Community Housing
INDUSTRY ASSOCIATION

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CHIA
2022 Federal Pre-Budget Submission

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Pre Budget-Submission – CHIA Priorities for the 2022-23 Federal Budget

Summary

CHIA is the peak body representing not for profit community housing organisations (CHOs) across Australia. Our 150+ members manage a $40 billion-plus portfolio of more than 115,000 homes, housing people on low and moderate incomes who find it hard to access affordable and appropriate tenancies in the private market.

The Community Housing Industry Association (CHIA) welcomes the opportunity to outline CHIA's priorities for the 2022-23 Budget. Our top priority is to further leverage the opportunity created through the establishment of the National Housing Finance and Investment Corporation by introducing a long term ongoing program of investment in social and affordable housing -the Housing Boost Aggregator, to assist in relieving high and growing levels of homelessness and rental stress across Australia. Commonwealth Government support to our members would help enable this. We also strongly recommend institutional reforms to support a co-ordinated comprehensive approach to planning and managing the housing system.

The COVID-19 pandemic has exposed the consequences arising from a housing system that is not meeting the needs of many Australians in the bottom two income quintiles. In the early stages of the outbreak states and territories took rapid and effective action to address both rough sleeping and overcrowded shelters and boarding houses where residents share facilities. Even by the end of 2020 state governments had provided emergency accommodation to over 12,000 former rough sleepers[1].

However, the larger challenge of finding people permanent homes has not been met. As well as re-housing those provided with temporary accommodation, there are many more households who were already in rental stress before the pandemic or who have become precariously housed as a result, either from losing employment or, being unable to meet rising rents in many parts of Australia. The continued intensification of Australia's social and affordable housing deficit demands a response.

The independent review of the National Housing Finance and Investment Corporation (NHFIC) is just the latest publication to highlight scale of the challenge[2]. The Review estimated the number of additional social and affordable housing dwellings Australia needs over the next 20 years as almost 890,000. That's around 45,000 homes a year. Instead, over the last few years we've been building around 3,000 – barely enough to even replace units demolished or sold.

Over the last year a number of states have announced substantial (if short term) social and affordable housing investment programs, notably in Victoria and also Queensland, Western Australia and Tasmania. In the recent report *COVID-19: Rental housing and homelessness impacts in Australia*[3] the City Futures Research Centre drawing on unpublished data, estimates the additional units (after accounting for demolition and sales) that will be added to the current social and affordable housing numbers is around 5,500 pa for the next three years. This total would be considerably reduced if the affordable rental housing lost when National Rental Affordability Scheme incentives expire, was also factored in.

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The NHFIC Review acknowledges the scale of investment needed and that support from all levels of government, is critical. There are many ways such support could be provided – for example, it could come in the form of grants, annual subsidies, or discounted land – or, alternatively, through tax breaks for investors in social and affordable housing. CHIA believes the Commonwealth Government has the capacity to do much more and our pre budget submission identifies measures that would make a difference.

While housing outcomes are primarily a state/territory responsibility under the Australian constitution, only with the active participation of both the Commonwealth state/territory governments can any effort to significantly expand social and affordable housing provision succeed. Adequate and affordable housing is an aspect of social security which is a formal Commonwealth responsibility, and it is only the Commonwealth that possesses the scale of tax-raising and borrowing powers required to underpin the scale of investment needed.

In CHIA's last pre-budget submission, we proposed the Commonwealth Government should consider collaborating with the States and Territories to jointly fund a social housing program as part of Australia's pandemic economic recovery plan. Our 2022 submission has retained this proposal – the Social Housing Acceleration and Renovation Program (SHARP)[4] albeit reduced in scale. This recognises the urgency of ramping up social and affordable housing construction in the short term, while our priority proposal for long term funding is designed and implemented. SHARP is also a hedge against reduction in private sector construction anticipated as migration into Australia remains low and the 'vacuum effect' of the recent 'bring forward' surge in first home buyer activity feeds through. We suggest that SHARP could be targeted at specific groups including older women, veterans and to assist Indigenous controlled community housing organisations address urgent housing needs of First Nations peoples.

While SHARP can play an important part in the ongoing national pandemic recovery, the Commonwealth Government must commit to a longer-term program of investment in social and affordable rental housing. At the very least, the Government should pledge an additional 10,000 social and affordable rental homes every year on top of development funded from contributions by the States and Territories and, via the planning system. We believe this should be an initial commitment that should be steadily increased as the capacity of the community housing industry grows. Together with partners across the property, homelessness and financial sector we have developed the Housing Boost Aggregator[5] as a mechanism to implement such a program – a policy blueprint for Commonwealth consideration.

In addition to funding measures, our pre-budget submission contains proposals to support the continued growth of a robust community housing industry, and which strengthen the institutional architecture supporting the social and affordable housing system.

A secure and affordable home is a fundamental part of a well-functioning housing system, not simply a safety net service for the most disadvantaged. It provides individuals who cannot afford to buy a home in the foreseeable future with safety and security, enabling them to not just get by, but to get on.
Building more social and affordable housing will also add to housing supply in a beneficially counter-cyclical and non-inflationary manner. This has the same multiplier effects as market housing construction. Its cost to government is offset by the benefits realised in reduced expenditure in other public sector budgets. And,

especially over the longer term, it can contribute to the productivity gains that come from building human capital.

By creating NHFIC, the Commonwealth Government put in place one important element to unlock social and affordable housing supply – a channel for cost-effective private finance. We now need complementary reforms, smart institutions, funding and policy settings, all articulated in a national housing plan to meet the current and future challenges.

Key priorities

CHIA's priorities are summarised below. Further information on each one is provided later in the submission.

