2020-21
Pre-Budget Submission

August 2020

PowerHousing Australia and its Membership

PowerHousing facilitates a national network of 35 Tier 1 and scale growth regulated Community Housing Providers (CHPs) who develop and manage affordable housing across Australia. In 2019 alone our Members:

- Raised $1 billion in debt facilities
- Managed 72,000 dwellings providing safe, quality and affordable homes
- Housed120,000 plus people across the nation
- Stewarded $22 billion in efficiently-managed social and affordable housing.

PowerHousing works to address affordable housing need through sharing and building on best practice in housing and community development, collaborating to mobilise collective resources, and providing an independent and influential collective voice for the biggest and most financially mature CHPs in the country.

PowerHousing provides networking for our Members through quarterly exchanges, the Annual Member Exchange and the International Housing Partnership, which involves the US, UK, Canada and is associated with New Zealand. 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 also partners with corporate affiliates and associates across national and international construction, development, finance, IT, HR and related sectors.

PowerHousing Australia's CHP Members work on a profit-for-purpose model; they acquire, develop and manage affordable and social housing dwellings throughout Australia, and any profits are directly reinvested back into affordable and social housing, repeating the process to house as many Australians in need as possible. Our members bring capability and capital to partnerships with developers, sector partners, government including local councils, and often focuses on particularly vulnerable groups such as people affected by domestic and family violence, those needing employment and training, those living with disabilities and the elderly. As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the supply of social and affordable housing.

The work of our Members is supported by government initiatives at both state and federal level through enablers such as the National Housing Finance and Investment Corporation (NHFIC), on which PowerHousing CFO Members and affiliates worked to evolve into a successful piece of legislation in concert with Treasury. The Affordable Housing Bond Aggregator (AHBA) and National Housing Infrastructure Facility (NHIF) have opened up new funding and delivery options for our Members. Government is increasingly transferring aged public housing assets to CHPs to continue delivering social housing efficiently and with excellent levels of tenant satisfaction.

Our members stand ready to partner with Government and the private sector to contribute to the social and economic recovery from COVID-19, and create a legacy of a more resilient housing system through increased affordable housing.

Introduction

PowerHousing Australia welcomes the opportunity to provide updated feedback on priorities regarding the 2020-21 Budget. Our feedback is framed by consultation across the year with Members and with the PowerHousing Australia Board. The revised Pre-Budget Submission has a focus on supporting the Morrison Government's plan for recovery from the impacts of the COVID-19 pandemic, with proposals focused on growing the economy, creating jobs for Australians and building a legacy of a stronger housing system.

There is overwhelming evidence that Australia was in an affordable housing crisis which was being felt at many levels in the community, particularly those most vulnerable and on the lowest, and this has been exacerbated by way of the pandemic. Key impacting market forces are summarised below and proposed solutions for consideration.

COVID-19 and Housing Affordability Market Forces

Australia has an opportunity to stimulate the economy through the construction of affordable housing that will also build a legacy of a more resilient housing market that is better able to provide a safety net and a springboard for low to moderate income Australians.

A recovery plan must have housing construction at the heart. Research from NHFIC shows that for every $1 million in residential construction 9 jobs are supported along with $2.9 million of industry output and consumption across the broader economy.

Whilst JobKeeper will need to be retained for some time there will be a need to support the growing needs of Australians that require social and affordable housing. In terms of stimulating jobs, the heart of the federal submissions raised here see additional affordable housing created which will have the dual impact of supporting those struggling in the COVID-19 downturn and drive activity for the 43 construction trade/subtrade jobs that work on each new home constructed, to drive economic impacts to manufacturing and retail.

A real challenge is that the data shows no clear signs of a downturn for F2020 and those numbers that will indicate an issue for FY2021/22 won't be evident as published by ABS and others for months to come.

Some key points[1]:

- Housing indicators for the first three months of COVID-19 reveal a relatively stable rental, sale and auction market, masking deeper macro issues;
- Annual housing completions at 30 June 2020 are forecast at 190,000, 33,000 homes above 36 year averages – this positive economic data won't be released until 16 October 2020 by which time the commencements will have already dropped off significantly;
- Building Approvals for the 12 months ending June 2020 saw 170,661 dwellings approved with great risk of non-activation due to deep economic challenges facing the country in FY2021 and FY2022;
- Australian housing appears to be holding up, but there are worrying signs which will threaten builders, manufacturers, retailers and the broader economy;

[1] https://www.linkedin.com/pulse/f2021-powerhousing-australia-corelogic-australian-affordable-proud/

