PowerHousing Australia

Collaborating for a better housing future

2020-21 Pre-Budget Submission

December 2019

PowerHousing Australia and its Membership

PowerHousing facilitates a national network of 34 mostly Tier 1 regulated community housing providers (CHPs) who develop and manage affordable housing across Australia. In 2019 alone our members delivered:

- $885 million in raised debt facilities
- 60,000 dwellings managed to provide safe, quality and affordable homes
- 100,000 plus people housed across the nation
- $20.2 billion in efficiently-managed social and affordable housing.

PowerHousing works to address affordable housing need through sharing and building on best practice in housing and community development, collaborating to mobilise collective resources, and providing an independent and influential collective voice for the biggest and most financially mature CHPs in the country.

PowerHousing provides networking for our members through quarterly exchanges, the Annual Member Exchange and the International Housing Partnership, which involves the US, UK, Canada and is associated with New Zealand. Based in Canberra, we are located to promote the capacity of members and represent their policy positions to the Federal Government and other stakeholders.

PowerHousing also partners with corporate affiliates and associates across national and international development, finance, IT, HR and related sectors.

PowerHousing Australia's CHP members work on a profit-for-purpose model; they acquire, develop and manage affordable dwellings throughout Australia, and any profits are directly reinvested back in to affordable housing, repeating the process to house as many Australians in need as possible. This is done in partnership with developers, sector partners and local councils, and often focuses on particularly vulnerable groups such as people affected by domestic and family violence, those needing employment and training, those living with disabilities and the elderly. As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the national supply of social and affordable housing.

The work of our members is supported by government initiatives at both state and federal level through enablers such as the National Housing Finance and Investment Corporation (NHFIC), on which PowerHousing CFO members and affiliates worked to evolve into a successful piece of legislation in concert with Treasury. The Affordable Housing Bond Aggregator (AHBA) and National Housing Infrastructure Facility (NHIF) have opened up new funding and delivery options for members. Government is increasingly transferring aged public housing assets to CHPs to continue delivering social housing efficiently and with excellent levels of tenant satisfaction.

The value, experience and capacity that CHPs bring to the table as we legislate for Australia's housing affordability challenge cannot be overstated.

Introduction

PowerHousing Australia welcomes the opportunity to provide feedback on priorities regarding the 2020-21 Budget. Our feedback is framed by consultation across the year with Members and with the PowerHousing Australia Board.

There is overwhelming evidence that Australia is in an affordable housing crisis which is being felt at many levels in the community, particularly those most vulnerable and on the lowest incomes. Key impacting market forces are summarised below, together with solutions, which will alleviate pressure on all aspects of the housing continuum.

Housing Affordability Market Forces

Key factors impacting on the rising prices and availability of affordable housing include:

- Strong population growth and net overseas migration, have seen rising demand for housing in the past decade;
- Low wages growth and rising rental and house price pressures over the last decade;
- Housing starts are set to fall back behind demand and see an irrational upward pressure with potential spiking in pricing now becoming apparent;
- A reduced cash rate of .75 which the Federal Reserve Bank dropped in October 2019, motivated in part by the understanding that housing construction stimulates the economy will potentially lessen the severity of the trough of housing commencements but foreshadows an economy with some headwinds;
- Stable first homeowner levels, however the cohort itself is growing older before purchasing a first home. The First Home Loan Deposit Scheme will support the purchase of 10,000 homes but may not spark a revival of new dwelling construction;
- Sydney and Melbourne dwelling prices appear to have partially corrected but are back on the rise; the median dwelling price in Sydney of around $790k is still very unaffordable and median incomes remain low. Whilst Perth, Adelaide and Darwin continue to stall, Hobart and Canberra dwelling prices and rents are rising with investment in rentals and steady purchase velocity;
- The numbers of Australians renting to others has tripped over the 2,000,000 mark with affordability being stretched as indicated by the recent SGS Economics Rental Affordability Index; and
- APRA's recent BASEL III requirements for higher bank holdings will add cost to the cost of owning and renting a home with costs past through to renters. In particular and as illustrated by the joint CHIA and peaks report, the risks being covered by this rudimental and blunt instrument has potential to impact the provision of affordable housing by impacting on CHPs whose strong governance practices, government-guaranteed revenues and agreements have a lower risk on the curve compared to speculative investment in residential real estate.

