

## **BARRIERS TO EXPANDING PARTNERSHIPS FOR AFFORDABLE RENTAL HOUSING INVESTMENT**

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### **Abstract**

The recent housing boom, experienced across Australian metropolitan markets, has attracted many new investors and resulted in increasing prices across the full range of residential sub-markets for both owner-occupation and investment categories. Of particular concern from a social perspective is the consequential pressure generated in the affordable housing rental market. Moreover, high vacancy rates and modest rental growth in rental housing has caused a deterioration in the investor's rental yield given these increasing house prices (Powall and Withers, 2004, p.7).

In this difficult situation, traditional delivery methods for rental housing are unlikely to continue to attract more investment in this area. Although some innovative proposals - such as public private partnerships in the affordable housing area - have been put forward as solutions, many stakeholders continue to hold doubts about the specious attractions of such approaches (Susilawati and Armitage, 2004).

This paper reports the results of a survey of affordable housing providers drawn from a range of backgrounds: namely the private sector, government and non-for-profit organisations. Using in-depth interviews, it compares the opinions of these supply side groups regarding their experiences of the barriers to entry to such partnerships. The findings show agreement across the sector that, for a range of reasons, they have failed to produce better outcomes than would have been expected without the partnership. Further analysis using two-way and three-way cross-tabulation is then used to investigate the importance level between sub-groups.

**Keywords:** Partnerships, affordable housing, rental housing, housing supply, stakeholders

### **1. Introduction**

The importance of having affordable housing has been discussed in different forums recently both nationally and regionally, including the National Housing Conference (2003), the Productivity Commission's first home ownership inquiry (2004), National Summit on Housing Affordability (2004) and the Queensland Shelter Conference (2004). Whilst the

bulk of discussion has focussed on ownership affordability, there has been some consideration of renter affordability, both problems as well as proposed solutions. In the context of improving the supply of affordable rental housing, opportunities associated with partnerships amongst housing providers are showing some promise.

This study follows from our preliminary study in Queensland which recommended extending partnership arrangements to increase the supply of affordable housing beyond the current emphasis on the Public Private Partnership relationship (Susilawati and Armitage, 2004). Although policy and guidelines already exist to support partnership initiatives, implementation problems have led to a lack of application to real projects. Further research has been conducted to elicit the problems constraining the expansion of partnerships for increasing the supply of affordable rental housing.

This study aims to investigate the barriers to building partnerships among major stakeholders. Firstly, a discussion of the literature reviewing the role of major stakeholders in affordable rental housing and partnerships is presented to provide the theoretical framework for this research. Secondly, in-depth interviews with representatives of government, the private sector and non-for-profit organisations have been conducted. This report only illustrates the outcome of the final section of these interviews.

## **2. Major stakeholders in affordable rental housing**

In the past, rental housing has been viewed as a transitional stage to housing ownership or for temporary accommodation only (Powall and Withers, 2004). However, some people do have to rent forever. Rental housing is an integral part of the housing system which has interacting tenures and sub-markets. Tenure categories in the housing system include owner-occupation, private rental, public rental and community housing. Sub-markets could be divided by housing type, condition and location (Badcock and Beer, 2000).

This section will focus on current practices and problems in delivering affordable rental housing. It defines affordable rental housing, identifies the role and responsibilities of the stakeholders and possible solutions recommended by other researchers.

Since investors in rental housing seek both rental return and capital gain from their investments, given the price of housing in Australia jumped 100% over the last decade, (Powall and Withers, 2004, p.2) investors will not be attracted to provide new long-term investment of rental housing without a concomitant increase in rents to maintain their yields. However, relatively high vacancy rates and modest rental growth in this sector have limited this yield, as identified in Figure 1: Rental growth and vacancy rate, during the period 1985 to 2003. Since 1997, the trend in vacancy rate has been running ahead of rental growth.

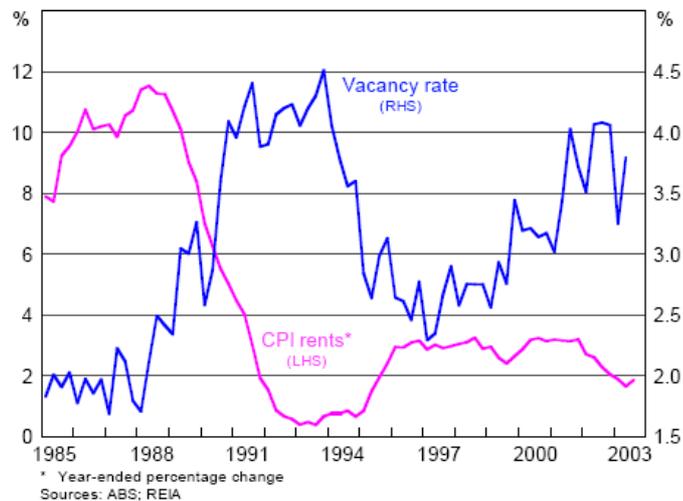


Figure 1. Rental growth and vacancy rate  
Source: Powall and Withers (2004, p.7)

