

# AFFORDABLE HOUSING WORKING GROUP

Submission by the National Affordable Housing Consortium

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## INTRODUCTION:

In terms of size, quality, amenity and environmental health, Australia is amongst the best housed nations in the world. In terms of housing affordability, Australia has a continuous record, over a decade and more, of having a deep and sustained affordability problem that is amongst the worst in the developed world.

Despite record low interest rates reflecting a weak international economy and uncertain domestic outlook, housing affordability and housing stress remain serious problems and trend data suggests worse to come, particularly for low income market renters and those requiring a social housing solution.

Housing is not just another market commodity. It is as essential to individual and family well-being as health, education and a livable income.

**Making the housing system work for all Australians is as important as providing universal access to affordable health and education and is a role that requires active Government leadership.**

How we arrived at the current situation is well documented, including in previous Government and Industry Inquiries and Reports. In summary:

- Financial liberalization changed the nature of, and access to, borrowing
- Population increases, immigration and changes in household formation. Housing supply has failed to meet the supply, product variety and pricing structure implicit in these changes
- The increase in dual income households, whilst reflecting the amazing and welcomed transformation in female participation in paid employment, also fueled changes in housing finance lending which, it may be argued, fed mostly into prices rather than new supply.
- Whilst the rise in dual income households coincided with liberalization of credit, there has also been an accelerated trend towards casualization and part time working which has implications for home ownership and longer term 'income/housing security' within the housing context.
- The way tax relief and tax and charges have grown up in an ad-hoc manner; directly and indirectly pushing and pulling the housing system in different directions. These 'Push me-Pull me' factors are not coherent from a housing policy standpoint
- The long term relative decline in Government's investing in direct provision of new social and affordable housing
- The inter-face between income based rents, taxation and welfare benefits like family tax benefit can mean some families seeking to improve their situation face a 'marginal tax rate, including loss of benefit' of similar to the top rate of tax. This 'trap' needs to be addressed.

**However, it is widely agreed that the single largest and most important factor has been the sustained mismatch between housing supply and demand. Australia has a supply side problem.** The National Housing Supply Council [2012] put the supply shortfall at 228,000 dwellings rising to 369,000 in June 2016 and to 663,000 by 2031, if current trends and policy settings continue.

**Whilst many macro policy levers including Tax are outside the scope of the Working Group paper we need to ask the hard questions regarding the balance of tax reliefs, Government spending and housing & residential construction related taxation.** If we are outlaying in excess of \$42B a year in housing tax concessions and direct Government spending, the Australian Community has a right to know why have we still got a housing problem? Surely this isn't the outcome *planned* by those who have set the tax relief, spending and the property taxation regime over the last 3 decades?

The inefficiency and often contradictory application of tax concessions and taxation treatment reflects ad-hoc policy interventions and disconnected strategic objectives.

**Overall, the work of Professor Judy Yates and others has clearly demonstrated that our housing tax concession regime provides the greatest subsidies to those who need it least and they go disproportionately to those in the later periods of their housing careers, not at the point of greatest need.**

Home ownership is falling across the board. [9% since 2001] Some of this is undoubtedly caused by price-exclusion, some by changing economic and household conditions and by choice.

Whilst the experience of many advanced economies demonstrates that a strong, long-term rental market can underpin market choice and enable a more balanced 'tenure-neutral' policy setting, in Australia the primary concern has been that many lower/middle income households are locked out of home ownership. With market rents reflecting housing under supply, many tenants are not able to save for that illusive 'deposit' even if they retained home owner aspirations.

With a pattern of home buyers facing the prospect of retaining large mortgages upon retirement, one of the foundations of our welfare and pension policy is facing a major challenge. Low income renters of course are already more likely to hit retirement in a state of impoverishment

**A private rental market that includes long term, affordable, stable and predictable letting arrangements certainly needs to be led by good housing and finance policy settings. This segment of the market is particularly required for families with children who may value location and stability for employment and education purposes and for retirees who may have 15-20 years ahead and require security and affordability.**

In looking at housing policy we must look beyond the term 'security' simply as a function of residential law and towards the term "security" as a way renters can enjoy stability and longevity and a greater measure of control in rented housing. Other Countries have achieved this goal and there are some good lessons to learn as we seek to redesign our system to reflect a more tenure neutral policy setting. This is a strong rationale for supporting the creation of an Institutionally owned segment of the rental market.

Many households believe they have done well out of house price inflation, which for many has generated untaxed wealth, even if it is often only finally released on death! For others it represents a form of retirement security and improved choice and of course it facilitates access to other forms of credit.

**With the majority of voters benefiting from house price inflation and becoming very anxious if house prices fall; and with media coverage of housing almost exclusively focused on housing as an 'investment good', we understand the political challenge of tackling this issue.**

## NAHC Recommendations

1. **Adopt the '100,000 Better Housing Outcomes' package as Phase 1 - A Supply Side Initiative**
2. **Adopt the 4 Policy Goals and set out a Housing Reform Phase 2 process through COAG to consider a macro reform package including Tax/Tax Relief/ Land & Planning/Regulation & Subsidies. Establish an expert Advisory Panel with Industry, Finance & Community members**
3. **Through COAG [Prime Minister & Premiers] develop and publish a Policy paper on social impact investing which addresses foundational issues for systems reform in social outcomes. In particular, to set out**
  - **reform options to Public Sector Procurement to drive a national approach to social value methodology in the supply of goods and services**
  - **the best way to incentivise large scale [ including Institutional] Investment in Social Goods and Services and to assist in making a viable 'market' for such investment**
  - **a national framework for Outcome Based Contracting as a cornerstone reform focussed on measurable outcomes in preventing, addressing and resolving disadvantage & need, rather than 'managing' or 'referring' it.**

## An Introduction to the National Affordable Housing Consortia [NAHC]

### NAHC Mission:

“To facilitate affordable housing outcomes, achieving a balance in commercial, social and environmental outcomes; and act as a catalyst for housing innovation and integrated communities”

#### Submission To The Affordable Housing Working Group

*The National Affordable Housing Consortium – Celebrating 7 Years: 2008-2015*

*3,500 New Homes plus 150 in the pipeline & \$1.3 Billion in private investment. 21,000 FTE Jobs created by NAHC Activity: Saving Tenants \$16m per year*



## NAHC: - A SOCIAL VALUE ENTERPRISE



### The National Affordable Housing Consortium – The **FOUR** 'P's



## NATIONAL OUTCOMES & POLICY GOALS

### Policy Goal 1: Increase Supply & Effectively Target Housing Support

Macro policy levers [ Tax & Relief/ Land / Planning / Welfare ] are aligned to deliver a sustained improvement in housing supply alongside the deliberate & measurable targeting of benefits [Tax & Welfare] towards supporting

households based on need at the point of need / for the time of need, including alignment around measurable housing and non-housing outcomes [ employment/ productivity /health].

### **Policy Goal 2: A New Long Term Rental Market Segment**

Facilitate the development of a new rental market segment which is long term, stable, secure and incorporates long term institutional holdings, socially responsible management and supports an appropriate mix of affordability and property types to meet changing housing need. Recalibrate associated tax, family and welfare policies towards greater tenure neutrality, new supply and new approaches to landlord, leaseholder arrangements.

### **Policy Goal 3: A Viable Social Housing System**

Social housing has a critical role to play for those households in need of long term, high subsidy housing with better access to support services and to those who have faced a critical event and require a supportive housing outcome as a safety net and hand up.

