NAHA
NATIONAL AFFORDABLE
HOUSING ALLIANCE

INCREASING THE SUPPLY OF SOCIAL AND AFFORDABLE HOUSING AT SCALE AND IN PERPETUITY:

POLICY OPTIONS

Introduction

ABOUT NAHA

The National Affordable Housing Alliance comprises Australia's peak property, building, community housing, social services, union and industry superannuation groups who have come together with a focus on increasing the provision of social and affordable housing across Australia.

The Alliance's core members include:

- Australian Council of Trade Unions
- Australian Council of Social Service
- Community Housing Industry Association
- Industry Super Australia
- Homelessness Australia
- Housing Industry Association
- Master Builders Australia
- National Shelter
- Property Council of Australia.

The formation of this Alliance signals a unifying, cross-sectoral determination to fundamentally alter how we tackle homelessness and supply social and affordable housing in Australia.

Despite significant efforts by governments, the public, community, and private sectors over the past thirty-plus years, Australia's social and affordable housing and homelessness crisis has continued to worsen.

Access to housing that is affordable to the occupants is the first and fundamental precondition for social and economic security.

Setting up a systemic, self-sustaining framework that adds consistently to the net additional supply of social and affordable housing at scale, and most effectively leverages taxpayer support, is required to avoid a widespread social and economic crisis, ensure essential workers can continue to live in feasible proximity to their place of employment and support community needs.

WHAT NAHA AIMS TO ACHIEVE

The purpose of this paper is to put forward a targeted number of effective, apolitical policy options that could be adopted individually, or preferably together, to create a pipeline of new affordable and social housing at scale by leveraging non-government sources of capital.

New approaches, backed by new alliances, supporters and sources of capital, are needed to halt this deterioration and put supply on a sustainable trajectory into the future.

NAHA acknowledges that there are no silver bullets when it comes to resolving the ongoing shortage of affordable and social housing in Australia. All the models presented in this paper will have an impact in the short term and provide critical long-term and ongoing solutions.

The Alliance's primary objective is to develop a suite of policy options that facilitate a substantial increase in the supply of affordable and social housing in sufficient volumes to enable those in need to find secure, safe and affordable housing.

Following an initial implementation period and the ramp up of each policy, collectively, they aim to add between 11,150 to 14,950 homes per annum in addition to the new supply already being created by state and territory governments.

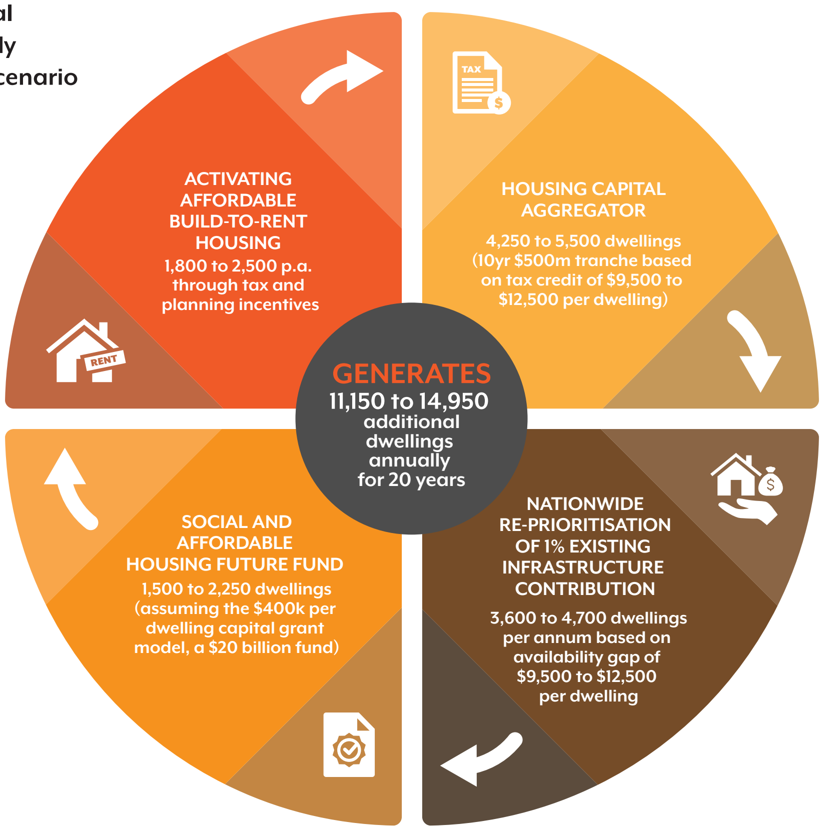
NAHA's view is that of the total net new additional supply created by the application of this policy suite, a minimum of 25% should be dedicated to addressing the needs of the most vulnerable households as social housing with rents capped below 30% of household income.

The policies NAHA is proposing all embed flexibility as a core element, they can be adapted to suit local conditions and scaled up as required. The examples offered in this paper are recommended baseline parameters, a proposed minimum starting point.

The goal is to develop an ongoing viable capability and create a framework that will attract investors and new sources of capital, at the same time as enhancing capability in the community housing sector and allowing the construction industry to forward-plan delivery.

Federal, state, territory and local governments play a critical role in delivering integrated support services and providing some limited capital contributions to housing stock for those in need.

Figure 1: Illustration of net additional federal contribution to supply potential: baseline scenario



NAHA acknowledges the role of all governments in supporting social and affordable housing and the goodwill to address this critical housing need.

The Australian Government's establishment of the National Housing Finance and Investment Corporation (NHFIC) in 2018 is particularly noteworthy and recognised as "a "singularly significant and successful intervention by the Commonwealth"[1] in the recently released independent review of its operations by Chris Leptos AM.

NHFIC's success demonstrates the potential of large-scale government-backed policy approaches that can operate perpetually to effectively leverage government and private sector contributions. The Alliance argues there is scope to build on this success and extend NHFIC's mandate to dramatically increase supply.

As the NHFIC review also noted, Australia's future social and affordable housing needs are immense with an estimated 819,000 new social and affordable dwellings required over the next 20 years to reduce current shortfalls and keep pace with a growing population.

Recognising the immutable requirement that "additional investment from the private sector is crucial to substantially increase social and affordable housing stock" the review recommends "that NHFIC be given an explicit mandate to 'crowd in' other financiers to support the delivery of social and affordable housing at greater scale."

The review further states that in doing so, NHFIC "has to be supported by other arms of government at the local, state and territory, and Commonwealth level."

The policy suite NAHA is proposing suggests how this could be implemented.

The Alliance seeks to broaden the sources of capital contribution to harness the superannuation and urban development industries aided by an enhanced Community Housing sector capable of providing distributed tenant management (TM), asset management (AM) and development management (DM) services across Australia.

1 https://treasury.gov.au/publication/p2021-217760.

The Aspire Consortium's proposed redevelopment of the Ivanhoe Estate at Macquarie Park.

Table of contents

Executive summary

The establishment of this Alliance recognises the need to fundamentally change the conversation around – and the approach to – delivering social and affordable housing in Australia.

