PowerHousing Australia

Collaborating for a better housing future

Treasury Laws Amendment (Making Sure Foreign Investors Pay Their Fair Share of Tax and Other Measures) Bill 2018

Submission –13 August 2018

Introduction

PowerHousing Australia welcomes the opportunity to provide feedback on the Treasury Laws Amendment (Making Sure Foreign Investors Pay Their Fair Share of Tax and Other Measures) Bill 2018.

The growing issue of housing for all Australians finds increasing prevalence in the media today. Government, advocacy groups and low-to-moderate income earners face a significant challenge with 1 in 5 households recording income of less than $650 per week, stagnant wage growth and rising rents increasing the national rate of rental stress.[i] Indeed, the number of people experiencing homelessness and on waiting lists for social housing has increased significantly.[ii]

As recorded by the Productivity Commission, 'the number of public housing households has decreased over the last decade (331,136 in 2008 to 310,483 in 2017), while there has been an increase in the number of households in community housing, from 35,043 to 75,634'.[iii] This in part reflects transfer of some public housing stock (management and/or title) to the community housing sector in line with Government policy to expand the role of community housing in the provision of affordable housing.

With Australia currently building 221,000 dwellings per year, which is 60-70,000 dwellings more than the average annual build rate,[iv] we are now seeing a developing national focus on incentivising the delivery of affordable housing at reasonable price points. Whilst Australia has delivered this many homes consistently per year over the past 2-3 years, Australia has under-delivered when it comes to providing suitable affordable homes and particularly for those that wish to rent.

Whilst these levels of housing production have peaked at record levels, there is a real risk that a decline in delivery over the next 24 months will reverse recent gains without significant net gain in all housing types such as specialist disability accommodation. Not only would a drop of 40-70,000 dwellings being produced per year impact on diverse supply, it would impact on State and Federal taxation revenues and jobs. To put this into perspective each new dwelling that does not get built will see up to 40 trades and sub-trades work orders lost per dwelling.

Our submission is structured around the following key issues:

1. National support for affordable housing policy
2. Closing the Yield Gap
3. Institutional and international Investment into affordable housing

PowerHousing Australia and its Membership

PowerHousing Australia was formed in 2005 when leading community housing executives recognised the value of collaboration and information-sharing in addressing the housing affordability crisis.

PowerHousing facilitates a national network of 31 member Community Housing Providers (CHPs) and partners with 20 national/international brand developer, financial and sector affiliates.

PowerHousing assists our members in increasing the supply of affordable housing and delivering excellent tenancy and asset services within a community building model. We do this by facilitating regular opportunities for members to network and exchange knowledge, such as at our Annual Member Exchange amongst other networking and collaborative opportunities. Based in Canberra, we are located to promote the capacity of members and represent their policy positions to the Federal Government and other stakeholders.

PowerHousing is a member of the International Housing Partnership which brings together housing organisations across the UK, USA, Canada and Australia to collaborate, share best practice and build knowledge.

Our ASIC and ACNC-regulated members develop, own and manage social and affordable housing, providing housing worth over $15.9 billion to more than 82,000 Australians on moderate to low incomes, with great levels of tenant satisfaction.[v]

PowerHousing's growing members are projected to have raised over $700 million of debt facilities in 2017-18.[vi] In New South Wales alone, our members represent over 80 per cent of registered Community Housing stock.

As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the national supply of social and affordable housing. Profits are reinvested into acquiring, developing and managing properties and programs designed to increase the amount of affordable housing and address housing need.

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

Elements of the Submission

1. National support for affordable housing policy

The CHP sector and broader residential industry have been strong in their support of the suite of 2017 Budget policies such as the MIT and the NHFIC and we commend the Government for their genuinely consultative approach with us as they have developed this and other affordable housing legislation.

The 2017-18 Federal Budget laid the foundations for our sector to prosper and enshrined the essential place we hold in the affordable housing equation.

We applaud Federal Treasurer Scott Morrison and Assistant Minister Michael Sukkar's commitment and efforts to building the financial and operational capacity of CHPs as a critical part of the long-term solution to Australia's housing affordability challenges. We also warmly welcome the bipartisan support these measures have received recently in parliament and the work of Senator Cameron and the broader Senate Economics Committee who listened to and took on board the sector's urgent need for affordable housing measures.

With the NHFIC able to be established as of July 1, there are CHPs with shovel-ready projects that will now be able to access some of the lowest cost finance, which will greatly assist them to provide affordable housing options to growing numbers of Australians. With the laying of these foundation stones for social and affordable housing, the formal creation of the NHFIC will become a pivotal moment for the country, as there is not one city or region that avoids the pressures that the current affordable housing crisis throws at Australian families and those on low to moderate incomes.

This has also seen a real focus on capacity building for CHPs – an exciting development and strategic investment by government in our nation's housing future. Moving forward, we need to encourage policy that supports institutional investment into the sector. This will not only lead to fiscal gains - it will result in social gains.

2. Closing the Yield Gap

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

The Federal Government has committed to introducing and pursuing a range of housing measures in the 2017 and future Federal Budgets[viii]. Clearly implementing the first salvo of 2017 Federal Budget measures including the NHFIC is the priority if the affordable housing challenge is to be tackled. There is opportunity however to load up the next salvo of measures, which support partnerships at scale to deliver affordable housing. These partnerships can reduce the cost of accessing and developing land, see low-cost housing incorporated at first principles of development and reduce the yield gap that occurs when housing is provided for people on low to moderate incomes.

