PowerHousing Australia

Collaborating for a better housing future

2021-22
Pre-Budget Submission

January 2021

PowerHousing Australia 2021-2022 Pre-budget submission

Executive Summary

PowerHousing Australia welcomes the opportunity to provide updated feedback on priorities regarding the FY2021-22 Budget.

Our feedback is framed by consultation across the year with Members, our national Roundtable, Committees, and the PowerHousing Australia Board.

This Pre-Budget Submission has a focus on an affordable housing crisis which is being felt at many levels in the community, particularly the most vulnerable and lowest income households.

This submission is predicated on PowerHousing's assessment concerning optimal measures to tackle the affordable housing crisis and to restore the wider Australian economy to desired levels of growth in output and employment:

- Residential construction remains the most effective form of economic stimulus in terms of jobs created per unit of stimulus investment.
- The current extraordinarily successful Homebuilder initiative will provide high levels of stimulus until 2022 at which point alternative measures will be most effective in sustaining growth and employment in the residential construction sector.
- *Commonwealth stimulus provided to the "economically discrete" community housing rental market to increase homes in that sector can be used to promote economic activity (e.g. jobs) without unintended "knock on effects" to supply, demand and hence prices and values in the wider "traded" sector of the housing market.*

This economic analysis is set out at the end of the submission following explanation of our key proposals.

<u>Key proposals</u>

Measures for early implementation to improve housing for all Australians and maximise the efficient delivery of housing with available resources.

1. National Housing Focus**.** Federal Government amidst the National Cabinet and its housing subcommittee is urged to keep focus on the immediate and longer term housing challenges facing the country.

2. Support National Housing Equilibrium. With market supply forecast to significantly decline in FY2022-FY2023 and affordable housing demand on the increase, ongoing stabilisation is required for sustained growth in economic confidence. Stabilisation of Australian housing equilibrium requires these elements:

2.1 HomeKeeper; a new affordable rental development program. HomeKeeper is a program to develop new housing accommodation through the Community Housing Providers (CHPs) using proven financial instruments coupled with some innovative enhancements set out in the body of this submission.

2.2 HomeKeeper to Homebuyer Guarantee**.** This related proposal will dovetail the HomeKeeper initiative with the existing successful Morrison initiatives to promote home ownership.

2.3 *HomeShare; Owner Occupier Shared Equity Safeguard for Existing Owner Occupiers.* With homeowners still deferring loans and new supply potentially stranded, shared equity options as outlined can take pressure off homeowners particularly those at the beginning of their housing ownership journey.

3. National Housing Policy: Originator of Jobs and Housing Outcomes. Stimulating the new home building market beyond HomeBuilder makes considerable sense as it can continue to foster confidence and activity in the Australian economy. Social and affordable housing can act as a shock absorber to fill the primary gap in market demand and the pipeline can be primed to meet the expected drop in delivery in FY2022-FY2023.

3.1 New Build Stimulus. PowerHousing has backed the call for a boosting investment stimulus to expand Australia's social and affordable housing by 30,000 homes to counterbalance a decline in activity that will come post Homebuilder wind down.

3.2 CHP Affordable Housing Shared Equity**.** CHP's have stock they could sell to current or future tenants on a shared equity basis where the CHP retains a 20% equity ownership and the tenant (now owner) raises the finance to acquire 80% of the property.

3.3 Specialist Disability Accommodation and Universal Design**.** There are still 4,000 young people with specialist disability in aged care today. Estimates are that 3-5,000 new homes could be built over the coming 2-3 years to create badly needed SDA homes for NDIS clients, drive jobs and support investment in this as part of a wider housing asset class in Australia.

4. Longer term measures to facilitate better use of resources, attract investment and promote growth.

4.1 Creating an improved delivery pipeline by means of the Affordable Housing Asset Class. Affordable housing with Environmental, Social and Governance outcomes are growing as a reliable and acceptable investment asset class. New affordable housing supply proposals, backed by Federal Government seed investment can create 10-30,000 additional affordable homes per annum to meet rising demand, preserve jobs and see a perpetual international asset class operational.

4.2 NHFIC Finance Expansion**.** The Commonwealth guarantee limit for NHFIC liabilities has wisely been increased in the FY2021 Budget to $3 Billion to support further investment. The Australian Government Guarantee for NHFIC bonds can be further increased given success of this mechanism in getting long tenor and low-cost capital into this space to create thousands of new social and affordable housing and create hundreds of thousands of new trade engagements.

4.3 Capacity Building**.** Over half of all 35 PowerHousing Members have accessed NHFIC funding and they have assisted with the development of uniform financial models to help others access this funding. Future opportunities to attract equity investment as noted here for consideration to grow sector capacity.

4.4 Successful precedents from overseas to attract investment**.** Community Reinvestment Act and Low-Income Housing Tax Credit. Measures to close the yield gap for social and affordable housing.