Relying solely on direct government funding is not sustainable on current policy settings. Neither is failing to address the growing problem.

The NHFIC review estimates that "an investment of around $290 billion will be required over the next two decades to meet the shortfall in social and affordable housing dwellings."

As the review further notes "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 task for policy makers must be to leverage other sources of capital – with government support – to address this need.

Creating an affordable and social housing system that is self-sustaining and adds substantially to additional supply, drawing on multiple capital sources is urgently needed.

To put the current circumstances in context, house prices have risen by more than 20 per cent in the last 12 months and have grown at the fastest annual rate in more than three decades.

The percentage of Australians renting is also at its highest point in the past 30 years.

Interest rates are at record lows while homelessness is at record highs, and the shortage of social and affordable housing has never been more acute.

The magnitude of the challenge is extraordinary. The affordable and social housing supply pipeline needs to dramatically increase and accelerate, from current net negative new supply levels.[2]


Downner Residential Precinct construction, ACT - developed by CHC

The NHFIC review estimated that an additional 30,000 social housing dwellings and an additional 15,000 affordable housing dwellings will be needed per annum over the next 20 years to prevent a further deterioration in the percentage of total social and affordable dwellings.

The longer the challenge goes without solutions that match the scale of the problem, the more acute it will become with profound social and economic implications.

NAHA brings together a range of groups representing different perspectives of the housing spectrum. Together, the Alliance has looked for ways to leverage new sources of capital, supported by government, to solve a pressing need. Our focus has been on areas of policy consensus. Our hope is that the policy options proposed can receive multi-partisan support. We stand willing to work with governments on the development and refinement of these solutions.

The essence of NAHA's proposed policies is to create a systemic approach to building a supply chain that delivers appropriate social and affordable housing in the right locations for targeted cohorts. This draws on existing residential development capabilities which are among the most efficient housing delivery capabilities in the world.

2 https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/housing-and-homelessness/housing.

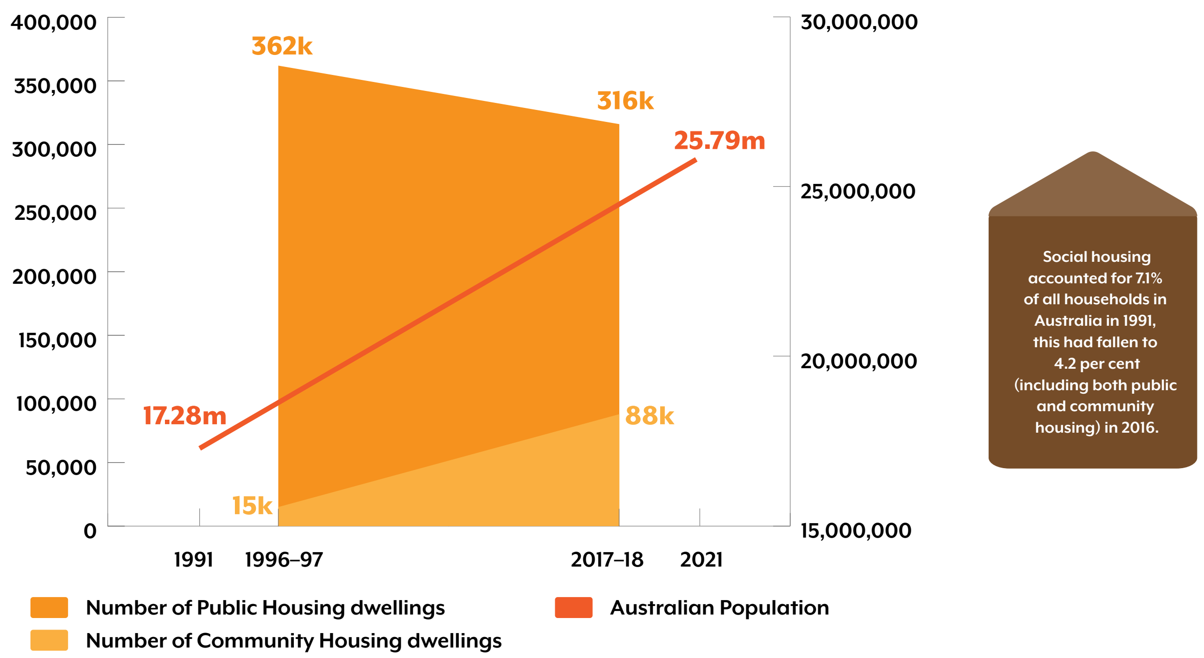
NAHA is advocating the adoption of a package of policy solutions that encompasses:

- **The Housing Capital Aggregator** model developed for a consortium led by the Constellation Project and including CHIA, Industry Super Australia and National Shelter proposes a transparent and competitive process aimed at scaling up further private investment in projects that deliver social and affordable housing by efficiently using public funds to deliver $4.80 of social and affordable housing assets over a 20-year period for every $1 of public funding deployed over a ten-year period. In turn, this creates an opportunity for other forms of housing assistance to be better targeted and to accumulate social and affordable housing assets for ongoing reinvestement in social and affordable housing options options.
- **The Social and Affordable Housing Future Fund** policy, developed by the Grattan Institute and leveraging the sovereign wealth fund concept first introduced by the Howard Government. The dividends from this fund would be invested as capital grants (or availability payments) to increase social and affordable housing supply annually.
- **Activating Affordable Build-to-Rent** housing as a vehicle to deliver additional affordable housing by incentivising social and affordable product components within these projects managed by accredited CHPs.
- **Re-prioritising a small proportion of existing residential development contributions** for social and affordable housing delivery. These already-levied contributions can then be used to assist in bridging the funding gap that precludes the development of social and affordable housing projects at scale.

Implemented together, these policies can leverage off each other and increase total output. NAHA proposes that these policies be implemented as a package with minimum investment parameters that set a floor that collectively delivers a minimum of 11,150 to 14,950 additional net new social and affordable dwellings consistently every year over a 20-year horizon and beyond.

To support this and ensure an evidence-based approach, the Alliance is also seeking to establish reliable sources of data to measure the extent to which new supply meets the needs of agreed priority groups, generally and in specific location.

Figure 2: Demand, supply and population changes



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https://www.ahuri.edu.au/research/final-reports/323.

https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/2101.01991.

Housing needs

DEFINING THE AFFORDABILITY CRISIS

Australia faces twin, but distinctly separate, affordability crises with on the one hand a long-term deterioration in housing affordability and on the other a growing shortage of affordable housing.

Housing affordability is defined as the relationship between expenditure on housing (including prices, mortgage payments or rents and associated costs) and household incomes.

Affordable housing, meanwhile, refers to subsidised or supported housing for low-income households, generally where the rent is discounted by a percentage below market rent ('affordable housing') or is set at or below 30 per cent of gross household income ('social housing').

The policies in this paper focus on addressing the supply of affordable housing, as distinct from measures aimed at ameliorating housing affordability. The correlation between the two however, cannot be overlooked. Declining affordability often increases demand for affordable housing, exacerbating existing shortfalls and constraining opportunities for low-income households to move along the housing continuum towards housing independence.

