SENATOR DOUG CAMERON – QUESTIONS ON NOTICE

Senate Economics Legislation Committee – Inquiry into: National Housing Finance and Investment Corporation Bill 2018 and; National Housing Finance and Investment Corporation (Consequential Amendments and Transitional Provisions) Bill 2018

1. CHIA's submission expresses a preference for the NHFIC's Board of Directors to contain representation from the community housing provider sector.

   Does CHIA believe this representation should be mandated, or does the appointment framework outlined in the Bills suffice?

Answer: The appointment framework outlined in the Bills should suffice.

2. Various submissions to the Committee inquiry contend that at a stand-alone bond aggregator will not sufficiently address the 'funding gap' that currently inhibits the provision of social and affordable housing at scale.

   Does CHIA support this view? If so, why?

Answer: CHIA agrees that while the bond aggregator will reduce the cost of financing social and affordable housing, it will not be sufficient to address the funding gap between the operating costs and the rental income. This is because, by design, community housing providers (CHPs) charge rents below market rates to make housing more affordable for tenants.

The Affordable Housing Working Group Report to Heads of Treasuries examined this question in detail in 2016 and 2017.[1] It concluded that the bond aggregator *by itself* will not lead to substantial growth in affordable housing. Having reviewed international and Australian evidence, the Working Group confirmed that rental housing targeted at people on low incomes requires explicit subsidies to bridge the gap between operating costs and rental income. As an example, using the Working Group's methodology, a CHP which wanted to build or buy a $375,000 unit to rent to a household on $33,000 a year income paying 25% of income in rent ($156pw), would face a funding gap of $10,694 a year, even if the CHP put up 40% of its own funds and only borrowed $275,000 of the development cost.[2] If the CHP decided to rent this unit to a low-income couple on $47,500 a year at 20% below market rent ($275pw), the funding gap would still be around $3,100 a year.

The Working Group calculated that the funding gap for building an extra 1,000 social housing dwellings would be $8.9m per annum (for 30 years) even if CHPs provided $150m of the capital themselves and borrowed the $225m balance. To build an extra 1,000 affordable rental dwellings would require an annual subsidy of $3.1m for 30 years.

The bond aggregator will reduce the cost of loans taken on by CHPs by around 1% or so.[3] As well, the longer terms of the NHFIC lending will avoid the transaction costs which CHPs now incur when re-financing every 3-5 years and give more certainty about future financing costs. More efficient finance will enable CHPs to re-invest in additional affordable housing, but the impact on overall supply will be modest because affordable rental payments do not generate enough cash flow to support significant levels of borrowing. Smaller CHPs pay higher costs of borrowing (around 5.5% or more) and will benefit most from the bond aggregator but their capacity to add to affordable housing supply is constrained by their smaller scale and lower cash flows to support extra debt.

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[1] Council on Federal Financial Relations. Supporting the implementation of an affordable housing bond aggregator. Affordable Housing Working Group Report to heads of Treasuries. 2017

[2] $32,620 pa is the amount of Centrelink and Family Payment (including Rent Assistance) payable to a single parent with a six-year-old child.

[3] EY. Establishment of an Australian affordable housing bond aggregator: Final report to the Australian Treasury. Canberra 2017

3. Has CHIA identified policy initiatives that have the potential to complement the NHFIC in delivering increased levels of affordable and social housing at scale in Australia?

   If yes, can CHIA provide a brief overview of such policies?

There are several policy initiatives which are required to complement the NHFIC in delivering increased levels of affordable and social housing at scale in Australia.

Land is one of the largest components of housing cost. Significant improvement in housing affordability in our capital cities will only be possible if we address the drivers of escalating land costs. Over the next decade around 2 million dwellings will be built across the country. One way to ensure that enough of them are affordable for either rental or home purchase is to require this outcome as a central principle in urban planning and development. We need clear planning mechanisms in place to ensure affordable housing is included when land is rezoned, or rules varied to allow for new residential or higher density development.

