Affordable Housing Working Group

Launch Housing Submission

March 2016

A merger between

Launch Housing

Launch Housing was established in July 2015 following a merger between Hanover Welfare Services and HomeGround Services. We have an unambiguous mission – to end homelessness in Melbourne and beyond.

Launch Housing delivers services across 14 Melbourne sites. We provide crisis accommodation, housing and support for people experiencing homelessness, Education First Youth Foyers, and *HomeGround Real Estate*, which is Australia's first not-for-project real estate agency. *HomeGround Real Estate* provides property management for over 300 tenancies across Melbourne and invests management fees back into programs for people at risk or experiencing homelessness.

Structure of this submission

Rather than address each question raised in the Affordable Housing Working Group's Issues Paper, Launch Housing's submission will comment and make recommendations on three of the four models outlined in the paper. These are:

- Model 1: Housing loan/ bond aggregators.
- Model 2: Housing trusts.
- Model 4: Impact investing models and social impact bonds.

Our submission also examines the respective roles of the Commonwealth and State and Territory Governments and makes recommendations for policy, funding and tax reform to increase the supply of affordable housing.

Our submission does not examine the Working Group's third model, Housing Cooperatives.

Executive Summary

"Access to appropriate, affordable and secure housing is an important component of individual and family wellbeing. It provides a base from which people can develop their capabilities, gain a sense of social connection through their community, and raise a family. There is a positive relationship between stable housing and workforce participation. Stable and secure housing is particularly important for children's wellbeing and development. Housing is also a significant part of the national economy. It influences building activity and employment, and acts as a store of wealth for owner-occupiers and investors."
(Reform of the Federation White Paper. Roles and Responsibilities in Housing and Homelessness)[1]

The Affordable Housing Working Group presents four models that could be used to attract institutional investment in affordable housing in Australia. Launch Housing believes *Model 1: Housing loan/ bond aggregators* offers the best potential to achieve this as large institutions like superannuation funds hold considerable capital that could be invested in affordable housing.[2] Other options presented in the Issue's Paper, such as *Model 4: Impact investing models including social impact bonds*, show promise, particularly for 'niche' housing/ support programs that provide good social outcomes and deliver savings to governments.

Despite the potential of private sector investment, Launch Housing believes it is not the magic bullet that some policy makers are looking for. Australian governments, led by the Commonwealth, need to commit to a broad package of reforms to address Australia's critical lack of affordable housing. This should start with governments working cooperatively with the community housing sector to develop a vision and long term strategy for affordable housing.

When something goes wrong in people's lives, such as losing a job or a relationship breakdown, the supply of affordable housing can be a protective factor, and for many, prevent homelessness. Governments need to increase support for people most at risk by investing in new housing stock, redeveloping existing sites, and boosting income support for low income households struggling in the private rental market.

The Commonwealth Government should also review existing tax arrangements that favour higher income property investors but do little to boost the supply of affordable housing. State and Territory Governments should reconfigure planning, taxation and land transfer policies so they favour affordable housing.

In its Issues Paper, the Affordable Housing Working Group noted that "there are few issues more important to ensuing the welfare of Australians than housing."[3] Launch Housing agrees with this sentiment and believe it should guide long term policy and funding decisions for affordable housing.

Summary of recommendations

Model 1: Housing loan/ bond aggregators

- The Commonwealth Government should lead the development and implementation of a market for housing supply bonds.
- The Commonwealth Government should establish a new financial intermediary to oversee the market of housing supply bonds.
- The Commonwealth Government should provide a guarantee for housing supply bonds.

Model 2: Housing trusts

- Launch Housing believes the Affordable Housing Working Group's first model (Housing loan/ bond aggregators) is superior to the housing trust model.
- The Affordable Housing Working Group should examine incentives to expand the not-for-profit real estate sector, such as Launch Housing's *HomeGround Real Estate*.

Model 4: Impact investing models including social impact bonds

- Australian governments should set up a rigorous process to monitor and evaluate social impact investing to ensure projects deliver positive social outcomes as well as a financial return.