1. Allocate resources to develop a ***10-year National Housing Strategy*** that clearly defines the problem to be solved, sets clear targets and provides clarity on the roles and mechanisms to be deployed by various levels of Government. It should incorporate plans to address homelessness, housing for people with disability and meet First Nations peoples' housing needs.
2. Build on NHFIC's success and create a ***national housing agency*** to drive improvements to Australia's housing system
3. Invest in ***housing as essential infrastructure***
    a. Dedicate resources to re-establishing a ***recurrent Federal housing program*** for implementation in 2022-23, that incentivises State and Territory co-investment and attracts institutional capital, via a funding framework such as that provided by the **Housing Boost Aggregator (HBA)**. The program should be sensitive to variable development costs, incentivise other state and local council contributions and attracts private institutional capital. CHIA with its partners has developed a policy blueprint to contribute to a development process.
    b. In the short term as the HBA is established, support state and territory initiatives to respond to the additional demand for social and affordable housing generated by the pandemic, through a **smaller version of the previously proposed social housing acceleration and renovation program (SHARP**). Capitalising on continued low bond rates, the program could rapidly deliver 10,000 social and affordable rental housing units over two years and at the same time mitigate construction activity consequences resulting from the predicted reduction in demand for new homes as the HomeBuilder program unwind and as migration into Australia remains low. The program should incorporate specific elements targeted at **older women, veterans in housing need, women escaping domestic and family violence and** to **assist Indigenous controlled community housing organisations address urgent housing needs of First Nations peoples.** It should also kick start the decarbonisation of existing community housing dwellings to drive down energy bills, improve health and comfort for residents and help meet and beat Australia's 2030 emissions targets.
4. Foster the ongoing expansion of the community housing industry to deliver more choice for low income renters through:
    a. contributing $500K annually to a ***National Community Housing Industry Development Strategy***, to support the further growth of a strong, viable and well performing sector
    b. **Raise NHFIC's liability cap from $3.5B to $5B and commit to a regular schedule of reviews.** This will have minimal budgetary impact but will give certainty to (1) CHOs about the future

availability of low cost finance and (2) investors about the ongoing commitment of the Commonwealth Government to this central aspect of NHFIC's mission.

   c. ***Contributing to the resources needed to enhance the National Regulatory System for Community Housing (NRSCH),*** in line with the yet to be fully implemented 2017 recommendations of the Government's own Affordable Housing Working Group.

5. Allocate resources of circa $100K to NHFIC to work with CHOs to ***support the development of practical and sustainable proposals to assist social and affordable housing renters into affordable home ownership.***
6. Using the process to develop the 2022 ***National Housing and Homelessness Agreement (NHHA) to secure better housing outcomes*** including
   a. Developing a joint federal and state and territory decarbonisation fund for existing social and affordable housing; including Indigenous controlled community housing
   b. Negotiating a nationally consistent approach to inclusionary zoning to secure more social and affordable rental housing

Recognising housing as essential infrastructure

The problem Australia needs to fix

The Demand for Social and Affordable Housing

The housing affordability challenge facing lower income households was starkly revealed by the Productivity Commission's 2019 report 'Vulnerable Private Renters: Evidence and Options'. This highlighted that most lower income renters experience housing affordability stress – i.e., have housing costs exceeding 30% of income. Furthermore, almost half of these households in rental stress are likely to remain stuck in this situation for at least five years. It is therefore unsurprising that the independent review of the National Housing Finance and Investment Corporation (NHFIC) estimated that Australia required an additional 891,000[6] social and affordable rental homes to meet the needs of households in the bottom two income quintiles.

The COVID-19 pandemic has also exposed the consequences arising from a housing system that is not meeting the needs of many Australians in the bottom two income quintiles. The pandemic forced state governments to take action to address both rough sleeping and overcrowded shelters and boarding houses where residents share facilities. We acknowledge their achievements while, at the same time noting that many people departed temporary accommodation without a longer-term housing option and, questioning how permanent homes for those remaining will be secured.

Infrastructure Australia, in its 2019 Infrastructure Audit,[7] identified four key challenges facing the social housing system – the absence of sufficient affordable homes for households able to move on from social housing, existing social housing not meeting current needs, deteriorating property condition, and severe overcrowding in remote Indigenous communities. The 2021 Australian Infrastructure Plan recognises that '*well-maintained and designed social housing provides many community benefits, supporting individual and societal wellbeing and productivity, and reducing costs in health and justice services*' and recommends the design and implementation of programs to increase supply. [8]

The AHURI report 'The supply of affordable private rental housing in Australian cities: short term and longer-term changes', estimated that in 2016 four out of five Q1 income private renters were paying unaffordable rents with the proportion rising to almost nine out of ten renters in metropolitan areas. In the report, which is the latest of a time series that has been running every five years since 1996 the researchers also found that 'there was an increasing trend in Q2 renters nationally paying unaffordable rents: this rose from 24% in 2006 to 36% in 2016'. In Sydney, 71% of Q2 renters were paying unaffordable rents. In all capital cities there is a 'spatial restructuring of rental housing markets' with more affordable homes in the outer suburbs and satellite cities.

These national figures mask the disproportionate impact of shortfalls in suitable social and affordable rental housing on Aboriginal and Torres Strait Islander people. In July, the Productivity Commission reported that only 78.9% of the population was living in appropriately sized, not overcrowded homes compared to 92.9% of the general population[9]. To achieve the National Agreement on Closing the Gap, 2031 target of 88% will require addressing these 'suitable housing' shortfalls.

