Federal States and Public Housing Transformation

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Affordable Housing Industry Capacity Study

Investigative Panel Presentation and National Housing Conference
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Public Housing Challenges

- Lack of funds
- Narrowing revenue base
- Rising operating costs
- Backlog in maintenance
- Limited ability to expand
- Varying strategies
- Dominant player locally but politically weak nationally

Recommended strategies to date

- Recognition, costing & funding of community service obligation
- Cost competitive assessment of maintenance works required
- Special purpose grants tied to management, maintenance and (re)development
- Feasible level of private finance determined & facilitated and supported by government
- Substantial equity injection or unencumbered transfer of dwellings to NPOs
- Broadening of tenant income profile
- And so forth...
Federal States & PH transformation

Field of focus

• Social housing within different federal contexts
• Transformation strategies
• Building industry capacity

Approach

• ‘Whole system’ development
• Macro and micro transformation strategies
• Drivers and capacities to deliver
• Illustrations of local difference

Methods

– Literature review charting key contours of transformation, their drivers and outcomes
– National experts guidance and validation
– Local investigations, field work interviews
– Abstract capacity building strategies

Australia alongside four federal states

Eight local illustrations

– San Diego & Portland
– Vancouver & Toronto
– Berlin & Munich
– Vienna & Lower Austria
Federal states are dynamic

But where does social housing fit? Policy, funding, service delivery and regulation..
Transformation – what and how?

Fundamental change in role, strategy and culture
*(Pomeroy et al., 2015)*

- Move away from traditional bureaucratic culture
- Entrepreneurial practices
- Revenue generating activities

**Process**

- Slow cumulative or...
- Sudden and forced
- Within and outside organisation

**Outcomes**

- Positive and/or negative...
- Need to examine real impact on social housing outcomes
It is changing - but where is it going?

Well funded, professionally managed, strong vision, productive, well connected, community ally

Public housing

Part of a multi-provider system, competitive funding, prescribed business model, specialist regulation, politically influential

Underfunded, poorly managed, no vision, isolated, silo, deteriorating, sales demolition, politically stigmatised

Overtaken by private provider system, fragmented short term funding, no prescribed business model, weak regulation, politically contested
Industry objective: capacity to deliver

1. **Resource capacity** fairer and appropriate budget transfers, long term funding agreements, reasonable borrowing limits, positive lending environment

2. **Organisational capacity** Commitment to a clear vision, well defined roles, effective leadership, client driven, professional.

3. **Programmatic capacity** ability to plan long term and steer strategic actions to achieve desired housing outcomes

4. **Networking capacity** integrating not isolating, effective inter-governmental relationships, working with partner providers, community ally not an island

5. **Political capacity** framing of the problem, linking more influential agendas, forming constructive alliances, sophisticated relations with private sector, using the media wisely (Glickman and Servon, 1998, Lawson et al, forthcoming)
<table>
<thead>
<tr>
<th><strong>United States</strong></th>
<th><strong>Germany</strong></th>
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<td>4000 PHAs (43%) and NPO (57%)</td>
<td>Private entities, including publicly owned 0.9 million, 5%</td>
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<td>1.2 million PHA units 1%, 2.9 million NPO AH 2.5%</td>
<td>Subsidy defines eligibility and rent regime</td>
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<td>PH RGI, LIHTC units BMR</td>
<td>Devolution and expiring federal subsidies eroding stock</td>
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<td>PH Very low income households</td>
<td>Compliance bureaucratically enforced, de-jure and de-facto, post privatisation?</td>
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<td>HUD operating subsidies, prescriptive funding</td>
<td>LI tenants eligible for modest HA linked to social benefits</td>
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<td>Extensive mixed income redevelopment, PH dem. decline</td>
<td>New affordable housing less accessible ‘Munich Model’</td>
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<td>Capped rationed Housing Vouchers only PR → PH transfers</td>
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<td>Fast growing LIHTC funded NPO sector provides ‘affordable’ housing &amp; eligible for HV</td>
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<tr>
<th><strong>Canada</strong></th>
<th><strong>Austria</strong></th>
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<tr>
<td>Public Housing Corporations, 0.5 million 2%, many small NPOs and co-operatives .8 million 3%,</td>
<td>Municipal housing companies (7%) and Limited Profit Housing Associations (16%)</td>
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<td>Devolved to Provinces and territories</td>
<td>0.9 million stable supply of affordable dwellings, slight decline municipal ‘social’ dwellings</td>
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<td>Limited transfers, slow evolution third sector</td>
<td>Cost capped cost rents conditional subsidy regime</td>
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<td>Expiring federal operating subsidies</td>
<td>Municipal allocation rights over subsidised rental dwellings</td>
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<td>Variety of rent models, primarily in PH RGI</td>
<td>Regional and local allowances, loans to support equity contributions (shared ownership)</td>
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<td>Patchy system of rent rebates and housing allowances.</td>
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United States

Transformation (one of many)

- PH operating and capital subsidies insufficient to maintain and invest
- Yet prescriptive fed regulations for PH rent, allocation and investment, govern 4,000 PHAs.
- New flexibility enables PHAs to utilize Voucher payments as revenue stream to underpin investment and renovate housing stock.