- 488,249 loans deferred, 3.3 million on JobKeeper and an effective unemployment rate of over 11% will see downward pressure on house prices This will be compounded with additional business loans that are securitised by some additional home loans;
- Rising unemployment and declines in economic activity will see rental prices reduce to approve affordability in pre-Covid terms;
- Foreign investment approvals decline and 95% drop in Net Overseas Migration which drove record new housing supply has collapsed and wont be back in the near future;
- Initial residential indicators forecast a massive downturn in new housing delivery, from 230,000 homes in 2018 to 110,000 homes in F2021 - some 120,000 homes fewer, impacting jobs;
- Building fewer than the demand rate which equates to which could place upward pressure on prices;
- 43 trades and subtrades pick up work on every new build of a standard three bedroom home - equates to 4.75 million less projected trade engagements in F2021 compared to F2018;
- State and federal measures to reduce the severity of the downturn and community housing is ready to provide up to 30,000 dwellings that could be built to support 1.29 million trade engagements and tackle greater COVID-19 social and affordable housing demand;
- A sudden exit in March from Jobkeeper and mortgage deferrals could impact home value and rentals in unexpected ways and market equilibrium over the next 12 months has to be an outcome sought from monetary policy;
- Community Housing can act as a ‘shock absorber’ to preserve jobs and tackle increasing demand for housing;
- Community Housing Organisations have extensive experience in development and have partnerships to access to shovel ready projects that can be commenced immediately.

Proposed Measures

The outlook, particularly for lower income households including key workers, first home buyers, investors and seniors – will remain bleak if housing market equilibrium is not secure.

There is a window to develop a variety of policy levers and initiatives, building on the qualified success of NHFIC. These measures would seek to:

- provide support for the growing numbers seeking social and affordable housing as a result of the COVID-19 crisis;
- reduce pressure at multiple points along the housing continuum;
- see international and institutional investment in an affordable asset class built in Australia; and
- stimulate PowerHousing Members to build 8-30,000 affordable dwellings per year.

Our submission is structured around identifying, stabilising and partnering with government on the following measures:

1. **National Housing Focus –** Federal Government is best positioned amidst the National Cabinet and its housing subcommittee to work with an expert of national leaders to tackle the housing challenges facing the country amidst the greatest economic downturn since World War II.
2. **Support National Housing Equilibrium –** With 10 per cent of mortgages being deferred and unemployment suppressed by the effective JobKeeper, market supply forecast to decline and affordable housing demand to soar, stabilisation across 10 million Australian households will be needed to create stability and ongoing confidence. Stabilisation of Australian housing can be achieved using the following elements:

   a. Realign JobKeeper to a HomeKeeper subsidy for three years
   b. Tackle affordable housing supply by investing in Homekeeper supply through CHPs by way of a lump sum capital payment or a ten-year recurrent payment
   c. Provide a HomeBuyer Guarantee for HomeKeeper tenants to get back to or start afresh in home ownership
   d. Low cost shared equity program for current home owners to retain their home through the crisis
3. **National Housing Jobs Creation -** Record housing supply is heading toward historic troughs in activity that will be evident by the end of 2020. Stimulus in affordable housing will be needed to provide additional supply to meet growing demand and also to preserve millions of trade and paraprofessional engagements that occur when a new home is built. This can be achieved by:
   a. Activating the elements such as maintenance, retrofits, new build in affordable housing which will be needed to keep housing active
   b. Shared Equity with CHP delivering new stock
   c. Further expansion with NHFIC finance investment to support supply
   d. Invest in trades training for those CHP and HomeKeeper tenants
4. **Attract Affordable Housing Investment –** Affordable housing with Environmental, Social and Governance outcomes are growing as a reliable and acceptable investment asset class. By the end of the COVID crisis there will be new affordable housing supply channels fed if backed by Federal Government seed investment. Such channels can create 10-30,000 additional affordable homes per annum to meet rising demand, preserve jobs and see a perpetual international asset class operational that rides through recessions and crisis such as COVID-19.
5. **Specialist Disability Accommodation and Universal Design –** There are still 4,000 young people with specialist disability in aged care today. Estimates are that 3-5,000 new homes could be built over the coming 2-3 years to create badly needed SDA homes for NDIS clients, drive jobs and support investment in this as part of a wider housing asset class in Australia.
6. **COVID-19 Other –** Potential role for partnering with a Community Reinvestment encourage deposit institutions to help meet the credit needs of the communities in which they operate, including low and moderate income neighbourhoods as it does in the US. Also tax credits could provide a stable investment incentive to create low cost housing.

1. National Housing Focus

Federal and State Governments have roles to play around supporting and creating levers to boost new social and affordable housing. The **new National Cabinet** - as it becomes a replacement for COAG - will have a greater role in maximising the policy and fiscal objectives in stabilising national housing for the country in some challenging times ahead.

The **National Housing Minister** was appointed by the Coalition Government post the 2019 election. We are also pleased to see that there are four Ministers and Assistant Ministers installed with a housing responsibility. The Federal Ministerial positions as appointed are well positioned to support housing outcomes in one of our countries most difficult periods. The Federal Housing Minister is also in the best position to tackle national housing challenges for increasing numbers of Australians through **the National Cabinet Ministerial housing subcommittee**.