Downer Residential Precinct construction, ACT - developed by CHC

Australia's housing affordability has suffered significant declines over the past four decades.

Contrary to the expectations of many economic forecasters, the COVID-19 pandemic accelerated rather than slowed house price growth. In the 12 months to Q2 2021, house price growth in Australia was the 7th fastest in the world.[3]

At the same time, the percentage of Australians renting, and renting in the private market especially, has steadily increased. According to the latest available ABS data, almost one third (32 per cent) of Australian households rented their home in 2017–18[4] up from 26 per cent in 1994–95. This is expected to rise further when new census data is released.

Correspondingly home ownership has declined and is expected to continue to decline.

Meanwhile, median rents have continued to climb. CoreLogic's Rental Review for the June 2021 quarter showed national rental rates were 6.6 per cent higher over the year; the highest annual growth in dwelling rents in more than a decade.[5] These rent rises are primarily due to increases in capital values; yields fall unless rents are adjusted by private landlords. This can lead to increased rental costs and/or tenants being displaced.

COVID exposed the fragile nature of our rental markets which governments responded to by establishing a moratorium on evictions and other protections for people who rent including financial support. However, it also revealed how little we know about the level of eviction in our rental markets prior to and during COVID. While there has been some recent research into evictions[6] there is no comprehensive data set on the rate or level of evictions in Australia's housing markets.

3 https://stats.oecd.org/Index.aspx?DataSetCode=HOUSE_PRICES#.
4 Source: Knight Frank Global House Price Index Q2 2021.
5 https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release.
6 https://journals.sagepub.com/doi/abs/10.1177/1037969X21990940.

BY THE NUMBERS: MEASURING, QUANTIFYING AND UNDERSTANDING THE NEED

For the purposes of the policies discussed in this paper, we use a broad definition of social and affordable housing that includes any type of discounted or subsidised housing that assists low to moderate income households mitigate housing stress. This includes housing provided by both public housing authorities and community housing organisations, and a small number of for-profit landlords.

There were 436,300 social housing dwellings in Australia in June 2020, two-thirds (68%) of which were in major cities. The housing mix was 300,400 (69%) public housing dwellings, 103,900 (24%) community housing dwellings, 14,600 (3%) state-owned and managed Indigenous housing (SOMIH), and 17,400 (4%) Indigenous community housing.

According to AIHW data, as of 30 June 2020, there were 155,100 households on a waiting list for public housing (up from 154,600 at 30 June 2014) and 10,900 households on a waiting list for SOMIH dwellings (up from 8,000 at 30 June 2014). There were more than 62,900 new greatest need households added across both waiting lists.

If current trends continue, researchers forecast that the cumulative national shortage will increase to nearly 1,024,000 dwellings by 2036. Such numbers, if they were to be realised, translate to annual supply requirements of 48,000 (social) and 19,000 (affordable) dwellings.[7]

The number of households occupying public housing has decreased over the last decade (324,908 in 2011 to 289,613 in 2020), and there has been an increase in the number of households in community housing, from 55,159 to 95,932 reflecting in part a transfer of stock from state and territory governments to community housing providers.[8] Over the same period, Australia's population has grown by 3.35 million (2011–2020).[9]

The NHFIC review estimates that "an investment of around $290 billion will be required over the next two decades to meet the shortfall in social and affordable housing dwellings. Meeting this shortfall will require active private sector participation and high levels of collaboration across all levels of government. Despite its considerable early success, NHFIC is only one important part of the overall solution".[10]

But it is not just quantum and collaborations that count. Historically, Australia has followed a model of concentrated public housing which research by AHURI and others shows is more likely to reproduce and sustain disadvantage. Disaggregating disadvantage, through smaller scale, distributed social (public and community) and affordable housing provision, enables a more diverse social mix. In turn, this adds more localised community support to the suite of supports available to vulnerable households. This dispersal effect is also constructive in helping people gain housing independence by progressing through the housing continuum.

Housing is a critical enabler for full social and economic participation.

THE NEED FOR BETTER DATA

In creating the Centre for Population and assigning a research function to NHFIC (in addition to existing support for AHURI), the Australian Government has demonstrated its appreciation of the need for better data.

NAHA seeks a commitment to enhance research and data gathering functions through existing institutions co-ordinated by NHFIC, the ABS and Centre for Population.

The AIHW is leading a data improvement program as part of the current NHHA. Clear targets and timeframes should be part of the 2023 NHHA.

7 https://cityfutures.ada.unsw.edu.au//research/projects/filling-the-gap/.
8 https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/housing-and-homelessness/housing (table 18A.2).
9 https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/mar-2021.
10 https://treasury.gov.au/publication/p2021-217760.

Governments, policymakers and the private sector are hampered in their efforts to better address Australia's affordable and social housing and homelessness crisis by the paucity of consistent, transparent and detailed data.

Accurate information on both the supply of social and affordable housing and associated demand is severely lacking and highly fragmented. The Census, ROGS, social housing waiting lists and state and territory housing strategies either provide a snapshot or partial information. What is missing is a far more granular analysis based on high integrity, consistent and long-term data to better inform decision-making; prioritise public spending; and attract private capital investment.

Datasets that accurately reflect the demand pipeline not just in terms of gross need but by more detailed measures such as dwelling type (public, social, affordable), cohort (families, individuals, accessibility or other requirements) and geographic location (below an LGA level) will help ensure the supply response is better targeted and fit-for-purpose.

Developers, practitioners and policymakers all need access to accurate, transparent data sources that enable them to continuously track the evolving demand and supply responses as well as match tenant management and support services.

FROM PROBLEM TO SOLUTIONS

Any effective, and enduring, response to Australia's increasingly critical shortfall of social and affordable housing must introduce mechanisms and frameworks that bring new sources of capital to the sizeable investment task at hand.

When governments get the policy settings right – as demonstrated both overseas and in the Australian domestic context - institutional investors will consider social and affordable housing an attractive asset class. The consistent oversubscription, by a multiple of three or four each time, of NHFIC's bond offerings through the AHBA is just one example of this investment appetite when the framework is well-designed and implemented.

NAHA has focused on policies that will both enable and encourage greater capital investment by institutions, including superannuation funds.

NAHA argues that housing's true status, as critical infrastructure, needs to be recognised in legislative and policy frameworks across all levels of government.

Treating social and affordable housing as critical infrastructure not only enhances its importance in planning, but it will also help create a supply chain and asset class capable of delivering annual volumes of appropriate housing by using available capital more efficiently. It turns this housing into an investable product which capital markets can respond to and scale up. This is not dissimilar to how a market was developed for financing more traditional infrastructure projects in the 1990s. It is also consistent with approaches adopted for decades in the United States, United Kingdom and Canada, and more recently canvassed in the 2021 Infrastructure Plan developed by Infrastructure Australia.[11]

Infrastructure Australia has already taken the first step on this path by including social and affordable housing in its Australian Infrastructure Plan for the first time in 2019 which it subsequently expanded in 2021. The states have also signalled their intentions to integrate social and affordable housing into their planning and development approval frameworks through amendments to legislation in Victoria, New South Wales and South Australia.