The social housing system requires *transformational reform* and this should be addressed through COAG with specific consideration focused on:-

- Articulating and measuring the housing and non-housing outcomes sought from the system
- The Governance and Subsidy arrangements, including Commonwealth & State arrangements/NAHA/ future ownership and management
- Capital investment in renewal/replacement and growth of stock:
- Better matching to community needs and better forward planning
- A new human services approach [Personal Housing Plans] to address [rather than simply case-manage] disadvantage

### **Policy Goal 4: Housing Pathways: Greater Diversity: More Choice:**

The economic and social conditions and choices within the Australian community are much more diverse and changeable than for previous generations.

In reforming our housing system, we need to promote diversity and create pathways between the social, affordable and market systems. This requires greater flexibility in applying subsidy and a more dynamic housing supply side response which enables innovation. This includes Shared Equity Home Ownership, rent to buy, buy to rent, co-housing and financing arrangements that reflect employment reality [increased casualization/part time or contracting work]

Institutional investment underpinned by appropriate Government policy and the right risk/return could help create a wide range of new market segments that reflects households changing needs over time and provides more choice, but also more security in housing -at the time when people value that most highly.

## **WHATS THE PROBLEM?**

### **A Supply Side Problem?**



## RECAP ON CONTEXT

- 657,000 low income households in rental stress [ABS]
- 318,000 low income households in mortgage stress [ABS]
- Around 187,500 households on public housing wait list [Productivity Commission]
  
- Housing Supply Shortfall of around 600,000 by 2031 if current trends continue
- NHSC estimate shortfall of around 500,000 affordable and available rental homes
- A long term relative decline in social housing- and a portfolio often characterised as aging, expensive to maintain and increasingly mismatched to need
- A shift away from home ownership to rental. Home ownership rates have dropped by 9% for households aged 25-55 since 1991 [Saul Eslake / Prof Judy Yates]- with wider implication within the housing system and beyond

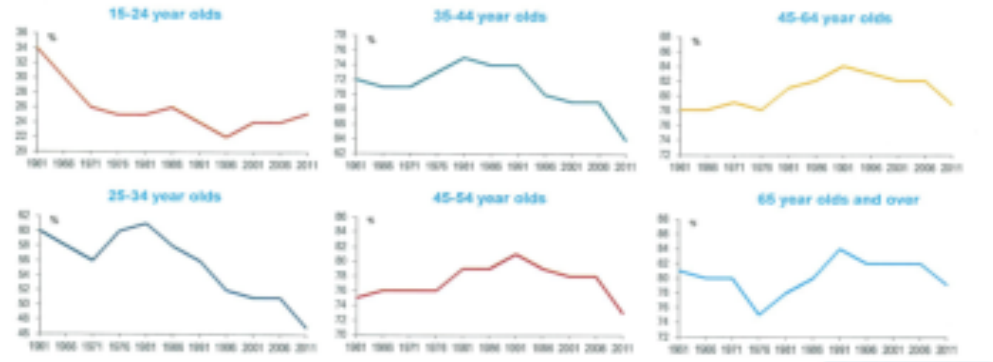
## A Social Housing Problem?

- ✚ An aging, high cost, social housing portfolio which is mismatched to community needs [40% of dwellings]
- ✚ A lack of 'Pathways' beyond social housing [that could create a bridge to the market system] reducing throughput
- ✚ Disconnected social services which do not prioritise the barriers to social and economic participation and do not put the person at the centre of a shared responsibility for outcomes
- ✚ Dislocated service structures that do not always work towards harmonised outcomes.
- ✚ Inadequate measurement of housing and non-housing outcomes
  
- ✚ **In policy terms, our proposal is targeted at the following 5 economic and social policy issues**
- ✚ Improved Investment in social infrastructure
- ✚ Greater social and economic participation
- ✚ Improved Government Services- resolving rather than 'managing' disadvantage
- ✚ More cost effective, flexible and person centric services [A 'hand up' system that improves self-reliance]
- ✚ Greater public accountability through measurable outcomes

## A Home Ownership problem? [Ref: 3 Slides: Saul Eslake 2015]

Home ownership rates among households headed by people aged 25-55 have dropped by an average of 9 pc points since 1991

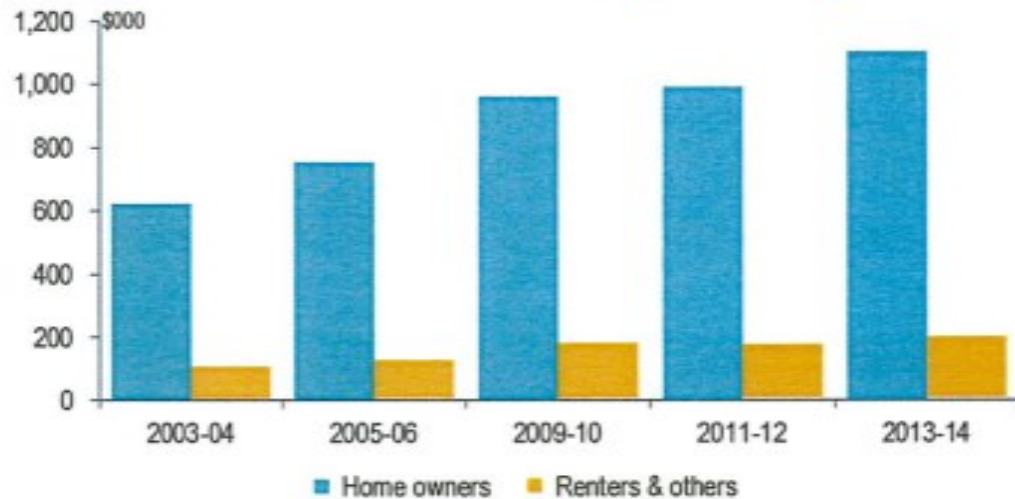
HOME OWNERSHIP RATES AT CENSUSES, BY AGE GROUP OF 'HOUSEHOLD HEAD'



Source: Professor Judith Tate, Submission to the House of Representatives Standing Committee on Economic Issues on Home Ownership, June 2015.

SAUL ESLAKE

## Average household net worth, by housing tenure

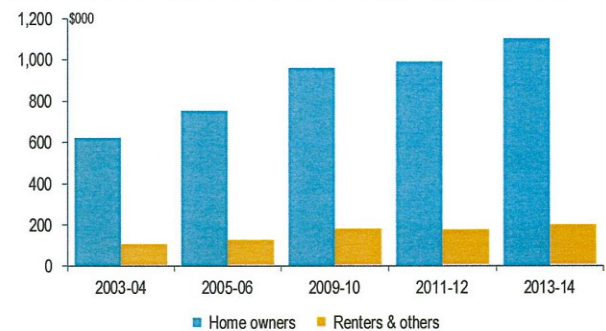


Sources: ABS, Household Income and Wealth (catalogue no. 6253.0), 2013-14; Household Wealth and Wealth Distribution (6554.0), 2011-12 and previous issues.

## Does it matter if home ownership rates continue to decline?

- Home ownership has traditionally been regarded as providing a more secure environment for raising families and for promoting a sense of 'community' and 'belonging'
  - other countries (eg Germany & France) have been able to achieve those goals with lower home ownership rates than Australia – but also with other differences including higher taxation and greater regulation
- Equity in homes usually provides the financial base for formation of small businesses
- Home ownership has been the major source of wealth accumulation for middle-income households
  - declining rates of home ownership will probably mean greater disparities in the distribution of wealth
- Australia's retirement income system implicitly assumes that most retirees will have near-zero housing costs
- Fewer home-owners means greater demand for rental housing from people with (generally) greater economic resources than 'traditional' renters
  - which all else being equal means more competition for the available rental housing stock and more upward pressure on rents

Average household net worth, by housing tenure



Sources: ABS, *Household Income and Wealth* (catalogue no. 6253.0), 2013-14; *Household Wealth and Wealth Distribution* (6554.0), 2011-12 and previous issues.

