total development costs, 87% of which is financed by private sector and the remaining \$3.5 billion primarily through government direct loans and equity investments. A cumulative financial contribution graph is shown in Figure 5-1.

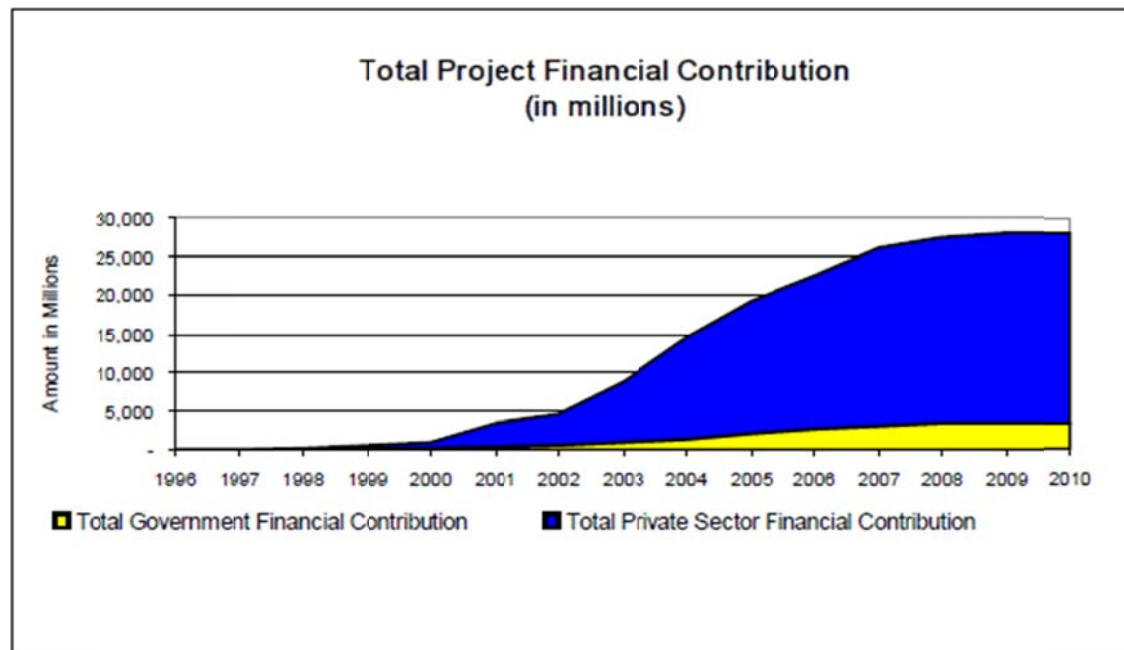
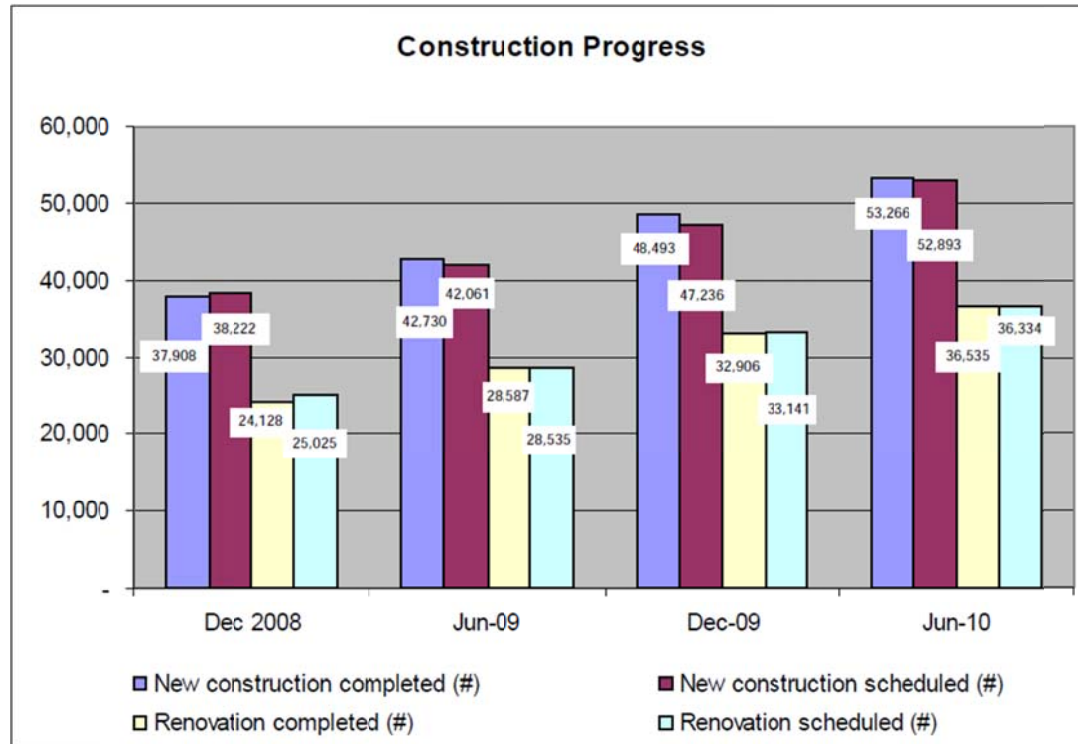