Outcomes

- Transfer of public housing units to LLCs, public majority shareholder
- Wider eligibility, higher max. rents, duration limited to HV contract...
- Competes with vibrant LIHTC funded NPO sector.
United States

San Diego
- SDHC (1979) young low rise stock, now corporatised public body
- 2009 transferred HUD regulated PH ($1 per unit, 1,366 units) to Housing Voucher PRS model
- Exchanged ongoing property based operating subsidy for ongoing HV
- Used equity and revenue stream to access PF, issue bonds (A+ SP rating), inclusionary zoning 810 new AH
- Tenants given choice to move from PH to HV or BMR and AHO
- 25% moved and PH reallocated from WL
- Transformative leadership, various partners, customer orientated, sophisticated PR strategy
- Competes with other AH NPOs

Portland
- Portland PHA (1941) Homeforward
- Older, some high rise stock 1,345 units
- Range of PH, HOPE VI, HV, LIHTC
- R&D hot house, trusted industry reformer, inspired national programs
  - Detailed review of impact of HUD regulations on investment, rent and allocation conditions
  - Piloted more flexible approach to transfer PH to section 8 program and harmonise requirements but protect tenancy conditions, attracting investment for tower rehabilitation
  - Developed specific market rent standards for 9 districts
  - Created 6 management companies to manage LIHTC and HV funded properties
- Removed silos, attracted capital investment
- Yet impeded by lack of inclusionary contributions
Canada

Transformation

- Bi-lateral devolution agreements transfer resp. public housing to provinces (ex. Toronto), expiring federal operating subsidies.
- Federal AHI 50/50 contributions, reducing over time but no long term funding strategy for new supply, renovation.

Outcomes

- Variety of providers and models
- No national picture (or data)
- Patchy provincial leadership and investment
- Limited stock transfers (new BC scheme)
- Fragmented, sporadic and uneven social housing industry
- An uncertain future.
Canada

Vancouver

- BC Housing (1967) 51,600 units, most managed by 800 NPs (mergers)
- Only province to take leadership, integrate with other portfolios and invest in new SH RGI (constructs 1,500 p.a) but contested
  - Operates wholesale financing scheme for social housing for new dwellings
  - 2014 Non Profit Asset Transfer Scheme (FMR, operating agreements, income mix)
  - NPO land leases transformed to ownership to facilitate investment
  - Recognised success reducing emissions through retrofitting
  - Inclusionary zoning
  - Continued lobbying for federal role
  - From directive to collaborative partnerships
- Variety of entrepreneurial practices to make up for shortfall in funding but no comprehensive ‘model’
- Movement towards a less invasive more performance based regulatory model

Toronto

- Very large Toronto Community Housing Corporation (2002), municipally owned 59,700 units (1970s, fair to poor), 90% RGI, rent supplements includes municipal NP housing
- Prescriptive provincial framework, constrained funding, limited professional financing capacity at municipal level
- Province does not provide wholesale financing for new dwellings
- Building condition reports, resource shift from administration to asset management, efforts to improve energy efficiency
- AHI injected 30-50% capital replacement costs for 3,500 units insufficient and short term
- 2015 Task Force examining stock transfer, but will this be sustainable?
- Political calls for improved regulatory system and return of national government to housing
Germany

Transformation

- Central government retains housing allowance and rent setting policy but largely withdrawn from supply policy
- Expiring conditional subsidies and cessation of federal co-funding leads to ‘melting away’ & patchy regional coverage
- Reliance on commercial loans, limited local capacity, modest local contributions.
- Demand assistance co-funded (Fed/State) but delivered locally.
- Heavy burden on municipalities, varying capacity and commitment

Outcomes

- Rapidly declining stock subject to contract
- Mass privatisations in 2000s
- Streaming portfolios, rising rents, sales, deterioration social stock
- Scandals, legal disputes, protests
- Re-valuation of municipal role, some buybacks
- Some returning to more active but modest role, amidst shortages and rising housing costs

