

Private Finance and Community Housing: Recent Initiatives

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for
the National Community Housing Forum**

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This report has been prepared with due care by the consultants, who believe the contents to be fair and accurate.

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1 Introduction

This paper has been prepared by George Porter of Brian Elton and Associates, as a briefing for a seminar to be held by the National Community Housing Forum (NCHF) in May 2000. It updates our 1998 report on private sector involvement in community housing finance. We hope that the contents will be of wider interest to all those in the sector who would like to see the funding base for community housing extended.

The specific aims of the paper are:

1. To review research and initiatives since 1998
2. To evaluate progress towards the wider and more sustainable use in community housing of private funds;
3. To suggest some of the steps which still need to be taken if progress is to continue.

The paper reports on research and initiatives only to the extent that the NCHF or the author are aware of them. More information can be obtained from the Reports and contact points listed at the end.

We are grateful to Adam and Claire at the NCHF for providing copies of key documents and for putting us in contact with many of the informants on whose input this paper is based.

2 Context

2.1 Research and initiatives up to 1998

In a previous paper for the NCHF (Elton & Associates 1998), we summarised research and initiatives on private investment in community housing which had been carried out up to 1998. That paper revealed that there had been three themes which recurred in much of the work:

- Government-initiated options: A variety of models were developed based on federal or state governments creating structures to attract large scale private investment into social housing.
- Tax efficient investment instruments: During the late 1980s and early 1990s, considerable efforts were made to develop structures relying on tax breaks to improve returns and make them more attractive to investors, for instance through housing bonds or rental housing trusts.
- Community housing organisations as managers of housing financed through umbrella bodies: In order to secure economies of scale and meet investor requirements, a number of models and initiatives sought to expand the sector by centralising housing finance and procurement in an umbrella agency, which would then headlease property to community housing managers.

The paper looked at the two main categories of private investment, debt finance and equity investment, and concluded that debt finance was preferable from the sector's viewpoint if the aim is not only to increase the housing stock but also to create an asset base owned by providers and achieve greater self-determination.

The main models which had been proposed or implemented up to 1998 were categorised as follows:

(a) *Debt Options*: Securitised lending (eg Housing Bonds); Mortgages.

(b) *Equity Options*: Housing Companies; Rental Property Trusts; Equity Partnerships; Headleasing.

(c) *Other options* Joint ventures; Not-for-profit development structures; Subsidies through town planning mechanisms.

Significantly, the “other” options were notable for their capacity to facilitate developments which might not otherwise be feasible.

The paper summarised some of the private investment arrangements which were already in use in the sector. Among these were:

- *Umbrella bodies raising finance*

For example, Common Equity Housing Inc, raises funds for Victoria’s Common Equity Rental Co-operatives.

- *Bonds*

Securitised borrowing through bonds was extensively used in the early 1990s to fund state government home lending programs, but there is currently no known use of bonds specifically to finance community housing.

- *Mortgage lending*

Several housing associations and co-operatives have made limited use of mortgage finance in order to purchase equity in their housing stock.

- *Headleasing*

A large part of the sector’s current stock is headleased, in many cases from the private sector. Headleasing is a key form of equity investment in community housing. Examples include the Community Tenancy Scheme (NSW), the Community Rent Scheme (Queensland) and the Social Housing Subsidy Scheme headleasing program (ACT).

- *Application of town planning mechanisms*

One example is the levy on major developments in the City West redevelopment area in Sydney which has helped fund affordable provision by City West Housing.

- *Joint ventures*

Joint venture arrangements are encouraged in most states and territories, especially arrangements in which the community housing organisation finds a donor for all or part of the land component of a project.

The previous paper also looked at some of the challenges for the sector and for individual organisations: challenges which would have to be addressed if more private investment was to occur. Progress in addressing some of these challenges is reviewed later in this paper.

