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Pass the HAFF

Submission to the Senate Economics Legislation Committee Inquiry into the Housing Australia Future Fund Bill 2023

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The Housing Australia Future Fund (the HAFF) Bill should be passed by the Senate as soon as possible, to provide an immediate and much-needed boost to Australia's social housing stock.

The HAFF, based on a Grattan Institute proposal,[1] is expected to support construction of 20,000 social homes and 10,000 affordable homes over the next five years.[2] Rather than directly financing the construction of social housing, the HAFF will invest $10 billion via the Future Fund in stocks, bonds, property, and infrastructure assets. The returns on that investment would then support subsidies paid to the states or community housing providers to cover the subsidy gap between the cost of building and maintaining social housing, and what low-income renters pay in rent.

Recent amendments to the Bill guarantee that a stream of funding will be available to support social housing, irrespective of the fund returns in any given year. There are now few practical differences between the HAFF Bill and alternative proposals for direct government investment in social housing, beyond demands to increase the number of social housing dwellings delivered.

Therefore, the case for further delaying passage of the HAFF Bill, in pursuit of an alternative model of social housing delivery, is weak. Further delay in passing the HAFF Bill now will simply worsen Australia's housing crisis, hurting some of Australia's most vulnerable.

Australia needs more social housing

Social housing, where rents are typically set at 25-to-30 per cent of household income, has historically housed a minority of low-income renters in Australia. Social housing is usually offered at a substantial rental discount on what the same properties would cost on the private rental market. Social housing, especially public housing offered by state governments, also offers greater tenure security to renters.

The best Australian evidence shows that social housing substantially reduces tenants' risk of homelessness.[3] Social housing can make a big difference to the lives of vulnerable people. While lots of landlords rent to low-income households, many are prepared to leave their property vacant if the only person seeking tenancy faces the many issues typical for those who are at severe risk of, or already suffering, homelessness.[4]

Yet Australia's stock of social housing – currently about 430,000 dwellings – has barely grown in 20 years, while the population has increased by 33 per cent.[5]

But boosting social housing is expensive. Social housing provides a big rental discount, or subsidy, to vulnerable tenants. If governments were going to try to recoup these costs over time, as private landlords do, the rents would be higher than vulnerable residents can afford to pay.[6] This 'subsidy gap' is typically estimated to be about $15,000 a year, or an upfront capital contribution of about $300,000.[7]

1. Coates (2021).
2. Ministers for the Department of Social Services (2023).
3. Prentice and Scutella (2018) studied the benefits of social housing, comparing people who entered social housing to similar individuals in the private rental market. They found that only 7 per cent of residents placed in social housing subsequently become homeless, compared to 20 per cent of similar renters in the private market.
4. Daley et al (2018).
5. Coates (2021).
6. Ibid.
7. Estimates of the average upfront cost of building a unit of social housing range from $240,000 to $330,000. See Coates (ibid). And these figures are likely to be underestimates given the recent spike in rents and construction costs.

The HAFF offers a guaranteed funding stream to cover the subsidy gap for social housing

The main purpose of the HAFF is to facilitate the provision of subsidised housing to a targeted cohort of vulnerable renters at significant risk of homelessness. The HAFF may also marginally boost Australia's overall housing stock, although at least some social homes may displace the construction of market rent housing.[8]

The HAFF will disburse subsidies to state governments and community housing providers to support the construction of social and affordable housing. Once this subsidy gap is filled, developers of social housing – either community housing providers or state governments – will be able to finance the upfront construction of social housing dwellings, confident that the HAFF returns will top up the discounted rent paid by residents and make the project viable.

Under the HAFF, $10 billion would be invested via the Future Fund Board of Guardians, with the returns used to offer support payments to state governments, or community housing providers, to build and maintain social housing.

Future funds have been used by recent governments from both sides of politics to meet long-term challenges, and there are few more pressing challenges than the lack of safe and affordable housing for some of our most vulnerable citizens. The Federal Government already manages more than $250 billion in assets across six future funds to address long-term problems ranging from covering federal public servants' superannuation entitlements to funding medical research.

These funds make use of the equity risk premium to generate a higher return to meet federal government obligations or commitments than if the capital of those funds was otherwise used to retire debt.[9] Over the past decade, the original Future Fund has delivered an average annual return of 9.1 per cent, against a target of 6.7 per cent and well above the cost of government borrowing over that period.[10]

Concerns that the HAFF will not deliver subsidies for social housing in a given year are misguided. Both the Medical Research Future Fund and Future Drought Fund, for example, have disbursed monies in a given year, even when fund investments have not made a return.[11] Recent amendments to the HAFF Bill also mean the federal government will spend at least $500 million a year on social and affordable housing, irrespective of the fund returns in a given year.[12]

The differences between the HAFF and a direct government investment in social housing are overstated

A number of stakeholders have called for the federal government to directly invest in social housing in concert with the states. For example, the Greens have called for a $5 billion investment each year directly in social and affordable housing.[13] Yet beyond the quantum of investment proposed, there are few practical differences between the HAFF Bill and a direct government investment in social housing.

