



# Increasing the supply of Affordable Housing

*Submission – September 2017*

## Introduction

PowerHousing Australia (PHA) welcomes the opportunity to provide feedback on the draft legislation aimed at increasing affordable rental housing supply.

Housing affordability, as an issue of public debate in the media, by government, and in the community at large, is at an all-time high. The most recent Census data confirms a story being told throughout the country – the incidence of home ownership is declining, while that of renting is increasing.

First-home buyer levels are at record lows, while those able to secure financing are taking on higher mortgage debt with mortgage repayments taking a greater proportion of household income.

There are growing numbers of renters experiencing housing stress, while public housing stock has fallen. With approximately one in five households recording income (including those receiving government benefits) of less than \$650 per week and the number of individuals in their 20s and 30s living at home with parents on the rise, the narrative around housing affordability is unlikely to recede from the public consciousness.

Financial intermediaries, investors, and developers of residential dwellings are interested in policy and housing partnerships as outlined by the Affordable Housing MIT as it promised to be a powerful enabler of private sector investment whilst simultaneously supporting CHP capacity, both emerging and latent. Over the next three to five years such policies of governments at all levels will be vital in framing the much needed response to the affordable housing challenge.

In consideration of the broad set of initiatives announced by the Commonwealth Government in the 2017-18 Budget, PowerHousing and its members are committed to working with The Treasury and other stakeholders to ensure that large scale CHPs contribute to increasing the supply of social and affordable housing nationally.

In releasing the proposed legislative detail around these measures, the Government has recognised the central role of Community Housing Providers in the delivery and management of affordable housing.

Community Housing Providers have a proven record partnering with institutions and large-scale developers to bring new social and community housing supply to market, with the recently announced Ivanhoe Estate redevelopment project a leading example of this.

This submission is structured around the following key themes:

1. Management of affordable housing properties by community housing providers
2. Eligibility of community housing providers
3. Viability of the Affordable Housing MIT
4. General comment

## PowerHousing Australia and its Membership

PowerHousing Australia is a national network of 30 leading community housing providers who develop and manage social as well as affordable housing and partners with 15 key brand developer, financial and sector affiliates.

We are the Australian Member of the IHP, a collaborative of over 175 of the leading NFP Housing and Community Development Organisations in UK, USA, Canada, Australia and New Zealand.

Together, our ASIC and ACNC regulated not-for profit members provide homes for over 82,000 people in housing worth more than \$15.9 billion. Our members are growing, with debt facilities projected to have raised over \$700 million at the 2017-18 year.

Profits are not paid as dividends to shareholders, or sunk into the hands of the private investors operating here in Australia. Instead, CHPs demonstrate a prudentially mature and financially sound method of operations to create a return which is reinvested into delivering more social housing and wraparound service outcomes for the community.

We collaborate in a time of great momentum for the Australian sector, and with our members representing over 80 per cent of registered community housing stock in jurisdictions such as New South Wales, our members demonstrate the scale, capacity and sophistication to drive and deliver holistic social and affordable housing outcomes for tenants.

Community Housing Providers (CHPs) have a proven record partnering with institutions and large-scale developers to bring new social and community housing supply to market, with the recently announced Ivanhoe Estate redevelopment project a leading example of this.

PowerHousing Australia assists our CHP Members to both increase the supply of affordable housing and deliver excellent tenancy and asset services within a community building model.

We achieve this fundamentally by opening opportunities for members to share best practice, innovative ideas and policy, facilitation of research, and benchmarking of services and special projects – which makes PowerHousing uniquely situated to work with Treasury around MIT legislation.

PowerHousing Australia is the Australian member of the International Housing Partnership which brings together housing organisations across the UK, USA, Canada and Australia to build collaboration and cross jurisdictional learning

## Three Themes of Submission

### [1] Management of affordable housing properties by community housing providers

The Community Housing Sector has grown in size and sophistication over the past decade to achieve demonstrable scale and increasing value to society.

Governed by a national regulatory system, CHPs provide an integrated range of services including tenancy management, tenant support services and property management to tenants across a broad spectrum of the housing continuum including affordable housing. As such, we believe CHPs are best placed to manage housing for tenants on low and moderate incomes and we welcome the requirement for properties under these initiatives to be managed by eligible CHPs.

