

Measures to increase the supply of below-market housing

Mission Australia and Mission Australia Housing are pleased to respond to the Affordable Housing Working Group's Issues Paper, as a contribution to the national discussion on measures to increase the supply of housing that is suitable and affordable for people on low to moderate incomes.

This submission is made from the unique perspective of Mission Australia and Mission Australia Housing, to reflect our experience as a leading national support provider and advocate for vulnerable people, including those experiencing or at risk of homelessness, and as a Tier 1 community housing provider operating across Australia.

The key points of this submission are as follows:

- Australia has an urgent need for more below-market housing - that is, social and affordable housing suitable for people on very low and low incomes, including those experiencing or at risk of homelessness, and moderate income earners including key workers.
- The key precondition to grow below-market housing supply by unlocking institutional finance is an adequate return on investment and an appropriate level of risk.
- Government contributions and other mechanisms are required to address both issues. There will be no private or institutional investment without this.
- No single level of government can provide the entire solution; it is vital that all levels work together.
- As well as joint government action to provide adequate returns and risk allocations, a new national institutional investment vehicle is needed.
- Of the models outlined in the Issues Paper, a housing loan/bond aggregator would provide the most appropriate solution. We are aware of a number of other submissions to the Working Group which discuss this model in detail.

- Nevertheless, such a vehicle cannot operate except in an environment which encourages and sustains the intuitional investment. To create this, government must:
 - send clear signals to the market of its commitment to supporting below-market housing as an essential piece of national infrastructure;
 - articulate its recognition of the scale and return required by institutional investment;
 - commit to a pipeline of investment opportunities; and
 - demonstrate long term and consistent policy settings.

- As a first step, we recommend that the Commonwealth and State or Territory Governments undertake an on-going series of demonstration developments.
 - These will produce new social and affordable dwellings through a new model of cooperation where:
 - State or Territory Governments contribute land;
 - the Commonwealth Government contributes a subsidy stream to address the yield gap between market and below-market returns;
 - private and institutional investors provide the capital to construct new dwellings; and
 - the developments are operated by the community housing sector.
 - Simultaneously, government should work with the investment industry to develop the tools necessary (such as a housing loan/bond aggregator) to attract capital.
 - This capital can be deployed to acquire the newly developed homes after their construction, to partially offset the Commonwealth's contributions.
 - In the short term, new homes will be developed under this new joint model of cooperation, signalling a long-term commitment to the creation of below-market housing and a pipeline of social infrastructure.
 - In the medium term, market confidence will be raised.
 - In the longer term, the market will develop the tools with which to invest in social and affordable housing.

1. About us

Mission Australia is a national non-denominational Christian organisation, with more than 155 years' experience in standing together with Australians in need on their journey to independence. Our evidence-based, client-centred community services are focused on reducing homelessness and strengthening communities across Australia.

In the 2014-15 financial year, Mission Australia supported over 307,000 Australians through 589 programs and services including: programs targeting homelessness; services providing integrated family support; parenting programs; early childhood education; mental health services; residential drug and alcohol programs; youth programs; access to safe and secure housing; and programs to build capacity, resilience and opportunity for local communities.

To achieve our goal, we work in partnership with communities, supporters, government, businesses and other organisations. We measure our impact, collecting evidence of what works to inform our service design and delivery, and to advocate for change.

In 2009, Mission Australia established Mission Australia Housing, a Tier 1 Community Housing Provider. Mission Australia Housing currently a housing portfolio of 416 affordable housing and 1,681 social housing properties across NSW, Tasmania, Queensland and Victoria, and possesses extensive experience delivering asset and tenancy management services through its national best practice framework and housing staff operating in seven locations Australia-wide. Last year, we housed 3,283 tenants across 1,833 owned and/or managed properties.

Together, Mission Australia and Mission Australia Housing work to reduce homelessness and strengthen communities.

2. The need for more below-market housing

Australia is experiencing a failure of the housing market that has resulted in a severe lack of housing that people on low and moderate incomes can afford. This shortage exists both in social housing, the private rental market and the home ownership market.

This shortage is a barrier to national productivity. In some locations, prospective workers cannot afford to live where there are jobs. Across the country, workers pay too much of their income in housing costs, limiting their capacity to save for retirement, forcing them to forego spending on education, health and necessities, and putting them at risk of financial crisis. For people receiving income support, housing costs can limit their opportunity, perpetuating reliance on Government payments.

