CHIA's Review of the Federal Budget Housing Initiatives

Overview

Under the banner of 'Affordable housing for all Australians', the 2017 Federal Budget package focuses on three areas – unlocking supply, creating the right incentives and improving outcomes for those most in need.

Our assessment? There's a lot to like in this package and it will provide a good platform for growth of the community housing industry over the next decade if we can just get a few other pieces of the puzzle in place. Such as a 10-year National Housing Strategy, supported by a serious level of capital funding to boost supply of social and affordable housing.

For community housing, there's some good news about the bond aggregator and $1bn in new infrastructure funding to support housing supply.

A new National Housing and Homelessness Agreement has also been promised – whilst the word 'affordable' has been dropped from its title, the budget states it will embrace social and affordable housing and homelessness, as well as overall housing supply, planning and zoning reforms. Annual funding of $117m for homelessness services is also to be rolled into the new agreement.

Importantly, Treasury will take the lead in negotiating the agreement with the states and territories.

True, the government has squibbed any big changes to negative gearing or capital gains tax, but the small adjustments made in this budget will hopefully open the door for more profound change in future budgets.

It is also true that some measures will have very modest impact (such as enabling first home buyers to accumulate a part of a home purchase deposit through superannuation). At first glance the measures targeting foreign investors in residential real estate look as if they're just playing to public prejudice about what's crowding first home buyers out of the market. But don't underestimate them, these measures can create opportunities for first home buyers by dampening foreign investor demand and will also harvest revenue to redirect to other parts of the package.

Most importantly, the package signals that the Commonwealth accepts that housing affordability is an issue of national concern that cannot be simply left to the states.

The detail:

Unlocking Supply

Measures in the package that focus on boosting overall housing supply

1. A $1bn **National Housing Infrastructure Facility** over five years from July 1, 2018 to support local government to finance critical infrastructure such as water, transport links and site remediation to boost housing supply, especially affordable housing supply.

   It will provide:
   a. $600m in concessional loans,
   b. $225m in equity investments, and
   c. $175m in grants.

2. The government promises to release 'suitable **Commonwealth land**' for housing to supply 6,000 dwellings, starting with 127 hectares owned by the Defence Department at Maribyrnong, Victoria. The Maribyrnong site is reported to be heavily contaminated, so we can expect some of the $1bn from the National Housing Infrastructure Facility to be used on remediation.

3. Developing a public, on-line **Commonwealth Land Registry** from December 1, 2017, to encourage proposals for higher value use of Commonwealth land, including housing development proposals.

4. Working with the states on **planning and zoning reforms** to speed up development gets several mentions in the context of a new National Housing and Homelessness Agreement (see below) and infrastructure investment measures.

5. The **Western Sydney housing package** offers incentive payments to the NSW and local governments to support planning and zoning reform, accelerate housing supply and deliver affordable housing in Western Sydney. This region is facing above average population growth and housing affordability pressures. The amount of money provided will depend on the housing targets delivered and 'the reform ambitions of the NSW and local governments'.

6. Investing more than $70bn on **transport infrastructure** across Australia from 2013-14 to 2020-21. Post-budget commentary has debated how much of this funding is actually additional money, as opposed to being funds that would otherwise be allocated to states.

Measures specifically aimed at stimulating the supply of affordable housing

1. The core measure is a **National Housing Finance and Investment Corporation.** While its exact structure and legal form are yet to be decided, the NHFIC will have two functions:

    i. It will operate the affordable housing **bond aggregator** to provide cheaper and longer-term finance for community housing providers. NHFIC will aggregate providers' borrowing requirements so it can issue bonds to the wholesale market at a lower cost and for a longer tenure than bank finance. The bond aggregator should start on July 1, 2018. The budget has set aside $4.8m to set it up, but the rest of the funding will be in the Mid-Year Economic and Fiscal update in December or in the next budget.

    ii. It will manage the $1bn **National Housing Infrastructure Facility** mentioned above.

