

FUTURE ASSET SERVICES

A.B.N. 62 003 625 134
DEALERS LICENCE No. 181790

STRUCTURED FINANCE + PROPERTY

Submission to the National Commission of Audit:

Future Asset Services' submission to the NCOA addresses the following aspects of the *Terms of Reference*:

- *options to manage expenditure growth, including through reviewing existing policy settings, programs and discretionary spending (such as grants);*
- *identify options for a clearer delineation of responsibilities for policy and service delivery;*
- *identify other savings or matters that the Commission considers should be brought to the Government's attention*

This submission relates to the provision of "Affordable Housing"; the Stakeholders are:

- The Commonwealth government
- The State and Territories governments
- Private investment

Future Asset Services requests the National Commission of Audit consider its proposal as the **template to provide affordable housing in Australia's major cities.**

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2. Names of Ministers or Agencies consulted in preparing the proposal:

- i. August 2012: *Commonwealth Dept. of Prime Minister and Cabinet*: Senior Policy and Economic Advisers.
- ii. November 2012: *Commonwealth Office of Minister for Housing*: Chief of Staff, plus Senior Adviser and the Senior Adviser from Prime Minister's Office; (Yvette Nash & Stephen Wettenhall)
- iii. December 2012: *Commonwealth Federal Treasury*: Markets Group, Cities, Housing and Planning Unit, Infrastructure Division,
- iv. February 2013 & August 2013: *Australian Parliament*: **Paul Fletcher MP**, Member for Bradfield, on behalf of **Andrew Robb MP**
- v. February 2013: *NSW Parliament*: Deputy Leader of the Gov't in the Legislative Council, Minister for Roads and Ports **The Hon. Duncan Gay** MLC,;
- vi. April & May 2013: *NSW Dept. of Health*; Local Health District Boards: Meet with Chief Executives of all Sydney metropolitan Boards to gauge the level of demand for this style of accommodation;
- vii. April 2013: *NSW Dept. of Education*: meet with metropolitan Regional Directors to gauge level of demand for affordable housing;
- viii. February 2012 & October 2013: *Commonwealth Department of Social Services*: **Bryan Palmer**, Group Manager, Housing and Homelessness Group, & **Kathryn Mandla**, Branch Manager, Housing Affordability Programs; they are most supportive of the proposal and strongly recommend we meet with (NSW) **Minister Andrews** and **Mike Allen**, CE Housing NSW. Also meet with **John Riley**, (now NDIS), who is replaced by Stuart Thomas
Paul Fletcher MP sends to **Minister Andrews** a letter of introduction supporting the proposal.
- ix. October 2013: *NSW Dept. of Housing*: Meet with **Mike Allen**, Chief Executive, Housing NSW
- x. November 2013: *Urban Development Institute of Australia* NSW: Meet with Stephen Albin, CEO.
- xi. November 2013: *Commonwealth Office of Minister for Social Security*: Meet with Chief Adviser, Housing and Homelessness, **Melissa Clode**. (Referred to White Paper "Reform of Federation")
- xii. December 2013: *NSW Office of Minister for Health*: Meet with Chief of Staff, **Andrew Kirk**.
- xiii. December 2013: *NSW Office of the Treasurer*: Meet with the Senior Policy Adviser, **Dr Neil Ackland**.
- xiv. January 2014: *NSW Health Infrastructure*: Meet with the Chief Executive & the Director Planning.
- xv. January 2014 & January 2015: *NSW The Treasury Infrastructure Financing Unit*: Meet with Director, **Amy Brown**.
- xvi. January 2014: *NSW Office of Minister for Finance and Services*: Meet Senior Policy Adviser, **Ryan Bloxson**.
- xvii. March 2014 – February 2015: *NSW Health Infrastructure*: Meet with Project Directors;
- xviii. March & May 2014 & January 2015: Meetings with **CEO, Office of the Premier & Cabinet, Simon Draper**
- xix. July 2015 – *Australian Government, Department of Social Services*: Meet with Iain Scott & Stewart Thomas, Housing & Homelessness Branch.

F A S Submissions to Governments on Affordable Housing:

- a) November 2013: *National Commission of Audit* – Affordable Housing
- b) January 2015: *NSW Premiers Innovative Initiative* – Social Housing

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3. The Proposal: “Affordable Housing for Key Workers”

Objectives of the proposal:

- a) *Accommodation:* To provide accommodation for *essential services employees* in Australian cities at around 55% of the market rent.

Many key workers are required to work (often shift hours) in metropolitan areas where accommodation is expensive. Their alternative is to travel vast distances to and from work each day.