The role of government

- The Commonwealth Government should develop a long term plan for affordable housing.
- The Commonwealth and State and Territory Governments should set and measure targets for affordable housing.
- The Commonwealth Government should examine how Australia's tax system could be restructured to support greater investment in new affordable housing.
- The Commonwealth Government should review Commonwealth Rental Assistance to ensure it supports low income households in the private housing market.
- State and Territory Governments should examine how planning and taxation policies can be used to boost the supply of affordable housing.
- The Affordable Housing Working Group should investigate the potential for using government-backed loans to fund new affordable housing.

Model 1: Housing loan/ bond aggregators

Recommendations

- The Commonwealth Government should lead the development and implementation of a market for housing supply bonds.
- The Commonwealth Government should establish a new financial intermediary to oversee the market of housing supply bonds.
- The Commonwealth Government should provide a guarantee for housing supply bonds.

Institutional investors as a new source of finance for affordable housing

There is growing local and international interest in the potential to bring new sources of private sector finance to boost the supply of affordable housing. While some of the demand for affordable housing is being met by an expanding community housing sector, this is only a small fraction of what is needed. Community housing organisations find it hard to raise large sums of private finance for capital development and, in situations where banks have provided finance, it has been for “one-off” projects and not standard practice across the industry.[4] Julie Lawson has described this approach as “stymieing the growth of the affordable housing industry.[5] Hence, interest has turned to others sources of private sector finance, particularly from large institutions such as superannuation funds.

In Australia, this work has been led by the Australian Housing and Urban Research Institute (AHURI), which has shown that with the right settings, institutional investors like superannuation funds are interested in investing in affordable housing.[4,6,7] In 2013, the value of funds in Australian superannuation was $1.62 trillion[4] and this is projected to grow to $3.2 trillion by 2035.[2] Clearly, there is considerable capital that could be invested in affordable housing.

Superannuation funds invest in a range of products with varying levels of risk.[5] This includes higher risk equity products and infrastructure investments such as toll roads, rail and airports. Funds also hold lower-risk, lower-yield investments as a way to balance their portfolio. Historically, superannuation funds have not invested in the Australian housing market because of its small scale (characterised by small projects with individual landlords), high management costs, and expected low returns.[2] Housing supply bonds could be a way to overcome this barrier of scale and be another way for funds to diversify their portfolio and spread their risk.[5]

Housing supply bonds and a new financial intermediary

Australia can draw on international examples that show housing supply bonds can attract large institutional investment for new affordable housing. Based on lessons from overseas and consultations with local stakeholders, AHURI has developed a framework that could be the starting point for a local market of housing supply bonds.

As a first step, the Commonwealth Government should establish a new financial intermediary, notionally called the ‘Australian Housing Finance Corporation’. Its key role would be to match funding applications from community housing providers with finance from superannuation funds. It would do this by:[4,6,7]

- Assessing borrowing applications from individual community housing providers.
- Aggregating (or pooling) approved borrowing applications.

- Raising finance (between $50-$200 million) from long-term low-yield bonds issued to institutional investors.
- Distributing finance to community housing providers that have successfully applied for funding.
- Providing monitoring and oversight to ensure finance is invested appropriately.
- Collecting payments from community housing providers.
- Repaying funds to institutional investors.

By aggregating loan applications and providing regulatory oversight to the new bond market, the Australian Housing Finance Corporation would help create a secure and transparent investment environment that could attract institutional investors.

As well as attracting investors, housing supply bonds would deliver a cheaper form of finance to community housing providers than is typically provided by the banking sector. Finance from bonds would be for a loan period much longer than three-to-five years, which tends to be standard for bank lending to the community housing sector. This would give long term certainty to community housing providers (and their tenants) and enable investment decisions to be made with long term outcomes in mind.[8]

Government guarantee

While the Australian Housing Finance Corporation would play the central role in matching finance to investment opportunities, housing bonds need to be backed by Commonwealth Government guarantee. Government guarantee lowers the risk for those loaning money, which in turn reduces the cost of finance for borrowers – in this case, community housing organisations. With greater access to cheaper finance, community housing providers can work with government and the private sector to develop a greater supply of affordable housing stock. Importantly, the risk to government is small: guarantees have little impact on government budgets and most have a zero default record.[2]

A new financial intermediary with bonds backed by government guarantee would help overcome a number of barriers to institutional investment that are described in the Affordable Housing Working Group Issue's Paper, including scale, return and liquity.[3]

A new market for housing supply bonds needs Commonwealth Government leadership to become established and to grow in the Australian market. And despite the potential, Launch Housing believes housing supply bonds should not be seen in isolation from the broader role (and responsibility) of government to address the critical lack of affordable housing. This requires a mix of policy, funding and taxation changes that focus on growing the supply of affordable housing and supporting people on low incomes, including those at risk of homelessness. These changes are canvassed later in our submission.