The following highlight some key considerations from the CHP sector around the management of affordable housing properties:

- **Income eligibility criteria:** We understand that existing state and territory guidelines around income eligibility requirements would be adopted for assessing income eligibility. This could be broadly acceptable, noting that guidance around affordable housing income limits in some jurisdictions may not be as clear or well developed as others. The challenge here is that each State has different rules relating to income and or asset tests when it comes to accessing social and affordable housing. Further, different states have different approaches to defining what is affordable and what is social housing which could make it difficult for investors to navigate. An alternative would be a single, national eligibility requirement. Applying NRAS income eligibility criteria at time of allocation rather than the backdated process that currently applies to NRAS which can be complicated. This approach would also be broadly acceptable, noting that some form of location factor or loading and weightings for rental zones could be applied to ensure investment in areas such as inner Sydney is viable under these initiatives.
- **Compliance and reporting:** Compliance and reporting functions are a necessary part of any well governed and functioning sector. However, we strongly urge any compliance and reporting requirements under these initiatives to be kept as simple as possible. As an example, the administrative burden and cost imposed on our member organisations for meeting the compliance and reporting requirements under NRAS apply unnecessary cost to CHP operations and to the government.

### [2] Eligibility of community housing providers

Our members are not-for-profit organisations who have a social mission and purpose at their core and invest profits back into the social and affordable housing sector. Managing affordable housing properties as part of their broader portfolio is important for two key reasons:

- Managing a range of properties targeted at different income levels allows CHPs to support and encourage tenants to move up the housing continuum, while allowing tenants to maintain existing relationships with their CHPs and other tenant / social networks; and
- Provides an additional income stream for CHPs which supports the provision of services to all tenants supported by the CHP across the housing continuum.

The eligibility requirements for CHPs under the exposure draft legislation encompass meeting one of two broad definitions (section 980-10). The definition of “Eligible Community Housing Providers” in s980-10 of the Exposure Draft requires some further thought. The section defines an eligible CHP as “an entity registered under an Australian Law or by an Australian Government Agency as a provider of community housing services”. This definition needs to ensure that CHP’s that don’t comply with the regulatory system are not approved. Further consideration should be given to specific eligibility requirements for CHPs. As a minimum the requirement needs to consider that the entity is “a government registered provider under the applicable State or National Regulatory system and is a registered charity.

There is a need to avoid the unexpected consequences of creating a wave of for-profit ‘community housing providers’ who have marginal interest in achieving social outcomes. Creating vehicles to operationalise the primary purpose to extract profits from this sector, grow dividends for shareholders and provide the minimum level of service required to meet any stated requirements would be a significant risk to the reputation of Budget measures.

### [3] Viability of the Affordable Housing MIT

The 2017-18 Budget announcement of the Affordable Housing MIT initially envisaged a minimum income composition test of 80 per cent, being “*that at least 80 per cent of their income is derived from affordable housing in an income year*” for non-resident investors to access the concessional withholding tax rate. This requirement is no longer a part of an Affordable Housing MIT, and 100 per cent of the income must be derived from affordable housing to be eligible for the concessional withholding tax rate.

We would be keen to have further consultation around the inclusion of an income composition test and ensuring that the Affordable Housing MIT is structured so that there is sufficient investment yield to make this a viable investment opportunity.

A mixed approach to make the MIT work financially would also be useful in ensuring that a particular development worked on a community level (assuming that the MIT owned an entire building, rather than a number of affordable housing units across a number of developments).

We would encourage further consideration of the following issues to ensure the viability of the Affordable Housing MIT:

- Consideration of a minimum income composition test to allow Affordable Housing MITs to manage full market rent properties as part of the vehicle to increase the investment yield and offset the discounted rentals charged on the affordable housing component;

- Consideration of broader GST reform around GST leakage on land and development costs for affordable housing build-to-rent models not under CHP ownership. The inclusion of the GST free concessions are critical to the feasibilities of an affordable housing project and at present the affordable housing MIT cannot receive this concession; and
- Consideration of additional incentives to domestic investors including superannuation funds to encourage investment in this area.

#### **[4] General comment**

##### **4.1 Vacancy allowances**

It is important to state our support for the minimum 10 year investment period, however some allowance for vacant periods, say a 6% to 10% variation over the full ten years, should be considered without penalty. There appears to be no indication how vacant periods are going to be treated.