High housing costs drive some people into homelessness. We know this is economically wasteful – as the homelessness support system is higher cost than affordable housing - as well as personally damaging for individuals, families and children.

High housing costs also prevent people in crisis accommodation from exiting into sustainable housing, leading to extremely high unmet demand in the homelessness system and suboptimal housing outcomes for many clients. For example, only 6% of people seeking help from homelessness services who need long-term accommodation actually receive it.

Housing is an important foundation for education and employment. Without an appropriate home environment, it is difficult for people to connect and belong within the community. The disruption associated with a lack of permanent housing and frequent moves has been identified as an impediment to job retention. The evidence is clear – unaffordable and insecure housing causes a range of economic and social problems.

Housing which is unaffordable to people on low and moderate incomes drives higher costs to Federal and State/Territory Governments through:

- the ballooning Commonwealth Rent Assistance bill
- higher proportions of people on income support
- foregone taxation revenue; and
- increased use of high-cost social services such as specialist homelessness services.

On the flip side, housing construction and maintenance boosts productivity through more jobs. A workforce that is stably and affordably housed is a pool of people able to save for retirement and invest in the future including education for their children. When people unable to work are stably and affordably housed, their use of government-funded services decreases – such as the health, criminal justice, homelessness and social support systems.

For example, Mission Australia’s internationally renowned MISHA research project provided homeless men with support to enter and sustain permanent housing. At the same time, this project evaluated the service model in respect to client outcomes and the direct economic benefits to government and the wider society. At project commencement \$32,254 per person per year was spent on health, justice and welfare supports. After just 24 months, this reduced to \$24,251 per person per year, with 89% of participants sustaining secure housing and representing an \$8002 saving per person to government.

In brief, the nation-wide shortage of adequate levels of housing for people on low to moderate incomes is an urgent problem facing the nation. If we want to reduce homelessness, lower welfare dependency and increase individuals’ capacity to move to independence, we need more social and affordable housing.

3. The necessary precondition to increase below-market housing supply

The Affordable Housing Working Group's Issue Paper primary focus is on "innovative, transformative and implementable financing models."

Mission Australia Housing has ongoing deep engagement with the finance sector on several below-market housing projects, such as our recent consortium proposal to the NSW Government's Social and Affordable Housing Fund.

These engagements indicate that there is significant scope to unlock finance flows from institutional investors into below-market housing, and that introduction of new financing models can facilitate such flows. Our comments on the merits and risks of the models identified in the Working Group's Issues Paper are below in section 4.

However, introduction of a new financing model by itself will not achieve the goal of increased supply of below-market housing. Indeed, institutional finance has been unlocked towards this goal in Australia in recent times without such a model, but where the necessary precondition is in place.

The key precondition to grow below-market housing supply by unlocking institutional finance **is adequate return on investment**. To achieve that, the yield gap inherent in the below-market business model must be resolved through government contributions.

The yield gap arises because income for providers of below-market housing (being tenant rent pegged to income or at a discount to market value, plus government assistance primarily through Commonwealth Rent Assistance) cannot meet true operating costs (including lifetime maintenance and tenancy management for the relevant cohorts) and provide an adequate return to investors.

Without addressing the yield gap, institutional finance will not be attracted.

Conversely, where this has been addressed, private and institutional finance has flowed into below-market housing. For example:

- the NSW Social and Affordable Housing Fund (SAHF) – which will see \$1 billion of NSW Government contributions through a 25 year subsidy stream attracting institutional and private investment to deliver 3,000 new below-market dwellings;
- the National Rental Affordability Scheme (NRAS) – which saw Commonwealth Government contributions incentivising private investment to create many thousands of new below-market dwellings;

- the establishment of the Defence Housing Authority – where Commonwealth Government contributions make up the yield gap, which attracts private investors to a financially sustainable portfolio of 18,000 below-market dwellings;
- the creation of CityWest Housing – where Commonwealth Government contribution of seed funds through the Better Cities program and a State Government levy on commercial and residential development has stimulated strong growth in social and affordable housing in inner Sydney;
- the “user cost of capital” contributions to be made available to clients of the National Disability Insurance Scheme who need special purpose housing; and
- numerous schemes where State Government contributions in the form of land and/or property management have leveraged other investment to create new dwellings and improve community and individual outcomes, such as:
 - Communities Plus in NSW;
 - Connected Living in Western Australia; and
 - Renewal South Australia’s transfer program.