This proposal will enable nurses, teachers, police officers, fire fighters and ambulance operators to live closer to where they work.

- b) *Where?:* The accommodation will be constructed in areas of established high demand, such as hospital and university campuses, schools or technical colleges. The land may be owned by a State or Territory government or a charity.
- c) *Tenant eligibility:* The proposal prioritises key workers in order to attract and keep them; however, the accommodation is also accessible to other persons who qualify by need and income. Guidelines will be established for initial and ongoing eligibility and administered by the manager, a Community Housing group.

Additional use for the accommodation:

Where the accommodation is built on or near a hospital, the units may be used by the hospital for:

- qualified fulltime Nurses, reducing the heavy reliance on part-timers engaged through Nursing Agencies;
- Visiting students on rotation;
- convalescing patients (eg post operative low care requirements) thereby freeing up expensive ward beds and dramatically reducing the cost of patients’ care; (a ward bed in a Public Hospital costs around \$1,200 per day; a private room under this proposal will cost around \$50 per day.)
- family members who are visiting patients from outside of the metropolitan area.
- aged care patients who may be awaiting ACAT assessment; this will assist better outcomes through lower hospital bed costs and patient care.
- Ultimately, the Hospital determines how the accommodation is used.

The building design will incorporate features that permit flexibility of use without encroaching on the safety or comfort of the other occupants.

d) *How will this proposal deliver such low rents?*

Lower capital cost: The accommodation will be built on land owned by a “separate entity” under a lease/licence agreement. In major metropolitan areas, the land component for new accommodation can represent up to 45% of the total cost; There is no development risk, therefore, no allowance for developers’ profit, usually a margin of 20-23%. With this proposal, the initial cost will be limited to establishment and construction costs, which in turn will be subject to competitive tendering; transaction costs such as Stamp Duty will also be minimised. The lease/ licence agreement has a defined Term of 25 to 30 years. The initial investment will be fully amortised over this term.

e) *Term of Effectiveness:*

Most of the dwellings that entered into the NRAS program will be removed from the discounted housing rental pool in 10-12 years as the subsidies come to an end.

Key worker accommodation is available to eligible tenants for a minimum period of 30 years, when the land and buildings, fully refurbished, will be repatriated to the owner’s (States’) control at no cost. The accommodation should continue to be available at substantially discounted rent in perpetuity.

f) *Funding this proposal:*

This proposal will inject \$5 - \$7bn of private investment into the housing construction sector during the next 7 years.

The financial model has been scrutinised by the Federal Treasury, Markets Group, Cities, Housing and Planning Unit, Infrastructure Division. Treasury agrees the Business model and verifies as correct the inputs and outcomes.

The \$7bn represents the construction cost for 50,000 units of accommodation, which is the same number of units proposed under the NRAS scheme.

After extensive consultation with International Investment Banks and local Institutions, *Future Asset Services* has developed a long term (25-30 yrs) security that will fund this proposal. The banks and local fund managers have shown strong support (> \$5bn) for this security.

g) *Managing the tenants and properties:*

The properties will be managed by select Community Housing groups who specialise in this form of accommodation; they have agreed that they will establish an active Manager ‘on-site’ 24/7 in each key worker housing project. This has many advantages:

(i) it will support security; (ii) assist tenants when required; (iii) generate savings for minor repair jobs; and (iv) implement refurbishment programs

Known outgoings: The buildings are new; repairs and maintenance and refurbishment programs can be planned with certainty; council and water rates and land tax will be minimised under the holding structure. *Sound management agreements will ensure that the quality is not compromised.*

A portion of the lodgings may be assigned for use by accredited Agencies who support the Homeless (within specific criteria). The on site Manager will work with the Agencies to maximise outcomes. The community Housing groups also have lists of qualified tenants seeking housing; this provides further assurance of minimal vacancy.

- h) Asset remains in original ownership:* The newly constructed assets, being the land and buildings, remain in the ownership of the State and/or Territory Governments. The income (rents) from the initial period will be used to repay: (i) the principal, (ii) the interest, (iii) the active on-site 24/7 management, (iv) the repairs and maintenance and (v) a sinking fund to refurbish the buildings and accommodation during the period and immediately prior to handover.

4. Unique elements of the proposal:

a) Simplicity of this Proposal:

Process: 1) Identify areas/locations where need for Affordable Housing exists; 2) explore Options for suitable State/Charity owned sites – may be land or existing old buildings or air rights; 3) determine guidelines for tender for design, construct; 4) establish most appropriate funding arrangements for each project.