## A Structural Problem in the Private Rental Market?

### IF WE WERE LIKE OUR INTERNATIONAL COMPETITORS

“ I WOULDN'T START FROM HERE.....!”

If Australia reached the median level of institutional investment from this basket of 8 Countries: { Australia: Germany: France: Austria: Italy: Japan: USA & UK }-  
It would have:-

- An Institutional Investment in residential property of \$160Billion
- Around 400,000 additional [institutionally funded or held] dwellings
- An increase in housing supply of 4.5%

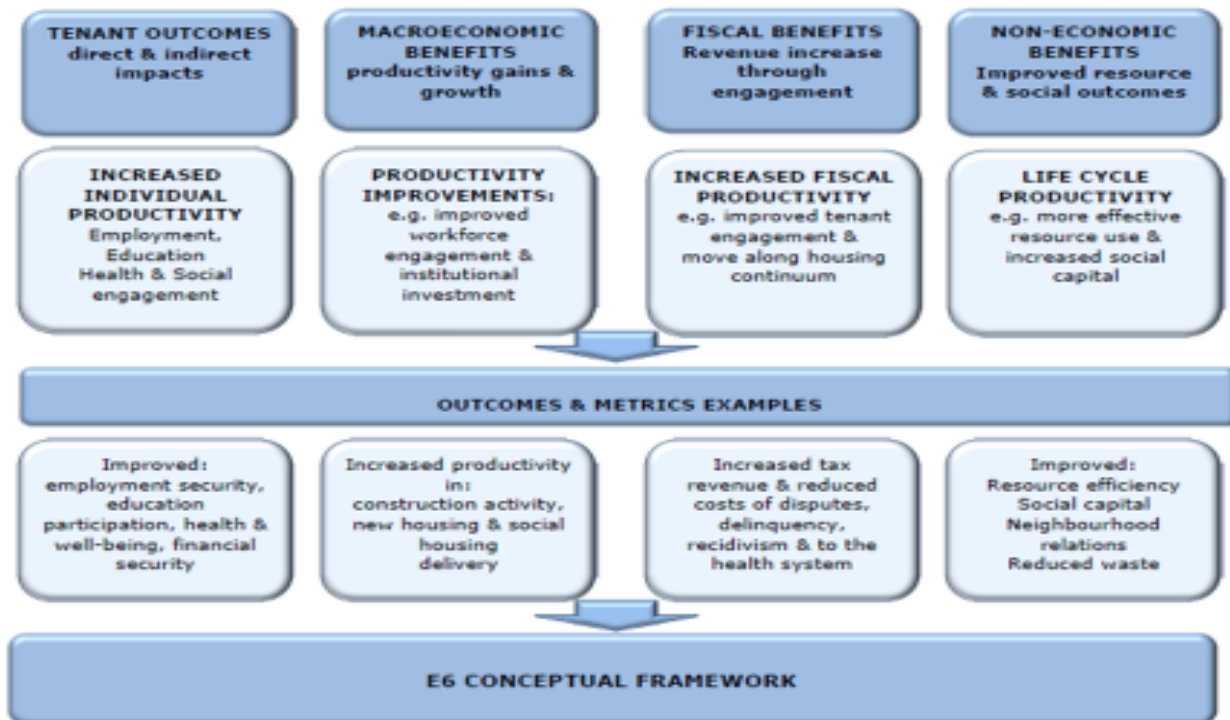
*Professor George Earl: Institutional Investment in Low Income Housing-May 2014.*

NB. Definitions across 'corporate & institutional' investment are not consistent across jurisdictions...but you get the picture.



# What are the Outcomes we want from our investment in social & affordable housing?

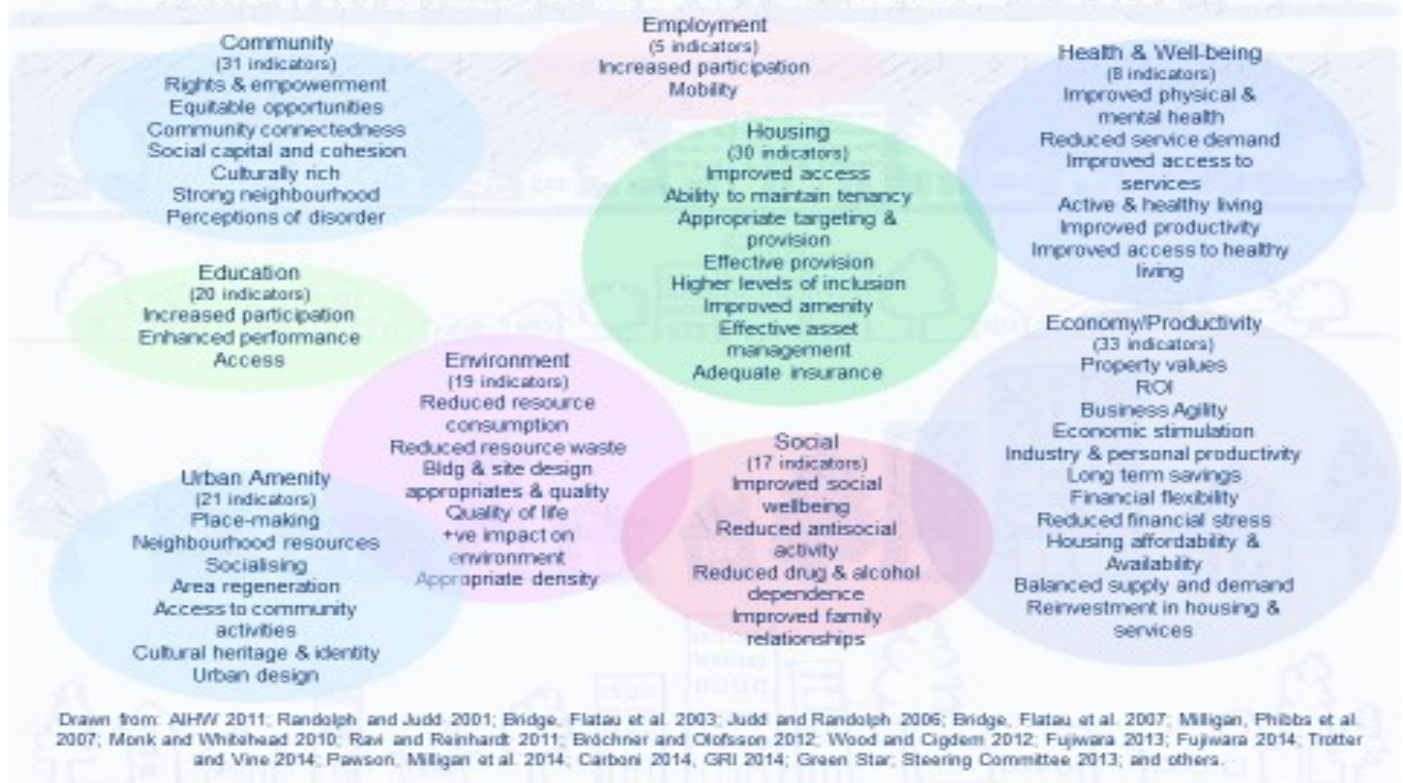
## Bringing it together - Conceptual Framework