What is needed is a new form of government contribution, at scale, to bridge the yield gap and thus ensure adequate investor returns and stimulate finance flows (complemented by facilitating mechanisms such as an aggregator, planning and tax reforms). This new form of government contribution should be multi-faceted:

1. **A national social and affordable housing fund.** This will provide an income stream for new supply and could be modelled on the SAHF in NSW;
2. **A national program of transfers of appropriate land owned by Commonwealth and State Governments.** This could include public housing land that is well-located and value capture schemes for renewal projects such as new rail corridors or urban redevelopments involving government-owned land. Communication of a long-term program is needed to provide a pipeline of projects in which investors can have confidence;
3. **A national program of transfers of property and tenancy management of public housing stock and tenants** in locations other than the above two contributions. Our position is that property and tenancy management via the community housing sector delivers greater client and community outcomes than management by public housing authorities. At the same time, such a program would provide necessary scale to the community housing sector and ensure that current social housing issues can be addressed while also building new social housing; and

- 4. An expansion of CRA eligibility to all social housing tenants** by removing the current Commonwealth Government's cap on CRA payments in States where the proportion of social housing managed by community housing providers exceeds 35% of total social housing stock. Also relevant here is the inadequacy of CRA, and Mission Australia advocates for it to be redesigned to keep up with the real costs of housing.

This model should be completed by an investment vehicle such as a new housing finance aggregator and other facilitating measures, discussed in sections 4 and 5.

4. Financing models to facilitate investment

Having noted above that the key precondition to unlock institutional finance to grow below-market housing supply is resolution of the yield gap through government contributions, a new national institutional investment vehicle will facilitate finance flows to below market housing and thus benefit people on low incomes, including those experiencing or at risk of homelessness, and moderate incomes, including key workers.

Below market housing has the ability to offer a long term, stable investment with a lower risk and return. This is ideal for institutional investors such as superannuation funds. In Australia, this potential has not yet been realised.

The Working Group's Issues Paper posits four models. Of these, a **housing loan/bond aggregator** akin to Model 1 offers the best prospects of facilitating institutional investment. We are aware of a number of other submissions to the Working Group which discuss in detail the risks, benefits and implementation issues associated with this option.

5. Other facilitating measures

Reform of State Governments' planning systems will facilitate new supply. Inclusionary zoning – where planning instruments require a component of below-market housing in specified areas – is an effective and proven way to stimulate new supply. It is widespread and effective across the USA, but only has fragmented and small-scale use in Australia.

Well-designed schemes can balance creation of developer profit sufficient to incentivise activity whilst capturing social return from the private value uplift provided to developers and land owners through zoning changes.

State and Territory Governments should now introduce inclusionary zoning in key development sites.

Fundamental and comprehensive reform of the current tax and transfer system is needed to address distortions which are perversely affecting housing outcomes and stimulate investment in new supply of below-market housing.

Any taxation changes must be analysed alongside welfare settings for people on low and moderate incomes, in particular to ensure CRA adequately reflects housing costs.

All Federal and State/Territory tax settings impacting the housing market should be modelled and analysed as part of the tax reform process, including negative gearing, the discount for capital gains tax from rental property investments, stamp duties and property taxes.

Australian governments through COAG should take the opportunity of the tax reform process to reduce housing stress and stimulate supply of below-market housing. Tax reform creates the option of using resultant increased revenues for proactive direct investment in new supply of below-market housing, through Commonwealth contributions to a long-term investment model as proposed in section 3 above, and initially the implementation of demonstration development as proposed below.

6. Next steps – demonstration developments

We recommend a program of demonstration developments to signal to the investment sector that all Australian governments are committed to resolving the urgent need for more below-market housing as an essential element of national infrastructure.

These developments would also enable the real-world modelling of a housing loan/bond aggregator (or other finance vehicle) and, importantly, provide a much-needed injection of new supply in key demand locations.

This can be done by:

Step 1

Create a joint project between the Commonwealth and State or Territory Government to deliver a long-term pipeline of below market housing developments. Under this new model of cooperation:

- State or Territory Governments will contribute land;
- the Commonwealth Government will contribute a subsidy stream to address the yield gap;
- private and institutional investors will provide the capital to construct new dwellings;
- the developments will be operated by the community housing sector.

Step 2

Use this pipeline to test and model requirements for a housing loan/bond aggregator or other such vehicle identified by the investment community as the most effective. The capital attracted will be deployed to acquire the newly developed homes after their construction, to partially offset the Commonwealth's contributions.

Step 3

Use this joint collaboration as a clear, long-term commitment from Government to nurture and encourage private investment.