PowerHousing Australia

Collaborating for a better housing future

2019-20 Pre-Budget Submission

February 2019

PowerHousing Australia and its Membership

PowerHousing Australia was formed in 2005 when leading community housing executives recognised the value of collaboration and information-sharing in addressing the housing affordability crisis. PowerHousing facilitates a national network of 32 member community housing providers (CHPs) who develop and manage affordable housing across Australia. PowerHousing also partners with 17 affiliate and 12 associates across national and international development, finance, IT, HR and related sectors.

PowerHousing aims 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 some of 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 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.

In 2018-19, together our ASIC- and ACNC-regulated members raised over $700 million in debt facilities, managed over 50,000 dwellings and provided safe, decent and affordable homes for over 82,000 people across the nation in housing worth more than $15.9 billion.

PowerHousing Australia's CHP members work on a profit-for-purpose model; they acquire, develop and manage affordable dwellings throughout Australia, and any profits are directly reinvested in repeating the process to house as many Australians in need as possible. This is done in partnership with developers, sector partners and local councils, and often focuses on particularly vulnerable groups such as people affected by domestic and family violence, those needing employment and training, those living with disability and the elderly. As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the national supply of social and affordable housing.

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), 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 members. Government is increasingly transferring aged public housing assets to CHPs to continue delivering social housing efficiently and with good levels of tenant satisfaction.

The value, experience and capacity that CHPs bring to the table as we legislate for Australia's housing affordability challenge cannot be overstated.

Introduction

PowerHousing Australia welcomes the opportunity to provide feedback on the 2019-20 Pre-Budget prior to the official release of the Budget on 2 April this year.

The growing issue of housing for all Australians finds increasing prevalence in the media today. Government, advocacy groups and low-to-moderate income earners face a significant challenge with 1 in 5 households recording income of less than $650 per week, stagnant wage growth and rising rents increasing the national rate of rental stress.[1]

Having adequate and affordable housing is essential for Australians to contribute fully to society and prepare for their future. Stability is a key factor in people being able to develop their lives, and goes on to develop and build communities.

The ability of CHPs to deliver better outcomes for tenants, and provide affordable housing services through a sustainable business model of reinvestment for social purpose has helped the community housing sector to grow rapidly in last decade. The number of community housing dwellings has more than doubled between 2008-09 and 2016-17 from 39,800 to 82,900 dwellings while public housing has decreased by 16,600 in the same period.[2] Overall, social housing stock has also not kept pace with household growth, at 4.6 per cent of all households in 2016-17, down from 5.1 per cent in 2007-08.[3]

The above figures in part reflect the transfer of some public housing stock to the community housing sector which indicates government understands the important role CHPs play in the provision of affordable housing across Australia. As CHPs continue to work in partnership with different levels of government and the wider private sector, the community housing sector is destined to see greater growth and the appropriate housing of more Australians.

With Australia currently building 215,000 dwellings per year, which is 60-70,000 dwellings more than the average annual build rate, we are now seeing a growing national focus on incentivising the delivery of affordable housing at reasonable price points to stabilise an emerging downturn in delivery. Whilst Australia has delivered this many homes each year consistently over the past 2-3 years, Australia has under-delivered when it comes to providing suitable homes for those on low to moderate incomes for decades.

With the housing delivery levels already having peaked, there is a real risk that a decline in delivery over the next 24 months will reverse recent gains. Not only would a drop of 40-70,000 dwellings being produced per year impact on diverse supply, it would impact on State and Federal taxation revenues and jobs. To put this into perspective each new dwelling that does not get built will see up to 40 trades' and sub-trades' work orders lost per dwelling.

Our submission is structured around the following key issues:

1. Federal focus on housing
2. Affordable focused residential supply
3. Financing/yield gap
4. Sector capacity funding

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[1] ABS 2016 Census (Released 23 October 2017), *QuickStats*

[2] Australian Institute of Health and Welfare 2018, *Housing assistance in Australia 2018*, (Jan 2019) Cat. no: HOU 296

[3] Australian Institute of Health and Welfare 2018, *Housing assistance in Australia 2018*, (Jan 2019) Cat. no: HOU 296

1. Federal focus on housing

Australia has recently had a housing supply peak with around 70,000 homes delivered every year above long-term activity levels and forecasts. Whilst this valuable peak in supply was not forecast, the corresponding drop off in activity could see an equally unpredictable trough, which will take away jobs, taxation revenues that underpin government budgets and vital supply that stabilises housing prices.