Finally, meeting Australia's challenge to provide social and affordable housing is also an opportunity to invest in significant local job creation in construction and support for local manufacturing and other suppliers.

11 https://www.infrastructureaustralia.gov.au/publications/2021-australian-infrastructure-plan.

Reform **considerations**

In developing the proposed policy options outlined below, NAHA members have applied the following key tests that any measure, or package of measures, must meet to be successful.

These tests give due consideration to government and budgetary constraints and related concerns.

- **Scale:** Large-scale solutions are needed for a large-scale problem. Measures must be able to generate substantial quantities of additional new affordable and social housing supply annually, targeted to need and priority groups.
- **Support:** Precedence is given to models which maximise investment from private capital sources and non-budget sources of funding, while making cost-effective use of public subsidies.
- **Recurrence:** Current supply chains and broader market conditions are ill-equipped to cope with a 'sugar hit' of new supply. The policies proposed by NAHA all – after an initial ramp up period – are designed to consistently add new supply every year to Australia's stock of social and affordable housing.
- **Resilience:** Pilot, temporary 'boutique' policy options have not been included. The nature of the challenge demands solutions that will be systemic, responsive to local housing needs and sustainable – adding annually to supply in a self-sustaining manner in perpetuity though housing, economic and political cycles.
- **Certainty:** Reducing sovereign risk and offering clear and transparent frameworks that allow housing providers, investors and developers to collaborate around solutions.
- **Additionality:** The objective is to increase overall investment, not displace existing public funding sources or re-shuffle the funding mix of current developments.
- **Efficiency:** Proposals are designed to maximise the effectiveness of public expenditure and how existing development levies, fees and charges are disbursed.
- **Flexibility:** Policies can adapt easily to local circumstances, including state, territory and local government housing policies, and be readily scaled up.
- **Value:** Solutions that support ongoing new opportunities for employment in both construction and local supply chains, with housing construction funded under these proposals directly supporting apprentices and local suppliers that engage in fair, equitable, ethical and sustainable practices.

Summary of proposed policy options

CROWDING IN (HOUSING CAPITAL AGGREGATOR)

Providing low-interest, long tenor debt financing through NHFIC's Affordable Housing Bond Aggregator (AHBA) was an important first step in addressing the funding gap that currently acts as a handbrake on the development of new social and affordable housing at scale.

But on its own, it is insufficient to meet the substantial needs that currently exist, needs that will only grow. As the NHFIC review recognised, "*NHFIC's operations must be supported by other forms of government subsidy, whether at the Commonwealth, State or Territory or local government level, as well as renewed interest and innovation from the private sector.*"

A complementary aggregator mechanism is needed to provide the upfront capital projects required to fully close the funding gap and scale-up supply.

Such an aggregator mechanism would operate in two parts.

Part 1: Refundable Affordable Housing Tax Offset (AHTO)

The Commonwealth would first support a market for institutional capital investment in new construction by introducing a refundable Affordable Housing Tax Offset (AHTO), a ten-year term annual refundable tax offset.

A yearly allocation of AHTOs would be provided via the ATO, with the volume determined annually in the Federal Budget in accordance with need and the overall fiscal position. Proponents of eligible projects would then bid for available AHTOs through a competitive tender process to cover the funding gap and achieve an agreed annual investment return in the form of additional tax credits for their projects that bridges the viability gap.

This approach channels institutional capital to fund construction and management of the housing product dedicated for use as social or affordable housing managed by registered Community Housing Providers.

This approach also offers flexibility in response to shorter-term policy objectives, such as making supplementary AHTO allocations in response to broader economic conditions, for example to stimulate economic activity.

Supply responses can be tailored to specific regional and urban locations across Australian.

Such approaches require a widespread reach, not just in greenfield locations.

AHTOs would be awarded based on value for money, that is to projects which create well-designed homes meeting local needs at competitive costs. The bidding process incentivises project proponents to "crowd in" additional funding sources. This may include own equity, philanthropy, public or not-for-profit land, planning and land/development related levies, taxes and rate concessions. The approach also encourages competitive federalism among the states and territories in their support for projects to amplify the impact.

This enables Commonwealth support to be targeted on an as-needs basis that varies from project to project and year-to-year all while minimising the overall budget impost.

The capital aggregator model better leverages and effectively reduces the proportional contribution of taxpayer funds by:

- Accessing private capital to design, build and deliver assets with ownership remaining off balance sheet along with management and maintenance obligations.
- Enabling capital appreciation over time.
- Building a long-term asset base while selling 15–25% of stock to re-pay debt.
- Competitive tendering to access payments or refundable tax offsets.
- Debt placement at scale resulting in a more efficient cost of capital.
- Flexibility to increase or decrease the allocation of support capital bot spatially based on need and in the context of economic conditions.

Part 2: Capital Aggregator

The Commonwealth would also establish a Capital Aggregator (preferably through an existing entity such as NHFIC) that operates as an interface between institutional investors and project proponents, assisting crowding in of private sector capital for new social and affordable housing supply in exchange for allocated AHTOs.

Project proponents use the Aggregator to sell the cumulative value of their 10-year refundable AHTO flow to institutional investors for funding. This gives project proponents the upfront capital they need to commence construction. It gives investors a predictable, ten-year return on their investment while also meeting ESG parameters.

Refundable AHTOs are dollar-for-dollar credits on tax liability. A negative tax liability would result in an ATO refund.

By operating a pooled funding model, the Aggregator can support projects of varying size while also offering institutions a wide range of investment scales. This addresses an identified current gap in the market where large superannuation funds, for example, struggle to identify suitably sized social and affordable housing projects in which to invest, while at the same time enabling diversity in the size, mission and tenant profiles of affordable housing providers. Annual AHTO allocations will enable institutional investors to keep re-investing (part of their principal for instance is repaid each year) in social and affordable housing, potentially developing 30 to 40-year investment strategies. This would emulate similar long-term investment patterns observed in the USA.

CONTRIBUTION TO NEW SUPPLY – AN EXAMPLE

The AHTO support for individual housing developments is time-limited to a ten-year duration. In return, developments must be designated “social or affordable housing” for 20 years.

Modelling shows that after 20 years a Community Housing Provider would be able to retain at least 75% of the dwellings constructed as social and affordable housing (50:50) in perpetuity. Housing stock sold down will add to mainstream housing supply while the sales proceeds are used to pay down debt rendering the portfolio debt free over a 20-year period.

Assuming low NHFIC interest rates (2.79%), real property price increases of 2.5% per annum, an average annual AHTO payment of $12,500 per dwelling, and retention of 85% of the stock as social and affordable housing in Year 20 of the program, the federal government can create an ongoing social and affordable asset value of $3.3bn (4,250 properties) for 21% of the AHTO invested. Or $4.80 attracted for every $1 of support.

Assuming an average annual boost payment of $9,500 per dwelling (all else as above) then government can create an asset value of $3.0bn for 16% of the invested capital In both cases crowding in of land and some development charges is assumed.

SOCIAL AND AFFORDABLE HOUSING FUTURE FUND

The Future Fund was first established by the Howard Government as a sovereign wealth fund to strengthen the Australian Government's long-term financial position.