Appendix: Economic context: the PowerHousing prescription to restore the wider Australian economy to desired levels of growth in output and employment:

Appendix 1 Housing policy the proven economic antidote. As demonstrated by the HomeBuilder policy, and GFC measures both here and internationally, housing policy is critical to creating economic equilibrium, jobs and community. As noted in the appendix a focus on housing policy post Homebuilder will be critical to Australia's future wellbeing.

PowerHousing Australia
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1. National Housing Focus

Federal and State Governments have roles to play around supporting and creating levers to boost new social and affordable housing. The **new National Cabinet** will have a greater role in maximising the policy and fiscal objectives in stabilising national housing for the country in some challenging times ahead.

The **National Housing Minister** was appointed by the Coalition Government post the 2019 election. In December 2020 the Community Housing and Homelessness portfolios have been elevated to Ministerial level. The Federal Housing and Community Housing Minister is in a capable position to tackle national housing challenges for increasing numbers of Australians through ongoing activation of **the National Cabinet Ministerial housing subcommittee**.

Under the guidance of the Housing Minister and the National Housing Cabinet Housing Subcommittee, a **National Housing Strategy** should be developed. The strategy would guide targets and housing development in Australia into the future, to offset the seriousness of unaffordability now and prevent it rising again. As a subset this work should be driven by the research facility in NHFIC to provide greater granularity to the metrics of the many segments of housing demand and historic supply that are ambiguous today.

Recommendations - 1. National Housing Focus

1

- Federal focus on housing in National Cabinet
- Develop a clear National Housing Strategy in response to community demand for access to affordable housing options

2. Support National Housing Equilibrium

Despite COVID-19, HomeBuilder has pulled through market demand to underpin national housing for the time being. Building approvals for detached houses have held up, but multi-unit delivery has dropped, with the smaller more affordable unit type developments trending downward since late 2014.

As detailed in Appendix One, despite 2020 stabilisation through loan deferrals, JobKeeper and other COVID supports, there will be ongoing uncertainty for renters, owner-occupiers and the senior market segment, with an increase in demand for affordable and social housing to be expected. There is a longer-term challenge in stabilising the housing position for many of these people beyond deferral and JobKeeper winddown.

What is clear is that there will be ongoing growth in demand for those needing affordable housing. As people's income drop their capacity to pay current rent/mortgage levels falls away, and some supports to assist national housing equilibrium are as follows.

2.1 HomeKeeper - New Affordable Rental Development Program

- Unemployed, underemployed and employable people still on HomeKeeper wind down will require assistance and this proposal provides time-limited new affordable housing;
- Federal Government could look to provide CHPs either a lump sum capital payment or a 10-12 year recurrent payment (10-12 years to align with term of senior debt) to support the development of additional housing;
- CHP takes NHFIC senior debt. CHP also takes NHFIC junior debt and if there was to be a social impact bond, the coupon rate for this should be incentivised so that every person that makes a positive exit into work and market housing results in a saving to CHP and or uplift to investors;

- Tenant eligibility requires they seek engagement in training or employment and they are limited to three years of affordable rent after which they must vacate or pay market rent. In either case they are no longer eligible for the affordable housing or to receive CRA, providing an incentive for them to move into employment and/or market housing.

2.2 HomeKeeper to HomeBuyer Guarantee

- Provide options for supporting future new home purchase options through a HomeBuyer Guarantee for those HomeKeeper renters to eventually go into affordable home ownership;
- HomeBuyer Guarantee tenant eligibility would apply to HomeKeeper tenants to a limited three years of affordable rent after which they must vacate or pay market rent;
- Up to the end of the third year they are eligible for a HomeBuyer Guarantee which would be based on the NHFIC first home buyer deposit scheme, but will only be offered to those renting without a principal place of residence or other residential investment;
- Across the three years the tenant is incentivised to buy a new home with a HomeBuyer guarantee and for many people this will be their chance to get back into home ownership particularly those that fell on hard times early in the COVID-19 crisis;
- A HomeBuyer Guarantee would be developed and administered by NHFIC.

2.3 HomeShare – Owner Occupier Shared Equity Safeguard for Existing Owner Occupiers

- Many Australians are today not paying their home loans due to COVID-19, which opens the door for a shared equity option to take pressure off homeowners particularly those at the beginning of their housing ownership journey;
- With uncertainty in the economy there is also potentially a need for those picking up the keys to new homes still being built today that may need to have short to long term options of support;
- There are numbers of Australians that may need ongoing temporary support or an option such as a shared equity to be available for a 3-5 year timeframe;
- There are also numbers of Australians that despite COVID-19 would like to get into a new home and can look to take a 60-80 per cent stake in a home through shared equity;
- Shared Equity Home Ownership is a form of supported home ownership that is considered a viable and affordable alternative to full home ownership. Here in Australia the equity to support an affordable home purchase is largely provided by state governments;
- Shared equity home ownership should be more widely available within Australia as a fourth housing option led by the Commonwealth Government;
- By investing 20-40% equity in each property, a government structured entity (potentially NHFIC) and an MIT type structure enables people to preserve home ownership with lower debt levels than would otherwise have been possible and a level of debt that the private sector can potentially finance.