Many submissions to the ongoing Federal inquiry into housing affordability and supply recognised the housing challenges for lower income households. The University of Sydney cited work led by Dr Catherine Gilbert which demonstrated that '*40% of cleaners, 30% of nurses and 16% of aged care workers in inner Sydney subregions lived in overcrowded housing*'. Mornington shire Council illustrated how affordability had declined noting that '*from a high of 72.5% of rental properties being affordable to a family of two adults and children on Centrelink benefits in September 2001, affordability for this cohort, as an example, has declined to 3% in June 2021*'. Regional Development Australia (Southern) explained the impact on economic development, '*Industry and business expansion is being inhibited due to labour shortages because of the lack of available housing. This is even more critical in lower-paid occupations, such as hospitality and aged care where shift work deems travel unfeasible. Lack of affordable housing, or more poignantly, any accommodation in general, is causing entire sections of country hospitals to close*'.[10]

Figure 1: Annual % change in social housing and overall population, Australia, 2011-2020

The Supply of Social and Affordable Rental Housing

Until the recent introduction of State social housing stimulus investment programs, new social and affordable housing construction has barely kept pace with sales and demolitions, let alone achieving output sufficient to keep pace with population growth. Indeed, as Figure 1 sourced from UNSW City Futures Research Centre [11] indicates there was an absolute reduction in social housing during 2019/20. This means that the proportionately declining provision seen over the past 25 years decline is set to continue. Even in Victoria, the state government's recently announced Big Housing Build anticipates increasing existing social housing stock by only just enough to maintain social housing as a proportion of all housing over the program's 4-year time horizon.

A more meaningful measure of the decline in social housing supply is the reduction in the annual number of such properties being let to new tenants. This measure incorporates the impacts of declining gross provision (see above), the reduced number of newly built social rental homes coming onstream, and the contracting availability of affordable 'move on' accommodation (meaning fewer existing tenants have the capacity to transition into the private market). Therefore, as CFRC quote in their response to the ongoing Federal Homelessness Inquiry, '*Taking into account both public housing and community housing, the gross number of social rental lettings dropped from 52,000 in 1997 to 35,000 in 2017 – an absolute decline of a third*[12]*. Pro rata to population, this represents an effective reduction in social housing supply of some 50%'.*

As noted earlier, over the last year a number of states have announced substantial (if short term) social and affordable housing investment programs, notably in Victoria and also Queensland, Western Australia and Tasmania. In the recent report *COVID-19: Rental housing and homelessness impacts in Australia*[13] the City Futures Research Centre drawing on unpublished data estimates the additional units (after accounting for demolition and sales) that will be added to the current social and affordable housing numbers is around 5,500 pa for the next three years.

This total would be further reduced if the affordable rental housing lost when National Rental Affordability Scheme (NRAS) incentives expire, was also factored in. Figure 2 below shows the withdrawal of incentives on expiry of NRAS.

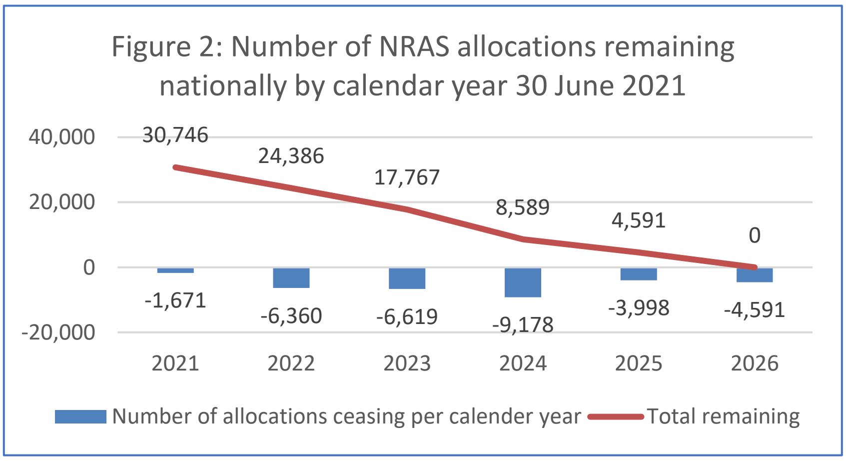


Figure 2: Number of NRAS allocations remaining nationally by calendar year 30 June 2021

Source: [June 2021 - NRAS Quarterly Performance Report | Department of Social Services, Australian Government (dss.gov.au)]

While it is likely that NRAS homes owned by the CHO sector will be retained as affordable housing, research conducted by CHIA NSW indicates that the overwhelming majority of privately owned homes will be lost to the affordable sector. If the NSW findings are typical of other states and territories that means between circa 15,000 – 20,000 affordable rental homes across Australia will be lost. [14]

There is widespread recognition that the Commonwealth Government will need to be part of the solution to increase investment in social and affordable rental housing. The independent review of NHFIC recognises that '*the scale of investment required inevitably means that all levels of government, the private sector and not-for-profit organisations will all need to be part of the solution'.* The construction and private rental sector players have also been vocal in support of government doing more to support social and affordable housing. The REA Group in their submission to the Inquiry into housing affordability and supply, wrote that '*social housing is something that governments at all levels should be creating policies on to address, including increased investment'*. The Housing Industry Association similarly called on government to bring in measures '*for example NRAS programs*' that would bolster '*the capacity of the community housing sector to increase the supply of subsidised housing*'.

In their hearing appearance at the Inquiry into housing affordability and supply, the MBA noted that '*one of the most important things the industry needs is certainty about the future demand conditions. The government has a massive role to play there. If the government underwrites or guarantees a certain amount of the demand for social and affordable housing over future years, that would provide great certainty to the industry—to know that, when they start to produce new homes today, there will be a market waiting for them at the time when the homes have been completed*'.