Under subsequent governments, a series of special purpose public asset funds have been established including the Medical Research Future Fund and, most recently, the Emergency Response Fund.

It has proven to be a hugely effective model with $247.8 billion worth of funds now under management, up from an original Future Fund investment of $18 billion in 2006.

With this demonstrably successful track record, affordable housing is an attractive candidate to add to the existing suite of funds.

Annual dividends from a Social and Affordable Housing Future Fund could be administered by NHFIC and used to bridge the social and affordable housing funding gaps in two ways, either individually or a combination of, providing:

1. upfront capital grants for new projects
2. ongoing annual availability payments on eligible dwellings

The Fund could also be used to increase state and territory governments' social housing investment. For example, NHFIC could allocate funds via a reverse auction thereby encouraging competitive federalism.

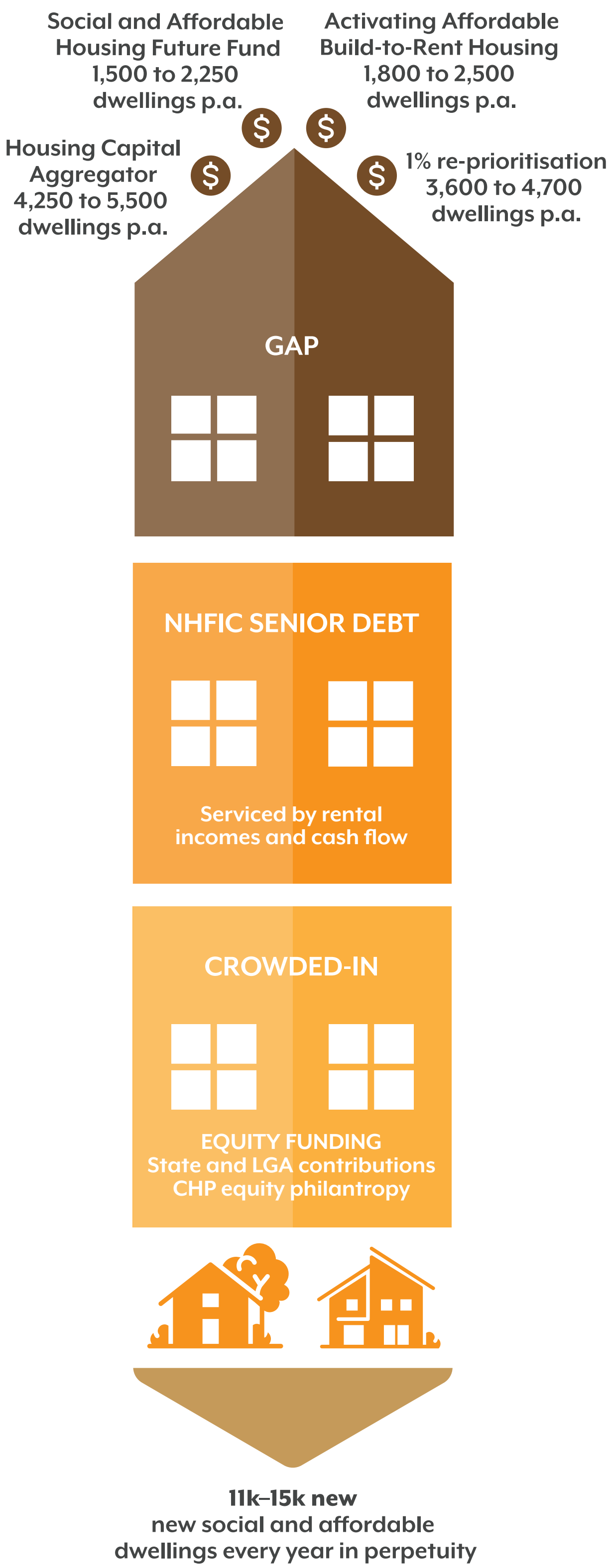
Capital grants have the advantage of significantly increasing the total stock over time, delivering a more enduring and resilient benefit.

Annual "availability payments" are more limited. Once exhausted it would take ~15 years to reset and return to a position of disbursement again.

Crucially, the Fund would also enhance the Commonwealth's capacity to further leverage private sector capital for social and affordable housing supply.

The ongoing payment option could take the place of the refundable tax offset in the Housing Capital Aggregator model outlined in the preceding section. The combination of these two policy initiatives could attract significant institutional capital at a scale approaching the requirements identified by the NHFIC Review.

Figure 3: How the NAHA policies complement each other



The increase in affordable housing supply a Future Fund could deliver would relieve rental stress and open up housing pathways for people on low incomes. It opens the door to other forms of support such as shared equity; rent to buy schemes; which in addition to existing government supports, especially for the first homebuyer cohort, aid the transition to housing independence and homeownership.

It is proposed that the initial endowment to establish the Social and Affordable Housing Future Fund be financed by additional government borrowing given the historically low cost to government of borrowing money at the current time.

The interest costs on the debt could be serviced through the Fund's annual dividend payment.

From a fiscal standpoint, appropriations for the Future Fund may not impact the budget's underlying cash balance.

The increase in gross debt to provide the initial Social and Affordable Housing Future Fund deposit would be offset by the assets purchased.

NAHA thanks and acknowledges the detailed and extensive work of Brendan Coates and the Grattan Institute in developing and modelling this policy option.

ACTIVATING AFFORDABLE BUILD-TO-RENT AS A SOURCE OF AFFORDABLE HOUSING

The emergence of Build-to-Rent housing in Australia provides a significant opportunity for governments to incentivise the provision of essential worker affordable housing as part of these projects.

Its potential to add sustainably and systematically to the supply of social and affordable housing has been well-established in overseas markets, especially in the United States and United Kingdom. In those jurisdictions, this housing (known as multi-family housing in the US) is a primary source of social and affordable housing incentivised through a combination of federal, state and municipal tax incentives.

For the purpose of this policy proposal, we distinguish between mainstream Build-to-Rent projects providing purely at-market rental housing and those which include new affordable rental units within these projects in return for more favourable tax or planning treatments.

CONTRIBUTION TO NEW SUPPLY – AN EXAMPLE

As with the Housing Capital Aggregator, the quantum would depend on various factors including the size of the fund (and therefore the returns available), the net rate of return, how the dividends were invested (i.e., capital grants, availability payments or a combination of both; and servicing debt costs from the dividend instead of the federal budget), dwelling type (public, social or affordable) and how the investments were leveraged (e.g., state contributions).

A $20 billion fund with a 3% net return assuming a $400k capital grant per dwelling would be sufficient to build 1,500 social housing units each year in perpetuity.

The availability payments model based on ~$15k pa availability payment per dwelling would fund the construction of ~20,000 social housing units over 3–5 years.

The Commonwealth choosing to absorb debt interest costs on-budget would also increase the quantum of dividend available for investment. Under the capital grant scenario above, this would raise the number of units delivered per annum in perpetuity to 2,250.

Government incentives for the provision of affordable housing as part of new projects also means that lower income essential workers would benefit from the associated advantages that flow from this type of housing including longer-term leases, professional management and flexibility of living.