The HAFF would borrow funds to invest in via the Future Fund – in stocks, bonds, property, and other assets – and use the returns from

8. An additional 30,000 social and affordable homes, if all were genuinely additional, would boost Australia's housing stock by up to 0.3 per cent. But at least some projects are likely to utilise workers and materials that would otherwise support the construction of market-rent housing.
9. See Mehra and Prescott (1985). While the capital for the HAFF will be raised from additional government borrowing, whereas other future funds have been funded by budget savings or the proceeds of privatisations, in all cases the creation of future funds has involved a higher level of public debt than would otherwise be the case.
10. Future Fund (2023).
11. The Medical Research Future Fund disbursed $393 million in 2019-20 and $455 million in 2021-22, despite the fund returning only 0.2 per cent and 0.1 per cent respectively in those financial years. See: Department of Finance (2023)
12. The Parliament of the Commonwealth of Australia (2023).
13. See Faruqi (2023).

that investment to cover the cost of subsidies to cover the cost of discounted rents to vulnerable tenants. The federal government would offer funding to community housing providers and state governments, who would build and maintain social housing.

Whereas a direct investment in social housing would see the federal government borrow to build and own social housing in concert with the states. Federal and state governments would wear the cost of offering discounted rent to social housing tenants in the form of a lower rent on the properties built. Future capital gains on those housing assets could offset the cost of those rental discounts to government.

Both approaches would see the government borrow to invest in an asset, either in the form of investments held by the Future Fund, or directly in housing. And both proposals entail the government guaranteeing a stream of funding to cover the subsidy gap for social housing, funding the discounted rents offered to tenants out of the returns on invested assets.

The biggest difference between the two approaches is that direct investment requires more government borrowing, per social housing dwelling built, than would be required for homes supported by the HAFF.

That's because direct investment involves the government directly financing the whole dwelling, with a likely cost of at least $500,000 per dwelling. Whereas the HAFF involves borrowing sufficient capital, and investing it with the Fund Fund, to deliver a return sufficient to cover the subsidy gap for the discounted rent for the property.[14]

As a result, direct investment involves the federal government taking on more financial risk per social housing dwelling made available. And a diversified portfolio of assets invested by the Future Fund should generate a higher risk-adjusted return than a narrow investment solely in Australian social housing.

But in any case, the small differences between these approaches means the case for further delaying passage of the HAFF Bill, in pursuit of an alternative model of direct investment in social housing, is weak.

Delaying passage of the HAFF Bill now will worsen Australia's rental crisis

Once the Bill passes, the federal government can commence tendering for social housing projects with community housing providers and state governments. Once contracts have been struck, construction can commence, with the expectation that funds will flow from the federal government once projects are completed and dwellings are tenanted.[15] There would be no need to wait for the Fund to deliver returns at the end of its first year, before construction of social and affordable housing could commence.[16]

Demand for social housing is rising as rising rents force more low-income Australians into poverty and housing stress.[17] Further delay in passing the Bill now will simply worsen Australia's housing crisis.

The HAFF doesn't go far enough, but could form the basis for future investments in social housing

Our biggest concern with the HAFF is that it does not go far enough.

Given population growth, Australia needs about 6,500 new social housing dwellings per year to retain the current share of social housing in the total housing stock. Continued growth in social housing is

14. The 30,000 social and affordable homes that would be delivered by the HAFF equates to $333,000 in public borrowing per home delivered.
15. The same logic applies for private housing construction, where rents are only paid after the dwelling has been constructed and is available for let.
16. This claim has been made by the Greens. See Guardian (2023).
17. Coates and Moloney (2023).

necessary to ensure that those who need social housing can get it, given that most existing tenants tend to stay for an extended period.

The HAFF will fund the construction of 20,000 social homes and 10,000 affordable homes over five years, or an average of 4,000 social and 2,000 affordable homes a year over that period. But it will probably do so by committing the returns from the fund over about 15 years.[18] Therefore the initial $10 billion capital contribution to the fund is unlikely to support any further social housing for at least another 15 years.

The additional $2 billion since committed by the federal government for social housing, if allocated via capital grants, could support an additional 6,667 social housing dwellings, or more if matched by additional contributions by state and territory governments.[19]

While insufficient to solve Australia's social housing shortage, the HAFF could support a substantial boost to Australia's social housing stock in the long term.

For example, increasing the size of the HAFF to $20 billion in future, as initially recommended by Grattan Institute, could support subsidies for social housing of $1 billion a year, up from $500 million a year currently. An expanded HAFF could deliver an extra 3,000 social housing units each year in perpetuity via the provision of capital grants. Were the states to match this additional federal funding, the injection of extra units would probably be enough to stabilise the social housing share of the total housing stock.[20]

18. Assuming an availability payment model where the federal government covers the subsidy gap for 15 years.
19. Assuming an upfront capital grant of $300,000 per dwelling. See Coates (2021); Prime Minister of Australia (2023).
20. Coates (2021).

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