Recommendations - Support National Housing Equilibrium

2

- Tackle affordable housing supply by investing in Homekeeper supply through CHPs by way of a lump sum capital payment or a 10-12-year recurrent payment
- Provide a HomeBuyer Guarantee for HomeKeeper tenants to get back to or start afresh in home ownership
- Low cost shared equity program for current homeowners to retain their home through the crisis

3. National Housing Policy: Creator of Jobs and Housing Outcomes

Building activity in Australia is heading for the largest decline in our country's history with homes commenced set to drop from 230,000 dwellings commenced in 2016 to estimates of around 150,000 in F2021[1]. Beyond the wash through of this demand, commencements are forecast go lower to trough around 135,000 new home starts in FY2023.

The housing commencements drop which is likely to grow on these forecasts in the FY2022 year will strip away jobs, taxation revenues that underpin government budgets and take away vital supply that stabilises housing prices.

The PowerHousing Australia CoreLogic Standard House Report, as raised by Minister for Housing Michael Sukkar MP in Parliament in December 2020, show that there are 43 trades and subtrades that receive 3 hours to 3 months of work for every new house built with significant flows through to retail and manufacturing.

Balancing a new market equilibrium, with property stimulus, that feeds into longer term new build programs is tricky to get right. Stimulating the new home building market beyond HomeBuilder makes considerable sense as it can continue to build confidence and activity in the Australian economy.

3.1 New Build Stimulus

- PowerHousing has backed calls for **investment in the SHARP proposal** to expand Australia's social and affordable housing by 30,000 homes. With the market for housing set to head into an uncertain period beyond Homebuilder and record decline, options such as this proposal would help sure up a pipeline of new dwellings and jobs activity.
- This proposal calls for government investment for new build/acquisitions and for the renovation of existing homes and would be administered by a new arm of NHFIC.
- As housing delivery statistics will show, grant-type investment may be one of the only guaranteed activity drivers that can be limited or expanded for a defined period. This will bridge the gap where the market first home buyers, owner occupiers and investors is exhausted and will prime the construction industry for a time when the economy gets back on steady footing.
- Powerhousing has a ready-made pipeline of 5-7,000 lots which can be activated in the immediate term. Our partners in the residential construction industry are ready to meet additional demand and support the construction jobs that will be badly needed in future periods.

3.2 CHP Affordable Housing Shared Equity

- CHP's have stock they could sell to current or potential tenants on a shared equity basis where the CHP retains a 20% equity ownership and the tenant (now owner) raises the finance to acquire 80% of the property;
- Shared equity home ownership program could enable a CHP and or equity providers to provide or retain 15% to 40% equity in a home purchased or already owned by the CHP, in partnership with a home purchaser who has 0% to 5% deposit;
- The remainder of funds are provided through a standard mortgage, under standard National Consumer Credit Protection frameworks;
- This transitions affordable tenants to home ownership and enables the CHP to acquire (have constructed) four properties for every 5 properties sold. After a 10-year period the CHP would

[1] HIA Housing Forecast report November 2020

recover its equity position from the five properties enabling it to build another property to use to meet demand for social and affordable housing;

- While this approach maintains the balance sheet value of the CHP, as all CHPs are NFP organisations, they do not have the financial excesses to forgo income on 20% of their properties and a government income subsidy for this 20% equity contribution for 10 years creates five housing outcomes for the rental cost of one property. Indicative financial modelling indicates that a finance subsidy of $1.6kpa for each new property added for 10 years will create a permanent increase in supply and an additional property for every four properties subsidised at the 10-year mark;
- This proposal entitled *Unpack for Good* has been developed by Bendigo Bank in conjunction with PowerHousing Members as an affordable alternative housing option and takes up best practice programs run in parts of Australia and internationally.

3.3 CHP Specialist Disability Accommodation and Universal Design

Despite commencing in 2016, Specialist Disability Accommodation (SDA). funding is currently only being paid to 54% of the estimated 28,000 NDIS participants who are expected to be eligible for SD). The over 12,000 remaining people eligible for SDA funding are likely to be living in government housing, hostels, residential aged care, or with family. Once the unmet demand and the need to replace old stock with contemporary disability housing is taken into account, new housing need is estimated at 19,000 NDIS participants over the next 10 years. At the end of 2020 there were an estimated 1800 SDA places in development[2].

Going back to August 2020, the vast bulk of younger people in residential aged care are NDIS participants: 3,788 of them in 1,416 facilities across Australia. When fully exercised the housing scheme payments are expected to cost $750 million annually, with just 20 per cent of that being paid out so far Whilst there has been some impact on these cases who all have individual plans, the majority of which are yet to receive SDA. At that point 980 new or refurbished SDA dwellings have been created with more than 4000 dwellings enrolled in the scheme.[3].