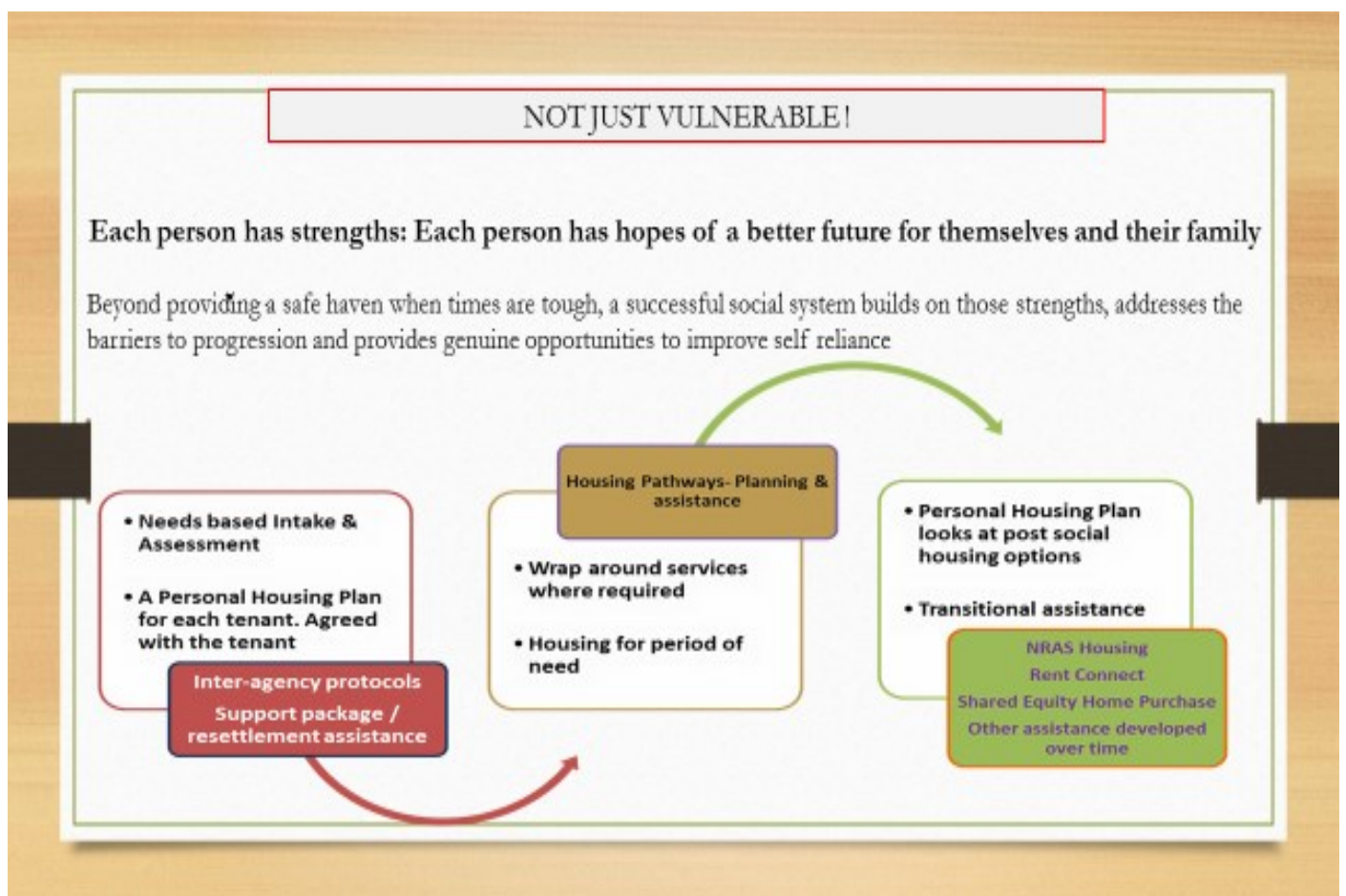
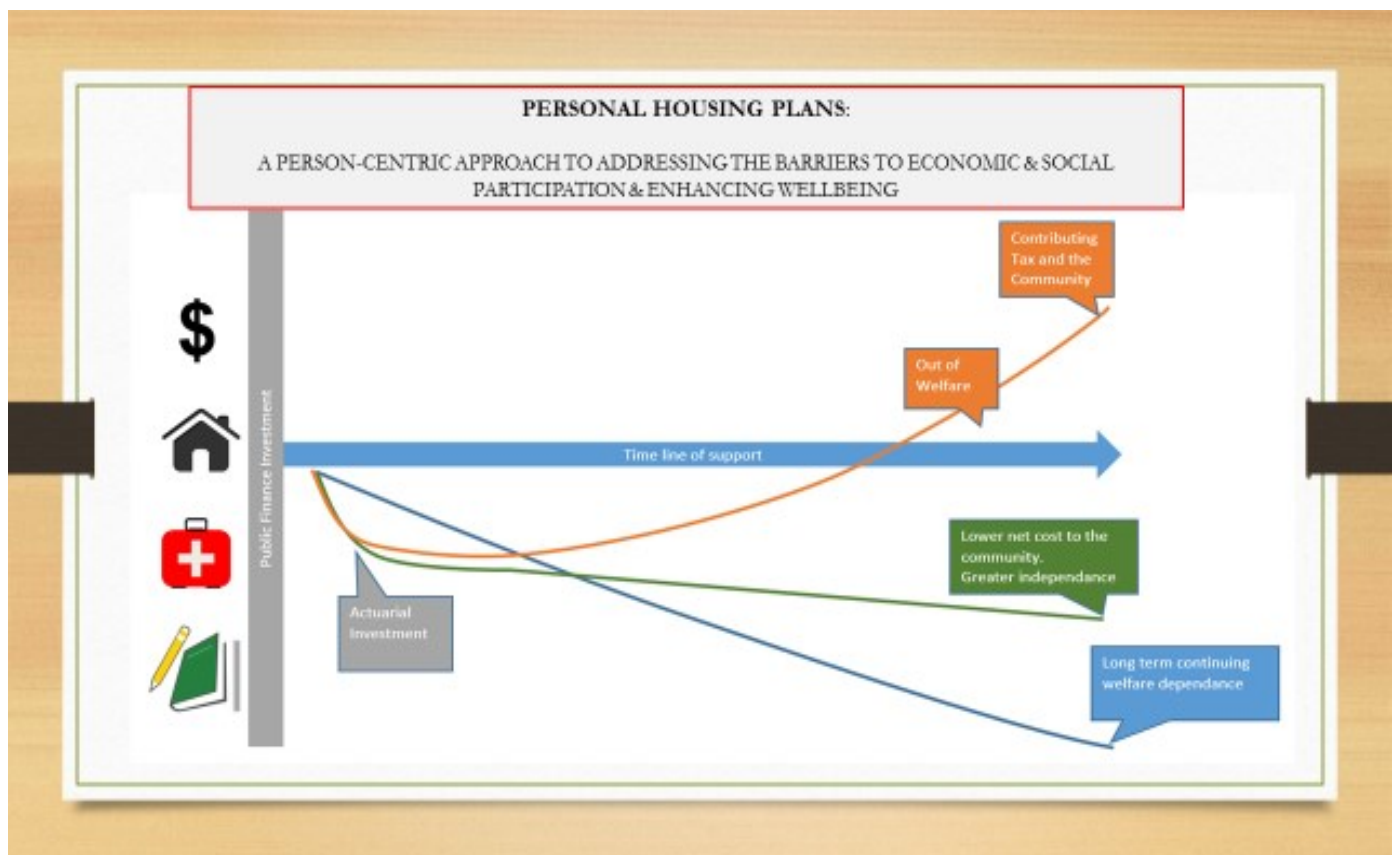
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## Domains & Outcomes @ 14/9/15

effective – efficient – equitable – economy – environment - evaluation



How do we *address* rather than 'manage' disadvantage? [Personal Housing Plans]



The person at the centre

Whilst NAHC would never underestimate the enormous value in the provision of a safe, secure and affordable housing to someone in need, NAHC also recognises the significant limitation in the outcomes within the current system.