To show the recent fall in the residential pipeline it is worth acknowledging that Building Approvals in December 2018 dropped to their lowest monthly record (13,845 dwellings approved) since March 2013[4]. To put this into perspective, this equates to an annualised rate of 166,000 approvals that would only yield around 150,000 homes built per year, which is below population demand rates and would fuel upward pressure on rents and house prices.

Housing is an infrastructure essential to the viable economy and wellbeing of any nation, and national policy into new dwelling construction and particularly affordable housing for our population needs is a national priority.

With the cost of housing rising disproportionately above all other costs and income growth, Australia needs to focus its priorities to ensure all Australians have access to this basic living requirement. This begins with federal recognition through the appointment in all governments of a **National Housing Minister** to have frontbench responsibility for this vital infrastructure.

Second, PowerHousing recommends that this Minister is supported by the expertise and guidance of a **National Housing Supply Council**. This would ensure a central location to access up-to-date and accurate data on housing supply and demand, and support cooperation between state and federal government to collate data and achieve targets on supply. It would also ensure Government has access to independent advice on housing issues across the board.

Under the guidance of the Housing Minister and the National Housing Supply Council, and with input from a panel of industry experts such as CHPs, developers, sociological experts and economists, 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 to current levels. An evolution in this direction would also enable the implementation of City Deals and regional partnerships with an affordable housing component.

A **focus on consistent national regulation** will go a long way to improving investor confidence in affordable housing as an asset class. Currently, Victoria, Western Australia and the Northern Territory do not participate in the National Regulatory System for Community Housing (NRSCH) as a 'National' system. The lack of continuity has led to cross-jurisdictional complications for CHPs, thus increasing costs. It is vital to ensure that increased efficiency and confidence in the building of affordable housing is achieved by providing an efficient and truly national regulatory system.

The online **Australian Government Property Register** is a tool valuable as a central database for strategic allocation of vacant land to occupy with affordable housing, community amenities, services and employment hubs. It would extremely useful for the register to have capacity to track Building Approvals that are falling away. In the case of a development looking to access National Housing Infrastructure Facility funds, a site with a Building Approval falling away that becomes inactive could be an immediate qualifier for funds. Platforms for identifying developable land to be activated faster, by investors looking to partner with CHPs, local government and stakeholders in special purpose vehicles

[4] ABS Building Approvals, December 2018 (Released 5 February 2019)

should be considered as a function of the Register. PowerHousing recommends the Commonwealth **incentivise the importation of pipeline data into the Australian Government Property Register** to ensure this data is captured and utilised to its fullest extent, and land is able to be released to be utilised.

2. Affordable focused residential supply

If we take out the last several years of hyperactivity, we know Australia builds around 153,000 homes annually,[5] however the latest ABS private residential build data shows an overall downward trend.[6] At the end of Q3 2018, building commencements dropped by 6.1% on the previous quarter. Seasonally adjusted private residential building approvals have also declined by 9% in December 2018 and 10% in November, and demonstrate a 3-year trend of consecutive decreases in approvals; we can expect to see commencements and completions continuing to trend down in the next ABS releases.

As the residential development market decreases from its record annual build rates, it is vital for **Federal policy to underpin an annual build rate of 180,000+ homes per year** to meet population increases and bring annual increases in house prices and rents down to CPI levels. Even with this sustained adequate build rate, there needs to be federal policy focused on delivery new supply of affordable housing, and policy focused on driving investment behaviour into this asset class.

An **affordable housing 'Build to Rent' program could be engineered** to this effect. Build to Rent has been raised as a potential solution, along with the withholding tax advantages of an Managed Investment Trust. Setting up a trust to make a stable capital gain over the next 10-20 year investment horizon in a stable rental price rise environment is a must, and the major players in Build to Rent in the US that PowerHousing recently met in New York, Washington and San Francisco see Australia as being primed for this move.