2.2 The financial context

The financial context within which private investment occurs has changed fundamentally during the 1990s. Much of this change resulted from deregulation and was taken into account in our previous paper. In the more recent past, however, three issues are having an impact on the ability of community housing to attract investment:

Low inflation

During the late 1980s and early 1990s, much of the research into private investment assumed that relatively high levels of inflation, and relatively high interest rates, were a fixed feature of the economy. This can no longer be assumed. Even the current spate of interest rate rises, and the inflation likely to occur in the wake of the introduction on the new tax system, are likely to be temporary phenomena.

Short term investment horizons

Long term investment has become the exception rather than the rule as individuals, managed funds and institutional investors have adopted an “active” philosophy focussed on the pursuit of maximum short term yields.

Tax reform

The new tax system will affect the cost structures of community housing as it will every other individual and organisation. From the viewpoint of private investment, the key changes will be related to Goods and Services Tax (GST) and Capital Gains Tax (CGT).

- *Goods and Services Tax (GST)*

From July 1, new and substantially renovated homes will be subject to GST on their sale price. For most individuals and companies, there will be no scope to recover this GST. However, charitable housing providers acquiring new housing for letting will be able to reclaim the GST paid on acquisition, so long as they are registered with the ATO for GST.

This change offers the potential to increase the significance of community housing organisations within joint ventures, as non-charitable partners will not be able to recover any GST paid if ownership of new housing passes through their hands. Local and state government may find it is more cost effective for housing to be passed direct to the provider rather than purchasing it on their behalf, and the private sector may find it useful to work directly with providers in meeting social or affordable housing commitments they may have made in order to receive development approval.

Many community housing providers are already registered as charities: the new rules will provide an incentive to others to review their constitutions and to apply for registration.

- *Capital Gains Tax (CGT)*

Indexation of the acquisition cost of assets will cease on July 1, and for assets bought after September 1999, individuals will pay CGT on half their “nominal” gain. Companies will pay GST on the whole nominal gain, at the prevalent rate of company tax. In practice, this will reduce CGT to no more than 24.25% for individuals or 30% for companies (as of July 2001). Exemptions for charities registered as Income Tax Exempt Charities will ensure that charities can generally continue not to pay CGT.

These changes will generally make equity investments in real property more attractive for individuals, at least in areas showing significant capital growth, and it may even be possible to model equity investment options with a higher assumed return from capital growth, and therefore a lesser required return from income, than in the past. However, all investments will receive the same benefit, and it can not be assumed that social housing will be in a stronger competitive position as a result of the changes.

2.3 A framework for assessing progress with private investment

In order to assess progress in creating structures which will allow private investment to be attracted into community housing, a number of component issues need to be considered. The following informal framework is simply a suggested list of key issues, and it will be used later in the paper to assess the overall impact of the initiatives which the paper describes.

- *Creation of income streams.*

Have mechanisms been established which will allow community housing providers to offer a reliable income stream to investors?

There is no prospect of significant private investment in the absence of the income

streams which provide a return to investors. In the past, however, most organisations have spent all their income on operational costs.

- *Appropriate governance structures.*
Are management structures being implemented which facilitate financial control and firm risk management?
Investors will usually avoid organisations where the role of management is limited to achieving accountability and participation.
- *Performance monitoring.*
Are systems in place to provide data on individual organisations and on the sector as a whole for use by potential investors in risk assessment, and for use by providers themselves in monitoring their own performance?
Community housing is not well understood by investors, and appropriate performance data is needed to demonstrate the sector's track record.
- *Support from government.*
Are State Government jurisdictions actively supporting the widening of the funding base for community housing?
As a minimum, State governments can ensure that program structures do not unnecessarily impede private investment. Ideally they could be stretching subsidy funds by encouraging leveraging of available subsidies.
- *Risk management strategies.*
Are mechanisms available to minimise the risks (to investors and providers) inherent in the use of private finance?
The consequences of default can be very severe, but mechanisms can be put in place to minimise them. In several European countries, sector based Guarantee funds (or similar mechanisms) have been put in place.
- *Parcelling funds.*
Are mechanisms available to facilitate the efficient and cost effective raising of finance in large parcels? It is both expensive and inefficient for organisations to negotiate small individual loans. Overseas, central, usually government owned agencies exist to raise wholesale funds for providers.