The level of a persons need and vulnerability may be the basis for sound rationing, but defining a persons' vulnerability and housing need is not the sum of the person nor does it acknowledge or work with their strengths, experience and hopes for the future.

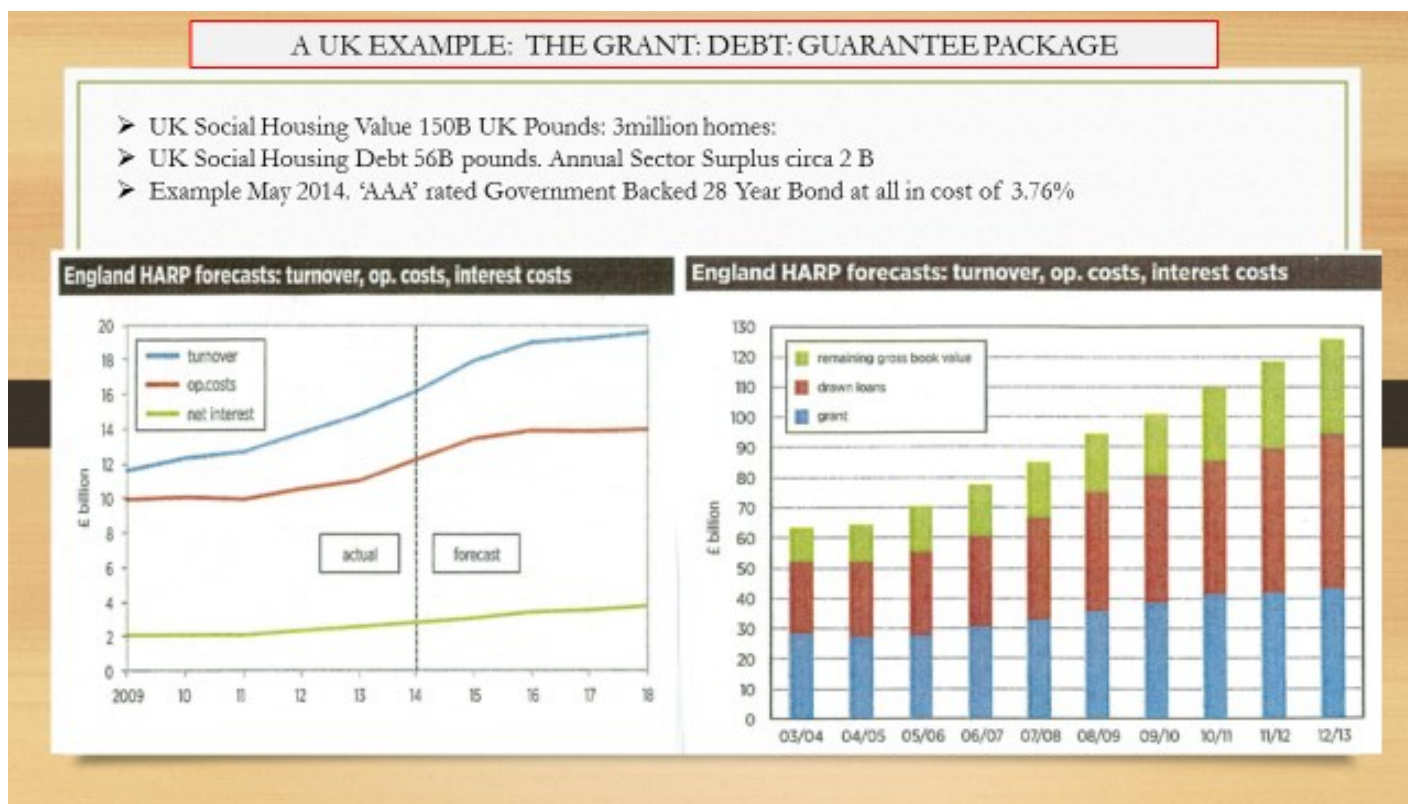
NAHC is working with its 'Knowledge Partners' to think about the wider purpose of the social housing system and how a person centred and co-ordinated approach can improve the 'pathway' opportunities for people within and beyond social housing, including how to enhance a persons' choice and control and how to best co-ordinate multi-agency 'buy in' to improve outcomes.

This reform proposal complements our investment in the Sustainable Built Environment national research centre 'Rethinking Social Housing' setting out new methodology in measuring the housing and non-housing outcomes of social housing investment.

We not only need to understand the causal links within the social system, but have a framework for smart investment that reduces long term costs in the system. NAHC is developing practical tools to improve this actuarial assessment and creating data sets that can demonstrate and quantify the medium and long term benefit flows to the household, the wider community and, of course, to Governments in reduced future costs.