There is a simplicity to the Build to Rent model which exists in the US and UK which could be replicated. It is surprising it hasn't taken off here, but in places like the US there has been a Low Income Housing Tax Credit for affordable housing providers for 30 years, underpinning delivery of up to 10 per cent of all new homes. Developers therefore can bank on a steady affordable housing component to their developments and investors can get a government backed return that is almost shock proof.

Federal strategies should aim to ensure 10% of all residential building delivery is affordable. PowerHousing's US field visits in early 2018 highlighted the Low Income Housing Tax Credit policy that, over the last 30 years, enabled the delivery of up to 10% of new homes as affordable housing. This enabled developers to bank on a stable affordable housing component in their developments and investors to trust in a government-backed return that was a safe haven during the GFC.

Broadly speaking, Australian Governments can incentivise institutional investment into affordable residential development through **city deals and partnerships with a greater focus provided to Infrastructure Australia in this objective**. As evident from PowerHousing Australia meetings in

[5] PowerHousing Australia 2019, *Australian Affordable Housing Report: Environmental Scan 2019,* http://www.powerhousingaustralia.com.au/resources/
[6] ABS 2019, *8752 Building Activity Sep 2018* (Released 16 January) and *8731 Building Approvals Dec 2018* (Released 4 February)

October 2018 in the UK with the Greater Manchester Combined Authority, the agreements can promote greater affordable housing provision made through the regional deal that encourages planning, zoning and development uplift with fast track affordable housing stock development. This could be considered particularly alongside projects listed within the current Federal Government $75b, 10 year infrastructure plan. The regional partnerships approach can also consider land use incentives to permit multi residential development that include a proportion of affordable rental dwellings could also be considered across Australian cities.

PowerHousing also recommends a **federal focus on sustainable universal housing**, utilising the guiding principles of environmental and universal design. Universal design, as assessed and certified by Livable Housing Australia, 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 to be input with minimum cost, as the initial design includes elements such as accessibility and robustness in the first instance. Such a focus for housing development going forward will also 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 rather in institutional care.

3. Financing/yield gap

Australians in 2019 are acutely aware of the housing choices that are no longer available to those around them, compared with previous generations. Purchasing property, and living the Australian dream, is just that for many – a dream.

Limited options around affordable rentals in proximity to employment for key workers is forcing long commutes, poor work/life balance and reduced productivity.

Whilst there has been sufficient new supply to place downward pressure on prices, the median prices in our capital cities for purchase and rental is still simply beyond the reach of low and some middle income earners.

CHPs charge tenants rent below the market rate, at generally 75 per cent of the market rate. This is necessary as the market rate is unaffordable to those lowest on low incomes, and so rent has to be below market rate to be considered ‘affordable’. This means, however, that the delivery of new affordable housing is difficult as construction and development costs remain the same for CHPs as for private developers. The ongoing cost of asset maintenance is the same as that of a private asset owner yet the rental return is significantly lower than market rate due to the very nature of a CHP’s role in providing affordable housing. This yield gap continues to be the greatest challenge for CHPs across the country and can potentially be addressed with new financing methods including institutional investment.

It has been estimated that **a dwelling subsidy for affordable housing** would make these types of more developments viable and boost the stock of affordable housing across Australia. This of course varies from location to, location and project to project. Although this figure might be considered to be at the upper end of what is needed to bridge the funding gap, it is clear that a significant gap exists between operating costs and revenue and it must be addressed for the community housing sector to grow and expand as is desired by government.

The Independent Pricing and Regulatory Tribunal NSW 2017 report recommended that the Government subsidise the full difference between social housing tenants' rent contribution and the cost of providing social housing to achieve an affordable and sustainable social housing model.[7] Bridging the yield gap will attract interest from investors, thus increasing the development of affordable housing stocks. A subsidy is one way of bridging the yield gap and enabling CHPs to develop and house more Australians.

It is being recognised nationally that the most important intervention the Commonwealth Government can make in the provision of social housing is to support growth in the not-for-profit community housing sector and a foundation stone has been laid with the development of the National Housing Finance and Investment Corporation (NHFIC).

The NHFIC is now operational with its CEO and its Board that includes PowerHousing Independent Director David Cant.