The Queensland Department of Housing (2004, p.1) has defined affordable rental housing as those dwellings appropriate to the needs of low-income households in terms of design, location and access to services and facilities as well as having rent charges which do not exceed 30% of gross household income for people in the lowest 40% of income units. The definition is complemented by a framework for identifying affordable rents for appropriate rental accommodation and the term 'Benchmark Affordable Rent' has been adopted (see Table 1: Benchmark of affordable rent ranges). The bottom 40% of households on the income distribution are broadly consistent with the low income category (Queensland Department of Housing, 2004, p.2).

The benchmark affordable housing rents in Table 1 are calculated as follows:

$$\left[ \frac{\text{Rent} - \text{Rent Assistance}}{\text{Gross Household Income}} \right] \times 100\% \leq 30\%$$

(Queensland Department of Housing, 2004, p. 2)

Table 1: Benchmark of affordable rent ranges\*

Dwelling Size	Low income	
	Gross household income range (\$/week)	Benchmark Affordable Rent range (\$/week)
1 bedroom	292.10 – 493.60	135 – 193
2 bedrooms	369.64 – 646.68	166 – 250
3 bedrooms	447.18 – 726.22	190 – 281
4 bedrooms	602.26 – 803.76	244 - 304

\* Based on the Centrelink benefit levels current as at 20 March 2004 and will be revised again in January 2005.

Source: Queensland Department of Housing (2004, p. 3)

The calculation of the benchmark affordable rent is a useful measure for the providers to affordable housing to assist with the assessment of return on investment. The affordable rental housing benchmark has three potential application: to provide an affordability template for new development, to retain and to monitor existing affordable housing stock (Queensland Department of Housing, 2004, p. 5).

Recently, the Queensland Department of Housing has been pro-active in its support of affordable housing initiatives. The publication in 2003 (Queensland Department of Housing, 2003b) of detailed guidelines ('kits') is aimed at supporting local governments with their management of housing delivery, as many local government authorities (LGAs) have relatively limited experience of affordable housing. Such collaboration and integration between the public (federal, state and local governments), private and community sectors, are important to achieve the above objective (Queensland Department of Housing, 2003b, p. 1-1).

Public, private and non-for-profit stakeholders have different roles and responsibilities in housing delivery. The three tiers of government have the responsibility of regulation and economic management to support investment in housing through interest rates, investment incentives and a range of other funding initiatives (Queensland Department of Housing, 2003b, p. 2-2). The state government and private and community sectors are responsible for the delivery of housing through the construction process and property and tenancy management.

Focussing on the long term affordable rental housing product, different types of affordable housing and even the calculation of rental vary between different stakeholders (see Table 2: Affordable rental housing delivery products and rental charges). As can be seen from Table 2, state government bears the responsibility for public housing with rents based on tenants' income. The private sector covers a more diverse range of accommodation types but with the benchmark rental recognising market forces. Non-for-profit organisations seek to complement the other stakeholders through a variety of rental approaches.

Table 2: Affordable rental housing delivery products and rental charges

Stakeholder	Product	Basis of Rental charge
State Government	Public housing	Income based
Private sector	Private rental housing such as: Boarding houses Caravan parks Private rental houses Private rental units	Market rent or benchmark affordable rents
Non-for-profit	Community housing	Income based or maximum of 74.9 percent of market rent

Source: author

Further evidence of strong demand for low-income housing is indicated by the number of people on waiting lists for public housing (Queensland Department of Housing, 2003a). Moreover, with the reduction of Commonwealth government funding for public housing, the capacity of state governments to provide new stock as well as maintain and upgrade the existing stock has been constrained (Queensland Department of Housing, 2003a). Some of the tenants who are waiting for public housing may be accommodated in private rental houses through community housing organisations as a transitional solution. However, not all tenants of the transitional housing can get a place in public housing and have no alternative but to remain in private rental accommodation.

