House of Representatives Joint Standing Committee on the National Disability Insurance Scheme

Accommodation for people with disabilities and the NDIS

Submission on behalf of Home Occupiers Mutual Enterprise (HOME) Inc

Dick Bryan,
Chairperson, Home Occupiers Mutual Enterprise (HOME)
Professor of Political Economy, University of Sydney
Email:
Phone:

Background

Home Occupiers Mutual Enterprise (HOME)[1] is a registered charity located in the inner-west of Sydney. The HOME Community offers an innovative alternative housing option for people with disability by establishing a socially inclusive community housing complex in which the resident mix will reflect the make-up of the wider community. Fifteen to twenty percent of the dwellings will be for people with a disability, reflecting the presence of disability in the overall community.

HOME seeks to create intentional communities that integrate all residents – those with disability and those without disability – within the housing complex. Central to this model are:

- the acquisition of properties within existing or new apartment developments
- a HOME Community Inclusion Facilitator, funded out of a partial pooling of NDIS funding to coordinate social inclusion.
- (desirably) a community meeting space which may be a retail premises like a café, but also operates as a hub for inclusive community activities.

We are currently engaged with a property developer in the Inner West of Sydney, planning our first development. It will involve the purchase of 6 units in a 30 apartment development. We have applied for funding in the current round of Department of Social Services (SDAI) Funding to bring this proposal to life. (The relevance of SDAI funding will be apparent shortly.)

The well-known problem

It is well known that:

- There is a shortage of quality accommodation for people with disability
- In sites of expensive real estate, especially inner-city areas of capital cities, many people with disability remain living with ageing parents because they cannot afford accommodation in their familiar community, and alternative locations will isolate them from their structures of support.

[1] See http://homecommunity.com.au/

- Hence affordability is a major barrier to appropriate housing.

There is no universal solution here. HOME is offering a proposal that targets just one part of the market: people who live in the inner city and, in the first instance, families that own real estate.

Reframing the unaffordability issue: an alternative finance

Many parents of adults with disability own real estate that has significantly increased in value over the past 30 years.

These parents generally have a different financial risk profile from other ageing parents: they give a higher weighting to stability of housing over capital gain. Many ageing people we speak to would be happy to:

a) release equity in their own home to fund housing for their adult children with disability, and

b) release capital gain on property they might acquire for their adult child's accommodation, in return for security of tenure and support for their child after the parents are no longer able to provide support.

That is, they want their adult child with disability to live in a quality, secure environment, and beyond their own life expectancy; and they privilege this over accumulating wealth in real estate. These people are the 'target market' for HOME.

The problem with (a) is that equity release products currently available are incredibly expensive and see equity drained from owners at an unacceptably high rate. Even the Department of Human Services pension loan scheme, where pensioners can top up their pension by loans secured on real estate are currently charged 5.25% pa. (https://www.humanservices.gov.au/customer/services/centrelink/pension-loans-scheme). This rate of interest could credibly/should be at or fractionally above the Treasury Bond rate, if it were to reflect the government's real costs of borrowing funds. But on current interest rates, drawing down equity to fund the purchase of housing for an adult child with disability is simply unviable.

The problem with b) is that there are not currently available financial products to release equity in housing where the occupant may stay in that accommodation for 30 or more years. But this matter warrants further investigation.

An explanation of equity release agendas in disability housing.

The HOME model can work without complexity if it were simply a matter of richer families co-ordinating the purchase of apartments for their adult children with disability. But a model of social inclusion cannot be exclusively for richer families, so HOME has the vision of using the growth of property values in inner-city regions as a source of funding for future developments in affordable housing, including for those with little wealth.

The vision here is something akin to the way in which aged care accommodation draws down capital from residents, based on a combination of flat rate charges and payments scaled by duration of occupancy. This is a form of equity release. The model applied to disability housing opens up immense possibilities: if equity could be released, HOME could use the funds to acquire additional properties that could then be leased to the low-income/low wealth families. In this way, one development comes to fund future developments.