- There are also strong numbers of SDA eligible people that are yet to receive this type of housing, which could equate to 3-5,000 homes to be constructed in the next several years.
- Activating the demand - particularly for those younger people currently residing in, or at risk of ending up in aged care like facilities - is of immediate need and the identification of this demand is critical in the short to medium term, particularly as we seek to stimulate the construction industry.
- Therefore it is vital step that Government works with industry to identify all available SDA recipients across the country to provide existing and new housing options available now and in the future.
- This would be a strong component of an equity investment structure as proposed in this submission.

PowerHousing recommends a renewed **federal focus on sustainable universal housing**.

- Universal design, as assessed and certified by Livable Housing Australia (LHA), ensures the capability of a house to be utilised safely and easily by all inhabitants, whether able-bodied or disabled. Such design allows for modifications (in the instance of disability or age) with minimum cost, as the initial design includes elements such as accessibility and robustness in the first instance.
- PowerHousing in review of the new supply created by its Members and direct feedback in consultations on the 2020 National Construction Code Accessibility Consultation Regulatory Impact

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[2] SDA_Supply_Survey_Report_-_22_12_2020_small.pdf (ctfassets.net)
[3] https://www.afr.com/property/residential/powerbrokers-make-impact-in-disability-accommodation-20200817-p55miz

Statement shows that CHPs are bringing Livable Housing Silver into its development consideration and see little additional cost in the majority of cases for the benefits that come with universal design.

- Such a focus for housing development will reduce WHS implications for carers and occupants, the significant added difficulties for those with temporary acquired injuries and also enable more people to live in their own homes for longer, rather than in institutional care.

> - **Recommendations - 3. National Housing Policy: Creator of Jobs and Housing Outcomes**Support new build stimulus where the market or subsidy is seeing affordable housing demand significantly exceed supply through:
> - Federal Government progress the residual 4-5,000 SDA dwellings to be constructed to support the jobs and economic challenges facing the residential construction industry nationally
> - Federal Government focus to support sustainable universal design principles in new dwellings
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> 3

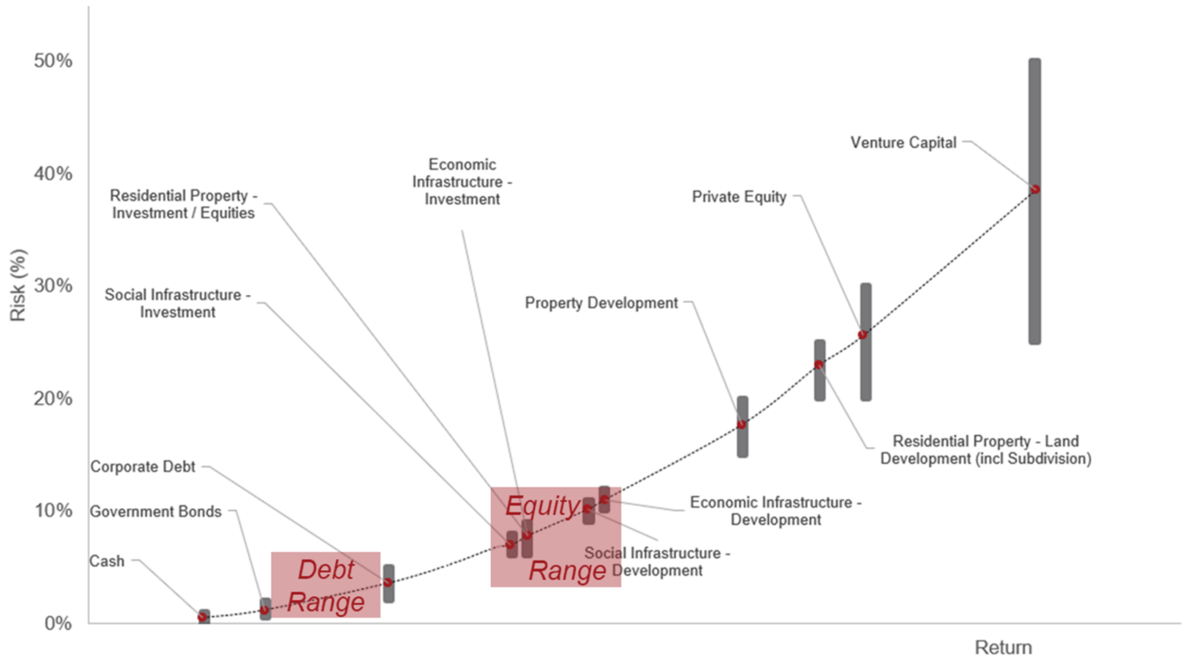
4. Longer term measures to facilitate better use of resources, attract investment and promote growth.