PowerHousing recommends that the Ministry and the National Cabinet Subcommittee is supported in stabilising national housing, driving investment and create jobs by the leveraging expertise and guidance of a **National Housing Leaders Panel**. It would comprise industry experts such as CHPs, developers, experts and economists which would ensure a platform to access up-to-date and accurate data on housing supply and demand, and support cooperation between state and federal governments. It would also ensure Government has access to independent advice on housing issues across the board.

Under the guidance of the Housing Minister and the National Housing Cabinet Housing Subcommittee, a **National Housing Strategy** should be developed. The strategy would guide targets and housing development in Australia into the future, to offset the seriousness of unaffordability now and prevent it rising again.

Recommendations - Federal Focus on Housing

1

- Federal focus on housing in National Cabinet
- Develop a National Housing Leadership Panel, guided by a National Housing Strategy
- Develop a clear National Housing Strategy in response to community demand for access to affordable housing options

2. Support National Housing Equilibrium

Housing is required social infrastructure– it provides one of the fundamental requirements for Australians – which is shelter. At its most acute, homelessness costs on society are estimated to exceed the costs of actually providing housing solutions.

There are 25 million people in Australia living in over ten million homes: as renters, owner-occupiers with mortgages, and mortgage-free home-owners. The COVID-19 crisis has highlighted the uncertainty and pressure mounting for renters, investors and owner-occupiers and growing demand for social and affordable housing provision in Australia.

The residential property in which an individual or household lives has become more than just a home in the COVID-19 environment. A home has emerged as the first principle of stability if individuals (and therefore communities) are to be resilient in the face of ongoing economic and social challenges with one simple policy in the large part keeping the housing market stable – JobKeeper.

If in 2020 you are a renter living in one of the 2.8 million rental properties in Australia the financial constraints can be challenging and confronting. This is particularly the case for casual employees and the unemployed, a disproportionate amount of whom are renters. It is also a challenge for part time and full-time workers. There is a big question mark over whether rent and living costs will be able to be covered in the immediate future economic environment. It is also possible that lower income renters will be forced to move to cheaper accommodation, further away from jobs, compounding the risks of long term unemployment.

The lowest interest rate in Australia's history has provided a reprieve for owner-occupiers (accounting for around three million dwellings). Of these, 488,000 families with a loan have had their mortgages deferred due to COVID-19. Many have accessed superannuation to be able to pay their rent or mortgage.

For mortgage-free homeowners, the immediate challenge with COVID-19 has most likely been the impact that the volatility of the stock market has had on superannuation, and the weekly income derived from that source. The potential to downsize is an option that may provide liveable and practical life choice options, but the decline in property values is expected to have a negative impact on the value of any residential property sale for at the least the next 12 months.

The housing market in early to mid-2021 will be uncertain for renters (and lessors), owner-occupiers and the senior market segment, with an increase in demand for affordable and social housing as a result. There will be a longer-term challenge in stabilising the housing position for many of these people beyond JobKeeper.

Planning for what will be an uncertain and unprecedented change in the housing market, rental conditions, and wage fragmentation is tough but a stabilisation of housing for all Australians will be needed to prevent a secondary level of impact of market instability that could seriously decimate conditions for:

- Owner Occupiers: House prices/negative equity and capacity to pay loans;
- Investors/Renters: Rental viability/rental provision for all needs across the spectrum in locations close to jobs;
- New build jobs: New Housing supply and jobs availability.

What is clear is that there will be a growth in those needing affordable housing. As people's income drop their capacity to pay current rent levels will fall. Tackling affordable housing demand needs to consider:

- Affordable rentals start below the market rate, at generally 75 per cent of the market rate to support those on low incomes which creates a yield gap;
- This yield gap will be a challenge in the COVID-19 crisis to meet both the additional affordable demand and seeing supply provided/sustained as an immediate stimulus with longer term benefits.

JobKeeper to HomeKeeper Affordable Rental Subsidy

- Stabilising beyond immediate phase to March 2021 to create long term stabilisation is required;
- JobKeeper has a focus today on many element of supporting daily life with a key support being for housing provision. It will be needed to support for up to a three year period for the increasing numbers requiring subsidised wage and housing if their job has been temporarily lost to the economic downturn;
- This stabilisation of housing - whether it is rental or for those with mortgages – JobKeeper is effectively a rental/mortgage supplement payment for those temporarily needing support;
- A program to support those who are underemployed, unemployed, have insecure employment or are on low incomes.
- Federal Government provides a CHP a capital grant through NHFIC. A portion of this grant is structured as a social impact investment and converts from junior debt to equity based on outcomes achieved (successful exits of tenants into other forms of housing);
- CHP leverages this payment with other capital (such as NHFIC loans) to develop or acquire new homes.
- Tenants must meet eligibility criteria including having received either Job Keeper or Job Seeker payments
- Tenants are able to remain in the property for up to three years paying affordable rent after which they must vacate or pay market rent. In either case they are no longer eligible for the affordable housing or to receive CRA, providing an incentive for them to move into employment and or market housing