In Australia, the emergence of market-based Built-to-Rent housing is still in its infancy. There are several federal, state and territory tax and planning settings which are yet to provide a policy level-playing field for this asset class and we encourage governments to address these.

This paper focuses on the incentives required to generate new affordable rental housing as part of new Built-to-Rent projects. The right incentives could deliver a significant supply of new high-quality affordable rental housing created by the private sector (particularly if other changes were made to level the policy playing field for this new form of housing).

In Australia there are currently 18,000 Build-to-Rent apartments either in operation, under construction or in advanced planning, which is triple the amount of four years ago.[12] If we were to assume that the size of this market was to double (noting that it is likely to become significantly larger than this[13]) and if 10% of apartments were incentivised to be provided as affordable rental units, then some 1,800 to 2,500 affordable units could be provided annually under this policy.

CHPs would need to manage the application of tenancy eligibility criteria for occupation of these new units and ensure that targeted cohorts meet affordability tests as defined, but with some flexibility to ensure essential workers are a core component.

The Federal Government has already inserted a definition of affordable rental housing within Australia's Managed Investment Trust (MIT) framework, recognising that a lower tax setting will be needed to incentivise investment into affordable housing.

To encourage investment to flow into affordable rental housing (which by definition will generate below market investment returns) a more attractive tax rate will be required. To incentivise investment, a withholding tax rate of 10% should be applied to the affordable housing components of Build-to-Rent projects held within an MIT. This will facilitate the inclusion of affordable dwellings as part of these new projects.

At the state and territory level, land tax concessions are also needed to ensure affordable rental housing does not pay commercial property levels of land tax (which would result in returns being insufficient to warrant investment). This would ensure these costs are not passed through to tenants and do not attract surcharges if delivered by foreign-owned entities.

This nascent sector has the potential to deliver affordable rental accommodation at scale, in high amenity locations and within apartment complexes that provide superior community services.

Providing affordable build-to-rent housing with the incentives outlined above would enable these additional dwellings to be delivered fully by the private sector and provide a high quality, stable option for people moving out of supported housing or experiencing private market rental stress.

RE-PRIORITISING EXISTING RESIDENTIAL DEVELOPMENT CONTRIBUTIONS FOR SOCIAL AND AFFORDABLE HOUSING DELIVERY

Re-prioritising the allocation of 1% of new infrastructure and development contributions made by the private sector towards social and affordable housing initiatives could channel an annual additional capital contribution of $53 million to match state, territory and federal government contributions without impacting existing private housing supply or adding to house cost escalation.

Totalling more than $9 trillion, residential real estate is Australia's largest asset class, by a considerable margin.[14] It is also a significant contributor to economic activity.

- Australia's residential development and construction industry annually adds a net 170,000 – 210,000 (1.5–2% per annum)[15] of new housing to Australia's established housing stock of 10.6m dwellings as at March 2021.[16]
- This level of activity represents annual capital investment and construction activity averaging $157 billion over the last 10 years.[17]
- NSW, Victoria and Queensland combined account for 79% of all residential construction activity in Australia with 72% of that activity occurring in Sydney, Melbourne and Brisbane.[18]

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12 Urbis Built-to-Rent pipeline report, December 2021.
13 Note that in the UK, where build-to-rent emerged 12 years ago, the pipeline is more than ten times this number (Who lives in Build-to-Rent?, British Property Federation, Dataloft, London First & UK Apartment Association, November 2021).
14 https://www.corelogic.com.au/news/australian-housing-market-surpasses-9-trillion-valuation.
15 https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/latest-release.
16 https://stat.data.abs.gov.au/Index.aspx?DataSetCode=RES_DWEL_ST.
17 ibid.
18 ibid.

- Development contributions (both cash and in-kind), taxes and development charges represent ~15% of total annual capital investment by the residential development sector or an average of ~$5 billion per annum nationwide.[19]

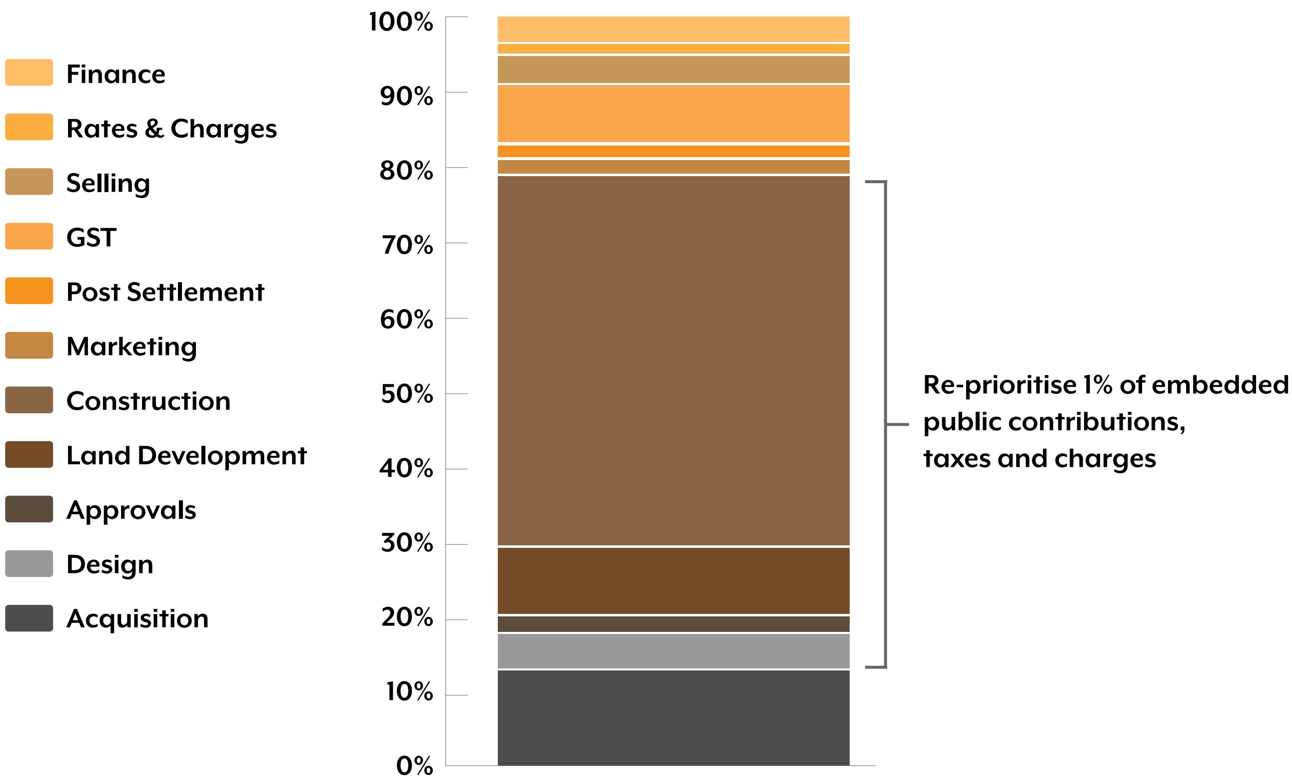
Recognising the significance of this contribution, NAHA calls on state, territory and local governments to prioritise the allocation of existing infrastructure contributions generated from the planning and development approval process and associated taxes and charges, for commitment to the provision of social and affordable housing. This investment is not in addition to existing contributions, but a re-prioritisation of existing contributions.