CHIA recommends that State and Territory governments should implement mandatory inclusionary zoning with a minimum target of 15% social and affordable housing in all new developments on private land over a certain size, and 30% where government land is sold, rezoned or otherwise made available for residential development. In this way, it will be possible to deliver a significant pipeline of supply of affordable housing which keeps pace with our cities as they grow.[4] For governments, this will mean being prepared to accept a lower price for the sale of government land as part of balancing the State's social and economic objectives – and its responsibilities to both its current and futures residents.

Another approach is value capture, which aims to extract part of the capital gains arising from planning approvals or rezoning and re-invest it into infrastructure such as affordable housing for the benefit of the wider community. The rationale for value capture is that the community should share in the land value uplift which is created when permitted land use changes or planning regulations allow increased development. This approach puts affordable housing considerations on the same level as the other attributes which make neighbourhoods sustainable, such as open space, parking, or heritage conservation, for example.[5] Value can be captured either as a monetary contribution or an in-kind contribution, for example a portion of the units in a multi-unit development.

Lengthy development approval processes indicate inefficient planning processes and cause economic loss through the delay of growth-enhancing investment. Reducing the time between lodgement of a development application and turning the key in the door of the first home in a development will reduce holding costs for CHPS. Fast-tracking development applications for developments which involve a significant proportion of social or affordable housing – say, 30% or more - is a simple way for State and Territory governments to encourage additional social and affordable housing supply. Limiting planning system appeal rights around developments with more than 30 per cent affordable housing would also assist

[4] Troy, L. Sydney needs affordable housing targets. UNSW City Futures Blog 24 November 2016
[5] SGS Economics. Development contributions for affordable housing: theory and implementation.20-18

in reducing time to deliver affordable housing developments. Strategies such as these were used with great success to accelerate the Social Housing Initiative response to the Global Financial Crisis between 2009 and 2011.

These approaches work best if they are consistently applied to all new developments, or at least to classes of developments in a consistent way. Developers will need advance notice of such changes, so they can adjust their modelling. But with notice now, a social and affordable housing dividend can begin to flow from development activity in five years, or even less.

Whichever mechanisms are used, it is important that housing which is delivered as affordable in the first instance remains affordable over the longer term. Allocation of housing (or its equivalent value) to community housing providers or requiring the housing to be managed through community housing organisations, are simple ways to ensure that the additional affordable housing supply remains available to lower income households for the longer term.

State and territory governments can complement the work of the NHFIC by making state government land available for social and affordable housing at no/discounted cost or provide land as an equity partner in affordable housing developments with community housing providers. Where state and territory governments are not willing to meet the full cost of providing social and affordable housing, they can provide capital funds, no/low interest loans and other support to CHPs which are willing and able to borrow funds and undertake social and affordable housing developments.

The community housing sector's capacity to expand affordable housing supply will increase as its overall housing portfolio grows and generates more cash flow to support debt. State and Territory governments could facilitate this by transferring at least 35% of public housing stock to the community housing operators (and preferably 50%). This would enable the redevelopment of ageing public housing stock by using the community housing sector's willingness to undertake debt (community housing can deliver 25% more supply than private sector developers in this regard because it applies the 'developer profit margin' to extra supply and because it retains the affordable housing over the longer term, rather than for a 10-year or housing cycle period).

There are other measures which would support the NHFIC in expanding social and affordable housing supply. Capital funding from Commonwealth, State and Territory governments would reduce the CHP borrowing costs, which would in turn accelerate additional supply of social and affordable housing. Introducing a truly national regulatory system for community housing to replace the existing set of state-based regulation would further reduce the cost of finance by providing greater reassurance to potential investors in affordable housing.

Ultimately, it is an unavoidable fact that subsidised housing does need a subsidy – and in high-cost markets this subsidy needs to be substantial if affordability goals are to be met. The National Rental Affordability Scheme increased the supply of affordable sub-market rental housing by providing tax incentives to investors in affordable housing but was relatively small in scale and prematurely truncated, just at a time where housing affordability was worsening. We encourage governments to explore similar measures to create an affordable housing asset class for institutional investors. Similarly, to expand the supply of social housing where rents are set at 25% of household incomes, CHIA suggests that one way or another, State and Territory governments will need to meet the substantial gap between very low rental receipts and operating costs via a direct subsidy, up-front capital grant or provision of land, whether the social housing is provided by government or delivered by community housing providers.