PowerHousing Members have the capacity to work and partner to deliver innovative projects at scale and acknowledge the evolving role of Federal Governments to reduce the burden of social and affordable housing delivery by incentivising this type of low cost housing provision at first principle. This then locks in long term payback terms which can offset the yield gap.

Innovative partnerships, incentives and subsidies around minimising the yield gap need to be considered as part of the suite of housing measures the Turnbull Government is putting forward if the objective of increasing the supply of affordable housing is to be achieved. This is especially true of the NHFIC, bond aggregator, and the Managed Investment Trust as minimising the difference between commercial return on investment and yields traditionally seen by CHPs would help to further incentivise institutional investment in the scheme.

3. Institutional and international investment into affordable housing

It is vital that the settings for new supply have an affordable housing focus.

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

The Federal Treasurer has taken the first steps to stimulate the creation of an affordable Build-to-Rent model here in Australia.

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

From PowerHousing's recent US field visits it's clear that affordable housing Build to Rent was a safe haven for residential investors during the GFC. The investment environment for low to middle income housing is trusted and has been nurtured there over a long period of time. It could be opened up here if a 'layering' of policy is pulled together to include an MIT geared to support affordable housing.

There is a stark contrast here with Australia, where our institutional investors, and super funds, are sending their capital overseas to invest in affordable and/or Build to Rent developments, rather than here domestically despite a manifest affordable housing shortage.

Broadly speaking in addition to capital formation vehicles such as MITs that see long term investment beyond 10 years, Australian Governments can incentivise institutional investment into affordable residential Build to Rent through some of the following measures:

• Planning, zoning and development uplift with fast track affordable housing stock development particularly alongside projects listed within the Federal Government $75b, 10 year infrastructure plan;

• Land use incentives to permit multi residential development that include a proportion of affordable rental dwellings through National Housing and Homelessness Agreements.

• Taxation incentives similar to the US Low Income Housing Tax Credit, supported by a Community Reinvestment requirement;.

An affordable housing focused MIT, if coupled with tax credits, planning reforms, infrastructure and a community reinvestment focus from lending institutions as in the US, Build to Rent could underpin 20-

30 per cent of the pre-commitment of a proposed new development. This new 20-30 per cent affordable housing pre-commitment component could support a development in much the same way foreign investment went from near nothing in 2012 to a 10-40 per cent component of many developments today, boosting new dwelling delivery to record levels in 2016. Much like foreign investment, a new unique affordable housing component of 20-30 per cent in developments could boost annual supply levels, tackle underlying demand, offset the projected declines in building activity, support treasury receipts and maintain strong jobs in one of Australia's largest employers - the property industry.

Foreign investment in Australian residential real estate has been based on investment diversity, not necessarily yield. Growing census vacancy data and vacant property taxes in response, show properties remaining vacant rather than collecting a rental yield from domestic residents as is commercially prudent is going against normal investment logic and occurring in Australia today.

Outside of the badly needed injection to housing delivery, recent foreign investment trends show massive investment interest in the Australian residential market, and a residential investment MIT needs to consider this ongoing expected demand. An MIT, which if focused on delivering affordable housing through the 15% withholding rate of taxation, could incentive percentages of around 30% of a development to be affordable for the whole development to qualify. Where an agreed affordable housing threshold of say 30% has been met, is also important to acknowledge that an asset must be tenanted or available to be tenanted under the management of an eligible CHP and that provider must have issued the owner with a certificate covering the asset for the relevant period for the whole development to receive the lower withholding tax rate.

Incentivising development of a specific type of housing through an MIT could also channel investment into other areas such as disability housing. PowerHousing Australia's members look forward to continued consultation with DSS, private industry and affiliates to build community housing sector capacity in the disability space.

The Build to Rent market can create another housing option and a new asset class for long term stable diversified investment for both domestic and foreign investors. Housing for key workers, on low or average weekly earnings, who would have the opportunity to live close to where they work, makes good sense to most Australians.

Conclusion

PowerHousing Australia's members are broadly supportive of the focus of Federal Governments on incentivising the development of affordable housing for purchase and for rental.

As a final note, Build to Rent developers in the US partner with the affordable housing sector which could occur here in Australia in greater numbers. One lesson of the GFC is that Build to Rent could be the critical lever of new diversified and government supported investment that counteracts a softening residential construction market. This will be vital if construction development in 2020 contracts back to 20 year average build rates, which are 40-60,000 fewer homes than are being built in 2018.

Consistent flow of new affordable rental stock will be critical to arresting the surging decline in housing affordability with the legislative reforms in this Exposure Draft an opportunity to further focus new investment into affordable housing.

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[i] ABS. 2016 Census (Released 27 June 2017).
[ii] Productivity Commission 2017, *Report on Government Services,* Volume G, Canberra: PC.
[iii] Productivity Commission 2018, *Report on Government Services,* Volume G, Chapter 18, pp18.4, accessed 23 Jan 2018, <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/housing-and-homelessness/housing/rogs-2018-partg-chapter18.pdf>
[iv] *8752.0 - Building Activity, Australia, Mar 2018*. For more info: <www.powerhousingaustralia.com.au/wp-content/uploads/2017/10/Affordbale-Housing-Report-EScan-Aug-2018.pdf>
[v] PowerHousing Australia 2017, *Annual Report,* Canberra
[vi] ibid
[vii] IPART NSW 2017, *Review of rent models for social and affordable housing'*
[viii] Sukkar M (Assistant Minister to the Treasurer), AHURI Conference 2017 speech, Sydney, 4 Dec 2017

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