This approach requires state, territory and local governments to prioritise 1% of existing contributions for the provision of social and affordable housing over other potential applications of development contributions. Such an approach is consistent with all state and territory housing strategies. Re-prioritisation is critical to avoid additional costs being passed on to homebuyers and to reducing the funding gap involved in the delivery of social and affordable housing.

If 1% of this existing investment were re-prioritised and directed as suggested, an annual capital contribution of $53 million could be generated across Australia. Less (ie.$31 million) if the approach were limited only to the major capital cities of Sydney, Melbourne and Brisbane.

If these funds were directed through the Housing Capital Aggregator an annual supply of 3,600–4,700 dwellings per annum could be delivered (i.e., using the same assumptions as per the HCA outlined above and adopting either $12,500 or $9,500 per dwelling subsidy).[20] These dwellings would be supplied in addition to any federal or state contributions.

Figure 4: Residential Development Costs



19 Refer calculations based on ABS data at Appendix A.
20 Refer calculations based on ABS data at Appendix B.

Ironbark Apartments in Harold Park Sydney, developed by City West Housing

The key principles that need to be established if this approach were to be effective include:

- Phasing in prioritisation of social and affordable housing as an inclusion in the existing infrastructure contribution framework and development levy requirements.
- Establishing a cap on infrastructure contributions required by state, territory and local governments to limit additional costs being imposed on the housing production process so that costs are not passed through to homebuyers but passed back as a cost of land conversion to new housing.
- Application of the prioritisation approach to all new residential development, not just greenfield or large-scale developments within existing contribution requirements.
- Establish transparency processes on the capture of contributions and their application in accordance with state and territory housing strategies.
- Matching data to the funds/products delivered to better inform supply forecasts of both social and affordable housing products as part of ongoing data gathering system.
- Development of incentives that stimulate agglomeration around existing infrastructure to increase productivity as a matter of good planning policy.

Industry wants to see more transparency and a much clearer nexus between developer contributions and development impacts. Holding state, territory and local governments to account for the application of funds invested is key.

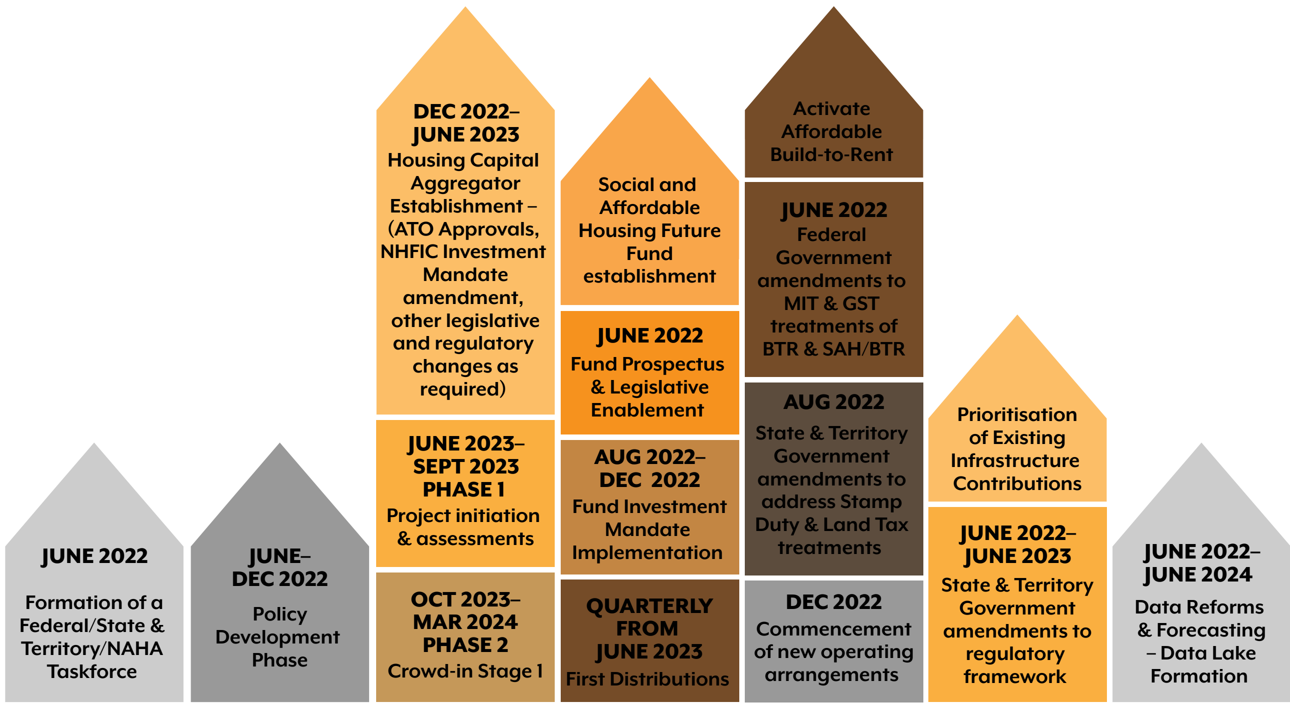
If governments are to be taken at their word when they talk about prioritising social and affordable housing provision, then it is time to see these claims backed by prioritising the investment already being made by the development sector's sizeable existing contributions and deploying it to address imbalances that have emerged in the Australian housing market.

Recommendations

1. Establish a joint federal, state and territory government taskforce in partnership with NAHA to develop and implement the recommended policy suite.
2. Implement a Housing Capital Aggregator supported by refundable Affordable Housing Tax Offsets.
3. Establish an Affordable Housing Future Fund with an initial $20 billion in funds under management.
4. Activate Affordable Build-to-Rent housing as a vehicle to deliver additional social and affordable housing.
5. Enhance state and territory-based planning and development contributions legislation to prioritise up to 1% of infrastructure contributions and levies to be aggregated and channelled to social and affordable housing contributions consistent with state and territory housing policies across Australia.
6. Dedicate a minimum of 25% of the total net new additional supply created by the application of the above policies to addressing the needs of the most vulnerable households with rents capped below 30% of household income.
7. Provide more robust, consistent, transparent and detailed data on Australia's social and affordable housing demand and supply including data on eviction and displacement by integrating existing data sources into a data lake that integrates data on social and affordable housing as a single source.

NAHA seeks the implementation of the above policies working in concert to deliver at least a net additional 10,000 social and affordable homes each year for the next 20 years on top of existing supply, initiatives and investment. NAHA is seeking engagement at a national level with direct involvement of state, territory and federal governments to develop an integrated national affordable housing framework using these policy propositions as a foundation.