4.1 Creating an improved delivery pipeline by means of the Affordable Housing Asset Class

PowerHousing through its membership of the International Housing Partnership, considered the emergence of a global investment class for affordable housing. This work identified that there is a significant weight of institutional capital seeking quality, scalable Environmental, Social and Governance (ESG) investments.

Social and affordable housing can be seen as a new, hybrid asset class, comprising elements of existing property, social infrastructure and economic infrastructure asset classes.

The economic shock of COVID-19 has also driven a greater focus on reliable yield curve investments with low volatility and particularly those with Government support. These factors further enhance the desirability of social and affordable housing as an investment proposition.



As world economies grapple with COVID-19, it is likely there will be greater appetite for those investment classes that can 'ride through recessions' and social housing investment has proven itself over the past 30 years. Despite the challenges of COVID-19, PowerHousing Australia's membership has shown stability across the past 10 months with arrears and bad debts being stable or improving.

Supporting renters in a model that is government-backed will place a long-term housing delivery base under the record decline in housing commencements and stimulate affordable housing and jobs.

The fund would provide equity investments into social and affordable housing projects, with a market-return being earned commensurate with the risk profile of the asset class. Together with already available debt finance, this will be able to be leveraged to provide a significant impact. The fund would be administered through an appointed fund manager. It is envisaged that NHFIC may be an appropriate custodian of the funds and would either act as the fund manager or appoint appropriate fund managers on its behalf.

A reasonable fund size would facilitate, through levered funding, a total investment in housing of up to $4 billion, delivering up to 9,000 properties at a precedent cost of $450,000 per dwelling on average subject to local geography.

It is acknowledged that in Australia, the social and affordable housing asset class is still developing, and whilst there are a number of positive signs of investor appetite (such as the level of interest in the NHFIC bond issuances) the Federal Government could take an active role in maturing the asset class via NHFIC which will leverage other policy or funding commitments.

The support could take two forms:

- Investment to assist in the development of a fund and the appointment of a fund manager, and
- A small initial fund investment to provide initial liquidity for the fund. It is expected that the fund manager would then seek matched funding, to multiply the total fund value.

This Government investment is proposed as a commercial investment, with seed investment for a term. Once the fund has been established, and a track record of projects established which facilitates sufficient institutional investment, the Commonwealth would be able to exit the fund. It is anticipated that this term would be five to seven years, allowing for establishment of sufficient projects. Initial examination of the fund concept demonstrates viability to support a stable investment return.

CHPs would take a lead role in identifying and progressing projects which access the fund. CHPs would assemble projects, including matching subsidy to outcomes using levers such as concessional land access, planning gains, tax concessions and (if and where available) revenue enhancement or support from Government. CHPs would arrange senior debt, most likely through NHFIC loans or banks, to form part of the capital structure alongside equity from the fund.

As a second stage, State Governments could be encouraged, through engagement from CHPs and representative bodies, to contribute land or facilitate land access (including on concessional terms where beneficial outcomes to the State may be demonstrated).

While there are a variety of vital options to support the health and welfare of Australians today, there is a need to work through the options for supporting the growing housing needs for those with uncertain housing futures and to also structure for new-build economic activity.

4.2 NHFIC Finance Expansion

Low-cost, long-term government-backed affordable housing finance is a vital component to reducing the yield gap to ensure that Australia continues to supply and manage enough homes for population demand to provide additional social and affordable housing outcomes. Particularly where new housing outcomes are considered, it underpins construction industry jobs, state and federal budgets.

The AHBA managed by the NHFIC supports affordable housing tenants and further establishes the foundations of a new affordable housing investment asset class. The support of the Commonwealth is critical to investor confidence in this nascent market.

The engagement of superannuation funds into recent bond issues finally stems the tide of Australian investment funds that flow offshore to overseas affordable housing every year, rather than being invested in affordable housing projects that strengthen the Australian economy and community.

Commonwealth guarantee limit for NHFIC liabilities has been increased in the FY2021 Budget to $3 Billion to support further investment. The Australian Government Guarantee for NHFIC bonds can be further increased given success of this mechanism in getting long tenor and low-cost capital into this space to assist in the development of additional social and affordable housing to meet expected additional demand.

NHFIC & Australian CHP's over next 2 – 3 years are positioned to deliver more homes and jobs:

With the expansion of the NHFIC Guarantee from $2 billion to $3 billion it is estimated that an addition 93,000 new periods of work for trades and associated construction industry will be generated from around 2,300-3,500 new homes that are built. A further expansion of the guarantee will support thousands of new homes and hundreds of thousands of trade engagements during construction.