Proposed Measures

The outlook for low income earners – particularly social housing tenants, renters, first homebuyers, key workers and seniors – will remain bleak while rental pricing and entry level housing mortgages are set to rise.

There is an opportunity to develop a variety of policy levers and initiatives, building on the success of NHFIC. These measures would seek to:

- reduce pressure on multiple points along the housing continuum;
- see international and institutional investment in an affordable asset class built in Australia; and
- stimulate PowerHousing members to build 8-25,000 affordable dwellings per year.

Our submission is structured around the following measures

1. **Federal Focus on Housing**
2. **Closing the Yield Gap**
3. **Australian Affordable Equity Vehicle**
4. **Specialist Disability Accommodation and Universal Design**
5. **City Deals – Focus on Affordable Supply**

1. Federal focus on housing

The housing supply peak of around 230,000 homes constructed per year with around 70,000 homes delivered every year above long-term activity levels, is now coming off. PowerHousing has recorded in its Affordable Housing Environmental Scan that as peak in supply was not forecast, the current drop off in activity could result in an equally unpredictable trough. The impact of which will take away jobs, taxation revenues that underpin government budgets and vital supply that stabilises housing prices.

Building activity in Australia is heading for the largest decline in our country's history with homes approved set to drop from 240,000 dwellings approved in 2016 to around 160-170,000 in 2021, with completions lower still unless the decline is halted. Forecasts reported in this E-Scan suggest that annual housing starts could drop to 152,000 dwellings in around 18 months' time which would be catastrophic for jobs, supply and the overall economy.

Losing 60-80,000 homes out of the housing construction pipeline will create a massive ripple through the economy if not halted. Two of the nation's largest builders, Simonds Group and Metricon, estimate that **every new standard 3 bedroom house in Australia creates work for around 43 trades and subtrades.** The role of housing in the economy goes far beyond just the need for supply to match demand; the loss of this many homes will see the loss of 3 million one-day to months-long contracts for chippies, painters, plasterers, sparkies and para-professionals. Whether it is the retail shop, coffee stop on the way to work or simply less groceries this has a knock-on effect for the retail sector that won't see the circulation of the income into the broader economy. Needless to say if homes are not built then there will also be a drop in the manufacturing sector.

Whilst there is a critical need for housing as social infrastructure, it is for this broader macro-economic reason that a federal focus on affordable housing is needed in this country today.

PowerHousing is pleased to see that our recommendation for a **National Housing Minister** has been taken up by the Coalition Government post the 2019 election. We are also pleased to see that in addition to Hon Michael Sukkar MP (Housing Minister), we have Senator the Hon Anne Ruston (Family and Community Services Minister), Hon Luke Howarth MP (Assistant Minister for Community Housing and Homelessness), and Hon Stuart Robert MP (NDIS) installed as key parts of Prime Minister Scott Morrison's second Ministry that have a housing responsibility.

PowerHousing recommends that this Minister and broader Ministerial group is supported by the expertise and guidance of a **National Housing Supply Body**. This would ensure a central location to access up-to-date and accurate data on housing supply and demand, and support cooperation between state and federal government to collate data and achieve targets on supply. It would also ensure Government has access to independent advice on housing issues across the board. Given the research function recently located with the NHFIC, it would be appropriate for this further enhancement of capacity addressing supply issues to be integrated with NHFIC.