Figure 5: Indicative implementation timeframe



Glossary

ABS Australian Bureau of Statistics

AHBA Affordable Housing Bond Aggregator

AHURI Australian Housing and Urban Research Institute

AIHW Australian Institute of Health and Welfare

Affordable housing is defined more broadly and can include a range of housing types and supports aimed at alleviating housing stress (defined as spending more than 30 per cent of household income on housing costs if in the bottom 40% of incomes[21]).

This includes private market (including ownership by institutional investors) rental housing provided at below market rent to qualifying tenants (usually between 70 and 80 per cent of market rent), typically where the rental income stream is subsidised in some way by government. Such subsidies include the National Rental Affordability Scheme (NRAS) and Commonwealth Rent Assistance (CRA). More recently, some CHPs have incorporated an element of affordable (sub-market) rental in new mixed-use developments alongside social housing stock. A broad definition would also capture schemes that support pathways to home ownership.

CHP Community Housing Provider. CHPs are not for profit housing developers and managers of social and affordable rental housing. They manage homes on behalf of state and territory governments and the private sector. They are required to be registered in at least one of the three regulatory regimes i.e. the National Regulation System for Community Housing, or those operating in Victoria and Western Australia. They provide social, affordable and SDA rental homes.

Environmental, social, and governance (ESG) parameters refer to the standards that socially conscious investors use to screen potential investments. Environmental considerations cover areas such sustainability features, while social can encompass anything from measures to combat modern slavery to supporting social and affordable housing.

Low to middle income households are defined by the ABS as those containing the 38% of people with equivalised disposable household income in the third and lowest equivalised disposable household income quintile, adjusted to exclude the first and second percentiles.[22]

A **Managed Investment Trust** (MIT) is a collective investment vehicle which allows investment in passive income generating activities (e.g., holding property primarily for rental income). This means superannuation, pension, sovereign funds and retail investors pool their capital and invest into investment grade assets which provide steady income flows. They are a long-standing, well-established and well-regulated part of Australia's existing tax and investment framework.

NAHA National Affordable Housing Alliance

NHFIC National Housing Finance and Investment Corporation

NHHA National Housing and Homelessness Agreement

Public housing is generally accepted to mean rental housing that state and territory governments provide and manage rented at a proportion of a household income generally 25%. This is almost exclusively dwellings that are owned by the relevant government housing authority.

Social housing encompasses housing owned and/or managed by registered Community Housing Providers and by state and territory governments. It includes housing provided for specific tenant cohorts such as First Nations peoples and rough sleepers. Social housing tenants are typically charged rents set at between 20 and 30 per cent of total household income and must not be charged more than 30% of a household's income.

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21 Australian Institute of Health and Welfare (AIHW), Housing affordability, AIHW website, accessed 20 April 2020. https://www.aihw.gov.au/reports/australias-welfare/housing-affordability.

22 https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2015-16~Main%20Features~Characteristics%20of%20Low,%20Middle%20and%20High%20Income%20Households~8.

NAHA contact details

Rod Fehring Chair, National Affordable Housing Alliance
M | 0417 118 335
E | rod.fehring@frasersproperty.com.au

Michele O'Neil President, Australian Council of Trade Unions
E | moneil@actu.org.au

Cassandra Goldie CEO, Australian Council of Social Service
E | cassandra.goldie@acoss.org.au

Wendy Hayhurst CEO, Community Housing Industry Association
E | wendy.hayhurst@communityhousing.com.au

Gemma Pinnell Director of Strategic Engagement, Industry Super Australia
E | GPinnell@industrysuper.com

Jenny Smith Chair, Homelessness Australia
E | jenny@chp.org.au

Graham Wolfe Managing Director, Housing Industry Association
E | g.wolfe@hia.com.au

Denita Wawn Chief Executive Officer, Master Builders Australia
E | denita.wawn@masterbuilders.com.au

Adrian Pisarski Executive Officer, National Shelter
E | adrian.pisarski@shelter.org.au

Ken Morrison Chief Executive Officer, Property Council of Australia
E | kmorrison@propertycouncil.com.au

Appendices

APPENDIX A

Calculation of the contribution Re-prioritisation of Existing Taxes, Charges & Infrastructure Contributions could make to boosting annualised supply of Social & Affordable Housing (SAH).

Macro Settings Data Used to Model Potential Contribution by Private Sector

- Using ABS Data Set – Building Approvals by Greater Capital City Statistical Area (GCCSA) July 2016 – June 2021 - enables total building approvals to be calculated, nationally & by State – results in:
  - National average (5 Years) Total Housing commencements – 221,802 pa.
  - NSW/VIC & QLD represents 79.3% of national activity (175,819 dwellings pa)
  - Syd/Bris/Melb represents 71.9% of total state Activity (126,460 dwellings pa)
- Based on this data output and ABS Cat 87502 that quantifies total value of residential construction activity (June 2011 – June 2021) average value per annum is calculated and broken down from national, by State and by Capital City.
  - Australian annualised average activity - $156.8 Billion
  - NSW/VIC/QLD represents 81% of that total activity or $127.4 Billionl
  - Capital Cities dominate total activity - $91.6 Billion (71.9% of State based activity in NSW/VIC & QLD)
  - Infrastructure Levies, Taxes & Charges levied as part of total construction activity by State & Local Government averages 22.5% of total residential construction and development activity.
  - Of this total and estimated ~15% is directly attributable to cash contributions levied through Voluntary Planning Agreements, State Infrastructure levies, various value capture charges etc.
  - By re-prioritising 1% of the 15% of charges imposed directly on residential development to fund Social & Affordable Housing, an annualised contribution of:
    - @ 1%
      - $53 million per annum Nationally, or
      - $43 million per annum NSW/VIC/QLD, or
      - $31 million per annum SYDNEY/ MELBOURNE/BRISBANE

Leveraging these Annual Contributions to deliver targeted SAH designated Investment

Assuming a nationwide approach were adopted (ie $53 million pa), and adopting the same methodology as used in the formulation of the Capital Aggregation model net additional social and affordable housing can be generated annually without recourse to additional Federal, State or Local Government contributions.

Two options are considered operating at different scales of application using the Capital Aggregation Model:

1. Direct Annual Funds derived from Nationwide prioritisation flowing from developments approved by State & Local Government to be deployed by NHFIC as an availability contribution to fund:
   a. $53 million/$12,500 pa for 10 years = 4,250 dwellings less 15% sold to pay down residual debt = net additional 3,600 dwellings.
   b. At a lower availability payment of $9,500 for 10 years = 5,500 dwellings less 15% sold to pay down residual debt = net additional 4,700 dwellings.
   c. Higher proportion reflects higher average construction costs in NSW/VIC & QLD relative to rest of Australia.
2. Direct Annual Funds derived only from Sydney/ Melbourne/Brisbane prioritisation flowing from developments approved by State & Local Government in those cities to be deployed by NHFIC as an availability contribution to fund:
   a. $31 million/$12,500 pa for 10 years = 2,480 dwellings less 15% sold to pay down residual debt = net additional 2,100 dwellings.
   b. At a lower availability payment of $9,500 for 10 years = 3,260 dwellings less 15% sold to pay down residual debt = net additional 2,700 dwelli

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