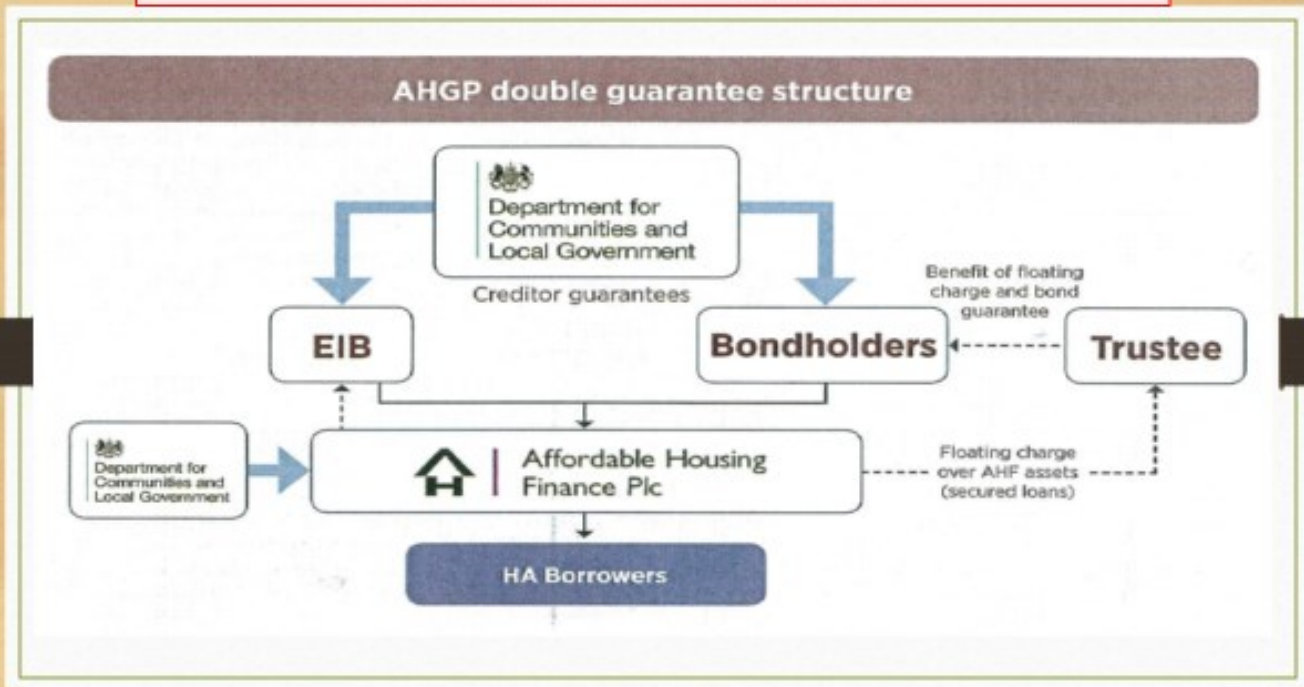
## NAHC's Response to the 4 Options

### 1. Housing Loan/Bond Aggregator





## FUNDING STRUCTURE:- UK EXAMPLE



## SOME HOME REALITIES

- ❖ The role that cheap / long term debt finance plays in social housing systems around the world is well documented, particularly by AHURI, and is critically important, **AND...**
- ❖ Some form of Government Guarantee is crucial if we are to attract cheaper / longer funds at scale into what is a 'new' investment line with a distinct risk profile and with barriers to normal 'asset security and default' eg repossession / eviction / sale...**BUT**
- ❖ **It is the ability of the sector to reliably service that debt and repay that debt that is the key.... AND.....**
- ❖ Current Community Housing Income Streams provide skinny surpluses at best. [ Sphere modelled this for the CHC of South Australia and came up with the figure of **\$878 pa**. An amount easily eroded by such things as insurance or rates hikes]. With the scale of addressing the social housing problem in NSW alone around \$11B, we can see the mismatch.
- ❖ **The Take Out....**Low cost & long term finance **must** be part of the mix. A Government Guarantee is essential: Funds need to be mixed with other subsidies and tailored for client profile and location. Intermediaries may be government / government sponsored or private. Servicing and repayment are crucial issues as is aggregation and capability in the sector



## EQUITY INVESTMENT: "BRAVE NEW WORLD" – JLL Research June 2014

In 2014, the international property and funds giant, JLL interviewed 20 Funds Managers regarding investment in Affordable Housing. The following is a summary of **SIX** key investment criteria largely based on an equity investment with a leaseback to Housing Associations. "Enabling the investors to retain ownership whilst removing themselves from operational risk".

"We are looking for long term secure income cash flow investments that leave Registered Providers in direct control of the assets" – Michael White: Canadian Life



### Discussion Points and Observations:

There is a need for Equity Investment alongside a vehicle to aggregate cheaper longer term debt. In theory the current social housing assets of the States and sector could be put into a Trust and the Trusts operating mandate could enable a more diverse portfolio to be acquired, more active asset management and significantly improve efficiency in facilities and property management. There is no reason why a wide range of investors, retail & institutional couldn't participate.

However there are a number of quite fundamental issues when considering the holding of social housing in a Trust, including:

- Ownership and control & mandate
- Valuation issues
- Tradability & liquidity – in reality within a constrained mandate
- Income Returns [ Residential rental property yields are low – circa 3% net – even lower [0% - 1% even with CRA]] with social & affordable housing ] therefore what is the subsidy stream that is needed and is that the best use of funds
- Capital recycling [ relationship to need & people’s homes vs maximising financial outcomes in market cycles]
- Expected dividends
- The experience and expectations of the tenants and their sense of security

**Two more limited options might be:**

- **States transfer assets to an independent NFP Trust enabling capital to be raised off balance sheet, reduced overheads, social impact investing and all profits re-invested. This might generate improved efficiency & investment without the same policy risks**
- **An Affordable Housing Trust, might be a suitable vehicle for Equity Investment in that specific segment of the market – see JLL slides above- backed by tax concessions or other subsidy**

## **Housing Co-operatives / Mutuals**

Whilst there are some very large and profitable co-operatives internationally, and Mutual financial entities have a strong history in the international housing market [ Building Societies / Mutual pension Funds etc], recent history has been one of de-mutualisation, diversification of financial services and moves towards more mainstream corporate business structures.

Sitting within the social housing culture & funding regime, Australian housing co-operatives cannot bring much Member Equity [other than some limited history of sweat equity] to the table and the housing co-operative model is not well positioned to add significantly to the Working Groups outcomes.

In a pluralistic social system, the co-operative ‘engagement model’ can help build communities and upskill individuals. These are important considerations in a system that simultaneously disempowers its customers **and** decries a lack of mutual responsibility!

In terms of investment, the social sector co-op model has no great advantage over any other NFP Housing Association provider. As a potential contributor to affordable housing, including co-housing and self-build mutuals, the sector is under-developed but has potential to create more self-help outcomes.

Mutual financial service agencies are looking to innovate in assisting social & affordable housing reform including into the disability housing sector.

## **Impacting Investing Including SIB**

Can we imagine a future where private institutional investment funding into social goods and services was

- Systemic & reliable over long terms
- At scale
- Liquid and tradable
- As great or greater than that which comes from tax transfers.

Can we imagine every superfund and financial institution with a segment of their investment wheel named 'Social Goods & Services' and a financial / investment return driven by improved & measurable social outcomes which generate efficiencies, productivity, sustainability and wellbeing.

Currently State Treasury's are promoting Impact Investing /SIB's **at a transactional level**. This often involves bespoke arrangements, higher cost and limited capacity to scale-up, and face significant challenges in pricing risk and measuring outcomes. **Therefore we cannot see any significant role in II/SIB in meeting the scale of challenges we face at this time.**

Potentially the shift towards Impact Investing in all its forms and across social goods and services could be transformational and there are many that believe the re-shaping of capitalism post GFC make it imperative for Governments to set new rules to balance commercial, social and environment outcomes in the interest of genuine long term sustainability. This movement has the backing of many Governments [see below] and significant international corporations along with leading financial services entities.

To do this justice we cannot see II/SIB just through the lens of social and affordable housing. The steps towards reshaping market investment behaviour towards wider social goods and services, steps towards understanding the economic and productivity impacts of that reshaping, creating outcome based measurements alongside actuarial investment frameworks, requires a comprehensive appraisal.

The essential 'market making' building blocks are:-

- Government Procurement: Driving supplier innovation and reform by Social Value procurement within a new national [COAG] framework
- Incentivising Social Investment at scale.
- Creating an Outcome Based Contracting system
- Mitigating some key risks whilst investment markets adjust

#### SOCIAL IMPACT INVESTING – IS IT REALLY A GAME CHANGER?

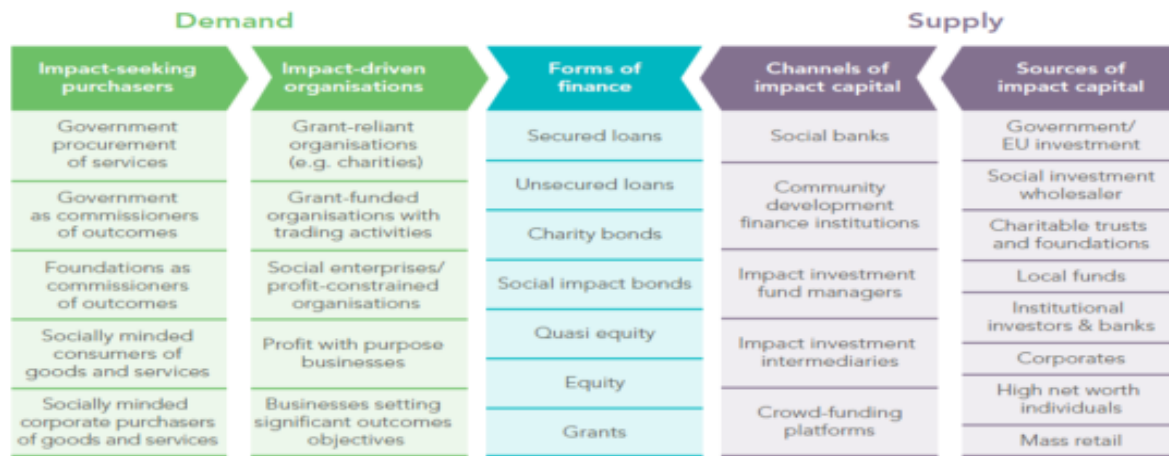
##### **Social Impact Investment Taskforce [ Established via OECD]**