Model 2: Housing trusts

Recommendations

- Launch Housing believes the Affordable Housing Working Group's first model (Housing loan/ bond aggregators) is superior to the housing trust model.
- The Affordable Housing Working Group should examine incentives to expand the not-for-profit real estate sector, such as Launch Housing's *HomeGround Real Estate.*

Scale as a barrier to investment

The Affordable Housing Working Group's Issue's Paper notes that the small size of individual affordable housing projects is a barrier to institutional investment.[3] If the Affordable Housing Working Group's first model *(Housing loan/ bond aggregators)* is a way to bring institutional investment to the table, then its second model *(Housing trusts)* could be a way to overcome the barrier of scale.

Housing trusts offer the potential to strengthen the community housing sector by bringing together a number of smaller providers to for a larger housing trust. The Affordable Housing Working Group presents a model that could see trusts established in local areas or across geographic boundaries. In theory, housing trusts would be more attractive to investors than individual housing providers as they would, in effect, be a consortium with a bigger pool of assets, partially overcoming the problem of scale. (We note that the United States-based *Housing Partnership Equity Trust* [cited in the Issues Paper] was established with a $100 million pool of funds.)

But despite the potential, Launch Housing does not see housing trusts as a model that, in the short to medium term at least, could significantly improve the supply of affordable housing. While it could be feasible to aggregate assets in single jurisdictions, gaining agreement to do this across jurisdictions with multiple providers and funders could be a barrier too difficult to overcome. Based on the available evidence, Launch Housing believes the Affordable Housing Working Group's first model (Housing loan/ bond aggregators) is superior to the housing trust model.

Not-for-profit real estate

As an alternative to housing trusts, Launch Housing recommends that the Affordable Housing Working Group canvass options to grow the size of Australia's non-for-profit real estate sector. A bigger not-for-profit real estate sector would help expand the supply of affordable housing, particularly for people at risk of homelessness.

Indigenous people, sole parents and young people are overrepresented in the homeless population. These groups tend to live on lower incomes, which means they are more likely to be uncompetitive tenants in the private rental market. Moreover, some groups face active discrimination from landlords and real estate agents. This is where a model of not-for-profit real estate can make a difference.

Launch Housing operates *HomeGround Real Estate*, Australia's first not-for-project real estate agency. *HomeGround Real Estate* provides property management expertise for over 300 tenancies across Melbourne for properties at full market rent, others at a reduced market rent, and some on a philanthropic basis. The unique feature of *HomeGround Real Estate* is that it reinvests management fees back into the community via Launch Housing's *Affordable Housing Initiative*. This initiative targets tenancies for those who are homeless or at risk of homelessness and is achieved by providing two tiers of property and management services:[9]

- Tier 1 is for property owners who are willing to forego a percentage of their rental income in exchange for providing an affordable rental property to low income tenants. Affordable rental is up to 30% of the tenant's income.
- Tier 2 is private rental program for property owners who grant *HomeGround Real Estate* their property free of charge as a philanthropic gesture. Properties are then used to house tenants who have been unable to access permanent accommodation or who are homeless.

Not-for-profit real estate is a model that has the potential to grow and to help expand the supply of affordable housing. But the right set of incentives are needed for this to happen. These could include tax incentives for property owners who list a property for rent, tax credits for property developers, greater land transfers from state and territory governments to the community housing sector, and government-backed no-interest loans for capital and program investment.

Model 4: Impact investing models including social impact bonds

Recommendation
- Australian governments should set up a rigorous process to monitor and evaluate social impact investing to ensure projects deliver positive social outcomes as well as a financial return.