In order to assist the private renters, the Commonwealth government has provided rental assistance for low income earners to increase their ability to pay a market rent. However, 'Rent Assistance does not provide affordability for over a third of those who receive it' (National Shelter and The Australian Council of Social Service (ACOSS), 2003, p.10). In addition, it does not provide enough incentive to housing suppliers for the construction of new affordable housing. Furthermore, the average rent has increased due to growing demand and diminishing affordable housing stock (Berry and Hall, 2001). The private affordable housing stock has been disappearing because of the upgrading of older houses for the higher end market segment and the impact of increasing production cost to comply with statutory requirements such as for higher levels of fire safety and additional tax regulation (GST).

Some researchers at national and regional forums have discussed initiatives to improve support for affordable private sector housing (Powall and Withers, 2004, p. 32) and promote an expansion of the role of the private rental sector (Seelig, 2004, p.8). Some researchers have explored the possibility of increasing the housing affordability supply by stimulating private sector involvement in affordable housing projects. A comprehensive study of affordable housing in Australia from need analyses to effective solution has been completed by the Affordable Housing National Research Consortium (Berry, 2001). Moreover, the possible use of private finance to provide community housing in Australia has been proposed (Brian Elton and Associates and National Community Housing Forum (Aust.), 1998). Thus, diversities of partnership arrangements between public, private sectors and non-for-profit organisations have been mounted to provide wider options to satisfy the equally broad range of affordable housing needs.

### **3. Partnerships**

In order to ensure this focal term is fully understood in the context of this discussion, the definition of partnership and the advantages and disadvantages of building partnerships are examined. A partnership is defined as 'a relationship where two or more parties, having compatible goals, form an agreement to do something together' (Frank and Smith, 2000, p.5). In a partnership, parties share the investment of resources, work, risk, responsibility, decision making, authority, benefits and burdens. Therefore, more complex issues can be addressed more effectively with the existing resources.

Table 3 illustrates the advantages and disadvantages of partnership. The partnership will bring greater involvement of other parties in the programs and synergistic outcomes. On the other hand, it is not easy to find the right partner because it may cause more conflicts within and between organisations. Different culture, authority and resources may inhibit good communication among partners. Moreover, there may be an additional risk of financial loss as a consequence of a partnership project.

Table 3: Advantages and disadvantages of partnership

Characteristic	Advantages	Disadvantages
Outcome	Creative solutions Job creation Potential for more profitable outcome	Greater financial losses can occur (more expensive or less profitable than without partnership)
Power and status	Enhance existing capacities	Power and status differences between the partners
Communication	Improve communication	Intra- and inter- organisational conflicts
Organisation	Holistic approaches and shared finding of solutions	Difficulty in merging institutional values and cultures
Technology	Driving to change	Non-compatible technology
Partner selection	May involve new participant	Difficulty of changing partner

Source: Author derived from Frank and Smith (2000, p.7)

The benefits of having a partnership have been seen as generating further opportunities for working together. As mentioned in the previous section, the diversity of partnership arrangements between housing providers are viewed as possible solutions to increase investment in affordable housing. On the other hand, the lack of affordable housing partnership arrangements has shown that many stakeholders have still not enough confidence in the benefits of collaboration. An ad hoc partnership project will make a very little impact on affordable housing outcomes (Seelig, 2004).

This survey investigates further the nature of the barriers to implementing partnership arrangements in the area of affordable housing in Queensland. An awareness of some of the drawbacks mentioned in Table 3 above has brought more careful thought to the decision process but it is not stopping interested parties building partnerships among government, private sector and community based organisations. The following two sections report the methodology and results of the study.

#### 4. Research Methodology

A series of in-depth interviews has been undertaken to investigate the problems of building partnerships amongst affordable rental housing providers including government, private sector and non-for-profit organisations. The in-depth interviews used a semi-structured

questionnaire which still allowed the researcher to add new questions related to the set questions but provided all necessary answers if the participants had very limited time. Moreover, both interviewer and interviewee were able to clarify the questions or answers directly for explanatory purposes.

In this paper, only the outcomes of the shortcomings in the partnership arrangements section of the semi-structured interview questions have been illustrated. The questionnaire comprised open-ended questions and one final quantitative set of questions. The six listed factors are discussed in the last column of Table 3 as factors that limit an organisation when building partnerships for affordable housing projects (Frank and Smith, 2000, p.7). Respondents were asked to circle the level of importance on a 5-point scale (ordinal level of measurement) of each listed factors. The lowest number is the least important; the highest is the most important (see Table 4). The participants are also able to add additional factors in the blank rows to include factors raised in discussion.