In very recent times, the NHFIC announced its inaugural Australian Housing Bond Aggregator (AHBA)finance deal with PowerHousing member Hume Community Housing. One of the largest Tier 1 community housing providers in NSW, Hume successfully secured $35 million in loan finance, which will support Hume's continued operation. The loan will be provided under NHFIC's Affordable Housing Bond Aggregator at low-interest and for a longer term than finance that is currently on the market. This is an encouraging next step to providing more affordable housing for Australians. If this type of shift in housing policy can be achieved in just two years, then it is very much possible that CHPs could be getting under way to develop up 15-25,000 new affordable housing dwellings per year in the near future. This announcement also heralds a new era for global investors that are watching for the formation of affordable housing as an asset class in Australia, which, when it comes, will see affordable, build-to-rent developments become a proven, long-term, safe investment place as it is in countries such as the US.

Low-cost, long-term government backed affordable housing finance will be a vital component to reducing the yield gap to ensure that Australia continues to supply and manage enough homes for population demand to put a lid on price rises, and will underpin residential industry jobs, State and Federal Budgets as new housing supply contracts in 2019.

The NHFIC AHBA first issue of bonds are also set to be under way in March 2019 and the flesh will start to go on the bones of affordable housing becoming an asset class in this country. All this has happened just over six months since the legislation passed both houses of parliament and confidence in national affordable housing policy is growing as a result.

The NHFIC's National Housing Infrastructure Facility (NHIF) aims to provide finance for critical infrastructure to support new housing delivery, particularly new affordable housing. Elements of the NHIF's eligible projects include site remediation works including the removal of hazardous waste or contamination, an often costly exercise for developers. At this point, the NHIF has a cap of $175 million but PowerHousing recommends the **NHIF cap be increased** to allow for more significant works to take place. With this, NHFIC will be able to better support the delivery of affordable housing to Australians in need.

For decades, social housing has not kept pace with demand. CHPs, while adopting very efficient and innovative business practices as a matter of necessity, cannot bridge this gap without some form of subsidy to offset the lost rent revenue. The **Commonwealth should work with state and local governments to support delivery of community housing through commonwealth incentives**.

[7] IPART NSW 2017, *Review of rent models for social and affordable housing*

While the National Rental Affordability Scheme (NRAS) jump-started development and housed many Australians, with the scheme starting to end as of late last year, another financial commitment is needed to close that gap. **There is a need for a Federal incentive deliver affordable rental housing to achieve the building of over 15-25,000 new homes each year for at least the next decade**. This approach of incentivising the building of new affordable houses with a federal incentive payment will go a long way to stimulating the delivery of more affordable housing for Australians and moderate the upcoming trough in residential delivery.

Another method of stimulating more affordable housing delivery would be through an **affordable housing MIT**. An MIT, if focused on delivering affordable housing through the 15% withholding rate of taxation, could incentivise percentages of around 30% of a development to be affordable for the whole development to qualify. Where an agreed affordable housing threshold of 30% has been met, it is important to acknowledge that an asset must be tenanted or available to be tenanted under the management of an eligible CHP and that provider must have issued the owner with a certificate covering the asset for the relevant period for the whole development to receive the lower withholding tax rate. Whilst the MIT will not bridge the yield gap per se, it will play a role to support a housing delivery model that contributes to the cost of affordable community housing provision.

With the tightening of credit potentially on the horizon, the Federal Government and regulators could look to mechanisms overseas, to ensure low income household developments have access to credit. The **Community Reinvestment Act (**CRA) which operates in the US is intended to encourage financial institutions to help meet the credit needs of low and moderate income neighbourhoods. CRA, enacted in 1977, requires financial institutions to meet the credit need of the entire community and this is evaluated by a Federal financial supervisory agency periodically. A similar CRA obligation in Australia could connect banks with communities in the wake of the mistrust borne out of the Royal Commission. A mechanism such as CRA in Australia would require a strong financial advisory body to ensure financial institutions are meeting their requirements. Australia's corporate, markets and financial services regulator, Australia Securities & Investments Commission (ASIC), would be the logical body to perform this oversight role. With the Federal Banking Inquiry now having handed down its report, there is a compelling case for banks to reconnect with their communities and the Community Reinvestment Act (CRA) 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.