.HomeKeeper - New Affordable Rental Development Program

- There is likely to be a cohort of recently unemployed, underemployed and employable people during and post COVID-19. Providing time-limited new affordable housing close to where jobs will be for this cohort;

- Federal Government could look to provide CHP either a lump sum capital payment or a ten-year recurrent payment (ten years to align with term of senior debt) to support the development of additional housing;
- CHP takes NHFIC senior debt;
- CHP also takes NHFIC junior debt and if there was to be a social impact bond, the coupon rate for this should be incentivized so that every person that makes a positive exit into work and market housing results in a saving to CHP and or uplift to investors;
- Tenant eligibility requires they seek engagement in training or employment and they are limited to three years of affordable rent after which they must vacate or pay market rent. In either case they are no longer eligible for the affordable housing or to receive CRA, providing an incentive for them to move into employment and or market housing.
- An expanded version of this program is detailed in section 4.

HomeKeeper to HomeBuyer Guarantee

- Provide options for supporting future new home purchase options through a HomeBuyer Guarantee for those HomeKeeper renters to eventually go into affordable home ownership;
- HomeBuyer Guarantee tenant eligibility would apply to HomeKeeper tenants to a limited three years of affordable rent after which they must vacate or pay market rent.
- Up to the end of the third year they are eligible for a HomeBuyer Guarantee which would be based on the NHFIC first home buyer scheme, but will only be offered to those renting without a principal place of residence or other residential investment;
- Across the three years the tenant is incentivised to buy a new home with a HomeBuyer guarantee and for many people this will be their chance to get back into home ownership particularly those that fell on hard times early in the COVID-19 crisis;
- A HomeBuyer Guarantee would be developed and administered by NHFIC;
- A shared equity option could also be considered here.

HomeShare – Owner Occupier Shared Equity Safeguard for Existing Owner Occupiers

- The number of Australians that are not currently paying their loans is around 10% of all mortgages which may open the opportunity for a shared equity option to take pressure off homeowners particularly those at the beginning of their housing ownership journey.
- With 193,000 home completions expected at the end of June, and forecasts as low as only 110,000 homes commenced in F2021, there is a potentially need for those picking up the keys to have short to long term options of support;
- 488,000 deferred mortgages today may see elevated levels of deferral beyond the wind down of JobKeeper. There are numbers of Australians that may need ongoing temporary support or an option such as a shared equity to be available for a 3-5 year timeframe;
- There are also numbers of Australians that despite COVID-19 would like to get into a new home and can look to take a 60-80 per cent stake in a home through shared equity;
- Shared Equity Home Ownership is a form of supported home ownership that in some countries is considered a viable and affordable alternative to full home ownership. Here in Australia the equity to support an affordable home purchase is largely provided by state governments;
- Shared equity home ownership should be more widely available within Australia as a fourth housing option led by the Commonwealth Government;

- By investing 20% equity in each property, a government structured entity (potentially NHFIC) enables people to preserve home ownership with a lower level of debt than would otherwise have been possible and a level of debt that the private sector can potentially finance;
- The benefit to government is that for a 20% equity position, they achieve a full ongoing housing outcome for a chosen percentage of deferred loans. The government entity does not have ownership costs (maintenance, rates etc) as these are the responsibility of the majority homeowner. While the government entity does not receive an income on its equity position, it does have an asset that is realised up to, at or after 10 years when the majority homeowner refinances or sells based on their financial position at that time. The estimated cost per home is around $500 to stabilise per year.

Recommendations - National Housing Equilibrium

- JobKeeper is repositioned into a HomeKeeper payment for up to three years to stabilise housing equilibrium
- Tackle affordable housing supply by investing in Homekeeper supply through CHPs by way of a lump sum capital payment or a ten-year recurrent payment
- Provide a HomeBuyer Guarantee for HomeKeeper tenants to get back to or start afresh in home ownership
- Low cost shared equity program for current homeowners to retain their home through the crisis

3. National Housing Jobs Creation

A real challenge today is that the data shows no clear signs of a downturn in F2020 and any numbers that will indicate an issue for F2021/F2022 years won't be published by ABS and others for at least 3-6 months.

Housing supply peaked at 230,000 homes constructed in 2018 with around 70,000 homes delivered above long-term activity levels, which is now coming off. The peak in supply was not forecast, and the current drop-off in activity could result in an equally unpredictable trough driven lower by COVID-19. The impact will strip away jobs, taxation revenues that underpin government budgets and vital supply that stabilises housing prices.

Building activity in Australia is heading for the largest decline in our country's history with homes approved set to drop from 230,000 dwellings commenced in 2016 to estimates of around 110-130,000 in F2021[2].