The parallel with aged care accommodation is, however, limited under current financial arrangements. The difference is that in aged care accommodation there is a relatively short period of occupancy, so equity is released on properties at a frequent rate. In disability housing, the one occupant may stay 30 or 40 years – indeed long duration would be the mark of success of a housing program. There is currently no effective way to release this equity tied up for long periods in appreciating real estate.

A note on the HOME model

A reasonable question might be: why would a family give up capital gains in order to fund future housing acquisition for other people with disability?

One reason would be goodwill and a sense of community. This should be recognised as a significant act of generosity, but it is not enough.

Another reason would arise if people bought into accommodation at less than full market price. They would then face a ‘package’ of gaining cheaper (subsidised) up-front access to accommodation, in return for a passing over to a HOME Trust a share of capital gains.[2] The HOME application for Department of Social Services SDAI funding ($1 million) is to ‘subsidise’ the purchase of 6 units so as to enable this package. Here the key elements:

- The units will be owned by a HOME Trust.
- SDAI funding will provide between 50 and 20 percent of up-front costs; the remaining 50 to 80 percent of the funding comes from families.
- In return for the ‘subsidy’ to the initial price, the family of a person with disability agrees to pass over formal ownership to the Trust and agrees to a part of future capital gain (from about 90 percent down to 40 percent) being retained by the Trust. The higher the percentage subsidy of purchase price, the greater the rate at which capital gains pass to the Trust.
- Households carry capital loss should property prices fall. They carry down-side risk, but give away some part of upside risk. (This risk asymmetry is the key to the model).

[2] Details of possible formulae can be provided, but at this stage the proposal is dealing with funding principles.

Over time, the Trust will accumulate assets in the form of apartment equity to fund the 'subsidies' that kick-start future rounds of purchases. Hopefully, this will include some fully-funded apartments, where HOME will charge rent, for this would enable the HOME model to provide accommodation for the adult children of low income/wealth households. But that, inevitably, awaits the accumulation of wealth by the HOME Trust.

The point is that this equity transfer has the potential to become self-expanding, so long as property values keep growing. Inner city areas are where this is most likely to be the case, making them ideal for the model. If house prices stagnate or fall, the system stays viable (for families, not the HOME Trust, carry the down-side risk); it just doesn't expand.

So the core problem in this model is how to release this equity that accumulates in the form of capital growth, without waiting 30 or 40 years for an occupant to die or move to retirement accommodation? Solving this problem determines how quickly the capital growth can be used to generate new rounds of intentional communities.

Thinking finance otherwise

Addressing this problem requires thinking outside the box. At the moment, it is apparent that global financial markets are in need of 'safe' assets. With interest rates around the world falling, and in some places negative, Treasury Bonds are now less safe than at any point in the last century.

This is critical because there is also a massive demand from not only sovereign wealth funds but also hedge funds and pension funds for assets at the 'safe' end of their portfolios, and if Treasury bonds are less desired, what else will be?

It is apparent that infrastructure and AAA rated mortgage-backed securities (now credit ratings agencies can actually validate AAA ratings) are deemed safe and a good substitute for treasury bonds. A recent survey of global sovereign wealth funds by OMFIF indicates that investment is moving out of treasury bonds and into infrastructure and housing as higher-yield but safe assets. [3] In both cases asset values and revenues are stable and do not tend to cycle with the stock market.

But infrastructure and MBS are not the only potentially safe securities. NDIS plus the disability pension creates the revenue base for extremely safe asset-backed

---

[3] OMFIF is the Official Monetary and Financial Institutions Forum. It is an independent research and advisory group that facilitates exchanges of views of global finance, especially with and between central banks. See a summary of its Global Public Investor 2015 report at: http://www.omfif.org/media/1054711/global-public-investor-2015-launch.pdf
For Financial Times coverage see http://www.ft.com/intl/cms/s/0/1575c9a0-fee9-11e4-84b2-00144feabdc0.html

securities. The possibility arises of securitising some aspects of disability payments to provide the lump sums required for property acquisition.