3 Summary of initiatives and research

3.1 Funding

a) Joint ventures (JVs)

Principles for good practice in joint ventures (Report)

This Ecumenical Housing report presents a guide to establishing joint ventures with state governments, primarily where land or other assets are being contributed and the maximum possible social housing is sought in return. It aims to explain how these arrangements work and how to achieve the best outcomes from them.

The report is significant because JVs with state governments are the basis upon which other initiatives may be based. Most community housing jurisdictions encourage JVs (for instance those in which the provider supplies the land) and options may include the purchase of a suitable site by the provider, using debt finance, thus avoiding the need to find a donor.

Some of the key points made in the report are:

- Be clear about the objectives for a potential joint venture, and ensure that proposals match the priorities under the State's joint venture program.
- Feasibility studies, architectural drawings etc are expensive, so commission only the work required to progress the proposal from one stage to the next.
- At the earliest stage possible, draw up a memorandum of understanding setting out clearly the allocation of roles and responsibilities in the joint venture, and make sure that these are understood.
- Be clear about who will carry the various financial risks in the project.
- Detailed feasibility studies should be carried out after a project gets the go-ahead.

MacPherson Court, Canberra

Community Housing Canberra (CHC) was recently set up by the ACT Government to procure community housing and to headlease it to providers. In this venture, CHC is working with a private sector developer which redevelop the site of a difficult-to-let and run down public housing flats complex to produce a mix of private and social housing.

If the site had simply been sold, it is unlikely that any replacement housing would have been secured in this location. The JV provides 35 social housing units and allowed financial imperatives and social housing objectives to be addressed concurrently.

Ecumenical Demonstration Project

The newly established Ecumenical Community Housing Company, in its first demonstration project, is negotiating a joint venture using church land. The land will be developed by the state government's Urban Land Corporation, which will sell lots for private development and provide 15-18 units of community housing.

The plan is that the community housing will be 25% mortgage financed, using Ecumenical Housing's Partial Debt Finance Model. A mixed target group is required to ensure adequate rental income to support the loan.

Depot Housing Project: City of Port Phillip

This Council sponsored JV with a private developer uses a major 1.23ha City-owned site in St Kilda on which 237 dwellings will be provided, of which 28 will be social housing units with an option for 35 additional dwellings to go to social housing if a provider is able to purchase them. Work on site is due to commence mid 2000.

In return for its land, the Council will get

- a demonstration project with a high standard of design
- a significant amount of social housing
- a recovery of the (high) project establishment costs.

Ecumenical Housing is directly involved because unlike Council it can recover the GST which will be payable on the transfer of the completed housing.

The joint venture structure overcomes the obstacle of dealing with the development risk, which Council could not afford to carry, and purchasing the necessary expertise, which is most cost effectively provided through a developer.

Conclusions

- JVs can provide the ideal basis upon which to base other investment initiatives. For instance, in JVs with state governments, instead of having to find a donor for land, it may be possible to purchase it and debt finance the cost.

- JVs are partnerships. It is counterproductive to try to put too many conditions on the developer.
- After GST is introduced, there may often be an advantage in government bodies or private developers having a charitable community housing organisation as a party to the venture, because charitable housing providers can recover GST.
- Community housing is likely to play a growing role in the (increasingly common) redevelopment of out-of-date or under-utilised public housing stock.
- The time and cost involved in setting up a joint venture can be high, and they involve a range of specialist and professional services. These can most cost effectively be provided by a specialist development partner.
- The most common mistake made by social housing providers is failing to understand who is carrying the risk in a JV. For instance, a community housing provider will not wish to risk losing its land input if its private sector development partner fails to sell its private housing at the expected price.

b) Debt finance at market rates

Mortgage financed equity purchase

Perth's City Housing has borrowed to the extent which can be sustained by rental income, and specifically to fund the land cost of "joint venture" projects with HomesWest, which provides capital subsidies.

City Housing has addressed one of the key obstacles which stand in the way of mortgage funding: lenders usually require a guarantee either in the form of a loan guarantee from government (which is not generally available) or a personal guarantee from Directors (which is not practical when Directors are volunteers). The Association has an arrangement in which the State Government provides a buy-back option should the Association default.