Doing well and doing good
Impact investing, including social impact bonds, is a new approach to investing that aims to deliver a social and financial return. Social impact investing is not an asset class, but a different way of looking at how to measure return on investment for social, health and welfare services.[10] Impact investing is increasingly attracting government and private sector interest because it shows it is possible to “do well” and “do good” – that is, provide services that make a financial return and benefit society. The two do not have to be to be mutually exclusive.[11]

The Australian market for impact investing is small but growing. Investors include private individuals, philanthropic trusts, governments, businesses, and institutional investors.[12]

International experience
Impact investing has a longer history overseas, including in North America, Europe and the United Kingdom. In the United Kingdom, the ‘Rough Sleeping Social Impact Bond’ has brought together private investors and service providers to deliver services to a cohort of 831 rough sleepers in London. The initiative’s key objective is “to get people off the streets as early as possible” with incentives to help them into accommodation, employment, and fewer presentations to hospital emergency departments.[13]

When the Rough Sleeping Social Impact Bond began in 2012, it was estimated that without the program, each rough sleeper would cost the public purse £37,000 over five years. By contrast, the maximum cost of the bond (to be paid to service providers) was capped at £5m if it achieved optimum results.[13] An interim qualitative evaluation found the program has successfully reduced the number of people sleeping rough, however, the reduction has not been below the level modelled when the bond was designed. Nonetheless, the same evaluation concluded that by using a method of ‘payment by results’, the initiative “appears to be incentivising delivery as intended”. An economic evaluation is currently underway to measure the program’s financial return.[14]

Impact investing in New South Wales
In New South Wales, the state government embarked on social impact investing in 2013 when it signed two bonds: the ‘Newpin Bond’ and the ‘Benevolent Society bond’.

The ‘Newpin Bond’ aims to build positive relationships between parents and their children to prevent children from entering out-of-home care and to restore children to their families in cases where they have entered out-of-home care. Seven million dollars was raised for the bond. In its first two years it prevented children from 35 families from entering care and successfully restored 66 children to their families. This is a restoration rate of 61.6% compared to the baseline of just 25%. On the financial side, investors received a 7.5% return in the first year and 8.9% return in the second.[15]

The second bond, the 'Benevolent Society bond', is a joint endeavour between the Benevolent Society, Westpac Institutional Bank and the Commonwealth Bank. It is a $10 million bond that will operate over five years. This bond works with at-risk families to help them address problems concerning housing, debt, income, family violence, substance misuse and relationship difficulties. This bond will be measured at the end of the five years when it is due to make payments to investors.[15]

Homelessness in South Australia
The South Australian Government announced last September it will look to trial a social impact bond to provide housing and support services to 400 people who have experienced homelessness. Two service providers, the Hutt Street Centre and Common Ground, have developed a proposal to provide intensive case management support over three years to help people find secure accommodation, access services, undertake training and increase their participation in society.[16]

South Australia's interest in social impact investing for homelessness services came after a discussion paper cited research from AHURI that showed that people at risk of homelessness were heavier users of non-homelessness services (including health, justice, and welfare services) than the general population. The same research showed that governments could save as much as $44,100 per client, per year if clients reduced their use of non-homelessness services to population averages.[17]

Small market with potential for growth
As the examples above show, impact investing has largely been for programs that provide good social outcomes and deliver savings to governments. Impact investing shows promise, however, like Model 1: Housing loan/ bond aggregators, it should not replace the role of government.

As impact investing grows, Australian governments will need to ensure that the pursuit of financial returns does not come before the need to deliver good social outcomes. There is a risk (even if small) that interventions that would deliver positive social outcomes could be excluded from a project if they were difficult to measure or assessed as having a low financial returns. Similarly, there is a risk that projects might "cherry pick" clients who will quickly achieve targets, but exclude clients with the greatest need.[18]

To avoid these risks, Launch Housing recommends that Australian governments set up a rigorous process to monitor and evaluate social impact investing to ensure projects achieve their objective of delivering positive social outcomes as well as a financial return.

The role of government

Recommendations

- The Commonwealth Government should develop a long term plan for affordable housing.
- The Commonwealth and State and Territory Governments should set and measure targets for affordable housing.
- The Commonwealth Government should examine how Australia's tax system could be restructured to support greater investment in new affordable housing.
- The Commonwealth Government should review Commonwealth Rental Assistance to ensure it supports low income households in the private housing market.
- State and Territory Governments should examine how planning and taxation policies can be used to boost the supply of affordable housing.
- The Affordable Housing Working Group should investigate the potential for using government-backed loans to fund new affordable housing.

