

Master Builders Australia

## Submission to Treasury

On

## Affordable Housing

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## CONTENTS

1	Introduction .....	1
2	Purpose of Submission .....	1
3	Terms of Reference .....	2
4	Master Builders' Policy Positions .....	2
5	National Affordable Housing Agreement .....	6
6	Other Policy Considerations.....	8
7	Conclusion .....	9

## 1 Introduction

- 1.1 Master Builders Australia is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders Australia's members are the Master Builder state and territory Associations. Over 125 years the movement has grown to over 33,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.
- 1.2 The building and construction industry is a major driver of the Australian economy and makes a major contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter. At the same time, the wellbeing of the building and construction industry is closely linked to the general state of the domestic economy.

## 2 Purpose of Submission

- 2.1 Master Builders welcomes the opportunity to be a part of the Affordable Housing Working Group which has been given the task of identifying potential financing and structural reform models that increase the provision of affordable housing, (social housing and housing in the private rental markets) for those on low incomes.
- 2.2 One of the primary roles of the working Group is to examine the feasibility of, and make recommendations on how governments can progress innovative financing models to facilitate sustainable long-term private sector investment at scale to increase the supply and availability of affordable housing.
- 2.3 The working Group is also asked to consider the roles of governments, investors, the non-for-profit sector and other groups in the provision of affordable housing.
- 2.4 Master Builders' submission will primarily focus on the role of investors and the private sector in the provision of affordable housing.

### 3 Terms of Reference

3.1 The Working Group has been asked to examine the feasibility of innovative financing models to facilitate sustainable long-term private sector investment at scale to increase the supply and availability of affordable housing, including (but not limited to):

- capital provided at scale through normal market mechanisms such as bonds, for the purposes of creating an intermediate rental asset class;
- housing loan/bond aggregators, where an entity acts as an intermediary between the capital markets and the housing delivery system (primarily community housing providers);
- housing trusts, where existing housing assets are pooled together to attract private investment and improve management of the assets;
- housing co-operatives and mutuals, where residents may own a share of a dwelling alongside other community members;
- impact investing models, where investors are able to pursue opportunities that provide both social and financial returns through either direct investment in not-for-profit or social enterprises, or through alternative intermediaries; and
- social impact bonds, where the public sector issues a contract with non-government providers in which a commitment is made to pay for improved social outcomes that result in public sector savings.

### 4 Master Builders' Policy Positions

4.1 Master Builders strongly supports the proposition that housing assists with family formation and security in retirement and promotes and improves employment, educational and health outcomes.

4.2 From an economic perspective, housing has a significant impact on investment, productivity and participation, as well as consumption and saving trends across the economy.

- 4.3 The major policy gap in recent times has been the absence of policies to redress the inadequate supply of affordable housing for those in the public and community housing sectors and low income earners who seek accommodation in the private rental market.
- 4.4 Master Builders, for some considerable time, has expressed a deep concern at the policy disconnect between funding provided by both the Commonwealth and State Governments for public and social housing. The outcome has been a drop in numbers of public housing stock and an increase in the waiting list for public housing. This stark reality is well documented at Table 1 of the Affordable Housing Working Group Issues Paper issued in January 2016.
- 4.5 This public policy failure in itself justifies the Council on Federal Financial Relations establishing an affordable housing working group that has a focus on improving the supply of affordable housing. The critical importance of the review is made more cogent and urgent by the pressures on the respective budgets of Commonwealth and State Governments.
- 4.6 Master Builders' submission will focus on high-level policy principles only. Master Builders contends that public and social housing and for those on low incomes in the private rental market, involves a subsidy either direct or indirect. The public policy challenge is to maximise the use of that subsidy. An ideal financially sustainable model can actively involve the private sector and the social housing sectors at the same time.
- 4.7 Master Builders notes that there have been previous attempts with various models over the last three decades. Most have failed primarily due to the models being financially unsustainable compounded by inappropriate management models. The challenge ahead is to design a model that is financially sustainable and one that has scale to attract private sector finance but which at the same time positively engages with the social housing sector and groups that may be involved in the management of such housing stock. Appropriate policy settings need to also remain in place and as necessary, strengthened to ensure that low income households can access the private rental market.