Share of public funding for housing

German Social Housing 2002-2013 (GdW)
Germany

Berlin
- Large municipal stock
- 200,000 units privatised to global investors (Cerberus, Goldmann Sachs) but still subject to social contracts
- Rent max., cherry picking, no sales to sitting tenants
- Sales proceeds minimal impact on deficits (€20,000 per unit)
- ROI low assets resold to national RE funds antipating lower ROI
- Enforcement issues, expiring contracts, rising rents but still choice in the market
- Boom (bust?) in speculative apartment market
- No new SH since 2001 but returning to supply from 2014, yet budget austerity
- Rent rises and large social protests
- Considerable public buyback of stock at much higher prices.
- Potential return of corporatised public companies to direct government administration

Munich
- Strong economy, corporate tax base, not highly dependent on federal transfers
- High pressure housing market
- Strong cross party support
- Co-funds five year housing program
- Did not pursue privatisation actively
- Owns 100% of municipal housing and 8% of city housing stock
- Tried to purchase regional SH provider but outbid by large RE fund Patrizia
- Subsequently rents have risen considerably in these 8,000 flats.
- Patrizia offered right to buy, Munich re-purchased at considerable cost.
- Land use policies support middle income affordable housing development
- City provides plots tied to social housing usage (40yrs, 75-80% BMR)
- Delivers 7,000 dwellings per year, half with social contracts for varying income groups
Austria

Transformation

• Nationally legislated LP and cost rent model, rent regulation, Kyoto motivated investment program
• For decades transferred federal housing funds, capped, then untied as general transfer
• Allows for variable design regional programs but some decline, implemented locally.
• Overall increase but declining share public funds gap refilled with loan repayments and also tax privileged private investment (housing bonds)

Outcomes

• Municipal production slows, overtaken by cost rent LPHA
• Provides new and renovated supply, but more expensive
• Increased reliance on private investment, including tenant equity
• LPHA increasingly manage small MHCs
Austria

Vienna
- Wiener Wohnen (1904) largest landlord in Europe 216,000 dwellings and is owned by the City State of Vienna
- Retained strong role in direct management, focused on renovation, while construction effort diversified, recently revived.
- Very comprehensive approach (land, planning, funding, management, social integration)
- 7,275 new units supported in 2014
- Social welfare role homelessness, migrants, community cohesion
- Re-organisation of tenant services ‘one desk’ (federal law abolished building caretakers)
- Facilitative land use planning
- Land banking
- Competitions for development subsidies
- Design competitions and SMART program

Lower Austria
- Top ranking building company Wien Süd (1910) building co-operative 23,000 units in 46 municipalities
- Recent focus on energy efficient building and non-profit construction of social infrastructure
- With declining public subsidies, increasingly reliant on private finance
- Tenant based evaluation institutionalised for each project
- Consulting subsidiary internationally active
- Contracted to take over management of smaller municipal housing companies, yet there are challenges
- Appeals to political preferences for smaller government, competition, has cross party support
Drivers of transformation

Push
- Decline or untying of ‘big’ national supply programs
- Ideologies of small government, subsidiarity, localism, importance of balanced budgets
- Prescriptive but unsustainable PH requirements, no potential for investment
- Rising investment required to address deteriorating stock
- Loosening of regional obligation, excessive flexibility in use of transferred funds

Pull
- Potential use of remaining subsidies, built up equity, marketability of assets
- Political preference for third sector solution
- Potential availability of investment

Consolidators
- Coherent, comprehensive and sustainable business models (operating, capital, rent regime, equity and surplus use, re-investment)
- Reinforced by legislation, programs, strategic professional development, regulatory regime, social contracts, monitoring and enforcement
- Compelling leadership from management
- Mission driven organisation, solution orientated organisational culture, relevant skills development and acquisition
- Partnering with skilled and experienced specialist services
- Effective regulation purposeful and constructive
Resource capacity

*Fairer and appropriate budget transfers, long term funding agreements, reasonable borrowing limits, positive lending environment*

- Evaluation of the capital and operating resources required to deliver social housing within an agreed rent and allocation regime (Austria, legislated US, though not fully adhered to).
- Medium to long term resource sharing agreements covering operating and capital costs (Canada, though poorly).
- Defines ability of providers to access subsidies, re-circulation of loans, build up equity and surpluses, sustains production and used to harness private investment (Austria well developed, US new flexibility for PHAs).
- Facilitates a competitive long term lending market to attract lowest cost longest term private investment (Austria LP and HCCB, US LIHTCs).
Organisational capacity

*Commitment to a clear vision, well defined roles, effective leadership, client driven, professional.*

- Clear definition of market role and business model of affordable housing providers (Austria, US)
- Legislation defining conditional use of housing subsidies, incentivised by tax regime governing housing providers (Austria)
- Modernisation of traditional public management to become more client focused and build appropriate links with partners (US, Austria, Canada)
- Competitive dynamic promoting professionalization, productivity and social mission (subsidy competitions Vienna, Austria)
Programmatic capacity