> *Two of the nation's largest builders, Simonds Group and Metricon, estimated in the July 2020 CoreLogic PowerHousing Australia Standard House Report that every new standard three bedroom house in Australia creates work for around 43 trades and subtrades. Losing 100-130,000 homes out of the housing construction pipeline will create a massive ripple through the entire economy if not halted.*

The role of housing in the economy goes far beyond the need for supply to match demand: the loss of this number of homes will see the loss of over 4.5 million one-day to three month long contracts for chippies,

[2] https://www.linkedin.com/pulse/f2021-powerhousing-australia-corelogic-australian-affordable-proud/

painters, plasterers, sparkies and para-professionals. Whether it is the retail shop, coffee stop on the way to work or simply less groceries this has a domino effect for the retail sector that won't see the circulation of the income into the broader economy. Needless to say, if homes are not built then there will also be a drop in the manufacturing sector also.

Balancing a new market equilibrium, with property stimulus, that feeds into longer term new build programs is tricky to get right.

There is expectation of a pickup in F2021 forecasts of 15-25,000 dwellings per month on the back of HomeBuilder in F2021 (pulling through some of the substantial pipeline of approvals), but beyond this the drivers for market housing delivery are hard to see. Stimulating the new home building market makes considerable sense as it can restore confidence and activity in the Australian economy.

Social and affordable housing can act as a shock absorber to fill the primary gap in market demand. The pipeline needs to be primed in the next six months as the drop becomes evident.

New Build Stimulus

As we see new residential building drop to half its 2018 levels there will be the dual challenge of meeting additional social and affordable housing demand met by a market which simply will be incapable of doing the heavy lifting, at least in the next 24 months.

PowerHousing Australia has backed the call for an immediate employment-boosting **investment in the SHARP proposal** to expand Australia's social and affordable housing by 30,000 homes as the country experiences a wave of job losses due to COVID-19.

While the market for housing is going through an uncertain period, options such as this proposal would help sure up a pipeline of new dwellings and jobs activity.

The stimulus proposal calls for government investment for new build/acquisitions and for the renovation of existing homes. The proposal would be administered by a new arm of NHFIC, accountable to an oversight body reporting to National Cabinet.

Supporting housing supply with up to 30,000 affordable homes will underpin the construction sector when the market simply is incapable.

As housing delivery statistics will show, grant-type investment may be one of the only guaranteed activity drivers that can be limited or expanded for a defined period.

This will bridge the gap where the market simply won't be able to deliver the number of homes that will be needed and will prime the construction industry for a time when the economy gets back on steady footing.

Powerhousing have a ready made pipeline of 5-7,000 lots which can be activated in the immediate term. Our partners in the residential construction industry have access to a far greater number beyond this count and are ready to activate to meet additional demand and support the construction jobs that will be badly needed.

CHP Affordable Housing Shared Equity

- CHP's have stock they could sell to current or future tenants on a shared equity basis where the CHP retains a 20% equity ownership and the tenant (now owner) raises the finance to acquire 80% of the property.

- This transitions affordable tenants to home ownership and enables the CHP to acquire (have constructed) four properties for every 5 properties sold. After a 10-year period the CHP would recover its equity position from the five properties enabling it to build another property to use to meet demand for social and affordable housing.
- Shared equity home ownership program could enable a Community Housing Provider and or equity providers to provide or retain 15% to 40% equity in a home purchased or already owned by the CHP, in partnership with a home purchaser who has 0% to 5% deposit.
- The remainder of funds are provided through a standard mortgage, under standard National Consumer Credit Protection frameworks. The Community Sector Banking shared equity program entitled *Unpack for Good* has been developed in conjunction with PowerHousing Members as an affordable alternative housing option.
- Each CHP determines the eligibility criteria for their participants as well as terms and conditions for the charitable provision of the equity for a 10 year period.
- While this approach maintains the balance sheet value of the CHP, as all CHPs are NFP organisations they do not have the financial excesses to forgo income on 20% of their properties and a government income subsidy for this 20% equity contribution for 10 years creates five housing outcomes for the rental cost of one property.
- Indicative financial modelling indicates that a finance subsidy of $1.6kpa for each new property added for social and affordable housing for 10 years will create a permanent increase in supply and an additional property for every four properties subsidised at the 10 year mark.
- No additional subsidy is required after the initial 10-year period in relation to these properties (excluding CRA).
- With COVID-19 as the context, the concept seeks to consider the options that are arising in the market which would see a federal and state partnership focus on increased access to this type of housing. We have seen shared equity programs run with the assistance of the state government in parts of Australia and internationally with positive results and will present shared equity options to the burgeoning need arising in the housing market.