Ecumenical Housing's Partial Debt Finance model (PDF model)

This is one of two models developed by Ecumenical Housing which are available as computer software so that they can be utilised by other providers. It assumes that only part of the cost of a project requires private finance. It is particularly suited to situations where land is donated because in many situations private finance may be able to cover the balance of the cost. In these situations, testing of the model shows cost rents (1999) of around \$160 (1 bed) to \$240 (3 bed). These are affordable by some Centrelink payment recipients. It is assumed that tenants will pay rent of 25% of income (generally the Centrelink payment) plus any entitlement to rent assistance.

While partial finance can be considered in any situation, the model works better in cases where there is:

- access to Commonwealth Rent Assistance (CRA) for tenants;
- a tenant group with relatively high income and/or CRA entitlement, eg people with disabilities or large families;
- access to low-interest loans from "social" investment sources (see below).

Partial Private Finance utilising Commonwealth Rent Assistance (CRA)

The South Australian Community Housing Authority (SACHA) is developing a debt finance model based on market rents and the payment of CRA to tenants (now permissible under the CSHA). Rent payments comprise the CRA plus 25% of income. The model is targeted to the types of household entitled to fairly large amounts of CRA, eg those with several children. Thus it cannot be a complete answer for all types of need, but it could significantly add to social housing stock.

Initially, SACHA will raise funds for associations probably through government-owned agencies, but the aim is to build enough competence and confidence for direct relationships to be established. SACHA therefore sees its role as facilitating the first steps towards independent finance raising by associations.

Community Housing Expansion Model (WA)

This report proposes that Western Australia should put its \$6m of annual CHP funding into an investment fund, and to supplement it with strategic borrowings. This would allow more housing to be provided than at present.

Without the borrowing to top up funds available for spending, the use of an investment fund would reduce the number of properties provided in the early years. Loans in each of the first five years overcomes this problem. However, the biggest benefits are long term, with considerably more housing provided after year 10 when the fund has built up to a reasonable size.

The option offering greatest expansion involves a central agency managing the funds.

Conclusions

- Partial debt finance offers far more scope than 100% private finance, and is widely used overseas.
- Risk management is central to debt financing: it is imperative to be certain that obligations (especially repayment obligations) can be met.
- A key lesson from City Housing's experience is that in order to provide security to lenders a community housing organisation must be able to obtain freehold title to joint venture housing, as is available through HomesWest programs.
- A major obstacle to debt finance is that lenders require either substantial security (eg charge over other assets) or a guarantee. In some states, most providers can provide neither of these.

c) Low cost finance through social/ethical investors

City Housing's Ethical Investment proposal

Perth's City Housing is starting to investigate the market among "ethical investors" who will accept only the capital gain (with no income stream) on their investment. The mechanism is a form of debenture in investors buy a share in a housing project for a minimum of 10 or 15 years, at the end of which they receive the full capital gain but no income stream. One category of interested investor has already been identified: families and care agencies responsible for a child or young adult with a disability. In return for appropriate accommodation for the person with a disability, some are willing to make a large capital investment on this basis.

Ecumenical Housing's Equity Investment/Headleasing (EIH) model (Report)

This model is similar to a "sale and leaseback" arrangement, through "social" investors, prepared to accept less than market returns. It is the second of the two models researched and documented by Ecumenical Housing. In it, properties are constructed and sold to social investors at cost price (ie less than full market value), and they lease them back to community housing providers at an agreed low rental. The model assumes that the basic

investor requirement is capital gain. Depending on the rent level selected, rental income returns of up to 3% can be offered with Centrelink clients as residents.

The model relies on targeting to appropriate tenant groups (generally, the lowest income households will not be readily accommodated) in order to achieve the required level of rental income.

Private Sector Ethical Headleasing Investment Scheme (Report)

The Victorian Women's Housing Association (VWHA) has also looked at private headleasing financed by "ethical" investors. As in the Ecumenical Housing's EIH model, investors must be prepared to accept lower than market rental returns, and to offer extended leases. A rental return of just over 3% p.a. is achievable.