*Ability to plan long term and steer strategic actions to achieve desired housing outcomes*

- Mechanisms to drive new production and stabilize markets (conditional supply programs, reinvestment requirements, Austria)
- Specific programs to address long term agendas (Energy efficiency and carbon emission goals, Austria, movement to opportunity and rent assistance demonstration, US)
- Planning mechanisms to improve access to building sites and generate local funds (municipal obligations Germany, inclusionary planning US, land use zones, Vienna)
Networking capacity

*Integrating not isolating, effective inter-governmental relationships, working with partner providers, community ally not an island*

- Recognition that social housing is not an island, breaking down silos and forming appropriate partnerships (US, Canada)
- Strong professional body (government requires membership) which audits members, shares technical innovations (Austria).
- Requires sector to compete for available subsidies and for larger developments collaborate with multiple partners (Austria)
- Expectation that large providers integrate space social services and facilities in their developments, but not necessary provide them (Austria)
Strategies for capacity building 5/5

Political capacity

*Framing of the problem, linking more influential agendas, forming constructive alliances, sophisticated relations with private sector, using the media wisely*

- Link social housing to broader economic and environmental agendas beyond welfare (Austria, Germany)
- Institutionalise multi-stakeholder evaluation, client focused (Vienna)
- Establish housing alliances, involving all stakeholders in more collaborative forms of governance (Germany alliances, US local charters)
- Establish feasible and enforceable social charters governing privatised housing stock (German social charters versus Austrian legislation)
- Educate the media and take a more proactive role in defending affordable housing (US, some German cities)
What does this mean for Australia?

• Returning to the Australian dilemma....
• What is the most appropriate and sustainable mechanism for transferring and tying resources to ensure that social housing systems are comprehensive, responsive, efficient and innovative?
• How can the benefits of local innovation, competition and experimentation be shared to build and strengthen more productive social housing systems across the nation?
• Under what conditions can stock transformation most effectively drive sector development and achieve social housing policy objectives?
Research Team

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<td><strong>Policy</strong></td>
<td>• Centralised prescriptive demand and supply programs. States have discretion over establishment of PHAs. PHAs governed according to local housing charters.</td>
<td>• Federal withdrawal from both supply and demand assistance, CMHC remains influential investor. Policy regionalised under various SH agreements, activated by sporadic federal initiatives</td>
<td>• Central government retains housing allowance and rent setting policy but largely withdrawn from supply policy, only some regions and larger cities design supply programs.</td>
<td>• Nationally legislated LP and cost rent model, traditionally transferred funds, current focus on environmental and energy, allows for variable design regional programs, implemented locally.</td>
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<td><strong>Funding</strong></td>
<td>• Congress determined, tied operating and capital subsidy programs for public housing (HUD), LIH Tax Credits for affordable sector (IRS), municipal housing bonds, some development impact fees. Capped, rationed federal Housing Vouchers for PRS.</td>
<td>• Mortgage loans from CMHC, for supply, expiring federal funds and ongoing provincial supply subsidies, sporadic federal initiatives (AHI), Rent rebates but not national system of housing allowances.</td>
<td>• Federal co-funding for patchy regional supply programs, expiring conditional subsidies, commercial loans, modest local development impact fees. Demand assistance co-funded (Fed/State) but delivered locally.</td>
<td>• Untied as well as conditional federal transfers, varying regional budget allocations to loan and grant schemes, tax privileged bonds, tenant equity, reinvested loan repayments, municipal land.</td>
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<td><strong>Service delivery</strong></td>
<td>• City and County PHAs and increasingly LLC, NPOs and private developers.</td>
<td>• State (&amp; Toronto) housing corporations and third sector NPOs and co-ops</td>
<td>• Municipal housing companies and all landlords receiving conditional subsidies.</td>
<td>• Municipal housing companies and Limited Profit Housing Associations</td>
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<td><strong>Regulation</strong></td>
<td>• Legislated and prescribed HUD and IRS, conditions attached to various programs: PH, Section 8, HOPVE VI, RAD. HUD and state agencies allocating LITHCs.</td>
<td>• CMHC governed by federal FI regulations and investment requirements, ongoing operating federal agreements, conditions of federal initiatives (AHI) variable provincial program conditions, no national NPO regulation.</td>
<td>• Municipalities, conditional regional subsidies, time limited social contracts, enforced by local government. No national NP legislation.</td>
<td>• National legislative framework on LP and rents, all subsidy recipients audited and compliance regulated by regional and local governments</td>
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