- 4.8 At the outset, Master Builders would like to make the point that the review, in examining the barriers to more efficient delivery of social housing, needs to highlight the linkages between housing affordability and affordable housing.
- 4.9 Simply spending more money on public and social housing, by itself, is not likely to deliver the necessary increases in affordable housing supply and meaningful reductions in the number of persons in genuine need on housing waiting lists.
- 4.10 Affordable housing will remain a laudable, but largely unreachable, objective in the absence of meaningful and sustainable policies that address the systemic impediments that can provide long term reduction in the base cost of housing in Australia.
- 4.11 Master Builders argues there is no simple or one-size-fits-all solution. It must deal with the supply and demand side of the challenge.
- 4.12 On the supply side the fundamental structural problem a lack of supply due to various inefficiencies and regulatory impediments at the state and local government levels.
- 4.13 Master Builders contends that part of the long term solution is remove the structural supply factors that determine that the base cost of housing is at a level higher than would otherwise be the case. In other words, reforms are needed to remove these impediments and thereby lowering the cost of housing and ameliorating the need for increased government funding to subsidise public and social housing.
- 4.14 Master Builders has developed a comprehensive national housing affordability agenda as a framework for meaningful action on housing affordability reform priorities. Key elements include:
- competition payments to the states for delivering housing affordability outcomes against key metrics;
  - tangible outcomes in improving the efficiency, and the supply-side efficiency in particular, of the Australian housing market;

- local governments to develop individual land release plans, and associated marketing strategies, for their own jurisdictions over a ten year ahead rolling time horizon;
- the realisation of a genuine, rigorous, enforceable, transparent and uniform building code and regulatory system;
- a review of the impact of stamp duties on residential property, and alternate approaches to revenue-raising;
- the annual publication of a rigorous stocktake of the approaches to developer/infrastructure charges by all local governments in Australia; and,
- commitments by all governments to deliver substantive outcomes which will raise labour productivity growth rates, including greater flexibility in labour markets emphasising genuine enterprise bargaining.

4.15 In recent times claims have been made that negative gearing is the cause of deteriorating housing affordability. Master Builders rejects such claims. Master Builders regards 'negative gearing' as a vital element for ensuring the supply of more affordable residential housing for lower income earners and for those who elect to rent as a life-style choice.

4.16 Such investor-supplied housing is also a critical element of the national housing stock, accounting for 10 per cent of new housing supply each year. That means, for example, that in the past two years more than 40,000 new dwellings and homes for 110,000 people.

4.17 Hypothetically, had negative gearing not been available to housing investors in 2014-15 with public housing called on to fill the resulting housing supply gap, Federal, State and Territory Governments would have had to fund the supply of nearly 22,900 homes impacting potentially more than 59,000 people at a cost to public revenue (i.e. taxpayer) of \$16 billion.

4.18 Clearly, without an effective 'negative gearing' arrangement the supply of housing would be lower, and/or the rents charged for available rental housing would be higher.

- 4.19 Similarly, absent 'negative gearing' there would likely be substantial additional fiscal pressure on Federal, State/Territory and Local Governments to directly provide public-rental housing (thus taking on a greater hands-on role as landlord) and/or provide additional financial assistance to meet the higher (non-subsidised) housing costs carried by socially disadvantaged members of society.
- 4.20 Master Builders endorses the Henry Report's conclusion that it would be premature to change existing taxation arrangements before concrete action was taken to address wider problems of housing affordability and supply. And the recent Tax Discussion Paper assessed that negative gearing of itself does not cause a tax distortion, and has the positive effect of adding to housing supply.
- 4.21 Against this background, Master Builders strongly advocates that the current arrangements for the taxation treatment of investment properties remain unchanged until such time as the wider impediments to housing affordability and supply are effectively resolved.

## **5 National Affordable Housing Agreement**

- 5.1 At the same time as tackling the serious housing affordability challenge, Federal, State and Territory Governments, working together, need to take action to reform the National Affordable Housing Agreement.
- 5.2 The Federal, State/Territory and Local Governments, working together, need to commit to and deliver, Master Builders' bold and comprehensive housing affordability agenda.
- 5.3 An important feature of Australian society is a willingness to provide assistance to those in greatest, genuine need. Social housing provides a roof-over-the-head for more than 397,000 – or about 4 per cent of - Australian households. Of those households in social housing, around three-quarters (nearly 321,000 households) are in public housing, provided by Federal, State and/or Territory Governments, either through various financial support programs and/or as de facto landlords.