Financed	**Outcomes**	**Reinvestment**	**Job creation**
$1.4b residual loan guarantee	2,300-3,500 new homes 4,500+ additional people with safe & secure home	$180m interest saved to be reinvested by NFP CHP's (PowerHousing CHPs estimated to save over $155m)	An additional 93,000 new periods of work for trades and assoc. construction industry

The NHFIC's National Housing Infrastructure Facility (NHIF) which provides finance for critical infrastructure to support new housing delivery, includes eligible projects such as site remediation works (e.g. the removal of hazardous waste or contamination), an often costly exercise for developers. However, the scope of eligible works to which the NHIF can be applied is tightly drawn and adds significant complexity for CHPs who may seek to use the NHIF. The NHIF mandate should be expanded to allow funds to be used to directly invest in affordable housing developed by CHPs. The NHIF could be re-directed to enable greater housing supply through providing more accessible funds that act as equity-like catalytic investment in CHP projects.

An additional positive step would be for the government to enable NHFIC to activate its capacity under the NHIF legislation for NHFIC to provide equity participation in affordable housing developments. This could significantly increase the capacity of the sector to borrow for, and invest in, affordable housing.

4.3 Capacity Building

PowerHousing members are amongst the largest and most sophisticated participants in the community housing industry. They have benefited from NHFIC's provision of efficient senior debt which is allowing growth in capability to be matched by access to capital. Our members do recognise that a thriving industry requires a diverse range of participants and encourages initiatives that continue to build market capability.

Building capability is around scale of contributions with at least an initial focus in the development and capacity building around scale CHP outcomes to see longer-term low-cost lending outcomes. The ongoing achievements of NHFIC as an intermediary to the affordable housing outcomes that become more widely known have a strong base to work from which required scale outcomes. Ultimately one of the best forms of industry development is growth which is being achieved certainly by our Members in partnership with NHFIC.

A new financial model was developed in 2019 in consultation with PowerHousing CHPs to provide a uniform framework that can be used to deliver historical and forecast financial information to NHFIC during the loan origination and management processes. The Excel-based tool has been designed to accommodate common activities undertaken by the CHP sector and can accommodate an actual/forecast period of up to 30 years.

In the same frame as the financial model, PowerHousing recommends funding for innovative programs that support sustainable, affordable and liveable housing. Innovative partnerships, incentives and subsidies around minimising the yield gap, encouraging investment and stimulating innovative programs in affordable housing need to be considered as part of the suite of housing measures needed in the Federal Budget.

4.4 Successful precedents from overseas to attract investment:

The Federal Government and regulators could look to mechanisms overseas, to ensure low-income household developments have access to credit. The **Community Reinvestment Act** which operates in the US is intended to encourage financial institutions to help meet the credit needs of low and moderate income neighbourhoods. Community Reinvestment Act, enacted in 1977, requires financial institutions to meet the credit need of the entire community and this is periodically evaluated by a federal financial supervisory agency. A similar Community Reinvestment Act obligation in Australia could connect banks with communities in the wake of the mistrust borne out of the Royal Commission.. Post the Federal Banking Inquiry, there is a compelling case for some banks to reconnect with their communities and the Community Reinvestment Act may be the best model. The roll out of a CRA in Australia would encourage deposit institutions to help meet the credit needs of the communities in which they operate, including low and moderate income neighbourhoods as it does in the US.

The **Low Income Housing Tax Credit** (LIHTC), operational in the US since 1986, is embedded in the tax system. With ongoing bipartisan support, it delivers around 90,000 new affordable dwellings per year or around 2.2 million homes built over the past three decades. This key national tax incentive produces up to 10 per cent of the total build volume and it is specifically for low income affordable housing. Administered by Treasury in the US, the program is well managed supported by CRA obligations, intermediaries and reasonably efficient reporting structures. Australia does not have any such tax credit product. The recent US taxation overhaul potentially alters the impact on investment in the LIHTC motivation to reduce. The corporate tax rate being lower means that amount of deductions the businesses have then sees that they have less to write their tax credit against but is expected to still fuel significant affordable housing delivery. The LIHTC together with other taxation reform initiatives and the Community Reinvestment Act are creating new solutions and partnerships which should be considered here in Australia.

Recommendation - Longer term measures to facilitate better use of resources, attract investment and promote growth.

4

- Federal Government and the National Cabinet to work with industry to consider options for an equity and institutional investment vehicle structure that provides additional affordable housing
- NHFIC finance expansion to support growth in social and affordable housing creating new jobs
- Consider the full suite of options around a dwelling subsidy and vehicles that close the yield gap for social and affordable housing such as tax credits

Conclusion

PowerHousing is encouraged by the Federal Government's view that every budget will feature housing. We absolutely agree that the next budget is an opportunity for a renewed federal focus on housing as the country makes its way out of the COVID-19 crisis. Housing can help lead the economic recovery, and targeted co-investment by the Federal Government into affordable housing developed by CHPs can ensure a legacy of a more resilient housing system.

Housing can help lead the economic recovery, and targeted co-investment by the Federal Government into affordable housing developed by CHPs, can ensure a legacy of a more resilient housing system.