In the model VWHA procures the properties centrally and signs up as the tenant. Tenancy management is by selected community housing managers, and tenants sub-lease.

Conclusions

The existence of a significant supply of social/ethical finance has yet to be demonstrated, but if it does exist it will be important in future. However, it is already clear that there are funds available through people who are willing to pay for suitable accommodation for their loved ones, in particular for adapted or supported accommodation for people with disabilities.

d) Affordable housing

In this context, affordable housing refers to housing for people who cannot afford appropriate housing on the open market. This is a much wider group than the traditional social housing client base.

NSW's Affordable Housing Service

The NSW Government has set up an agency to promote private sector involvement in affordable housing provision by offering professional advice and seed funding. It is the result of the high level report handed down by the Ministerial Task Force on Affordable Housing, which found rapidly deteriorating affordability in both the rental and sales markets.

Affordable housing initiatives offer potential for community housing involvement either as joint venture partners with private developers or as managers of rental housing produced by the private sector.

National Research Consortium

This is a proposal to bring together stakeholders in a consortium which will conduct practical research and seek to overcome obstacles to affordable housing provision. The NSW Government's Landcom is financially supporting the initiative, which will involve stakeholders from the building industry, government, unions and the community sector.

Conclusions

Affordable housing offers a range of new partnership opportunities to community housing organisations willing to assist a wider range of clients, including

- management of affordable rental housing produced through private sector developments;
- joint ventures with private sector partners.

3.2 Sector-wide infrastructure

The following examples are intended to illustrate how progress is being made at the sector level in addressing the needs which arise from the use of private finance.

a) Financial modelling

As an outcome of the National Churches Community Housing Project, Ecumenical Housing has produced a financing kit, including computer software, to conduct financial feasibility studies on projects using the PDF and MIH models described earlier. The kit provides explanations, spreadsheets and software to use in applying the models. In particular, it allows calculation of the rents that would be required under particular financial arrangements, and an assessment of the categories of tenants who could be housed at these rents, based on payments of 25% of income plus any CRA entitlement.

b) Growth Strategies

Growth of organisations can facilitate the recruitment of skilled staff and directors and can improve viability. A policy of supporting the growth of a limited number of larger providers is being pursued either formally or informally in many parts of Australia. In several states (notably NSW, South Australia and West Australia), identified Growth Associations have been provided with additional capital funds and in some cases with public housing stock transfers. This growth has been conditional upon the adoption of effective management systems and has permitted the employment of staff and Committee of Management members with financial or other professional backgrounds.

c) Standards and Accreditation

Quality and consistency of standards has repeatedly been identified as a pre-requisite to the private sector's acceptance of community housing providers as asset managers. A National Community Housing Standards framework has now been agreed, and work is progressing across much of Australia towards accreditation of those organisations which can demonstrate that they meet minimum practice standards and have quality improvement systems in place to ensure a focus on performance.

d) Governance

Governance structures capable of strong financial control and firm decision making are essential in managing the risk associated with private investment. Ecumenical Housing is working with several private institutions to demonstrate best practice options which should provide models for other organisations. The project involves setting up a new company, Ecumenical Community Housing Company, which aims to demonstrate:

- governance structures suited to private investment,
- best practice joint venture arrangements,
- the use of private finance.

Partners in the project include the National Australia Bank, Macquarie bank, and the Prime Minister's Business - Community Partnership Program.

The new company intends to develop or procure housing for management by existing providers.

e) Performance Monitoring

The CSHA National Housing Data Agreement will define a standardised set of data to be reported by housing organisations, and performance indicators will be derived from these. It

is currently intended that about a dozen key indicators will be calculated, and that these will cover performance against social criteria (eg prioritising the housing of those in greatest need) as well as financial criteria (eg costs per unit). Such data is needed if potential investors are to assess community housing organisations for investment and risk minimisation.

A potentially useful model for active monitoring of performance has been established by the Department of Housing in NSW, where a Best Value Inspectorate is now working to ensure efficient practice.