In our submission we have also recognised that the homes we currently manage need (where feasible) to be upgraded and made climate resilient. What was the COAG Energy Council agreed to a *Trajectory for Low Energy Buildings*[15], a national plan that sets a trajectory towards zero energy (and carbon) buildings, including existing homes. The residential sector is estimated to contribute at least 18% of Australia's greenhouse gas emissions. While information about the energy ratings of social housing is unavailable, it is likely that many of the older homes are amongst the '*almost 8 million (out of 10.6m) existing homes that are often inefficient'* [16] . The Commonwealth Government's National Net Zero Emission plan does not currently include measures to support decarbonisation of social and affordable rental homes. This is a relatively low cost (and efficient) way to reduce emissions. CHIA has recommended that the new National Housing and Homeless Agreement should prioritise retrofitting existing homes using as a basis the model included in the ACOSS National Low Income Energy Productivity Program. [17]

The social, economic and productivity benefits from investing in social and affordable housing.

There are major opportunities that will flow from tackling housing unaffordability through re-starting social and affordable rental housing investment. Traditionally, housing developed and managed by CHIA members has been valued for meeting social needs by providing safe, secure and affordable homes to vulnerable and low waged households who cannot access suitable market housing. More recently, research evidence has demonstrated that government investment in social housing (and, where necessary, floating support services) can produce net financial gains in terms of overall cost to government.[18] The report quantifies the cash, public sector savings and monetary wellbeing equivalents of the wider social and economic impacts that can be unlocked through investment in social and affordable housing, and expresses these as a proportion of the cost involved.

Building on this work, CHIA and its partners commissioned Swinburne University to incorporate wider social and economic benefits in a social cost-benefit assessment of social and affordable housing.[19] The work provides the basis for a submission to Infrastructure Australia's Priority Projects List. While the provision of social and affordable housing requires financial assistance to be viable in commercial terms, the report finds that 'the estimated wider social and economic benefits (WSEB) in this report show that the overall societal gain from providing social and affordable housing exceeds the cost of public support required to deliver new housing construction, even at relatively high discount rates (7%).

Increasingly, the broader economic outcomes that flow from our work are being recognised, notably the positive impact on human capital and hence economic productivity[20] .

In addition to the social benefits, we now have evidence that over-expensive housing also incurs negative impact on urban productivity. There is a growing body of research to demonstrate the ways that such impacts can be generated. These include an AHURI commissioned scoping study '*Making connections: housing, productivity and economic development*' (MacLennan et al. 2015).

In 'Strengthening Economic Cases'[21] the research team led by Professor Maclennan modelled how housing outcomes impact economic growth and productivity, with a particular focus on the Sydney metropolitan area. The productivity modelling exercise was based on an Economic Impact Assessment (EIA) which revealed strong, positive productivity effects from investing in better housing outcomes over a 40-year timescale that reduce commuting times and extend access to a wider set of labour market opportunities. While specific to Sydney, similar outcomes would be likely for other major Australian cities.

The scale of potential productivity gains from government investment in well-located affordable housing suggest an economic performance impact that compares very favourably to most other infrastructure investments, including transport projects. However, due to limitations in modelling capability these gains do not include the economic impacts arising from relief of the excess housing cost burden experienced by many private renters, and newer homeowners. The report estimated that the excess of rent payments over a 30% contribution averaged just under $6000 per household p/a, amounting to $1.8B p/a for NSW and absorbing an estimated $1.4B of Commonwealth rent support.

These benefits some in addition to the role that social and affordable housing provides as a *'sustainable economic stimulus…..due its often large fiscal volume, employment intensity and the long-term orientation of most projects*' identified by the OECD in its 2020 publication 'Social housing: a key part of past and future housing policy[22] . Further, social and affordable housing acts as a key counter-cyclical investment opportunity during market downturns[23] and can assist governments by act as a catalyst for the take-up of environmentally sustainable construction techniques.

We also recognise that social and affordable rental housing can provide an opportunity for some households to build up the capacity and resources to enter homeownership. While there are multiple schemes that have been introduced to support first home owners including shared equity products, there has been less focus on initiatives that would enable a transition from social and affordable rental housing. We believe that our proposal for ongoing Commonwealth Government funding - the Housing Boost Aggregator - provides an opportunity to trial a form of Build to Rent to Buy. To stimulate debate, we have proposed a **small fund to support the development of (1) practical and sustainable proposals to assist social and affordable housing renters into affordable home ownership and (2) solutions for older women for whom traditional forms of home ownership assistance are unfeasible.**

Addressing the Challenges

Underpinning the mismatch between the demand for and of supply of social and affordable housing is the absence of long-term joined up strategic planning. Arguments between the Commonwealth and States and Territories over the responsibility for funding new supply has become the dominant narrative rather than collaborative work to address the ever more urgent challenges.

Apart from the undersupply highlighted above are concerns around the condition of existing public housing and a dwelling profile which is inappropriately sized for current tenant cohorts. In some jurisdictions public housing is being sold to finance the improvement in the remaining portfolio.

Current and previous Commonwealth Governments have taken steps towards creating institutions that could enable a significant increase in affordable rental housing. The investigation into 'innovative finance models' carried out by the Government's Affordable Housing Working Group (AHWG)[24] was instrumental in NHFIC's establishment. The low-cost finance options that have subsequently become available via NHFIC have reduced CHO interest payments. However, the resulting savings go only a short distance towards bridging the social and affordable housing funding gap[25] as acknowledged by the AHWG. That is, the difference between the cost of developing and managing affordable housing (land, construction, housing management and maintenance) and the income received (from rents and Commonwealth Rent Assistance).