- i. Identify demand:* The State Agencies such as Housing NSW, Health, Education, Emergency Services, will categorize areas where there are needs for affordable housing.
- ii. Determine supply:* Which State owned sites are most suitable? The State may legislate Special Planning Policy codes to allow appropriate zoning for this proposal, similar to that for housing for the aged. As supply is matched with demand, there is little development risk.
- iii. Implementation/ Transparency:* The major components of this proposal will be conducted through Public Tender to obtain the most competitive construction cost taking into account quality and time.
- iv. Funding arrangements:* The project will structure its capital funding to meet the needs that are most suitable for long term rents.

b) Ownership of real property

The asset, being the land and buildings remain in the original ownership. There is no need for a lien or charge against the title. The income (rents) from the initial period will be used to repay: (i) the principal, (ii) the interest, (iii) the active on-site 24/7 management, (iv) the repairs and maintenance and (v) a sinking fund to refurbish the buildings and accommodation during the period and immediately prior to handover.

It is estimated that a building that cost (today) \$85mil to construct, would at hand back in 25-30 years have a *net present value* of around \$140 mil.

c) *Genuine and meaningful discount-to-market rents:*

Under NRAS the rents are set at a minimum of 80% of the current market rent; in most major Australian cities this is still too expensive for modestly paid key workers.

This proposal will deliver rents at 55-70% of current market rent, representing a 25% discount to NRAS rent levels.

d) *Unique ability to deliver strategic outcome:*

Each step of this proposal will be conducted through Public Tender to obtain the most competitive price and competency. The proponent's Executive has wide-ranging experience in delivering strategic outcomes for major projects.

5. Nature and extent of anticipated outcomes:

a) *Demand?*

Speech by **The Hon Kevin Andrews**, to the National Housing Conference, 1 November 2013, Adelaide.

“There is currently a national housing problem in Australia...

The National Housing Supply Council has estimated the national shortfall in housing stock in 2011 was 228,000 dwellings.... Assuming historic demographic and supply trends continue, this gap will increase to nearly 370,000 dwellings by 2016, and 663,000 by 2031....

*Moreover, if current growth trends are repeated **in the coming five year period, then by 2016 the national dwellings shortfall will be around 512,000. And by 2031, the shortfall will be a staggering 1.28 million dwellings.**”*

b) *Supply potential:*

The financial model for this proposal has been scrutinised by the Federal Treasury, Markets Group, Cities, Housing and Planning Unit, Infrastructure Division; it confirms the average construction cost per unit of accommodation (for this model mix) to be \$140,000; on this basis, \$7bn represents the construction cost for 50,000 units of accommodation, which is the same number of units proposed under the current NRAS scheme.

*Private investment for affordable housing is not taking funding out of the State or Federal system. It is introducing new funding into the economy that will generate jobs, accommodation, and many associated benefits. Also it will help to *retain* key workers and perhaps *attract back* into the industry some who have left.*

During the next 10 to 12 years most of the dwellings that originated and were supported under the NRAS programme, will be removed from the affordable housing rental pool as the subsidies come to an end. Reduced supply will create upward pressure on housing rents generally.

As a contra, 50,000 new dwellings for key workers will reduce demand on the existing pool of rental properties, having a stabilising effect.

6. What are the social benefits of the proposal ?

The net effect of below market rents, plus close proximity to workplace for key shift workers is the equivalent of a *permanent wage increase*. Such attributes may well attract back into the workforce qualified key workers, such as trained nurses, police officers and teachers. It will reduce the churn rate and put *downward pressure on wage rises*.

7. What assurance does the Government have that the long term management of the accommodation will remain under regulated control ?

It is proposed that each completed project will be managed by a Certified Community Housing Group which is experienced in this category of housing management.

8. Government retains ownership of the Asset:

The State/ Territory Governments' existing assets, (land or existing old buildings or air rights) where the new accommodation is constructed, remain in the long term ownership of the State/ Territory Government.

The income (rents) from the initial period will be used to repay the principal and interest, management, repairs and maintenance and a sinking fund to refurbish the accommodation as necessary.

After the initial period, control of the asset reverts to the State. The financial model calculates that the NPV of the asset (if on freehold land) could be worth 220% of the original cost to construct.

9. Speed to implement process:

Total time, less than 1 year: (1) Identify areas where Affordable Housing is needed; (2) Identify suitable State/ charity owned sites for construction; (3) planning process; (4) commence construction of accommodation.

10. Attachments:

Letter from Paul Fletcher MP to Min Kevin Andrews