Table 4: Constraints to building partnerships for affordable housing projects

1	5
very unimportant	very important

Factor	Score				
	1	2	3	4	5
Negative outcomes (more expensive or less profitable than without partnership)	1	2	3	4	5
Power and status differences between the partners	1	2	3	4	5
Intra- and inter- organisational conflicts	1	2	3	4	5
Difficulty in merging institutional values and cultures	1	2	3	4	5
Non-compatible technology	1	2	3	4	5
Difficulty of changing partner	1	2	3	4	5
Other factors (raised in discussion)	1	2	3	4	5
	1	2	3	4	5
	1	2	3	4	5
	1	2	3	4	5
	1	2	3	4	5

The information was gathered using judgement sampling as part of purposive sampling (Sekaran, 2003, p.277). The interviewees were from a specific target group: i.e. affordable housing provider institutions. Some of the latter participants were recommended to join by earlier respondents (snowball sampling) (Jackson, 1995, p.401). The respondents or interviewees for this part of the research are drawn from representatives of stakeholder groups which are directly related to the management of existing or future affordable housing and social housing and partnership liaison groups. From twenty participants, ten have participated in the initial interviews and they were contacted mainly by email and telephone. The new participants were introduced by the earlier interviewees.

## 5. Results and Discussion

There were twenty people interviewed, one of whom did not complete the table, and therefore only 19 data sets were obtained from 14 men and 5 women. There are six representatives of the private sector, five government officers and five representatives of non-for-profit organisations along with three individuals who reported their personal opinions rather than their institutional representation. Table 5 describes the composition of each sub-group classified by the scope of their organisation and their gender.

Table 5: Respondent profile

	private	government	non-for-profit	individual
Sub-group	6	5	5	3
Local	2	2	2	
Regional	4	3	3	3
Male	6	4	3	1
Female		1	2	2

As shown in Table 7 (Overall results of barriers to entering partnerships), respondents agreed that the principal barriers to entering into a partnership was the expectation of a worse outcome than acting independently. Apart from the fifth factor (non-compatible technology) which is considered not important by almost all respondents, the other factors demonstrate diverse opinions. The disparity of opinion is illustrated by the wide range and by the standard deviation shown in Table 6. As the respondents are from different backgrounds (which may be expected to influence their opinions), further analysis based on their backgrounds was undertaken and illustrated in Tables 7, 8 and 9.

Table 6: Overall results of barriers to entering partnerships

	Total		
	mean	standard deviation	range
Negative outcomes	4.08	1.34	1 – 5
Power and status differences	2.92	1.23	1 – 5
Organisational conflicts	3.58	1.07	1 – 5
Difficulty in merging values and cultures	3.79	0.92	2 – 5
Non-compatible technology	1.82	0.80	1 – 3
Difficulty of changing partner	2.76	1.13	1 – 5

Notes:

	Important and very important
	Fair
	Not important

The interviewees' experience with partnership arrangements influence their opinions about the barriers to enter partnership (see Table 7). The stakeholders who have no experience in partnership arrangement thought that difficulty in merging values and cultures is the most important barrier. This group more diverse opinion than the experienced group. Due the Small sample size the experiences grouping will not be considered in the following analyses.

Table 7: Two-way cross tabulation of respondents' partnership experiences

	Partnerships		Never	
	mean	standard deviation	mean	standard deviation
Negative outcomes	4.78	0.44	3.45	1.57
Power and status differences	3.06	0.95	2.80	1.48
Organisational conflicts	3.67	0.87	3.50	1.27
Difficulty in merging values and cultures	3.44	0.88	4.10	0.88
Non-compatible technology	2.17	0.79	1.50	0.71
Difficulty of changing partner	3.50	0.79	2.10	0.99

Two-way cross tabulation in Table 8 shows the importance level between sub-groups. The private sector and government respondents nominated the partnership outcome as the most important factor in entering a partnership. The non-for-profit organisation viewed power and status differences as the most important drawback to entering a partnership. The difficulties in merging values and cultures between partners were raised as the major factor by the individual respondents (concerned citizens) and as the second highest factor by the non-for-profit organisations.

Table 8: Two-way cross tabulation of different sub-groups

	private		government		non-for-profit		individual	
	mean	std dev	mean	std dev	mean	std dev	mean	std dev
Negative outcomes	4.08	1.20	5.00	1.41	3.60	1.52	3.33	2.08
Power and status differences	2.00	0.89	3.10	1.00	4.20	0.84	2.33	1.53
Organisational conflicts	3.50	1.22	4.20	1.28	3.40	0.55	3.00	2.00
Difficulty in merging values and cultures	3.83	0.75	3.20	1.19	4.00	0.71	4.33	1.15
Non-compatible technology	1.50	0.84	2.10	0.86	2.00	0.71	1.67	0.58
Difficulty of changing partner	2.08	1.11	3.60	1.25	3.00	0.71	2.33	1.53

Three-way cross tabulation is used to investigate the importance level between sub-groups and their local or regional affiliation (Table 9) and their gender (Table 10). The rank of mean results are almost similar for each sector whether local (Brisbane metropolitan) or regional (Queensland), except for the private sector (see Table 9). Two private sector (local affiliation) respondents nominated negative outcomes as the main constraints, and the other four respondents (affiliated to regional organisations) reported have greater concern for the organisational conflicts and the difficulty in merging values and cultures.