To address these shortfalls in social and affordable rental supply CHIA has therefore recommended that Federal budget 2022-23 include measures to ramp up investment in the short term (a modified SHARP); introduce a program that demonstrates an ongoing commitment to increase supply and provide the conditions to attract private investment (the Housing Boost Aggregator).

Our proposal on mandatory inclusionary zoning would also increase investment in social and affordable housing and add to the total new homes that could be achieved.

Community Housing as a Delivery Vehicle

The mainstream community housing sector has more than doubled in size over the past decade and now represents over 20 per cent of the social housing sector and 4 per cent of all rental housing stock. This has enhanced supplier competition and increased choice for low income tenants. Through leveraging its own capital and via public housing transfers, the community housing sector has shown it can manage large-scale financing arrangements and undertake significant property development in partnership with the private sector.

In New South Wales, CHOs have delivered 2,700 new homes over the eight years to 2020 [26] In Victoria, the industry delivered 1,033 additional social and affordable homes across 95 projects between 2010 and 2019[27] . Preliminary results from CHIA's compilation of sector statistics suggests that there is a current pipeline of over 6,000 new homes.

Not for profit Community housing is a sustainable social housing model that lowers the direct cost to government of providing affordable housing to low income households. These CHOs are eligible for a range of tax concessions (on for example land tax and GST) that apply to both their procurement and operating costs and thus reduce cost of housing development. The not for profit business model also retains any surplus in the business for use on additional services or further development. A recent study revealed that holding 1,000 properties in state government management and ownership would result in a $30 million deficit after 30 years, whereas transferring the same number of properties to community housing would deliver a $40 million surplus over the same period, which could be reinvested to produce additional social housing.[28]

A report commissioned by the NSW agency, Landcom[29] and published earlier in 2019 assessed the financial feasibility of build to rent projects incorporating affordable rental housing, comparing the results from for profit and not for profit developers. They concluded 'there will be a significant advantage to governments layering in additional subsidy support to leverage existing CHO concessions (rather than for-profit developers)'.

With the right policy settings and support to build on what it has already achieved the community housing will double again — or more — in the next decade.

CHIA thus recommends fostering the sector's expansion through a range of measures outlined below

Budget priorities – Additional Information

Allocate resources to develop a 10-year National Housing Strategy

Correcting the sub-optimal performance of Australia's housing system calls for more fundamental long-term actions; hence our recommendation that the Commonwealth Government commits resources to developing a 10-year National Housing Strategy to tackle the supply and demand drivers of housing affordability in a coordinated way across all levels of government.

It is the Commonwealth Government that has the central responsibility to lead policy in matters of national significance such as this, notwithstanding that many of the levers around planning and land administration lie with the states and territories.

As noted above, through the NHHA the Commonwealth government has the scope to encourage positive change at this level of government. However, in the absence of a coherent, coordinated National Housing Strategy, it is unlikely that these measures will have the enduring impact, at scale, which is required.

A National Housing Strategy should contain clear targets for overall housing supply, and for homes that are affordable to households in all income quintiles. The strategy should also contain separate but fully integrated plans to tackle homelessness, the housing needs of First Nations peoples and for people with disability. For each of these 'sub' plans there should be a governance structure that preferences the involvement of the stakeholder group.

There are positive international examples to draw on. Canada is one. Like Australia it has had a relatively small social housing sector, a division in responsibility for subsidised housing between Federal and Provincial governments, cities with extreme unaffordability and a similar population. Its federal housing agency, the Canadian Mortgage and Housing Corporation (CMHC) created after WWII provides a potential model for how NHFIC might evolve in future. The CMHC has had a significant role in supporting increased home ownership and in recent years particularly, subsidised rental housing.

In 2016 it was tasked with preparing a national housing strategy[30]. The resulting ten-year strategy increased Federal investment in subsidised housing through a combination of initiatives including a stimulus program – the rapid housing initiative, low-cost loans, rental subsidies, substantial funds to 'transform' the community housing sector, as well as on going grant. CMHC is responsible for delivery of the strategy.

As in Australia there are bilateral agreements between the Federal government and the provinces, the major difference to Australia being that each province must prepare an action plan detailing how the resources will be allocated and report against annual targets that contribute to the NHS. One example - that between the Federal Government and British Columbia is here.

Create a national housing agency

The development and delivery of a national housing strategy will require dedicated resource, whether that is through an existing agency (NHFIC being the obvious example) or department or through the creation of a new purpose-designed body. Reinstating something similar to the Housing Ministers Advisory Council via the National Cabinet process to promote intergovernmental coordination and cooperation and mechanisms to enable wider stakeholder participation are also recommended. One option is to reinstate an improved version of the Housing Supply Council[31] within NHFIC.

A priority must be to establish a system for collecting and reporting reliable information about affordable housing supply. The UK Government Ministry of Housing, Local Government and Communities publishes live tables on English affordable housing supply [32] which breakdown supply by location and program type (social, affordable rental and shared ownership etc) and predominant 'grant' funding mechanism. Something similar should be built up over time in Australia.

NHFIC through its newly established research function is also well placed to develop a robust and nationally consistent approach to housing needs assessment. There are international examples on which to draw. Reliable information about housing needs is vital for the production of not just national but also state and housing market / regional plans. NHFIC has already recognised that it has a role to play in this field in the State of the Nation's Housing, noting that future editions should focus '*on the acute issues faced by many who experience housing stress and who cannot find appropriate accommodation suitable for their needs, including disadvantaged groups such as those with disabilities and many of Australia's Indigenous population*[33]. An ambition should be for the State of Nation Reporting to evolve into something more akin to the UK Housing Review[34] which '*draws together key financial and performance data about public and private housing in the United Kingdom and assembles them in a coherent and accessible format*'.