Under the guidance of the Housing Minister and the National Housing Supply Council, and with input from a panel of industry experts such as CHPs, developers, sociological experts and economists, a **National Housing Strategy** should be developed. The strategy would guide targets and housing development in Australia into the future, to offset the seriousness of unaffordability now and prevent it rising again to current levels. An evolution in this direction would also enable the implementation of City Deals and regional partnerships with an affordable housing component.

A **focus on consistent national regulation** will go a long way to improving investor confidence in affordable housing as an asset class. Currently, Victoria, Western Australia and the Northern Territory do not participate in the National Regulatory System for Community Housing (NRSCH) as a 'national' system. The lack of continuity has led to cross-jurisdictional complications for CHPs, increasing costs. It is vital to ensure that increased efficiency and confidence in the building of affordable housing is achieved by providing an efficient and truly national regulatory system.

The online **Australian Government Property Register** is a tool valuable as a central database for strategic allocation of vacant land to occupy with affordable housing, community amenities, services and employment hubs. It would extremely useful for the register to have capacity to track Building Approvals that are falling away. In the case of a development looking to access National Housing Infrastructure Facility funds, a site with a Building Approval falling away that becomes inactive could be an immediate qualifier for funds. Platforms for identifying developable land to be activated faster, by investors looking to partner with CHPs, local government and stakeholders in special purpose vehicles, should be considered as a function of the Register. PowerHousing recommends the Commonwealth **incentivise the importation of pipeline data into the Australian Government Property Register** to ensure this data is captured and utilised to its fullest extent, and land is able to be released to be utilised.

Recommendations: For a Federal Focus on Housing:

- **Develop a clear National Housing Strategy in response to community demand for access to affordable housing options;**
- **Develop a National Housing Supply Body, guided by the National Housing Strategy;**
- **Consistent national regulation for CHPs; and**
- **Full activation of the Australian Government Property Register.**

2. Closing the Yield Gap

Limited options around affordable rentals in proximity to employment for key workers is forcing long commutes, poor work/life balance and reduced productivity.

Whilst there has been sufficient new supply to place downward pressure on prices, the median prices in our capital cities for purchase and rental is still simply beyond the reach of low and some middle income earners.

CHPs charge tenants rent below the market rate, at generally 75 per cent of the market rate. This is necessary as the market rate is unaffordable to those lowest on low incomes, and so rent has to be below market rate to be considered 'affordable'. This means, however, that the delivery of new affordable housing is difficult as construction and development costs remain the same for CHPs as for private developers. The ongoing cost of asset maintenance is the same as that of a private asset owner yet the rental return is significantly lower than market rate due to the very nature of a CHP's role in providing affordable housing. This yield gap continues to be the greatest challenge for CHPs across the country.

It has been estimated that **a dwelling subsidy for affordable housing** would make more of these types of developments viable and boost the stock of affordable housing across Australia. This of course varies from location to location and project to project, but it is clear that a significant gap exists between operating costs and revenue and it must be addressed for the community housing sector to grow and expand as is desired by government.

Bridging the yield gap will attract interest from investors, thus increasing the development of affordable housing stocks. A subsidy is one way of bridging the yield gap and enabling CHPs to develop and house more Australians.

It is being recognised nationally that the most important intervention the Commonwealth Government can make in the provision of social housing is to support growth in the not-for-profit community housing sector and a foundation stone has been laid with the development of the NHFIC.

The NHFIC is operational with its CEO and its Board that includes PowerHousing Independent Director David Cant.

Low-cost, long-term government-backed affordable housing finance will be a vital component to reducing the yield gap to ensure that Australia continues to supply and manage enough homes for population demand to put a lid on price rises, and will underpin residential industry jobs, state and federal budgets as new housing supply contracts in 2020.

PowerHousing Australia recently welcomed the announcement of the second bond issue through the Affordable Housing Bond Aggregator managed by the NHFIC which will support affordable housing tenants and further establishes the foundations of a new affordable housing investment asset class.