NHFIC Finance Expansion

Low-cost, long-term government-backed affordable housing finance will be a vital component to reducing the yield gap to ensure that Australia continues to supply and manage enough homes for population demand to put a lid on price rises. It will underpin residential industry jobs, state and federal budgets as new housing supply contracts in FY2021.

The Affordable Housing Bond Aggregator managed by the NHFIC will support affordable housing tenants and further establish the foundations of a new affordable housing investment asset class.

The engagement of superfunds into recent bond issues finally stems the tide of Australian investment funds that flow offshore every year, rather than being invested in desperately needed affordable housing projects domestically.

What also garners optimism is the fact that just over two years ago this was a budget measure: 24 months ago it was put into legislation and now NHFIC has provided three bond issues which is a solid foundation for more to come.

Commonwealth guarantee limit for NHFIC liabilities that presently stands at $2 Billion should be increased to support further investment. The Australian Government Guarantee for NHFIC bonds should be increased given success of this mechanism in getting long tenor and low-cost capital into this space to assist in the development and delivery of additional social and affordable housing to meet expected additional demand.

The NHFIC's **National Housing Infrastructure Facility (NHIF)** which provides finance for critical infrastructure to support new housing delivery, includes eligible projects such as site remediation works (e.g. the removal of hazardous waste or contamination), an often costly exercise for developers. The **NHIF mandate should be expanded** to allow funds to be used to directly invest in affordable housing developed by Community Housing Providers.

Supporting employment for recently unemployed

The CHP workforce employs significant numbers across the construction, operations and asset/facilities maintenance. There is an opportunity around the COVID-19 rebuild to activate people, particularly those recently entering into our tenancies to transition back to the workforce.

Where there is a focus on new dwelling delivery for affordable housing there could be program support for those living in CHPs to assist in that delivery. Where possible, **training funds could be focused towards apprenticeships and entry level skills for those living in community housing**. Upskilling for key workers and particularly younger tenants living in social and affordable housing developments should be a focus alongside sustaining current jobs.

The PowerHousing Australia membership currently houses over 120,000 Australians and many of our tenants would increasingly benefit from tailored and targeted skills programs that support the affordable housing delivery pipelines that our Members are increasingly developing and managing.

Recommendations - National Housing Jobs Creation

3

- Support new build stimulus where the market or subsidy is seeing affordable housing demand significantly exceed supply through:
- NHFIC Commonwealth and finance expansion
- Support apprenticeships and training in any stimulus

4. Affordable Housing Investment and Delivery Pipeline– Build the Affordable Housing Asset Class

In 2019, PowerHousing through its membership of the International Housing Partnership, considered the emergence of a global investment class for affordable housing. This work identified that amongst other factors, there is a significant weight of institutional capital seeking quality, scaleable Environmental, Social and Governance (ESG) investments. Stagnant traditional equities investments are being switched for the fastest growing asset sector in Australia, with ESG focused funds shown in the US to have been proven to have superior performance.

The economic fallout of COVID-19 has also driven a greater focus on reliable yield investments with low volatility. These factors further enhance the desirability of social and affordable housing as an investment proposition.

Whilst our Sector and investment into it is stable and shown across the GFC and in COVID others such as superannuation which is a long-term investment have periods of negative returns that are expected to occur from time to time. Options such as ESG investment and CHP housing are being requested as a buffer to volatility (particularly pronounced in 2020) which is likely to be prolonged. Australian Super which has around 2 million members posted a 0.52 per cent return for the 2020 financial year. In regards to low and negative yield, Australian Super CEO Ian Silk recently commented “we generally say to Members in a 20-year period you might expect four to five years of negative returns” (ABC, 18 June 2020).

As the economy grapples with COVID-19, it is likely there will be greater appetite for those investment classes that can ‘ride through recessions’ and social housing investment has proven itself over the past 30 years. Despite the challenges of COVID-19, PowerHousing Australia’s membership has shown stability across the first COVID quarter from March to May with arrears and bad debts being stable or improving.

Supporting renters in a model that is government-backed will place a long-term housing delivery base under the record decline in housing commencements and stimulate affordable housing and jobs which will be expected in the Federal Government’s ongoing response to the pandemic.

There is potential for a longer-term fund arrangements to be established across jurisdictions and for the National Cabinet to provide equity to co-invest in CHP social and affordable housing projects which provide a stable recession proof return to superannuation members and institutional investors.

The fund would provide equity investments into social and affordable housing projects, with a market-return being earned commensurate with the risk profile of the asset class. Together with already available debt finance, this will be able to be leveraged to provide a significant impact. The fund would be administered through an appointed fund manager. It is envisaged that NHFIC may be an appropriate custodian of the funds and would either act as the fund manager or appoint appropriate fund managers on its behalf.

As an illustrate a proposed fund size would be approximately $1 billion. This fund size would facilitate, through levered funding, a total investment in housing of up to $4 billion, delivering up to 9,000 properties at a precedent cost of $450,000 per dwelling.