Figure 4-1 – Total Project Financial Contributions by Government and Private sectors

<sup>5</sup> Department of Defense 2010, *Military Housing Privatization Initiative Program Evaluation Plan*, Office Of The Deputy Under Secretary Of Defense



**Figure 4-2 – Housing construction progress**

Furthermore, the degree of tenant satisfaction was another indicator in measuring improvements to quality of life of military service members. Surveys have been conducted to show 93% tenant satisfaction for newly constructed units with 87% satisfaction for revitalised units. These results further endorsed the success of PPP in combating the US military housing problem.

## 4.2 UK Decent Homes Standard Case Study

Social housing formed a major part of all UK dwellings. Of approximately 20.5 million residential dwellings in UK, 3.6 million were classified as social rented according to 2005 Office of Deputy Prime Minister (ODPM). The decent homes programme in 2000 was established to set out the Government's commitment to bring all social homes up to a decent standard by year 2010.

The provision of social housing in UK were not entirely hindered by an inadequate supply of houses as there were over 21.6 million available dwellings and 21.1 million households in 2004<sup>6</sup>, rather by the condition of housing units and the quality of newly built housing association stock. The problem was that not all of the dwellings were "decent" and not all were occupied. As a result of age, limited asset management and shortfall capital funding, much of the rental housing owned by local authorities were physically obsolescent and deteriorating. Approximately 1.7 million dwellings (42% of social housing stock) were estimated to be "non-decent" which identified a total of £19 billion backlogs of repairs and modernisation.<sup>7</sup>

The other challenge was to question the overcrowding and space standards of social homes; whether homes were adequate in terms of size and space. Approximately 500,000 households over the past decade have been in dwellings that fail to meet the official "bedroom standard" of number of bedrooms needed for the household composition<sup>8</sup>. There has also been an overall increase in overcrowding rate in various cities in UK.

The program consisted of four options available for local authorities to fund to ensure all social housing met the Decent Homes Standard. The "Decent Standard" was one that met minimum housing standard, reasonable state of repair and had reasonably modern facilities. The options to improve namely stock retention, housing transfer, Arm's Length Management Organisation (ALMO), Private Finance Initiative (PFI) were facilitated by an Options Appraisal Process established between the council, working group, tenant and leaseholder.

### Stock Retention

Stock retention was mainly to keep housing in local authority's ownership using only current level of resource. Housing service, maintenance, ownership remained as council's responsibility with no major change in tenant structure or tenant rights. This option was limited in construction of new homes.

### ALMO

ALMO was a company set up by local authority to manage and improve its housing stock. It was owned by local authority and operated under management agreement terms between authority and ALMO. This option allowed ownership to remain as council but actions to manage housing stock were done independently by ALMO committee which included tenants, council nominees and independent members.

<sup>6</sup> John Hills, 2007, *Ends and Means: The Future Roles of Social Housing in England*, ESRC Research Centre for Analysis of Social Exclusion

<sup>7</sup> Wilson W, 2009, *The Decent Homes Standard: update*, House of Commons

<sup>8</sup> John Hills, 2007, *Ends and Means: The Future Roles of Social Housing in England*, ESRC Research Centre for Analysis of Social Exclusion

## Housing transfer

Stock was permanently transferred to NFP social landlords registered under Government's housing corporation to manage. There was a change in tenancy rent and structure which was determined largely by the social landlord but nonetheless in line with Government objectives. Extra funding was however available through private finance routes to construct new stocks.

## PFI

This option involved authorities entering into long term service contracts with private sector providers to manage and construct. Though ownership stayed with council, significant operational risks were to be transferred to the private sector and Government subsidy was available in the form of PFI credit in the Housing Revenue Account. Originally, the Government targeted refurbishing 90,000 homes under PFI every year.

The Decent Homes Standard is still an ongoing success utilising a combination of approaches which made appropriate leverage of funds from private sector and has significant changes in basic asset management approach. As of April 2009, almost 86% of social housing was made "decent" and numbers of non-decent properties fell by 1,100,000. Between 2001 and 2008, ALMO and retaining authorities have installed over 810,000 new kitchens, 610,000 new bathrooms and 1,140,000 new central heating systems. There have also been wider benefits in terms of better housing management, tenant involvement and employment opportunities.<sup>9</sup>

Although the total program cost saving have yet been confirmed, the department has identified a potential efficiency saving of £590 million for "National Change Agent for Housing" which accounts for 33% of Decent Homes work. The efficiencies, notably through large scale procurement programs have potentially reduced non decency from 21% to 8% at no cost to the taxpayer.

<sup>9</sup> House of Commons 2009-10, *The Decent Homes Programme*, Committee of Public Accounts

## 5 Reference

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## 6 Links

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