3.3 Strategic Research

Strategic Directions for Housing Assistance (Report)

Michael Darcy and Bill Randolph argue that a viable and equitable system of housing assistance should provide a continuum of assisted housing options offering more than double the current number of dwellings.

Their preferred finance option is an Affordable Housing Corporation, which would be capable of attracting wholesale private funds to blend with capital funds from government sources.

Income polarisation

Judith Yates and Maryann Wulff have demonstrated the widening gap between housing costs and incomes at the lower end of the market, particularly in the bottom income quintile. This trend is apparent not only in expensive urban areas but also in rural areas. It underlines the increasing need for innovation to increase the supply of affordable housing for lower income earners.

Research to develop a private investment vehicle for the CH sector

The Swinburne Institute of Technology has just received funding approval from AHURI to investigate the potential for, and to describe, a retail investment product which would finance community housing developments.

Ongoing research into institutional investment in social housing

AHURI's report into models for drawing institutional investment into social housing, prepared in 1998, has unfortunately not been released by the Commonwealth Government. However, a new AHURI project is currently proposed in which a range of stakeholders will assist in identifying options for overcoming obstacles to institutional investment in social housing.

Conclusions

One message emerging from current research echoes the message from earlier research: the sector cannot attract substantial amounts of private investment without significant involvement from government. Ultimately, much more housing could be obtained from existing subsidies if government was take on the role of arranging private finance and investment. In the medium term, investors look to government to reduce the (small but significant) financial risk of investing in a new class of assets, and the sector looks to government to reduce the risk (again often small but significant) involved in developing and managing privately funded portfolios.

4 Progress in addressing challenges

It was suggested in Section 2 that an assessment of the sector's progress towards significant private sector investment could best be made by considering a series of component issues. The following is an attempt to report on these issues, based on the evidence from the initiatives and proposals outlined in Section 3.

a) Creation of income streams: Have mechanisms been established which will allow community housing providers to offer a reliable income stream to investors?

The issue of income optimisation must be approached sensitively, because providers must balance social objectives about housing people in great need, with their desire to maximise the amount of housing they can provide. However, many organisations have discovered that they can reduce costs by improving efficiency, and others have formalised targeting policies which provide for a range of household types and which do not exclude those in greatest need.

- Cost analysis and benchmarking. The first step in all cases is to obtain a clear picture of existing cost and income structures. At an organisational level, data collection frameworks like that under the CSHA will ensure that consistent and comparable data is available in future. As many organisations administer properties from different programs with different cost structures, it is also necessary for organisations to look at costs at program level. Programs like the CRS in Queensland or CTS in NSW are encouraging this by setting benchmarks against which revenue support is assessed.
- Models based on market rents and/or Commonwealth Rent Assistance. For some community housing client groups, the use of Rent Assistance could lead to significantly higher income for the provider without leaving the tenant worse off. Clearly this approach will not work for everyone, but models are described in this paper which show that there is potential to assist several target groups in this way. Equally, the sector can have a role in assisting new client groups, who would not traditionally be eligible for community housing but who cannot house themselves adequately in high cost areas, is an option through some Affordable Housing models.

b) Appropriate governance structures: Are management structures being implemented which facilitate financial control and firm risk management?

- Growth Strategies. The growth strategies described in this paper are improving the viability of the organisations involved and allowing them to attract professional staff and directors.
- Best practice models. Ecumenical Housing's initiative (described earlier) to establish the new Ecumenical Community Housing Company is specifically intended to demonstrate a best practice governance model for other organisations.

c) Performance monitoring: Are systems in place to provide data on individual organisations and on the sector as a whole for use by potential investors in risk assessment, and for use by providers themselves in monitoring their own performance?

- National Housing Data Agreement. The CSHA framework described earlier is the culmination of extensive research and piloting of systems for gathering and reporting appropriate data. Once established, it should ensure that investors can readily assess and compare organisations, and it should also be an invaluable tool for performance management within organisations themselves.
- Accreditation. The progress with accreditation represents progress in establishing and maintaining standards within the sector, and in promoting Quality Improvement.

d) Support from government: Are State Government jurisdictions actively supporting the widening of the funding base for community housing?