Invest in housing as essential infrastructure:

CHIA is proposing two housing investment programs. The first is time limited, designed to boost social housing construction immediately, by starting in 2022-23. The second is a recurrent long-term program that incentivises institutional capital into community housing.

A modified Social Housing Acceleration and Renovation Program

CHIA's original proposal for a short-term program[35] remains an excellent model for efficiently and quickly delivering new social an affordable rental housing. Recognising existing state initiatives, we are proposing that rather than 30,000 homes, its scale is reduced to deliver 10,000 social (and potentially affordable) rental housing units over two years. Under our proposal Australian Government investment **together** with state, territory and potentially council contributions and support would enable both not-for-profit community housing organisations (CHOs) and Indigenous controlled community housing organisations (ICCHOs)[36] to deliver these social housing units and carry out renovations - prioritising energy upgrades to existing social housing units.

Leveraged against the resulting dwellings and associated future rental income, CHOs will raise private finance to further expand resulting housing investment. States and territories will be incentivised to either make equity investments in CHOs via land, or to sell land at a discount to CHOs and thus maximise dwelling output in their jurisdictions.

SHARP could be administered by a new arm of the National Housing Finance Investment Corporation (NHFIC) accountable to an oversight body reporting to the housing committee of the National Cabinet.

The cost to the Government of a modified SHARP would be circa $3.5B However, these costs are assumed under the proposal to be shared with state and territory governments and could in part be met by land contributions. Options for philanthropic contributions or elements of cross subsidisation from market products may also exist.

Government investment is likely to remain relatively cheap. MYEFO (Dec 2021) notes that 'although yields have risen slightly since Budget, they remain low by historical standards'. The assumed market yields at the 2021-22 MYEFO 'result in a weighted average cost of borrowing of around 1.7 per cent for future issuance of Treasury Bonds in the forward estimates, compared with around 1.6 per cent at the 2021'.[37]

The cost to the Australian Government could be calculated as for the SHI through setting a fixed sum per property regardless of location or construction costs. However, recognising widely varying land values, a preferred alternative would be to set the grant at a proportion of total development cost. This approach would also more easily factor in other contributions of, for example, discounted land.

The program should incorporate specific elements targeted at older women, veterans in housing need, building on the VITAL program CHIA has developed with ex service organisations[38], women escaping domestic and family violence and to assist ICCHOs to meet the needs of their communities. It should also kick start the decarbonisation of existing community housing dwellings to drive down energy bills, improve health and comfort for residents and help meet and beat Australia's 2030 emissions targets.

Dedicate resources in 2022-23 to developing a recurrent Federal social and affordable funding program for implementation in 2023-24. The program should be sensitive to variable development costs, incentivise other state and council contributions and attracts private institutional capital.

CHIA has worked with partners in the finance, property and housing sectors to develop the Housing Boost Aggregator (HBA). The proposal has two parts.

1. The Boost: The Commonwealth government would create a new annual tax-based subsidy (an annual refundable tax offset) – the Boost. CHOs would be able to tender for the Boost to close the project-specific funding gap for new affordable housing developments.

2. The Aggregator: The Boost would be paired with a new entity (possibly a government agency such as NHFIC) – the Aggregator – to aggregate CHO's capital requirements, create a fund and offer shares in that fund to institutional investors who would provide upfront capital to the CHOs. Investors would then receive low risk returns generated by the fund in the form of a stream of annual Boost offsets.

Similar solutions have been proven to work internationally – using competition, the tax system and institutional investment to scale up the supply of social and affordable rental housing while delivering value for money to the government. In the United States, tax incentives have been underpinning affordable rental housing construction for over 30 years with widespread investor acceptance.

Unlike NRAS and some comparable international programs, HBA does not operate with a priori determined annual levels of support or project level subsidies. Instead, registered organisations tender for the boost required to service borrowing costs at prudential standards and to meet acceptable rates of investor returns. Registered organisations can thus start by considering what type of housing is required where and then bid for tax credits to enhance the financial viability of the project.

The HBA is designed to attract 'contributions' from other actors. This includes state and local governments - for example via granting of long term land leases or through the introduction of planning policy (e.g., inclusionary zoning) that supports affordable housing. Other contributions could come from philanthropic sources and via cross subsidisation from market sale or rental housing.

To make a measurable difference to social and affordable rental supply, a target from the HBA of a minimum 10,000 additional homes should be set, ideally increasing over time. Further information and modelling are available [39].

The Housing Boost

With the Housing Boost Aggregator, the government can create an ongoing social and affordable asset value of $3.3bn (4,250 properties) for 21% of the tax credits invested by year 20 of this program. In other words, it creates a $4.80 benefit for every $1 invested. *

*This modelling assumes low NHFIC interest rates (2.79%), real property price increases of 2.5% per annum, an average annual tax credit payment of $12,500, and retention of 85% of the stock as social and affordable

Foster the expansion of the community housing industry to deliver more choice for low income renters

Contributing $500K annually to an industry led National Community Housing Development Strategy to build the capacity of the community housing sector

The AHWG in its 2017 report 'Supporting the implementation of an Affordable Housing Bond Aggregator' recommended the updating of the existing National Industry Development Framework. While supporting this recommendation CHIA believes such industry development needs to be resourced. The associated work program also needs to be industry-led if it is to meet the sector's needs and ensure that it is well placed to drive the expansion of affordable housing supply and provide real choice to low income tenants.