Table 9. Three-way cross tabulation of different sub-groups and their working region

	private		government		non-for-profit		individual	
	local	regional	local	regional	local	regional	local	regional
Negative outcomes	5.00	3.63	5.00	5.00	4.50	3.00		3.33
Power and status differences	2.50	1.75	2.75	3.33	3.50	4.67		2.33
Organisational conflicts	2.50	4.00	4.00	4.33	3.50	3.33		3.00
Difficulty in merging values and cultures	3.50	4.00	3.50	3.00	4.00	4.00		4.33
Non-compatible technology	2.50	1.00	1.75	2.33	2.50	1.67		1.67
Difficulty of changing partner	3.25	1.50	4.00	3.33	3.50	2.67		2.33

Table 10 illustrates responses by sub-group and gender. Male and female respondents have slightly different views in defining the major impediment factors. The male respondents demonstrated greater reluctance about the potential for negative outcomes in partnerships. On the other hand, the female respondents showed greater concern for the difficulty of merging values and cultures.

Table 10. Three-way cross tabulation of different sub-groups and their gender

	private		government		non-for-profit		individual	
	male	female	Male	female	male	female	male	female
Negative outcomes	4.08		5.00	5.00	4.33	2.50	5.00	2.50
Power and status differences	2.00		3.25	2.50	4.00	4.50	2.00	2.50
Organisational conflicts	3.50		4.25	4.00	3.33	3.50	3.00	3.00
Difficulty in merging values and cultures	3.83		2.75	5.00	4.00	4.00	3.00	5.00
Non-compatible technology	1.50		2.00	2.50	2.00	2.00	2.00	1.50
Difficulty of changing partner	2.08		3.25	5.00	3.33	2.50	4.00	1.50

Only male respondents nominated additional impediments to stakeholders' eagerness to enter partnerships. These additional suggestions fall into the categories of framework,

incentives and resources and are shown in Table 11. Due to the small sample size, as these suggestions were each made by one respondent, they have not been analysed further.

Table 11. Additional impediments to partnership arrangements

Category	Details	Importance level
Framework	Lack of government leadership	very important
	Lack of appropriate models and constitutional arrangements	very important
	Lack of flexibility of procurement	important
	Decision making processes	important
Incentives	Equity	very important
	Subsidy	very important
	Tax system	very important
	Opportunity	important
	Certainty of policy setting	important
Resources	Financial tools	very important
	Legislation and mistrust	very important
	Departmental attitude	important
	Competition for resources	important
	Capacity of not-for-profit partners	important
	Access to information	important

## 6. Conclusion

In general, the main barrier to entering a partnership for the respondents is the expectation of a worse outcome than that anticipated from acting independently (mean 4.08). The respondents agreed that non-compatible technology is not an important factor preventing the building of partnerships. On the other hand, the wide range and standard deviation of the results shown in Table 6 indicate that the most important factors varied among the stakeholder groups. Table 7 shows the group of stakeholders who have never involved in partnership projects has wider standard deviation than the experienced group.

Further analysis using two-way and three-way cross tabulation was then used to investigate the importance level between sub-groups. The private sector and government nominated the most important factor in entering a partnership as the partnership outcome. As a result of their past experiences, the non-for-profit organisations viewed power and status differences as the most important factor detracting from their establishing partnerships.

Male and female respondents presented slightly differing views in defining the major impediments. The male respondents were more reluctant to enter a partnership if the outcomes were less attractive than without a partnership. On the other hand, the female respondents held stronger opinions about the difficulty of merging values and cultures.

Male respondents raised additional suggestions which are categorised as lack of framework, incentives and resources as additional factors that impede partnership arrangements.

Generally, stakeholders agreed upon the importance of considering whether a partnership arrangement will provide a better outcome than a stand alone project. Several respondents suggested that the prejudice of other stakeholders' motivation has contributed to barriers to building partnerships. Whilst the private sector wants to receive higher financial return from the partnership project, the government and non-for-profit organisations wish for better value for money outcome. This difference could be considered to demonstrate the traditional 'efficiency versus effectiveness' perspectives of the public and private sectors.

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