4. Sector capacity funding

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.

Such incentives would positively influence stakeholders into developing innovative responses to the issue of affordable housing, such as PowerHousing Award-winning Elevate Residential by CHP member BHC. Elevate Residential was created as a real estate agency whose profits would support BHC's overarching business to develop more affordable housing for Australians in need. Government incentivisation can support innovative projects such as this and see more projects realised that positively affect housing affordability for Australians. CHPs are hubs of innovation and wider support funding through the NHFIC for new affordable housing delivery mechanisms for all CHPs to develop and manage affordable housing should be opened up for consideration.

The Try, Test and Learn Fund (the Fund) was announced in the 2016-17 Federal Budget as an initial response to the Australian Priority Investment Approach to Welfare. The latest Tranche 2 of the Fund has been set up to finance small-scale trials of new or innovative approaches to support people at risk of long-term welfare dependence. Further **funding for additional tranches of the Try, Test and Learn Fund should be made** as an innovative approach to developing and implementing ways of helping people live independently of welfare. The approach will target groups who have the capacity to work and are at risk of long-term welfare dependency to help ensure Australia's safety net remains sustainable for future generations.

Where Government programs for housing delivery are rolled out there is an opportunity for sustainable and universally designed dwellings to be constructed at first principle and at lower cost than ever before. The **principles of Livable Housing, which are incorporated into NDIS Specialist Disability Accommodation design guidelines, could be promoted to be applied universally** to new homes to ensure lower-cost housing provision of our population from cradle to grave. As the population continues to age and the numbers of Australians with a disability wishing to live independently increases, basic understanding, promotion and support of universal design principles in all homes will reduce the long-term cost of housing our nation for all peoples.

Where there is a focus on new dwelling delivery for affordable housing there could be program support for those living in CHPs to assist in that delivery. Where possible **training funds made available could be focused towards apprenticeships and entry level skills for those living in Community Housing**. Upskilling for key workers living in social housing should be prioritised. PowerHousing Australia itself currently houses over 50,000 Australians and many of our tenants would increasingly benefit from tailored and targeted skilling programs that support the affordable housing delivery pipelines that our Members are increasing developing and managing.

5. Conclusion

In conclusion, PowerHousing looks at the next budget as an opportunity for a renewed federal focus on housing.

We hope for a Housing Minister and a National Housing Strategy with an infrastructure focus, enabling the successful implementation of City Deals and partnerships with an affordable housing component.

We recommend the re-establishment of the National Housing Supply Council to inform the Housing Minister of best housing structure in federal policy, and to provide numbers on undersupply.

We recommend maintaining 180,000 dwellings delivered each year in order to meet our burgeoning population requirements, noting the recent drop in approvals and completions in the latest ABS building activity data. A targeted 15-25,000 of those deliveries should be affordable housing, with all housing to incorporate sustainable environmental and universal design.

As well as this, an effective Australian Government Property Register and truly national regulator will go a long way to building investor confidence in CHPs as a method to addressing the provision of affordable housing.

Addressing the yield gap with NRAS by developing the NHFIC is an encouraging step for CHPs, and continued solutions to the yield gap issue will further enable CHPs to fill the gap in supply of affordable housing, both by increasing capacity and attracting investors. This includes boosting the NHIF funding to enable a bigger impact on infrastructure delivery. Funding will also help to motivate innovative programs that kickstart pioneering methods of delivering appropriate, affordable housing in scale.

These commitments will provide settings for sustainable, long-term return on pricing, provide rentals within financial reach of more Australians, and secure Australian jobs as we head to an unpredictable housing delivery trough.

It is fair to say that the world around CHPs is changing dramatically; CHPs and the concept of dealing with the affordable housing issue has momentum from all sides of federal politics.

As the most recent Report on Government Services shows, the sector is leading best practice in affordable housing management and provision. CHPs example sets the benchmark that makes government and private investment into our sector compelling and a first principle of response to tackling affordability.

PowerHousing looks forward to the final release of Budget 2019-20 with the knowledge that it has the capacity to significantly impact the provision of housing for Australians nationwide.

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