It is acknowledged that in Australia, the social and affordable housing asset class is still developing, and whilst there are a number of positive signs of investor appetite (such as the level of interest in the NHFIC bond issuances) the Federal Government could take an active role in maturing the asset class which will leverage other policy or funding commitments.

The support could take two forms:

- Investment to assist in the development and establishment of a fund and the appointment of a fund manager, and
- A small initial fund investment of an indicative $200 million, to provide initial liquidity for the fund. It is expected that the fund manager would then seek matched funding, to bring the total fund value to approximately $1 billion.

This Government investment is proposed as a commercial investment, with the $200 million invested for a term. Once the fund has been established, and a track record of projects established which facilitates sufficient institutional investment, the Commonwealth would be able to exit the fund.

It is anticipated that this term would be five to seven years, allowing for establishment of sufficient projects. Initial examination of the fund concept demonstrates viability to support a stable investment return.

CHPs would take a lead role in identifying and progressing projects which access the fund. CHPs would assemble projects, including matching subsidy to outcomes using levers such as concessional land access, planning gains, tax concessions and (if and where available) revenue enhancement or support from Government.

CHPs would arrange senior debt, most likely through banks or through NHFIC loans, to form part of the capital structure alongside equity from the Fund.

As a second stage, State Governments could be encouraged, through engagement from CHPs and representative bodies, to contribute land or facilitate land access (including on concessional terms where beneficial outcomes to the State may be demonstrated).

While there are a variety of vital options to support the health and welfare of Australians today, there is a need to work through the options for supporting the growing housing needs for those with uncertain housing futures and to also structure for new-build economic activity.

Recommendation - Attract Affordable Housing Investment 4

- Federal Government and the National Cabinet to work with industry to consider options for an equity and institutional investment vehicle structure that provides additional affordable housing

5. Specialist Disability Accommodation and Universal Design

PowerHousing is heartened by the recent announcement of the Federal Government to connect up the demand for Specialist Disability Accommodation with the suppliers and managers of the built form. In late November 2019 the Federal Government fully embraced the interim recommendations of the Royal Commission in terms of meeting the younger persons in residential aged care targets.

The vast bulk of younger people in residential aged care are NDIS participants: 3,788 of them in 1,416 facilities across Australia. Whilst there has been some impact on these cases who all have individual plans, the majority of which are yet to receive Specialist Disability Accommodation. So far some 980 new or refurbished SDA dwellings have been created with more than 4000 dwellings enrolled in the scheme. When fully exercised the housing scheme payments are expected to cost $750 million annually, with just 20 per cent of that being paid out so far[3].

There are also strong numbers of SDA eligible people that are yet to receive this type of housing, which could equate to 3-5,000 homes to be constructed as an estimated total with 43 trades and subtrades activated in every new build.

Activating the demand - particularly for those younger people currently residing in or at risk of ending up in aged care - is of immediate need and the identification of this demand is critical in the short to medium term, particularly as we seek to stimulate the construction industry.

[3] https://www.afr.com/property/residential/powerbrokers-make-impact-in-disability-accommodation-20200817-p55miz

Connecting the SIL and the SDA providers has been a missing component of the equation when it comes to providing adequate, safe provision of Specialist Disability Accommodation that performs for the longer term as required, designed and as built.

Therefore it is vital step that Government works with industry to identify all available Specialist Disability Accommodation and Supported Independent Living supports across the country to develop a database of existing and new housing options available now and in the future.

Support of an equity structure such as featured in section 5 will support the development of what industry forecasts expect to be upward of a $5 billion asset class.

PowerHousing recommends a renewed **federal focus on sustainable universal housing**, utilising the guiding principles of environmental and universal design. Universal design, as assessed and certified by Livable Housing Australia, ensures the capability of a house to be utilised safely and easily by all inhabitants, whether able-bodied or disabled. Such design allows for modifications (in the instance of disability or age) with minimum cost, as the initial design includes elements such as accessibility and robustness in the first instance.

PowerHousing in review of the new supply created by its Members and direct feedback in consultations on the National Construction Code Accessibility Consultation Regulatory Impact Statement shows that CHPs are bringing Livable Housing Silver into its development consideration and see little additional cost in the majority of cases for the benefits that come with universal design.

Such a focus for housing development will reduce WHS implications for carers and occupants, the significant added difficulties for those with temporary acquired injuries and also enable more people to live in their own homes for longer, rather than in institutional care.

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Recommendations - Specialist Disability Accommodation and Universal Design

- Federal Government progress the residual 4-5,000 SDA dwellings to be constructed to support the jobs and economic challenges facing the residential construction industry nationally
- Government to work collaboratively to connect Supported Independent Living Providers and Specialist Disability Accommodation providers
- Federal Government focus to support sustainable universal design principles in new dwellings

6. COVID-19 Other Ideas

This approach of incentivising the building of new affordable houses with a federal incentive payment will go a long way to stimulating the delivery of more affordable housing for Australians and moderate the upcoming trough in residential delivery.