Under NDIS, the 'income' streams of disability people are now more secure than perhaps anyone else in the Australian community! There should be no reason for disability people to default on basic housing and utilities payments, and with appropriate planning, rental payments should be secure too. These payment streams of people with disability have financial attributes similar to infrastructure and AAA rated mortgage-backed securities, in that they are safe and generate stable returns. They appear to be the basis for a potential AAA rated securitizable asset. Herein lies a place for imaginative financial innovation to construct this market. We would encourage the government to explore this possibility.

A Note on Social Investment Bonds

There is much enthusiasm in many quarters of society about the potential for Social Investment Bonds (SIBs) to fund good things, including disability-related things. But the formula for such bonds is that the projects they fund must not only generate socially 'good' outcomes; they must also be seen to save the government future expenditure, for it is out of this future savings that the yield on the bond is generated. (So, for example, SIBs issued in relation to foster care or prisoners are based in the proposition (and risk) that a privately funded intervention will actually lead to family reunification or reduce rates of recidivism; both of which will reduce future state expenditure on foster care and prisons. The payout on the bond is driven by the success in achieving those outcomes.)

Could SIBs be utilised to build disability housing? For people with disability, a case can be made that quality housing provision will reduce future government costs (e.g. mental health facilities; crisis accommodation). If so, SIBs could be possible. Accordingly, research needs to be funded to quantify this connection as a precondition for building SIBs related to disability housing.

For people with profound disability, it is hard to frame the possibility of future savings for the government as a result of a funded, targeted intervention. Funding for people with profound disability must be made because it is morally and socially right; not because it will generate future savings for government, nor generate a positive rate of return.

My fear is that too much enthusiasm about SIBs as a solution to disability funding will see those with profound disabilities (further) disadvantaged. In short, SIBs have a potential role in disability funding, but only a limited one.

Concrete Proposals

1. *SEED FUNDS TO LAUNCH SELF-FUNDING HOUSING DEVELOPMENTS*
   The Government provides more seed funding for HOME-like developments as a way to provide independent, community-based disability housing, especially in parts of Australia with high-cost real estate. By home equity transfer, this seed funding can, in the right economic environment, generate self-funded future rounds of community-based disability housing.
2. *CHEAPER EQUITY RELEASE SYSTEMS*
   The government looks to develop equity release programs that apply specifically to disability housing, so that families that sign up to foregoing capital gains in their own home so as to fund housing for their adult child with a disability can do so without significant cost, and that housing owned on behalf of people with disability can also release (some part of) equity without significant cost. Because of the social benefits of further rounds of housing acquisition, there could be an argument for a subsidized, zero rate of interest on (some part of) equity release.
3. *TAXATION CONCESSIONS FOR 'DONATIONS' OF CAPITAL GAINS*
   The government considers the passing over of ownership of capital gains to a housing trust run by a charity to be treated for taxation purposes as a charitable donation, where the tax deduction can accrue to family members who can verify that they play an active role in supporting their family member with a disability. The effect will be not only to encourage 'donations' of capital gains to a trust for funding future property acquisitions, but also provide financial incentives/rewards for extended family members to be active supporters of relatives with disabilities.
4. *SECURITIES BACKED BY NDIS AND DISABILITY PENSION PAYMENTS*

   The government looks at ways to encourage financial markets to generate asset-backed securities where disability contractual payments form the underlying asset of the securities. The market would be small, and would need to be 'built', but could attract niche investors. The effect would be to release current capital that could be used to fund long-term investments.
5. *A FULL COSTING OF THE SOCIAL COSTS OF INADEQUATE PROVISION OF DISABILITY HOUSING*

   The government commissions the Productivity Commission to report on the full social costs of inadequate housing provision for people with disabilities. If social investment bonds are to be used in relation to disability housing, the precondition is that there are measured estimates to the future costs to government that result from the inadequate provision of housing. Only on this basis could a social investment bond related to housing be seriously priced.

March 3 2016