    The details of the NHFIC will be settled after the Affordable Housing Expert Panel reports to the treasurer on the design of the bond aggregator later this year. It's too early to tell how much an impact the bond aggregator will have on the supply of affordable housing, but if it can reduce financing costs by 2 per cent annually, it will save the community housing industry about $14m pa in interest payments on its existing borrowings of around $700m.

Other measures in the package aim to boost the supply of affordable housing:

- Specifying **housing supply targets** in new bilateral agreements with the states and territories (see below).
- Rule changes to allow **Managed Investment Trusts** to invest in affordable housing – MITs must hold and make available for rent affordable housing assets for 10 years and must rent the properties through a 'professional manager' to households on low to moderate incomes. If at least 80 per cent of the trust income is derived from affordable housing, non-resident investors in the MIT will be subject to a concessional 15 per cent withholding tax (instead of a 30 per cent withholding tax on investment returns), and resident investors will be taxed at their marginal rate.

  Properties held as affordable rentals for less than 10 years will have a 30 per cent withholding tax imposed on the capital gains arising from their sale. The MITs will also be able to pool a 60 per cent Capital Gains Tax discount (see below).

  The detail of the scheme is yet to be sorted out (for example, how eligible tenants are defined and how much below market the rents must be) and the financial impact on the federal budget is 'unquantified'.

  This measure, which starts from July 1, 2017, is aimed at superannuation funds. The two main advantages for resident investors appear to be that they will be able to buy units in residential rental investments, rather than having to buy entire dwellings, and will benefit from pooling the 60 per cent capital gains tax discount as assets are turned over within the fund. The targeting of low and moderate income households suggests that community housing providers will be well placed to manage qualifying properties although, as currently described, the measure is not restricted to community housing.

- Increasing the **Capital Gains Tax discount** to 60 per cent for individual resident investors in affordable housing – housing must be sub-market and managed through a registered community housing provider to eligible tenants (income limits apply) for at least three years. This measure starts on January 1, 2018, with a budgeted annual cost of $10m.

Creating the right incentives

The budget puts forward a mix of spending and revenue measures including:

1. **First Home Super Saver Scheme** - Home buyers can save the deposit for a house by salary sacrificing voluntary contributions to super – the contributions are capped at $15,000 a year and $30,000 in total ($60,000 for a couple). This measure only works for people earning between $33,201 and $105,263 because there is an annual $25,000 cap on pre-tax contributions, which includes employer contributions. The cost is $250m over four years.
2. **Downsizers** over the age of 65 who sell a house they have owned for at least 10 years can tip up to $300,000 ($600,000 for a couple) into their super as a non-concessional contribution. The supply impact is unclear; it might encourage some to downsize, but others might put off selling until they reach the age of 65. This measure starts July 1, 2018, costed at $30m over two years.
3. Improving the targeting of **housing-related tax concessions**:
    i. Removing the capacity for landlords to claim **travel expenses** for collecting rent, inspecting properties and maintenance. This measure starts on July 1, 2017 and is budgeted to save $540m over three years.
    ii. **Depreciation allowance** on rental properties can only be claimed by the purchaser or the person who has spent money on capital items and repairs. Subsequent owners can't claim the benefit of the depreciation allowance. Depreciation on existing investments (bought before May 9) can continue until the property is sold. The impact of this measure is hard to predict: it may slow investor demand for rental properties, alternatively it may turn investors away from established properties to new builds. This measure starts July 1, 2017, and is expected to save $260m over three years.
4. Three measures targeted at **foreign purchasers**
    i. The capital gains main residence exemption for foreign purchasers will be removed from July 1, 2017, and there will be changes to the CGT withholding tax for foreign investors. This is budgeted to save $581m over four years.
    ii. Imposing a vacant property tax of $5,000 a year if the property is vacant for more than six months. The rationale for restricting this to foreign purchasers is unclear. This measure is to start on July 1, 2017 and bring in $20m in revenue over four years.
    iii. Restricting the proportion of sales of multi-story development of more than 50 dwellings to foreign buyers to no more than 50 per cent. Some commentators suggest this change will lengthen the development cycle because it will take developers longer to assemble the pre-sales needed for work to proceed, others

suggest it will have only a modest impact since changes to finance rules have already slowed foreign investor demand. This measure has no revenue impact over the forward estimates period.