*"The world is on the brink of a revolution in how we solve society's toughest problems. The force capable of driving this revolution is 'social impact investing', which harnesses entrepreneurship, innovation and capital to power social improvement". – Social Impact Investment Taskforce, p.1*

The **Global Social Impact Investment Steering Group**, which will continue the work of the original taskforce but with a larger membership, including 13 countries and the EU. (Social Impact Investment Taskforce, Sep 2014; gov.uk)

The expected financial gap between social need and fulfilment has been estimated at \$1.5 trillion from 2013 to 2025 (Cohen, 2013). *The role of the Global Steering Group is to reduce this gap through its focus on social outcomes in financial investment*

## SOCIAL IMPACT INVESTING – IS IT REALLY A GAME CHANGER



Needs Scale not at 'transaction level' / National, not State Level

Drive Via Procurement [eg UK Social Value Act]: Incentivise Large Scale Investment & Outcome Based Contracting

NAHC welcomes the national 'Social Impact Investing' debate to look at ways to achieve greater social and economic inclusion and reduce inequality. We recognise this is a debate as much about the economy as it is a welfare; as much about private investment in social goods as it is about traditional tax funding; as much about preventing and resolving disadvantage as it is about providing a fair 'safety-net' for the period of need.

**Social Value** methodology has emerged as one way of rethinking the nature of economics and markets and promoting reforms which lead to a [hopefully long term and wide spread] shift in economic & business culture and the outcomes delivered by the social services sector.

Through its 'Knowledge Partnerships', NAHC is seeking to contribute to this debate in Australia and to promote systemic and structural reform that puts affordable housing in the mainstream of the new economics.

We seek a system that reduces demand flows for 'welfare' transfers through a shift in the economic system towards preventing or mitigating current levels of economic and social exclusion.

The UK Social Value Act 2012 is just one example of new economics; where Government Procurement stimulates innovation in thinking about how to capture, value and measure commercial, social and environmental returns that maximise 'best value' for the community, and the locality.

If we link procurement reform to investment reform, we understand that the ability to attract social value investment is considerable, not just in small scale social impact bonds, but as a complementary 'long term-large scale' application of funds to complement the tax transfer system.

In the medium term we can envisage a system where Government incentivise private and community investment into 'approved' social value functions, like health, affordable housing, social services and education.

If procurement focussed on creating a cultural shift towards adding social value to each purchase and we created the market conditions to incentivise large scale-long term private investment into social and human services; [complementing direct tax outlays], the scene would be set for a genuine shift to flexible Outcome based service contracts, including Payment By Results where appropriate.

Whilst NAHC applauds the efforts of State Treasury's to investigate and pilot social impact funding, [and we are working to support States in this new thinking] this effort is in danger of missing the systemic reforms that must be in place to ensure scale and replicability.



Systemic reform must encapsulate **Procurement, Investment and Outcomes**. A focus on small scale, high transaction cost initiatives may add to learning but they fall far short of transforming the social system so that Australia can provide a decent service to meet current and future demands.

If the reform agenda was adopted through COAG, it could be designed to meet a re-shaped Federation outcome and provide a national framework and incentive structure that would significantly enhance revenue to the States via private 'social value' investment.

### **A NEW HOUSING SUPPLY PACKAGE:**

#### **100,000 better housing outcomes**

The Consortium has set out a Phase 1 Reform package [Below] across the social & affordable housing sector to deliver 100,000 better housing outcomes within 5 years.

It is a supply side initiative and seek to influence key points in the continuum, including social housing.

It has 'Market Making elements including:

- ✚ Creating a pluralistic system
- ✚ Creating wider investment opportunities across retail and institutional investors to diversify investment and generate competition
- ✚ Drives consortia across construction, community and finance which cross fertilises the industry and builds capacity for scale
- ✚ It clarifies roles between the Commonwealth & States
- ✚ It is contestable

#### **Within the scope of the Affordable Housing Working Group Paper, it**

- Delivers 100,000 better housing outcomes
- Delivers reform and new supply broadly within existing budgets
- Is achievable & practical & measurable
- Stimulates system change and creates new dynamics which can be built on in future phases
- Builds on and taps into current capabilities & interests already in place
- Aligns to new-federation principles
- Is not dependent on Macro Reforms like Tax / Land etc but would be boosted by them

## A HUNDRED THOUSAND BETTER HOUSING OUTCOMES

AFFORDABLE HOUSING WORKING GROUP: PHASE 1 REFORM PACKAGE:- **THE FIRST 5 YEARS**

Reform Item	What is it / Why Use it	Targets & Numbers	Characteristics & Considerations
<p><b>Social Housing Capital Investment Fund – SHCIF</b></p> <p><i>[Securitisation of current Government incomes streams to renew &amp; grow social housing]</i></p>	<p>There is not enough Capital Investment to turn-around the continued decline in social housing. Shifting from public housing to CHP's simply swaps State Subsidies for CRA.</p> <p>SHCIF aligns Commonwealth and State Subsidies [State 'Deficit-Gap' funding and Commonwealth CRA] guaranteed for 15 years to underpin a Capital Fund</p> <p>A Rated Fund [Institutional] providing long term low cost capital to renew stock to meet disability and other high needs and to grow 'Pathway' affordable housing to help those who could, to move beyond social housing</p> <p>It uses current subsidy streams to better effect and it underpins a clear and co-operative approach consistent with improved federalism</p>	<p>SHCIF operates at a portfolio or regional level within a place making framework – where capital investment is linked to wider housing and non-housing outcomes</p> <p>The Affordable Housing Working Group [AHWG] could announce that a Proof of Concept trial would be offered to all States &amp; Territories of around 5,000+ dwellings in each jurisdiction on a joint subsidy basis.</p> <p>This would involve an initial portfolio of 40,000+ public housing units generating up to 8,000 replacement units 'fit for purpose' and 4,000 new Affordable Housing 'Pathways' housing [Discount rental and community shared equity home ownership]</p>	<p>Under COAG [CHPs to be 35% of all SH by 2014]</p> <p>Commonwealth is therefore already up for demand side CRA.</p> <p>CRA has <b>not</b> [to date] been a successful tool for stimulating capital investment in affordable housing</p> <p>A General Financial Model is under development by Financial Institutions and the Community Housing Sector. This will provide the States, Commonwealth and Industry with a Model that can be applied to different portfolio's and adjusted to different market conditions.</p> <p>The actual renewal and new supply outcomes will be portfolio specific: i.e assumptions, inputs and outputs change</p> <p>CW / States can agree different investment outcomes &amp; priorities [Bi-lateral]</p> <p>Can be through a range of structures [ ALMO/ JV / Outsourcing etc] but doesn't require new Government 'structures.</p> <p>Can act as Bond Mechanism at regional or portfolio level and therefore run by Private Sector or Private/Community Vehicle. The Vehicle therefore doesn't need a</p>