Unfortunately, only limited progress has been made in this area. This may be partly because:

- there is a perception that the terms and conditions of private investment undermine accountability for government subsidies;
- there is a reluctance to expose government to risks on behalf of the non-government housing sector.

Having said this, several states are actively encouraging the use of private finance.

- SA is considering raising funds on behalf of the sector.
- WA has removed obstacles to private loans related to the tenure of assets and lenders security requirements.

In the short term, the removal of obstacles to mixing private funds with government subsidies remains a priority.

e) Risk management strategies. Are mechanisms available to minimise the risks (to investors and providers) inherent in the use of private finance?

Andrew Larkin (1998) identified a key feature in the widespread adoption of private finance for community housing in Europe as the provision of security “through a range of repayment guarantees, which vary from centrally organised models to smaller targeted funds and risk sharing arrangements involving a range of players, assets and funds.” In general, these guarantees were based on the large existing asset bases of providers (not available in Australia) and/or mutual guarantee funds. The role of government is central in these arrangements, although, ultimately, the risk is generally shared between government providers and investors.

In Australia, there is little progress to report on this issue.

f) Parcelling funds. Are mechanisms available to facilitate the efficient and cost effective raising of finance in large parcels?

Overseas, private funds are typically arranged centrally, either through a sector sponsored agency or a government body. This allows finance to be raised on the best possible terms.

Again, there has been little progress on this front in Australia, despite the existence of several fairly small government sponsored initiatives to raise finance for Victoria’s Common Equity Co-operatives and, potentially, SACHA’s client associations.

5 Conclusions and next steps

6.1 Conclusions

Our review of the materials summarised in this paper leads the authors to draw several conclusions about trends in the use of private finance for community housing. Overall, it is notable that a great deal of research and discussion has occurred over the last ten years, but that much of this has not led to progress on the ground. However some progress has been made recently, particularly in the following ways.

a) Individual initiatives from providers.

The initiatives which are now showing fruit are often the result of individual initiatives by individual providers. City Housing in Perth and Ecumenical Housing in Melbourne are outstanding examples, but smaller steps have been taken by organisations across the sector.

b) Partnership

Progress is being made by working in partnership. The organisations succeeding with private finance are those which have developed working relationships with private and government partners.

c) Small steps in the right direction

Of course every journey begins with the first small steps, and this is equally true for the introduction of private sector finance. The coming challenge will be to continue to move forward and to continue to innovate.

d) Working with Community Housing Authorities

Little progress is possible without some support from the government authorities responsible for community housing. Even where they are unable at present to consider raising wholesale private funds for the sector, their assistance is necessary in overcoming the many obstacles which always accompany the first exploration of private finance. Issues like the title to housing and the ability to offer a lender first charge over property must be resolved before any real progress is possible, and can be specifically addressed in the context of individual proposals.

6.2 Next steps

Much of the research which has been carried out into private finance has focussed on identifying and tapping sources of finance. In reality, the current obstacles to private investment are more mundane. The market will invest wherever it sees an opportunity for a good return, and the task for the sector is to create the investment opportunities rather than look for investors.

The following specific areas are suggested as a focus for the near future.

a) Work out how mixed funding can be applied to existing programs

Partial debt finance mixed with capital subsidy is the area which currently offers most promise. It allows borrowings to be limited to the amount which can be serviced from rental income, and stretches available capital subsidies so that they can produce more housing. However, it is not clear to providers how (or whether) private finance could be applied to many existing programs. A couple of examples have been given in this paper, but they are small in relation to the sector. The task is for the sector to work with State level community

housing authorities to identify and deal with the current obstacles to private investment in existing programs. These obstacles include tenure arrangements, lenders' security requirements, tenant targeting requirements, and accountability requirements.

b) Identify risk management options

The issue of risk management needs to be addressed at the sector level, as has happened overseas. Lenders and borrowers require some confidence about their options in the case of default by a provider. This issue has been identified on a number of occasions, but a lead has yet to be taken in addressing it. In some overseas cases, guarantee funds have been set up through peak bodies, funded by the sector itself, but the asset base of Australian providers may well be inadequate for this, and government involvement may therefore be required. Some creative thinking is required at least to identify the options, and what would have to be done to implement them, and research could usefully be conducted to start the process.