The engagement of superfunds into the second bond issue finally stems the tide of Australian investment funds that flow offshore every year, rather than being invested in desperately needed affordable housing projects here domestically.

What also garners optimism is the fact that just over two years ago this was a budget measure, 12 months ago it was put into legislation and now NHFIC has provided two bond issues of over $600m which is a solid foundation for more to come.

The NHFIC's National Housing Infrastructure Facility (NHIF) aims to provide finance for critical infrastructure to support new housing delivery, particularly new affordable housing. Elements of the NHIF's eligible projects include site remediation works such as the removal of hazardous waste or contamination, an often costly exercise for developers. At this point, the NHIF has a cap of $175 million but PowerHousing recommends the **NHIF cap be increased** to allow for more significant works to take place. With this, NHFIC will be able to better support the delivery of affordable housing to Australians in need.

For decades, social housing has not kept pace with demand. CHPs, while adopting very efficient and innovative business practices as a matter of necessity, cannot bridge this gap without some form of subsidy to offset the lost rent revenue. The **Commonwealth should work with state and local governments to support delivery of community housing through commonwealth incentives**. While the National Rental Affordability Scheme (NRAS) jump-started development and housed many Australians, with the scheme starting to end as of late last year, another financial commitment is needed to close that gap.

This approach of incentivising the building of new affordable houses with a federal incentive payment will go a long way to stimulating the delivery of more affordable housing for Australians and moderate the upcoming trough in residential delivery.

The Federal Government and regulators could look to mechanisms overseas, to ensure low-income household developments have access to credit. The **Community Reinvestment Act (**CRA) which operates in the US is intended to encourage financial institutions to help meet the credit needs of low and moderate income neighbourhoods. CRA, enacted in 1977, requires financial institutions to meet the credit need of the entire community and this is periodically evaluated by a federal financial supervisory agency. A similar CRA obligation in Australia could connect banks with communities in the wake of the mistrust borne out of the Royal Commission. A mechanism such as CRA in Australia would require a strong financial advisory body such as Australia's corporate, markets and financial services regulator ASIC, to ensure financial institutions are meeting their requirements. Post the Federal Banking Inquiry, there is a compelling case for banks to reconnect with their communities and the Community Reinvestment Act (CRA) may be the best model. The roll out of a CRA in Australia would encourage deposit institutions to help meet the credit needs of the communities in which they operate, including low and moderate income neighbourhoods as it does in the US.

The **Low Income Housing Tax Credit** (LIHTC), operational in the US since 1986, is embedded in the tax system. With ongoing bipartisan support, it delivers around 90,000 new affordable dwellings per year or around 2.2 million homes built over the past three decades. Therefore, this key national tax incentive produces up to 10 per cent of the total build volume and it is specifically for low income affordable housing. Administered by Treasury in the US, the program is well managed supported by CRA obligations, intermediaries and reasonably efficient reporting structures The LIHTC of 4% and 9% annual credits paid over up to 30 year removes rental income variability to the construction project. Australia does not have any such tax credit product. The recent US taxation overhaul potentially alters the impact on investment in the LIHTC motivation to reduce. The corporate tax rate being lower means that amount of deductions the businesses have then sees that they have less to write their tax credit against but is expected to still fuel significant affordable housing delivery. The LIHTC coupled with other taxation reform initiatives and the Community Reinvestment Act are creating new solutions and partnerships.

PowerHousing recommends **funding for innovative programs that support sustainable, affordable and liveable housing**. Innovative partnerships, incentives and subsidies around minimising the yield gap, encouraging investment and stimulating innovative programs in affordable housing need to be considered as part of the suite of housing measures needed in the Federal Budget.

Where there is a focus on new dwelling delivery for affordable housing there could be program support for those living in CHPs to assist in that delivery. Where possible **training funds made available could be focused towards apprenticeships and entry level skills for those living in Community Housing**. Upskilling for key workers living in social housing should be prioritised.