			<p>guarantee by Government just the Income Streams.</p> <p>Highly Replicable and contestable</p>
Reform Item	What is it / Why Use it	Targets & Numbers	Characteristics & Considerations
<p><b>Affordable Housing Finance Agency – AHFA</b></p> <p><i>[Debt Aggregator to attract low cost, large scale, long term institutional finance]</i></p>	<p>There is a need to bring long term, low cost, large scale finance into social &amp; affordable housing</p> <p>This may be best achieved through a specialist vehicle to provide confidence for institutions to invest in, including lowering risk.</p> <p>There is an important role for Government in sharing the risk and assisting in creating stable market conditions over the medium term</p> <p>Key issue – Government Guarantee/other risk sharing arrangements need to be considered [Insurance/Self Insurance/differential responses to tranches of risk etc]</p> <p>Other issues include whether it is linked to the Not For Profit delivery system [Registered Providers] or to the wider market system</p>	<p>Debt funding plays an important role in the social and affordable housing systems in most comparable countries.</p> <p>In Australia the scale of business, types of funding, length of funding, price of funding and terms of funding are not well suited to scaling up the national response to social and affordable housing needs.</p> <p>With Government support, the vehicle could ensure borrowing was for prescribed purposes [perhaps via Registered Housing Providers] and Government may exercise control over the volume of business written by the Agency [At least those funds tied to Government support]</p> <p>The level of funding and its targeting across different needs and different markets will need to be established.</p> <p>Notional Target: \$1 Billion in Approved Finance over 5 years = 3,000 dwellings</p>	<p>Whilst the vehicle represents an investment in a more market-orientated approach to financing and delivering social &amp; affordable housing, there are a number of important factors to consider alongside the issue of a dedicated aggregation vehicle.</p> <p>In the sub-market world of social &amp; affordable housing, debt finance will only make a real difference if adequate and reliable levels of subsidy exist to service and ultimately repay the Debt.</p> <p>The level, type and terms of such subsidy is central to the objective to attract low cost, long term, at scale institutional finance</p> <p>The level of debt and therefore the subsidy will also relate to the cost base, target group needs and income streams in any given project.</p> <p>Aiming for a pluralistic service system where different subsidies [HASI / Land/ Tax Relief / CRA] can be package can spread risk and generate innovation-over time these should improve efficiency and reduce the subsidy cost and price of funds.</p>
Reform Item	What is it / Why Use it	Targets & Numbers	Characteristics & Considerations
<p><b>Housing Affordability Supply Incentive –HASI</b></p>	<p>Tax Incentive based approaches can assist in create a more diverse</p>	<p>A fully refundable tax offset certificate of \$6,000 p.a [say over a 10 year</p>	<p>Avoiding over dependence on one investment type [ Institutional] or one</p>

<p><i>[Tax Incentive to support targeted investment in new supply of affordable housing]</i></p>	<p>investment market, increase supply, provide greater liquidity and can be prescribed to meet very specific market failure gaps, by location, need, dwelling type etc.</p> <p>NRAS has delivered 30,000 new homes in 7 years and attracted over \$11Billion in private and community investment.</p> <p>However, HASI has been designed to remove administrative complexity/duplication, and to drive better value for money outcomes as part of a pluralistic supply side package.</p> <p>Meets 'reformed' federalism outcomes with the Commonwealth acting as Catalyst but the States packaging delivery via the market</p> <p>Incentives are offered to the States on a per capita / needs basis on a 3 year rolling program basis. [Supply pipeline] There is no co-management of administration. Roles are distinct and clear.</p> <p>Each Incentive must deliver 1 new social or affordable housing dwelling</p> <p>Incentives are packaged by States to meet agreed priorities and can be linked to urban renewal, TOD, Inclusionary Zoning, Land release and social housing renewal.</p> <p>Incentives can be tradable to create liquidity and this includes translating the 10 year Incentive into NPV capital investment fund</p>	<p>term but could be a mix of different terms depending on value for money eg a prime site near a hospital might provide a longer term VFM proposition of say 20 years]</p> <p>Incentive value to be matched at least \$ for \$ from the State, but matching can be in many different forms including land/ tax relief etc. State matching can reflect different costs in different markets and strategic policy outcomes [eg Capital City Growth Management Strategies]</p> <p>The first <b>3 year program</b> of [say] <b>20,000+</b> dwellings would cost the Commonwealth <b>\$120m py</b> once all are supplied. Matched by the States</p> <p>It would generate \$8B in housing activity generating 10FTE jobs for each \$1m spent.</p> <p>Can support NDIS outcomes. Contribute to key worker strategy in Capital Cities Stimulate wider investment in urban renewal</p>	<p>funding model [Debt]. It better manages risk, is more liquid and generates competition.</p> <p>It enables policy levers to be adjusted according to market cycles and public policy needs. It can create a more flexible and responsive system that addresses long term investment needs but also enables shorter and medium term responses to specific circumstances [ eg a Stimulus or a specific emerging need that Government wishes to respond to]</p> <p>It facilitates an equity holding in the S&amp;AH sector which is open to a wide range of investors including 'mom &amp; Dad investors/ SMSF/ Property Trusts and Annuity Funds]</p> <p>Need for certainty. Need for a pipeline approach to supply.</p> <p>Could drive wider market delivery eg as a pre-sale take out etc.</p>
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	<p>and / or using it as a subsidy stream to take on Debt via the AHFA thus maximising capital investment</p> <p>The model should also facilitate rent to buy and flexible tenure responses. It should have a range of discounts to market to reflect different needs and capacity to pay</p>		
Reform Item	What is it / Why Use it	Targets & Numbers	Characteristics & Considerations
<p><b>Supply Reform Fund – SRF</b></p> <p>[ Drive market reform including mainstreaming new products like Shared Equity Home Ownership and new mechanisms like Inclusionary Zoning / TODS etc]</p>	<p>Potential to better use NAHA funds to directly influence supply, market innovation and to support the strategies outlined above.</p> <p>For example NAHA funds could</p> <ul style="list-style-type: none"> <li>➤ Take the first tranche of risk in underwriting the AHFA Debt</li> <li>➤ Provide the funding for the HASI Tax Incentive</li> <li>➤ Provide a subsidy stream [ like NSW SAHF ] to support private sector debt and equity investments [Buy outcomes]</li> <li>➤ Stimulate social impact investment models at greater scale, including payment by results models</li> </ul> <p>There is a case for a significant fund to drive market innovation and to support such innovation towards full commercialisation. [ eg New Construction Methodology/ Zero Emission Housing/ Shared Equity Ownership models]</p>	<p>If 50% of NAHA was targeted to this approach [ say \$500m py] it would be reasonable to expect an annual new supply of <b>2,000- 5,000 per year</b> [ 10,000-25,000 over 5 years] depending on the target group/ location/cost of supply and indicative subsidy required.</p>	<p>One key consideration is the position of the States if NAHA was re-structured and any flow through implications for current social housing programs.</p> <p>This might be offset by funding through the SHCIF approach outlined above which is a much more focussed approach to co-investment in growth and renewal; and via HASI which would provide a funding stream that States can package to market.</p>

	<p>The fund could be contestable and seek to align industry and community service providers to create better business models through consortia.</p>		
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And a last word on 30,000 new homes already delivered through \$11B in private funding: It can work: The investors are there: The failings in the current model can be addressed: Industry is ready: The Banks are ready: A Tax Based Incentive is good policy. It can be done at less cost to the Commonwealth.

TAX INCENTIVES- NRAS WORKS BUT COULD DO BETTER



“Back to The Future”

Imagine this same policy discussion 10 years ago. Someone says we can deliver 30,000 new affordable homes [Built in areas of the Government choice and type of dwellings chosen by Government] in 7 years and bring in \$11 Billion in private and community finance through this Tax Incentive model...and you can gear it up.

Since 2009, NRAS industry and community partnerships have built around **30,000** new affordable rental homes and have attracted over **\$11 Billion** in private and not-for-profit investment. In 2016/17 NRAS will save tenants around **\$140m** in rent, helping lower income households meet cost of living pressures

In 2013 and 2014 **Bond University** conducted two independent economic studies into the Commonwealth Government's National Rental Affordability Scheme. [NRAS]  
**The December 2013 Bond University Report** found the delivery of [the original targeted] 50,000 NRAS dwellings would:-

- ✓ Generate a total of **\$18.9B** in economic activity
- ✓ Create **\$9.3B** in revenue for Commonwealth, State and Local Governments [Mostly tax & charges]
- ✓ Create **329,000** full-time equivalent jobs

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March 2016