The future equilibrium of housing demand and supply is still unknown with unknown market capacity beyond HomeBuilder. The demand for social housing does exist, though, and supply of this housing can be achieved to support jobs and societal outcome. There are over a million 'workers' including project managers, or subcontractors (tradies), builders (most of them small business), that stimulate manufacturers, suppliers, and retail businesses.

The PowerHousing membership is committed to providing expertise, resources and continued collaboration with the government and Housing Minister to create affordable housing solutions. A National Housing Strategy, National Housing Cabinet, consistent and partnership investment from Government will constitute an effective federal focus on housing equilibrium.

A stable housing equilibrium is supported by provided short term measures for current renters and owner occupiers and supporting the additional demand in social and particularly affordable housing. Meeting this additional demand through CHP development partnerships will deliver the social and economic shock absorber that will be needed over the next three years in the stabilisation and early recovery phases.

Considering a wide range of government-backed options to close the yield gap, such as those practiced and successful in the US and , extending/increasing the NHFIC AHBA Guarantee, broadening the NHIF mandate, will better enable CHPs to continue to deliver quality social housing. A federal build rate target that maintains jobs with a partnering role with CHPs for 30,000 dwellings will enable development to keep up with demand.

Connecting SDA demand and supply will support the safe, effective provision of SDA accommodation to the many still in wait for this type of housing. Focusing on sustainable universal housing guided by accessible design will ensure that housing is appropriate for those with all levels of disability throughout whole of life.

Whilst formative work is under development for consideration and market sounding, we think and are advised by international experts with 30 plus years of global investment into environmental, social and governance impact funds, there is strong investor appetite to co-invest alongside government into affordable housing. Equity investment structures particularly around affordable housing is not far off.

These commitments will provide settings for a sustainable housing market, provide homes within financial reach of more Australians, and secure Australian jobs as we head to an unpredictable housing delivery trough. PowerHousing looks forward to the final release of Budget 2020-21 with the knowledge that it has the capacity to significantly impact the provision of housing for Australians nationwide.

CHPs are seeking to be partners of the Government, bringing capability and access to capital, to support recovery and create a better housing system for all Australian's. As this crisis has illuminated for everyone in the community – when the world is in crisis, there is no place like home.

Appendix 1: Housing policy the proven economic antidote

Housing is required social infrastructure– it provides one of the fundamental requirements for Australians – which is shelter. At its most acute, homelessness costs on society are estimated to exceed the costs of actually providing housing solutions.

There are 25 million people in Australia living in over ten million homes: as renters, owner-occupiers with mortgages, and mortgage-free home-owners. The COVID-19 crisis has highlighted the uncertainty and pressure mounting for renters, investors and owner-occupiers and growing demand for social and affordable housing provision in Australia.

The residential property in which an individual or household lives has become more than just a home since COVID-19 A home has emerged as the first principle of stability if individuals (and therefore communities) are to be resilient in the face of ongoing economic and social challenges.

There are around 2.8 million rental properties in Australia which have financial constraints that can be challenging and confronting. This is particularly the case for casual employees and the unemployed, a disproportionate amount of whom are renters. It is also a challenge for part time and full-time workers. Whilst there is a big question mark over whether rent and living costs will be able to be covered in the future economic environment.

The lowest interest rate in Australia's history has provided a reprieve for owner-occupiers (accounting for around three million dwellings). Over the past year, many families with a loan have had their mortgages deferred due to COVID-19. A good deal of others have accessed superannuation to be able to pay their rent or mortgage.

For mortgage-free homeowners, the challenge with COVID-19 has most likely been the impact that the volatility of the stock market has had on superannuation, and the weekly income derived from that source. The potential to downsize is an option that may provide liveable and practical life choice options, but there is still uncertainty in property values for at the least the next 18-24 months.

Housing delivery has continued to drop for the past five years.

Year ending	Completions	Commencements	Approvals
Jun-2016	200988	234238	238852
Jun-2017	219263	221218	222231
Jun-2018	213247	230472	232295
Jun-2019	215271	196445	187478
Jun-2020	192779	171304	171872

ABS Building Activity Nov 2020

Housing supply peaked at 230,000 homes commenced in FY2018, which is now coming off. That actual peak in supply was not forecast, and the current drop-off in activity could result in an equally unpredictable trough driven lower by sustained COVID-19 impacts.

Australia has an opportunity to stimulate the economy through the construction of affordable housing that will build a legacy of a job creation and a more resilient housing market that is better able to provide a safety net and a springboard for low to moderate income Australians.

An ongoing recovery plan over the next 3-5 years must have housing construction at the heart.

The PowerHousing Australia CoreLogic Standard House Report, as, raised by Minister for Housing Michael Sukkar MP in Parliament in December 2020 show that there are 43 trades and subtrades that receive 3 hours to 3 months of work for every new house built.

Two of the nation's largest builders, Simonds Group and Metricon, estimated in this Standard House Report that every new standard three-bedroom house in Australia creates work. Losing 100-130,000 homes out of the housing construction pipeline will create a massive ripple through the entire economy if not halted.