The PowerHousing Australia membership currently houses over 100,000 Australians and many of our tenants would increasingly benefit from tailored and targeted skilling programs that support the affordable housing delivery pipelines that our members are increasingly developing and managing.

Recommendations: Consider the full suite of options around a dwelling subsidy and vehicles that close the yield gap for social and affordable housing

3. Affordable Housing Equity Vehicle

There is a growing need for both social and affordable housing in Australia, with Government-maintained waiting lists increasing and affordability of housing dropping as average dwelling prices have increased by over 400 per cent in capital cities over the past 20 years.

The requirement for social and affordable housing is forecast to increase in coming years, based on a number of factors including:

- Current record level dwelling price-to-income ratios for both rental and mortgage payments;
- 23,000 non-CHP managed NRAS properties and their occupants will see unsustainable rises in rents when the subsidy concludes, with around 7-8,000 subsidies falling away over the coming five years; and
- New housing supply is forecast to drop in its rate of provision, placing further pressure on pricing and housing affordability.

Recent Federal Government programs have sought to develop innovative arrangements to reduce housing costs through both the Affordable Housing Bond Aggregator and the development of the National Housing Finance and Investment Corporation.

Currently, provision of social and affordable housing is provided by:

- State Governments, who provide the bulk of social housing, or provide subsidies or other arrangements to facilitate CHP provision of such housing; and
- CHPs, who generally provide a mix of social and affordable housing.

CHPs are currently able to access debt for potential social and affordable housing projects through NHFIC, which provides a source of debt funding at a low rate and well understood terms.

There remains, however, a lack of equity funding available for social and affordable housing projects. Work by PowerHousing Australia, the peak body for CHPs within Australia, has identified that while a viable asset class is believed to exist for social and affordable housing, this is not well understood by potential investors, limiting the availability of equity funding for the sector.

An investment fund would provide a readily accessible source of equity funding to assist CHPs in the development of additional social and affordable housing projects.

We really are just at the tip of the iceberg in terms of interest from international and now domestic investors into ESG investments and with Australia now entering the world stage in this respect there is a momentum towards other investment vehicles such as equity in the future.

Recommendation: Federal Government to work with industry to consider options for an equity vehicle structure that provides additional affordable housing.

4. Specialist Disability Accommodation and Universal Design

PowerHousing is heartened by the recent announcement of the Federal Government to connect up the demand for Specialist Disability Accommodation with the suppliers and managers of the built form.

In late November 2019 the Federal Government fully embraced the interim recommendations of the Royal Commission in terms of meeting the younger persons in residential aged care targets who by 2022 no younger person under the age of 45 and no new younger people entering aged care and everyone out of aged care under the age of 65 by 2025. The vast bulk of younger people in residential aged care are NDIS participants as of the 30th of June, 3,788 of them in 1,416 facilities across Australia. They all have individual plans.

Activating the demand particularly for those younger people currently residing in or at risk of ending up in aged care is of immediate need and the identification of this demand is critical in the short to medium term.

Therefore it is vital step that Government works with industry to identify all available Specialist Disability Accommodation and Supported Independent Living supports across the country to develop a database of existing and new housing options available now and in the future

Connecting the SIL and the SDA providers has been a missing component of the equation when it comes to providing adequate, safe provision of Specialist Disability Accommodation that performs for the longer term as required, designed and as built.

PowerHousing also recommends a renewed **federal focus on sustainable universal housing**, utilising the guiding principles of environmental and universal design. Universal design, as assessed and certified by Livable Housing Australia, ensures the capability of a house to be utilised safely and easily by all inhabitants, whether able-bodied or disabled. Such design allows for modifications in the instance of disability or age to be input with minimum cost, as the initial design includes elements such as accessibility and robustness in the first instance. Such a focus for housing development going forward will also reduce WHS implications for carers and occupants, the significant added difficulties for those with temporary acquired injuries and also enable more people to live in their own homes rather in institutional care.