c) Develop a co-ordinated approach for the sector

At present, it sometimes appears that the push towards private funding is coming from a handful of organisations, and that the rest of the sector is looking on from the sidelines. This may be because most people in community housing do not feel they have the ability to investigate the issues, and in some cases it seems that organisations do not wish to explore private investment because they do not wish to change the way they operate in order to accommodate it. It is certainly true that many organisations can not even consider private finance because they could not generate sufficient income to support it. These issues need to be clarified in some detail, so that an approach can be developed identifying whether and where each part of the sector wishes to pursue private investment, so that efforts can be targeted where they are most likely to succeed. There is a significant role for peak bodies in this work.

d) Set up demonstration projects

The work of organisations like Ecumenical Housing and City Housing is providing invaluable demonstrations of how to go about private funding. It is important that this work should be documented in such a way that other organisations can replicate the approaches opted (as is happening with some of the projects discussed in this paper) and that more such demonstration projects should be set up to implement strategically important models.

These "next steps" are simply initial suggestions from the authors. It is hoped that the NCHF seminar will produce a clearer action plan, so that the undoubted promise which has been demonstrated through the research and initiatives reviewed in this paper, can lead to significant and sustainable steps forward, to the benefit of both the sector and its clients.

References and Contacts

a) Joint Ventures

Principles for good practice in joint ventures

Report: "Good Practice in Church Community Housing Joint Ventures, Volumes 1 and 2"
Ecumenical Housing Inc, January 2000

Ecumenical Housing 03 9629 4888
ehinc@ozemail.com.au

MacPherson Court, Canberra

Bruce MacKenzie at CHC 02 6248 7716
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Depot Housing Project: City of Port Phillip

Gary Spivak, City of Port Phillip 03 9209 6752
gspivak@portphillip.vic.gov.au

Ecumenical Demonstration Project

See above

b) Debt finance

Mortgage financed equity purchase

Hans Gerritsen, at City Housing in Perth 08 9328 7977
Picha@inet.net.au

Partial Debt Finance model

Report: "Private funding models for church community housing" Ecumenical Housing Inc
April 1999
(Contact details as above)

Partial Private Finance utilising Commonwealth Rent Assistance (CRA)

Andy Hagan at SACHA 08 8207 0233

Community Housing Expansion Model (WA)

Report: "Community Housing Expansion Model" by Karel Eringa, September 1999
Karel Eringa, Community Housing Coalition of WA 08 9221 7933

c) "Social" and "Ethical" investment

City Housing's Ethical Investment proposal

(Contact details as above.)

Equity Investment / Headleasing model

(See Ecumenical Housing's Partial Debt Finance model)

Private Sector Ethical Headleasing Investment Scheme

Report: VWHA Ethical Headleasing Investment Scheme, Final Report" 1998 "Victorian Women's HA for DFCS.

e) Affordable Housing

NSW Affordable Housing Service

02 9391 2060
www.duap.nsw.gov.au/ahs

Sector-wide infrastructureEcumenical Community Housing Company Demonstration Project

and

Financing Kit for Private Funding Models*Report: "Financing Kit for Private Funding Models" Ecumenical Housing inc, May 1999*

Ecumenical Housing 03 9629 4888

ehinc@ozemail.com.au

Other initiatives:

Contact the National Community Housing Forum

(02) 9211 0422

Strategic ResearchStrategic Directions for Housing Assistance*Report: "Strategic Directions for Housing Assistance" by Michael Darcy and Bill Randolph, UWS Urban Frontiers Program, for NSW Dept of Housing, December 1999*

Judith Yates and Maryann Wulff (1999): "Housing Markets and Household Income Polarisation – a Metropolitan and Regional Analysis". Presented the National Housing Conference, Sydney, November 1999. Available at www.housing.nsw.gov.au

Other Research projectsInformation on current research through AHURI is at www.ahuri.edu.au