The Federal Government and regulators could look to mechanisms overseas, to ensure low-income household developments have access to credit. The **Community Reinvestment Act** which operates in the US is intended to encourage financial institutions to help meet the credit needs of low and moderate income neighbourhoods. Community Reinvestment Act, enacted in 1977, requires financial institutions to meet the credit need of the entire community and this is periodically evaluated by a federal financial supervisory agency. A similar Community Reinvestment Act obligation in Australia could connect banks with communities in the wake of the mistrust borne out of the Royal Commission. A mechanism such as a Community Reinvestment Act in Australia would require appropriate regulatory oversight from a body such as APRA. Post the Federal Banking Inquiry, there is a compelling case for some banks to reconnect with their communities and the Community Reinvestment Act may be the best model. The roll out of a CRA in Australia would encourage deposit institutions to help meet the credit needs of the communities in which they operate, including low and moderate income neighbourhoods as it does in the US.

The **Low Income Housing Tax Credit** (LIHTC), operational in the US since 1986, is embedded in the tax system. With ongoing bipartisan support, it delivers around 90,000 new affordable dwellings per year or around 2.2 million homes built over the past three decades. This key national tax incentive produces up to 10 per cent of the total build volume and it is specifically for low income affordable housing. Administered by Treasury in the US, the program is well managed supported by CRA obligations, intermediaries and reasonably efficient reporting structures. Australia does not have any such tax credit product. The recent US taxation overhaul potentially alters the impact on investment in the LIHTC motivation to reduce. The corporate tax rate being lower means that amount of deductions the businesses have then sees that they have less to write their tax credit against but is expected to still fuel significant affordable housing delivery. The LIHTC together with other taxation reform initiatives and the Community Reinvestment Act are creating new solutions and partnerships which should be considered here in Australia.

PowerHousing recommends **funding for innovative programs that support sustainable, affordable and liveable housing**. Innovative partnerships, incentives and subsidies around minimising the yield gap, encouraging investment and stimulating innovative programs in affordable housing need to be considered as part of the suite of housing measures needed in the Federal Budget.

Recommendation - COVID-19 Other Response Elements

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- Consider the full suite of options around a dwelling subsidy and vehicles that close the yield gap for social and affordable housing such as tax credits

Conclusion

PowerHousing is encouraged by the Federal Government's view that every budget will feature housing. We absolutely agree that the next budget is an opportunity for a renewed federal focus on housing in the time of the COVID-19 crisis. Housing can help lead the economic recovery, and targeted co-investment by the Federal Government into affordable housing developed by Community Housing Providers can ensure a legacy of a more resilient housing system.

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The COVID-19 pandemic changes the dynamic of the private new home building sector in Australia. The capacity for demand to meet housing supply is unknown. The demand for social housing does exist, though, and supply of this housing can be achieved. There are over a million 'workers' who can be project managers, or subcontractors (tradies), builders (most of them small business), that stimulate manufacturers, suppliers, and retail businesses.

The PowerHousing membership is committed to providing expertise, resources and continued collaboration with the government and Housing Minister to create affordable housing solutions. A National Housing Strategy, National Housing Cabinet, consistent and partnership investment from Government will constitute an effective federal focus on housing equilibrium.

A stable housing equilibrium is supported by provided short term measures for current renters and owner occupiers and supporting the additional demand in social and particularly affordable housing. Meeting this additional demand through CHP development partnerships will deliver the social and economic shock absorber that will be needed over the next three years in the stabilisation and early recovery phases.

Considering a wide range of government-backed options to close the yield gap, such as those practiced and successful in the US and , extending the NHFIC AHBA Guarantee, broadening the NHIF mandate, will better enable CHPs to continue to deliver quality social housing. A federal build rate target that maintains jobs with a partnering role with CHPs for 30,000 dwellings will enable development to keep up with demand.

Connecting SIL and SDA providers will support the safe, effective provision of SDA accommodation. Focusing on sustainable universal housing guided by accessible design will ensure that housing is appropriate for those with all levels of disability throughout whole of life.

Whilst formative work is under development and for consideration and market sounding, we think and are advised by international experts with 30 plus years of global investment into environmental, social and governance impact funds, there is strong investor appetite to co-invest alongside government into affordable housing.

These commitments will provide settings for a sustainable housing market, provide homes within financial reach of more Australians, and secure Australian jobs as we head to an unpredictable housing delivery trough. PowerHousing looks forward to the final release of Budget 2020-21 with the knowledge that it has the capacity to significantly impact the provision of housing for Australians nationwide.

Community Housing Providers are seeking to be partners of the Government, bringing capability and access to capital, to support recovery and create a better housing system for all Australian's. As this crisis has illuminated for everyone in the community – when the world is in crisis, there is no place like home.

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