Australia's housing market

The Affordable Housing Working Group notes that affordable housing is part of the broader 'housing continuum', which includes crisis housing, public housing, community housing, private rental and home ownership. Trends in one part of the market "can have flow-on effects for the availability of affordable housing".[3]

These flow-on effects have reduced Australia's supply of affordable housing. Over the past 10-15 years, easier access to finance, low interest rates, and a lack of growth in new housing supply have contributed to a spike in property prices. First-home buyers have found it harder to break into the property market and are renting for longer. This has increased competition and prices for rental properties and in turn reduced the supply of affordable rental properties.[3,19] Research cited in the *Reform of the Federation White Paper* showed that in 2014, only four per cent of available rental accommodation was affordable and appropriate for a single person on minimum wage and less than one per cent was affordable and appropriate for a single person on Newstart Allowance.[1]

The White Paper argued that "a lack of affordable private rental housing for low-income earners – particularly in the major cities – has led to an increase in the number of people living in marginal rental accommodation, such as caravans, boarding houses and motels.[1] These are the clients Launch Housing sees on a daily basis.

The role of government

While private sector finance holds promise, Australian governments, led by the Commonwealth, must take an active leadership role to address the gap between demand and supply of affordable housing. As the Working Group notes, "governments have access to a number of key policy and economic levers which can impact both the demand for, and supply of, affordable housing".[3] Launch Housing believes it is time for governments to use these levers. In the remainder of this submission, Launch Housing discusses six areas where government policy, funding and taxation settings should change to boost the supply of affordable housing.

1. A national plan for affordable housing

The Commonwealth Government should work with States and Territory Governments, the community housing sector, housing academics and the housing industry to develop a national plan for affordable housing. The plan should drive policy, funding and taxation settings to boost the supply of affordable housing and identify who is responsible for each of these.

A key part of the plan would be for stakeholders to come up with an agreed definition of affordable housing. The Affordable Housing Working Group provides one definition, but notes other definitions could be used.[3] The *Reform of the Federation White Paper* suggests that housing affordability has three dimensions: house purchase affordability, mortgage repayment affordability, and rental affordability.[1] Launch Housing believes these costs should be the starting point, but the definition should also include other housing costs including property taxes, maintenance costs, and the cost of transport. The latter is particularly important for households living in areas without access to good public transport.[20]

2. Set and measure targets for affordable housing

Once affordable housing is defined, the Commonwealth Government should work with stakeholders to set and measure targets for affordable housing. Targets should then be publicly reported and the best way to do this is to re-establish a body with a similar scope and role to the former National Housing Supply Council.[21]

In 2012, the National Housing Supply Council estimated there was a shortage of 539,000 rental properties assessed as being affordable and available for low income households.[22] The Council also calculated that Australia has a major shortfall in social housing, estimated to be 90,000 dwellings in 2011 and projected to grow to 200,000 dwellings by 2021.[2] Clearly, there is a significant gap that needs to be filled and governments have responsibility to achieve targets once they are set.

3. Review negative gearing and capital gains tax discounts

The Affordable Housing Working Group has called for submissions that "take into account the constrained overall fiscal environment across the Commonwealth and states and territories".[3] Launch Housing believes that Australia's generous taxation arrangements for property investing – through negative gearing and capital gains tax discounts – are a logical starting point to do this.