The role of housing in the economy goes far beyond the need for supply to match demand: the loss of this number of homes will see the loss of over 3 million one-day to three-month long contracts for chippies, painters, plasterers, sparkies and para-professionals. Whether it is the retail shop, coffee stop on the way to work or simply less groceries this has a domino effect for the retail sector that won't see the circulation of the income into the broader economy. Needless to say, if homes are not built then there will also be a drop in the manufacturing sector also.

Research from NHFIC itself also shows that for every $1 million in residential construction, 9 jobs are supported along with $2.9 million of industry output and consumption across the broader economy.

Australian governments have an ongoing role in stabilising a functioning market for capital to support social and affordable housing. There were 200,000 on the social housing waiting lists prior to 2020. With this demand not being met creates disequilibrium and a form of market failure when commercial investment doesn't respond to this increased demand. The unmet disequilibrium in social housing will also be impacted by the following factors of supply and demand.

Factors of supply and demand[4]:

- Housing indicators for the majority of COVID-19 reveal a relatively stable rental, sale and auction market, masking deeper macro issues;
- Annual housing completions at 30 June 2020 came in at 193,000, 33,000 homes above 36 year averages;
- The latest lending finance numbers are leading the wider economic resurgence that has seen Australia dip into and out of recession. Some of this result is on the back of NHFICs first home buyer supports;
- Building Approvals for the 12 months ending November 2020 saw 180,257 dwellings approved with some residual potential risk of non-activation due to uncertain economic challenges facing the country in the second half of FY2021 and FY2022;
- Australian housing appears to be holding up at 20-year average levels, but there are demand gaps such as the drop in Net Overseas Migration which will threaten jobs for builders, manufacturers, retailers and the broader economy;
- Foreign investment approvals decline and 95% drop in Net Overseas Migration which drove record new housing supply has collapsed by 300,000 people in FY2021 and is unlikely to return in the near future;
- Housing forecasts for FY2021 show 145-155,000 completions are expected over the year which will be a significant drop in activity from previous years;
- 43 trades and subtrades pick up work on every new build of a standard three-bedroom home – which equates to over 3 million less projected trade engagements across the 80,000 fewer homes built in FY2021 compared to FY2018. This drop in job activity increases in FY2022-FY2023;
- A wind down Jobkeeper and mortgage deferrals could impact residential values in unexpected ways and market equilibrium over the next 24-36 months has to be an outcome sought from monetary policy;

With market supply forecast to significantly decline in FY2022-FY2023 and affordable housing demand to grow, ongoing stabilisation will be needed to create ongoing confidence. Stabilisation of Australian housing can be supported with Community Housing acting as an economic 'shock absorber' to preserve jobs and tackle increasing demand for social and affordable housing.

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[4] https://www.linkedin.com/pulse/f2021-powerhousing-australia-corelogic-australian-affordable-proud/

Appendix 2: PowerHousing Australia and its Membership

PowerHousing facilitates a national network of 35 Tier 1 and scale growth regulated Community Housing Providers (CHPs) who develop and manage affordable housing across Australia. In 2019 alone our Members:

- Raised $1 billion in debt facilities
- Managed 72,000 dwellings providing safe, quality and affordable homes
- Housed120,000 plus people across the nation
- Stewarded $22 billion in efficiently-managed social and affordable housing.

PowerHousing works to address affordable housing need through sharing and building on best practice in housing and community development, collaborating to mobilise collective resources, and providing an independent and influential collective voice for the biggest and most financially mature CHPs in the country.

PowerHousing provides networking for our Members through quarterly exchanges, the Annual Member Exchange and the International Housing Partnership, which involves the US, UK, Canada and is associated with New Zealand. Based in Canberra, we are located to promote the capacity of Members and represent their policy positions to the Federal Government and other stakeholders.

PowerHousing also partners with corporate affiliates and associates across national and international construction, development, finance, IT, HR and related sectors.

PowerHousing CHP Members work on a profit-for-purpose model; they acquire, develop and manage affordable and social housing dwellings throughout Australia, and any profits are directly reinvested back into affordable and social housing, repeating the process to house as many Australians in need as possible.

The work of our Members is supported by government initiatives at both state and federal level through enablers such as the National Housing Finance and Investment Corporation (NHFIC), on which PowerHousing CFO Members and affiliates worked to evolve into a successful piece of legislation in concert with Treasury. The Affordable Housing Bond Aggregator (AHBA) and National Housing Infrastructure Facility (NHIF) have opened up new funding and delivery options for our Members. Government is increasingly transferring aged public housing assets to CHPs to continue delivering social housing efficiently and with excellent levels of tenant satisfaction.

Our members stand ready to partner with Government and the private sector to contribute to the social and economic recovery from COVID-19, and create a legacy of a more resilient housing system through increased affordable housing.

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