##### **4.2 Dwelling exclusions and the definition of residential purposes**

Whilst the exclusion of caravans and houseboat is sensible, further thought could be given to excluding mobile homes and it is not clear whether ancillary dwellings (granny flats) are included. National Lifestyle Village “mobile” homes are effectively permanent low cost housing and increasingly long term rent models on “leased land” (such as NLV and Community Land Trust models) will rely on so-called mobile home structures. As well, the disability sector, especially private mum and dads, are already investing in self contained ancillary dwellings (granny flats) as permanent long term, independent accommodation for their adult disabled children. The door should be open to increasing innovations in built form and land / house tenure models.

##### **4.3 Term for CGT**

The exposure draft states that the affordable housing must have been provided for a period or periods totalling at least three years (1095 days) after 1 January 2018. Whilst this is understandable there could be less incentive for a mum and dad investor to make available the property for affordable housing for any more than 3 years as they will gain no additional CGT or other benefit. The scheme for individual investors could be incentivised to create long term, less transient stock if say a further 10 per cent should be considered if they go out to 10 years.

##### **4..4 Yield Gap, NHHA and Suite of Affordable Housing Budget Measures**

Working together at scale, Community Housing Providers can deliver significant numbers of social and affordable housing in mixed-use developments and that’s what is potentially being unlocked here. But there is a need for an ongoing subsidy to meet the yield gap which is not fully picked up by the MIT and the concessional features of the proposal.

We are in the exciting formative days of the drafting of the National Housing and Homelessness Agreement (NHHA) in advance of the Treasurers meeting at the end of October to ensure that the loose ends between the policies are tied up to reduce the yield gap.

Through the NHHA, state, territory and local governments can incentivise the provision of planning support to complying developments that have affordable housing components to reduce cost and fast-track developments.

We are working with governments at all levels to explore how other concessions to reduce the cost of affordable housing delivery and narrow the yield gap could be applied including:

- reducing stamp duties for complying affordable housing developments; and
- extending the land tax exemptions that are currently available for boarding houses and low-cost accommodation to affordable housing.

Depreciation allowances exist for complying developments and outside of MIT, the GST credits are available on CHP owned Housing which will be important from a broader yield gap perspective to making innovative affordable housing projects stack up.

A combination of all of these concessions and affordable housing measures have the potential to reduce the yield gap if structured as part of a ten to fifteen-year structured management agreement.

The base affordable housing MIT proposal and CGT discount increase are solid, legislative reform steps towards having affordable housing investment developed in the country to deal with what is a national challenge that will not subside without large-scale investment,

## **Conclusion**

Housing affordability in Australia is a problem that requires many hands on the wheel right now.

Having the right structures and strategy for scale investment in and development and management of social and affordable housing is critical to CHP Sector Capacity.

As identified in this submission, the Sector has grown significantly in a short time. This growth has necessitated change in organisational structures to meet core housing requirements, including those of property transfer, build-to-rent, leasehold, property development, sales and wraparound support services. Such structures are will keep evolving over the next 3-5 years as key sector players, PowerHousing membership, industry, and governments partner to tackle the Australian affordable housing problem.

Innovative policy and programs such as the Federal Government's Managed Investment Trusts (MITs), private and government financing, and continued joint venture projects between developers and CHPs; coupled with continual improvements to CHP organisational structures will ensure the growth of social and affordable housing provision that also provides sound social, economic and industrial returns.

The potential of the draft Affordable Housing MIT legislation to open the door for Community Housing Providers to develop significant numbers of new affordable housing dwellings can be fully realised when combined with a suite of other federal, state and local government measures,”

PowerHousing members will continue to work with government, private industry, other not-for-profits, and affiliates to bring about results and build upon the capacity of the Sector. As CHP portfolios increase and our members work to provide affordable accommodation, creating links and coordinated partnerships with all relevant stakeholders and CHPs will reduce cost pressures in the future.

If implemented well, such an approach will see scale affordable and social housing remove much cost, duplicity and maximisation of the personal progression of families and individuals across this country.

It would also most certainly deliver better return on investment for governments and improve outcomes for our most vulnerable citizens.

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