Recommendations:

- **Government to work collaboratively to connect Supported Independent Living Providers and Specialist Disability Accommodation providers.**
- **Renewed Federal Government focus to support sustainable universal design principles in new dwellings.**

5. City Deals – Focus on Affordable Supply

As the residential development market decreases from its record annual build rates, it is vital for **Federal policy to underpin an annual build rate of 180,000+ homes per year** to meet population increases and bring annual increases in house prices and rents down to CPI levels, with 8-25,000 of those deliveries to be affordable housing. Even with this sustained adequate build rate, there needs to be federal policy focused on delivering new supply of affordable housing, and policy focused on driving investment behaviour into this asset class.

The City Deals program could be engineered to this effect and this was discussed in late November in Canberra in and around Parliament House by Professor Alan Harding of the Greater Manchester Combined Authority (GMCA).

PowerHousing at its recent federal Conference brought Professor Alan Harding to Australia to talk to our 400 delegates, departmental and federal ministerial/shadow members about how the Greater Manchester City

Deal operates in practice. Particularly of interest were the elements of housing that are considered in the UK City Deals concept and its contribution to a region's social and economic standing.

Broadly speaking, Australian governments can incentivise institutional investment into affordable residential development through **city deals and partnerships with a greater focus provided to Infrastructure Australia in this objective**. As evident from PowerHousing Australia meetings with the GMCA in October 2018 in the UK and here in Australia in 2019, the agreements can promote greater affordable housing provision made through the regional deal that encourages planning, zoning and development uplift with fast-tracked affordable housing stock development.

This could be considered particularly alongside projects listed within the current Federal Government $75b 10-year infrastructure plan. The regional partnerships approach can also consider land use incentives to permit multi-residential development that include a proportion of affordable rental dwellings across Australian cities.

Recommendation: All city deals have a requirement to deliver on a component of affordable housing and the state housing authority and local community housing providers are involved in early discussions.

6. Conclusion

PowerHousing in encouraged by Minister for Housing, Minister Michael Sukkar's view that every budget he is involved in will feature housing and we absolutely agree that the next budget is an opportunity for a renewed federal focus on housing.

The PowerHousing membership is committed to providing expertise, resources and continued collaboration with the government and Housing Minister to create solutions to the affordable housing challenge.

A National Housing Strategy, National Housing Supply Body, consistent and truly national regulation of CHPs and full activation of the Australian Government Property Register will constitute an effective federal focus on housing.

Considering a wide range of government-backed options to close the yield gap, such as those practiced and successful in the US and increasing the NHIF cap, will better-enable CHPs to continue to deliver quality social housing.

A federal build rate target of 180,000 dwellings annually will enable development to keep up with demand with 8-25,000 of those deliveries to be affordable housing, and can be supported by City Deals.

Connecting SIL and SDA providers will support the safe, effective provision of SDA accommodation, and focusing on sustainable universal housing guided by accessible design will ensure that housing is appropriate for those with all levels of disability throughout whole of life.

Whilst formative work is under development and for consideration and market sounding, we think and are advised by international experts with 30 plus years of global investment into environmental, social and governance impact funds, that Australia is ready for an equity injection that supports affordable housing.

These commitments will provide settings for a sustainable housing market, provide homes within financial reach of more Australians, and secure Australian jobs as we head to an unpredictable housing delivery trough. PowerHousing looks forward to the final release of Budget 2020-21 with the knowledge that it has the capacity to significantly impact the provision of housing for Australians nationwide.

For further queries, please contact:

Nicholas Proud
Chief Executive Officer
PowerHousing Australia
nproud@powerhousing.com.au

Scarlett Mitchell
Project and Research Manager
PowerHousing Australia
smitchell@powerhousing.com.au

PowerHousing Australia
PO Box 77 Deakin West, ACT 2600
(02) 6210 5040
www.powerhousingaustralia.com.au