Negative gearing and capital gains tax discounts have the unique distinction of being costly and inequitable. Together, they cost the federal budget $9 billion annually.[23] Both favour wealthier Australians, with the top 10% of income earners receiving almost 50% of benefits from negative gearing and 70% of benefits from capital gains tax discounts. Despite the cost to the budget, negative gearing and capital gains tax discounts have done little to boost the supply of new housing let alone affordable housing: 93% of property lending that goes to property investors is used to purchase existing housing.[24]

Launch Housing recommends that the Commonwealth Government end the existing treatment for negative gearing and capital gains tax discounts and redirect savings into affordable housing. This would achieve a policy outcome that Saul Eslake describes as "a switch from policies which inflate the demand for housing to policies which boost the supply of housing".[25]

In a recent article in The Conversation, Jago Dodson outlined six ideas for how money could be better used by scrapping negative gearing and reinvesting savings into affordable housing. Ideas canvassed by Dodson include demand and supply side solutions, such as redirecting tax savings to provide rental subsidies for specific groups of tenants (including people on Newstart, sole parents or aged pensions), or providing tax credits to landlords who supply affordable rental housing to low income tenants.[26] Launch Housing believes that capital gains tax be added to this mix and encourages the Affordable Housing Working Group to explore these ideas in further detail.

4. Income support

Commonwealth Rent Assistance (CRA) was designed to help eligible low income households meet private rental costs, with the aim of reducing rental stress for those households.[27] In 2014-15, CRA provided support to more than 1.3 million individuals and families in the private and community rental market.[28] The cost of CRA has grown significantly in recent years, rising from just under $3 billion in 2008-09[1] to $4.4 billion (projected) in 2015-16.[28] As the White Paper notes, most of this growth "is a result of more people becoming eligible for income support and family payments".[1]

Despite the growing cost, CRA struggles to make housing affordable in the private rental market. Data from the Productivity Commission shows that just 0.9% of low income households living in public housing spent more than 30% of their income on rent, but by contrast, 41.2% of CRA recipients spent more than 30% of their income on rent.[29] Launch Housing believes it is time to review CRA. This should be led by the Commonwealth Government to ensure CRA meets its original intention, that is, reduce rental stress for low income households.

5. The role of states and territories

While much of Launch Housing's submission has focused on the role of the Commonwealth Government, States and Territories can (and should) play a key role to boost the supply of affordable housing. The New South Wales Government's *Future Directions for Social Housing in NSW* points to an approach where this can start and we recommend the Affordable Housing Working Group examine how it can be replicated (and expanded) in other jurisdictions.[30]

Launch Housing also recommends that State and Territory Governments use other policy levers to boost the supply of affordable housing, including:[31,32]

- Planning reform to increase supply through including inclusionary zoning and density bonuses.
- Taxation reform by replacing stamp duty with land tax.
- Repurposing government-owned land for new housing development. New developments should include a mix of properties at full market value and properties that are affordable.

6. Government-backed no interest loans

Finally, Launch Housing recommends that the Affordable Housing Working Group examine the feasibility of government-backed no-interest loans for affordable housing. This could be managed as part of a revolving loan facility. While the current fiscal environment makes this a challenging proposition to sell, government loans have two distinct advantages:

- Firstly, the risk to government is small because loans can be secured against the property.
- Government loans are the cheapest form of finance, which increases the amount of stock that can be developed compared to finance with an interest component.

Government-backed loans could be used on their own or as part of a package of funding that includes finance raised from housing supply bonds.

Conclusion

Private sector investment is one option
Australia faces a critical shortage of affordable housing, which makes it timely that the Affordable Housing Working Group has identified the private sector as a potential new source of finance to boost affordable housing supply.

The Working Group's first model, *Housing loan/ bond aggregators*, offers the best potential to achieve this, particularly if a framework can be established to encourage large institutional investors like superannuation funds to enter the market. Launch Housing believes the Working Group's fourth model, *Impact investing bonds*, is a way to deliver positive social and financial returns. We also believe there is good potential to expand Australia's not-for-profit real estate sector to provide housing for people at risk of homelessness.

Government leadership is needed
Australia's housing market is mistakenly seen in a narrow frame of property prices, auction results and interest rate announcements. At the same time, affordable housing, which includes social housing, is too often seen as a burden or drain on government finances.

But there is another way to see affordable housing, described in the *Reform of the Federation White Paper* as "… a base from which people can develop their capabilities, gain a sense of social connection through their community, and raise a family".[1] Housing, including affordable housing, plays a central role in Australia's social and economic fabric and strong government support is needed to sustain and grow it.

Australian governments, led by the Commonwealth in partnership with States and Territories have primary responsibility for affordable housing. Private sector finance can help, but many of the problems outlined by the Affordable Housing Working Group require active government leadership to solve them.

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