- 5.4 The National Affordable Housing Agreement is a key mechanism for providing housing assistance to those in genuine housing need, and an important instrument of social policy in Australia.
- 5.5 Master Builders accepts that providing public housing is a challenging undertaking. However, taxpayers are entitled to see their taxes spent effectively and efficiently.
- 5.6 The National Affordable Housing Agreement is flawed by design. Traditionally, the National Affordable Housing Agreement has been focused on the 'symptom of the problem' - the supply of affordable housing - rather than 'the causes of the problem' - meaningful action to improve housing affordability.
- 5.7 The better approach for the National Affordable Housing Agreement (and/or its successors) must be to clear the roadblocks preventing improved housing affordability, especially those imposed by State, Territory and Local Governments.
- 5.8 This would work to increase the supply and reduce the cost of housing rather than providing government subsidies and other forms of assistance that attempt to offset unwarranted cost pressures on the supply and cost of housing.
- 5.9 In essence, the National Affordable Housing Agreement puts the cart i.e. affordable housing, before the horse i.e. housing affordability.
- 5.10 Master Builders' blueprint for an overhaul of the National Affordable Housing Agreement includes the following steps.
- 5.11 First, Master Builders would like to see the negotiation and adoption by COAG of a National Affordable Housing Agreement that sets down outcomes, roles and responsibilities, performance indicators and metrics and timelines for meaningful action to reduce, if not eliminate, government-sourced impediments to improved housing affordability.
- 5.12 Secondly, building on Master Builders' housing affordability reform agenda discussed above and COAG's Housing Supply and Affordability Reform framework, generate specific, sub-ordinate agreements on improving the supply of housing for those in genuine need.

- 5.13 Master Builders' supports the use of National Partnership Agreements to implement key elements of the National Affordable Housing Agreement. However, National Partnership Agreements (like the National Affordable Housing Agreement itself) are 'second order' elements of broader strategies to deal with the problems at hand.
- 5.14 Priority must be given to dealing with the primary causes of the underlying social policy problems, rather than just dealing with the symptoms of those problems.
- 5.15 A future National Affordable Housing Agreement should focus on dealing with the underlying social problem of policy concern. It needs to underline the importance of clearly defined and measureable objectives and performance benchmarks. And it should include a competitive bid process, to improve value-for-money for taxpayers. Participants in this competitive bid process (undertaken through a 'level playing field'/public procurement process) could range across State and Territory Governments, community housing providers and other potential non-governmental housing providers.
- 5.16 Community housing providers are far more efficient than State and Territory Governments in providing social housing, indicating there are potentially substantial efficiency dividends to be obtained from shifting the delivery of social housing from the public to the community housing sector, further privatising the supply of social housing. In this context, the Federal, State and/or Territory Governments should consider facilitating capacity building by community housing providers and similar social housing-focused organisations to get them 'investment-ready' and capable of engaging in capital markets.

## **6 Other Policy Considerations**

- 6.1 It is worth reinforcing that the challenge of affordable housing is multi-dimensional in nature and spans a broad hierarchy of needs. At one end of the hierarchy of needs are individuals who are, for whatever reason, incapable of living independently and at the other end of the hierarchy are individuals and households who can live independently but who have low incomes and need a hand up.

- 6.2 For the cohort that need full or part-time support Master Builders would contend that this cohort needs to be fully funded by the government and where there is no role for private sector involvement either at the management or financial levels. Master Builders' submission therefore focuses on private sector financing for the cohort of low income households who can largely live independently.
- 6.3 As mentioned elsewhere in this submission, one of the key challenges is to scale-up residential properties for low income households. Scale is necessary for the financial sector to be able to achieve its IRR and other benchmark objectives such as the cost of management of such an asset portfolio. The higher the tenancy risk the greater the level of underwriting by governments needed to manage that risk.
- 6.4 An essential component of attracting private sector finance will be to provide confidence relating to ongoing subsidies and management of the rental housing stock. This has been a major risk that has prevented the participation of the private sector.
- 6.5 A model that should be given favourable consideration is the replication of the Defence Housing Australia model. This model is able to capture the capital gains and the rental risks with the judicious application of government subsidy. Critical to the success of the Defence Housing model is management.
- 6.6 Master Builders is a strong supporter of governments maintaining Rental Assistance (RA). RA plays an important role in assisting low income households in making individual choices about where they choose to live that is more closely related to their place of work and/or other individual household needs.
- 6.7 The current inefficiencies in the RA program should not be a cause for its abandonment but instead used to highlight the need for a more fundamental review with the aim to improve its effectiveness.

## 7 Conclusion

- 7.1 Master Builders welcomes the Council of Federal Financial Relations review in establishing the Affordable Housing Working Group to examine innovative ways to improve the availability of affordable housing.

7.2 Master Builders' broad contention is that one fundamental challenge is to lower the underlying structural cost of new housing. Unless this is addressed the effectiveness of alternative models to bring down the cost of affordable housing for the public and social housing sectors such as loan/bond aggregators, housing trusts or housing cooperatives will be diminished.

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