Over the past decade, high-performing community housing organisations have responded to opportunities (both development and management) by ensuring that they are operating under the expert oversight of skilled boards of management. In the last year NHFIC has made available capacity grants to support individual organisations in applying for NHFIC loan facilities. However, while such assistance is welcome these grants are not designed to drive sector growth or improvement.

The growth of similar sectors elsewhere has been underpinned by strong collaborative action and joint initiatives. Specific examples of projects that could be delivered through a National Community Housing Development Strategy include:

- Work to assist CHOs in harnessing the potential of technology and data analysis to drive performance improvement.
- Supporting the development of National Community Housing Standards – complementary to formal regulatory frameworks – to drive service excellence
- Improving the capacity of mainstream CHOs to engage with tenants with special needs, including those with disabilities, as well as in the delivery of culturally-appropriate services to tenants from culturally and linguistically diverse backgrounds, including Indigenous Australians
- Support for the 'nationalisation' of state / territory led initiatives
- Improvement in management information to support benchmarking and evaluation to drive continuous improvement strategies across the sector.

The investment required for industry development is modest in comparison to the significant asset portfolios under management across the sector and government contributions can be leveraged to secure funding from the community housing industry and other partners.

It is for the Indigenous Controlled Community Housing sector to decide on it priorities for industry development, but CHIA hopes to collaborate with this sector via the National Aboriginal and Torres Strait Islander Housing Association (NATSIHA), as we face many common issues and have much to learn from each other.

Raise NHFIC's liability cap from $3.5B to $5B and commit to a regular schedule of reviews. This will have minimal budgetary impact but will give certainty to (1) CHOs about the future availability of low cost finance and (2) investors about the long commitment of the Commonwealth Government to NHFIC.

The Community Housing Industry Association (CHIA) strongly supports the National Housing Finance Investment Corporation (NHFIC) and its significant contribution in enabling CHIA members to access long term, low cost finance. The government guarantee has been critically important in attracting investor interest in NHFIC's bond issuances. While it is difficult to estimate the impact on pricing, officials at the UK equivalent The Housing Finance Corporation (THFC) have told CHIA that as a rule of thumb such a measure typically achieves a 1% reduction in interest rate.

Fixed income investors need to be convinced of the low risk of any new investment. The government guarantee is a cost effective (cheap) way for the Commonwealth Government to signal social and affordable housing is a safe haven.

We acknowledge that over time there is potential to put in place alternative measures to secure similar pricing to that achieved by the government guarantee and which should also attract competitive financing offers from other financiers. However, in the short to medium term, there needs to be an immediate lifting of the cap and the establishment of a structured process for reviewing the cap as noted in the independent review of NHFIC.

There is a very small cash impact attached to this recommendation. Increasing the cap by $1 Billion in the 2021/22 Federal budget had a small balance sheet impact, so small in fact that it was not separately identified.[40].

Supporting the strengthening of the National Regulatory System for Community Housing (NRSCH) by contributing resources to establish independent and robust governance and develop specialist regulatory expertise

Good regulation drives industry capability and improves the confidence of investors, governments and tenants in the quality of management and security of housing assets. The AHWG acknowledged so much in its 2017 paper by recommending the need to 'develop and implement a uniform and nationally applied regulatory framework'.

The official review of the National Regulatory System for Community Housing (NRSCH) was disappointing in that it concluded without firm recommendations and failed to make progress towards a single national regulator for all social and affordable housing (an option the sector as well as the AHWG supported). The three existing regimes operate with similar standards and have similar enforcement powers. They regulate the same types of organisations, indeed in some cases the same CHOs. CHOs however, wishing to operate nationally are required to register separately and submit to different compliance assessments, adding considerably to regulatory burden.

CHIA's preference is for a single national regulator for all social and affordable housing (the option the AHWG supported); but accepts that there are alternative options to strengthen the system's governance and regulatory expertise in specialist areas.

The Commonwealth initially committed resources to part fund this review. In order to secure a satisfactory outcome, we strongly recommend that a further allocation of resources is made by the Commonwealth to appoint an independent reviewer to resolve the current impasse and produce a clear roadmap to achieving a truly national regulatory regime.

Given the reliance placed on the regulatory regime by NHFIC to provide assurance organisations are well governed, CHIA recommends that the Commonwealth government support its ongoing operation by reinstating its original financial support to the NRSCH, as withdrawn from 2014.

Use the National Housing and Homeless Agreement to drive new social and affordable rental housing supply

The National Housing and Homelessness Agreement (NHHA) will be renewed from July 2023, following a review by the Productivity Commission. The opportunity should be taken to use the agreement process to integrate and deliver the proposed national housing strategy and measures to increase social and affordable housing supply. Under the current agreement the Commonwealth and States and Territories agreed to a suite of objectives including reducing homelessness and rental stress[41] .

The recommendations we have made below are all capable of implementation through the NHHA. A national housing strategy would complement the existing requirement for state and territory plans and clearly articulate the responsibilities and funding contribution from each level of government. The proposed national housing agency could administer national funding programs and collate and produce reliable housing data. Through the NHHA an agreement on a clear, consistent framework for planning contributions towards social and affordable housing.

Developing a joint federal and state and territory decarbonisation fund for existing social and affordable housing

While about social housing building efficiency standards is not published it is accepted that much of the older state owned homes the community housing manages perform poorly and contributes to Australia's greenhouse gas emissions but also results in higher energy bills for residents.

An unpublished report has been compiled by the Residential team in the Climate Change & Sustainability Division under the NSW Department of Planning, Industry and Environment, as an input into the National Energy Productivity Plan (NEPP), to identify what is required to upgrade existing homes. Unsurprisingly the key barrier was funds with the report noting '*Most social housing organisations won't have budgets to pay for information on energy ratings, carbon/energy outputs, thermal performance and upgrade recommendations'.*

Clearly not all existing homes could be upgraded - the costs will outweigh the benefits - but these units could be replaced if our recommendations for funding new supply are adopted.