Improving outcomes for those in need

The National Affordable Housing Agreement will be replaced by a new National Housing and Homelessness Agreement from 2018-19.

i. the existing level of funding to NAHA will be maintained ($1.3bn pa, indexed annually)

ii. the National Partnership Agreement on Homelessness will be rolled into the core Housing and Homelessness Agreement to give certainty to service providers – this has been described as '$375m new money' but only because current NPAH funding is only for one year and this measure continues it for the following three years of the forward estimates.

iii. bilateral agreements with states and territories instead of a multilateral agreement

iv. states and territories to match homelessness services funding (officials say that's the aspiration for the housing funds in the agreement, too)

v. states and territories to meet social and affordable housing targets –to make sure they do, the Federal Government will also provide the National Competition Council $6.5m over four years from 2017-18 to help implement the agreement and assess ongoing performance under the NHHA.

vi. states and territories will be required to deliver on housing supply targets and reform their planning systems, as well as address social and affordable housing and homelessness

vii. states and territories will be encouraged to transfer stock to the community housing sector

The *Big Issue* Homes for Homes initiative will receive $6m in support over four years. The initiative encourages people selling property to donate 0.1 per cent of the proceeds to fund social and affordable housing projects across Australia.

Other

1. The Treasurer's speech mentions enabling **direct deduction of rent payments from tenants on welfare**, 'to give investors greater certainty' over the income flow from rents. This was announced in the 2016 Federal Budget, but the legislation for the measure will be introduced this year.
2. Use of **Social Impact Investing** (SII) to trial ways to improve housing/homelessness outcomes. There is $10.2m over 10 years to partner with state and territory governments to trial the use of Social Impact Investment to fund innovative programs aimed at improving housing and welfare outcomes for young people at risk of homelessness. The trial would target priority groups, including those supported by specialist homelessness services, exiting the out-of-home care system or institutions such as juvenile detention. Another $8m over four years will create an SII Readiness Fund to help NGOs and private sector organisations build skills to develop SII projects or business plans.
3. The government will provide $209m over four years to set up a new, national, independent regulatory body, the **National Disability Insurance Scheme Quality and Safeguards Commission.** The commission will ensure appropriate safeguards are in place to protect participants in care, and establish expectations for providers and the disability workforce in

delivering quality, safe services. Starting on January 1, 2018, the commission will replace the various quality and safeguarding arrangements in each state and territory as they reach full scheme.

4. The **Australian Prudential Regulation Authority** will be given new powers to 'flexibly respond to financial and housing market developments that pose a risk to financial stability'. This includes powers to restrict lending by financial institutions other than banks, building societies and credit unions in any geographic area where it thinks the market is becoming over-heated.
5. From September 2018, there'll be **new mutual obligation requirements** for people over the age of 30, including requiring those aged over 60 who are not yet eligible for the age pension to undertake 10 hours of activity a fortnight. From 2020, a new **Jobseeker payment** will replace Newstart, Sickness Allowance, Partner Allowance and Bereavement Allowance.

What's NOT in the package

There are some important things missing from this Budget:

X no longer-term National Housing Strategy to frame the set of housing measures in this Budget

X no increase to Commonwealth Rent Assistance to help people on the lowest incomes in this very tight rental market

X no explicit capital fund to support the bond aggregator – we will need to wait until after the expert panel reports later this year

X no national regulator for social and affordable housing – hopefully this will be considered in the context of designing the bond aggregator and negotiating the new housing agreement with the states

X no national housing supply council to improve forecasts on supply and demand.

The final assessment?

A solid start, some good signals, but a lot more work – and funding – will be necessary to deliver the extra 150,000 social and affordable dwelling units that are required to satisfy unmet need.

Report by CHIA CEO Peta Winzar

May 2017