CHIA has contributed to the ACOSS led National Low Income Energy Productivity Program (NLEPP) and we believe the community housing element of that plan could form the basis for a joint state and territory funded decarbonisation fund in the 2023 NHHA. The NLEPP estimates that for an investment of $5,000 per property could secure either (1) energy audit; hot water heat pump, small efficient split-cycle air conditioner/heater and LED lighting, or (2) energy audit and solar PV. Typical measures that could be installed for an investment of $12,500 for a retrofit would include energy audit, solar PV, efficient split-cycle air conditioner/heater; hot water heat-pump; LED lighting; thermal shell insulation and draught-proofing.

The NLEPP proposes that on top of this government contribution, that where CHOs can make an additional contribution, this would be matched by a corresponding increase in government grant.

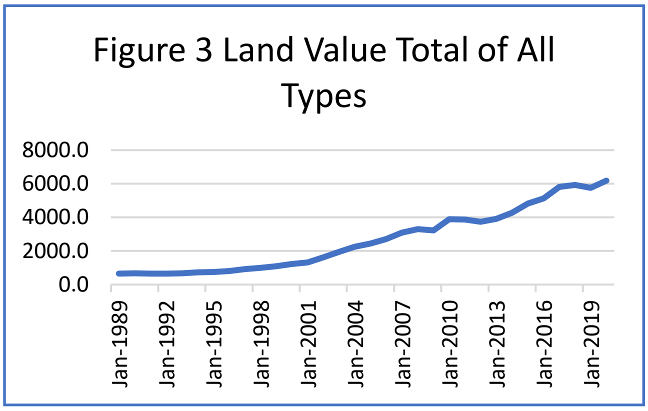
A similar initiative has been successfully introduced by the UK Government [42]

Promote greater social and affordable rental housing provision through inclusionary zoning.

The planning system through regulation can play a positive role in contributing more social and affordable rental housing without adding costs to the development industry, nor impacting on supply. Mandatory Inclusionary Zoning (MIZ) or equivalent mandated schemes have operated successfully in many different jurisdictions throughout Europe and the United States. In England, for example where local authorities have had powers to mandate affordable housing, in 2019/20 almost 20,000 social and affordable homes were generated solely through section 106 obligations i.e., without any other grant funding. Of these homes 3,812 were social rented homes.

While attempts have been made to introduce MIZ in Australia, there are very few examples of schemes generating social and affordable rental housing at any scale. The best known and most successful scheme is that operating in the City of Sydney where around 900 homes have been generated since the mid-1990s. [43]

To help overcome the barriers to MIZ, through the Constellation Project, CHIA has participated in a process with other key industry and government players to develop a [MIZ National Framework] that minimizes the impacts on market development while still generating appreciable social and affordable housing supply. The framework provides a set of key principles that could be adopted in any jurisdictional scheme while allowing a degree of customization to suit local circumstances. In essence the framework gives clarity, consistency and thus certainty to developers – a key industry concern about development contributions voiced most recently in NHFIC's paper on how to pay for infrastructure[44]. The proposal is consistent with the recommendation 31 in the recent report from the Inquiry into Homelessness in Australia i.e., '*that the Australian Government, in consultation with state, territory and local governments, seek to increase affordable housing supply when land is rezoned for residential development, through the introduction and harmonisation of inclusionary planning approaches across Australia*'. [45]



Source: ABS - Table 61. Value of Land, by Land use by State/Territory - as at 30 June, Current prices

Development contributions can be, often incorrectly, described as a tax on housing. In the national framework proposal, a fixed percentage of all housing floorspace (or commensurate land / cash) developed on privately owned land in metro / high demand locations would be designated, in perpetuity, as social and affordable rental housing, under CHO ownership and / or management. Rather than adding to construction costs, the requirement would be factored into the price offered by the developer for the land. Developers who have land-banked for possible future schemes without regard for the possible introduction of a MIZ scheme (in terms of land price paid) will have an opportunity to develop such sites without any new obligation during the notice and transition periods we have proposed. In the locations we are suggesting MIZ is applied, land values have appreciated substantially – see Figure 3 above - and we believe could accommodate a social / affordable housing contribution i.e., that land would retain a significant positive value.

Allocate resources to NHFIC to support the development of practical and sustainable proposals to assist in particular social and affordable housing renters into affordable home ownership

Many social housing tenants aspire to own their own home but are unable to take advantage of current forms of assistance such as First Home Owner Grants or NHFIC's deposit guarantee scheme. Even with such help the deposit hurdle can be too high. While initiatives such as shared equity home ownership operate in certain jurisdictions, these remain very small in scale and have not been subject to evaluation.

NHFIC could commission work to review existing schemes in Australia and internationally with a view to examining outcomes and identifying effective design features. It should also consider the demand from and the support that lower income tenants (particularly those in social an affordable housing or disadvantaged cohorts such as older women), might need to take advantage of these schemes and, assist them, in sustaining home ownership.

In particular we are in particular keen to explore is whether the Housing Boost Aggregator model we have proposed could deliver a build to rent to buy model as is being considered by NHFIC. In brief this would involve a proportion of the homes delivered being targeted at individuals who would be supported to purchase the home after circa ten years. Our modelling for the HBA assumes a small percentage of the homes built would be sold after 15 years and thus a modification to allow sale to the sitting tenant seems feasible.

The research should inform the design of a fund to support new schemes targeted at lower income tenants / older women. A budget of circa $100,000 is likely to sufficient.

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