

Building the Recovery - Securing Jobs and and Social Outcomes

At this difficult time the Government's emergency measures to support businesses and workers will provide much needed relief to many Australians. Equally, there is an opportunity to plan for a government-driven stimulus initiative both to kickstart the recovery and get people back into employment and also to give the building industry the confidence to retain more of their workers. Government can capitalise on historically low bond rates through a fiscal stimulus investment in infrastructure that will deliver a long term benefit to the economy and begin to address the shortfall in social housing across Australia.

The Community Housing Industry Association (CHIA) is calling for the Australian Government to introduce a social housing acceleration and renovation program (SHARP). This would emulate the 2008 Social Housing Initiative (SHI) which enabled the construction of some 20,000 social housing units and upgraded over 70,000 existing dwellings. This need not involve significantly more Federal expenditure than the SHI's \$5.64B¹.

To ensure its immediate economic stimulus impact, SHARP initial wave will focus on social housing backlog maintenance and upgrading including energy efficiency and other measures to improve climate resilience. will have an additional benefit of freeing up future CHO cashflows to service future waves involving acquisition of dwellings requiring renovation and partially completed sites plus new build.

Under the SHARP, backed by state/territory contributions, Australian Government investment would enable not-for-profit community housing organisations (CHOs) to deliver 30,000 social housing units. Leveraged against the resulting dwellings and future rental income, CHOs will raise private finance to further expand resulting housing investment, potentially yielding up to 5,000 dwellings over and above the directly-funded SHARP cohort. State/territory governments will be incentivised to contribute land, via an equity investment or via discounted land sale to CHOs.

The SHARP's aim should be for 75% of funded homes to be acquired or completed within three years. While CHOs would be main grant-recipients, their action in

Social Housing Initiative 2008

- The Social Housing Initiative (SHI) was a key component of the Rudd Government's Nation Building Economic Stimulus Package (NBESP) to stave off the 2008 Global Financial Crisis
- An independent evaluation (KPMG 2012) estimated a SHI contribution of approximately \$1.1 billion in average annual value-added (GDP) over the four-year period and that the 'multiplier' (boost to incomes per dollar spent) was 1.3 (1.3 dollars in additional income for every dollar spent).
- Created 9,000 FTE construction industry jobs during the stimulus period and an overall increase of 14,000 FTE jobs.
- New social housing delivered under the SHI was targeted at homeless households and those at risk of homelessness.
- 19,700 new social housing units were completed across Australia at a cost of \$5.24 billion to the government - the funds being allocated over 3.5 years. A further \$400K was devoted to repairs and maintenance of existing social housing
- New homes were delivered over three years, with total numbers exceeding the target by 13%.
- In-kind contributions by states/territory governments – mainly land – equated to \$766 million
- Three quarters of the properties were to be 'owned or managed' by community housing organisations (CHOs)
- In Victoria grants went direct to CHOs, requiring a 25% co-contribution which leveraged \$166 million in private finance generating an additional 623 dwellings
- In other jurisdictions SHI homes were commissioned by state/territory governments and – in the case of NSW – then transferred (with title) to CHOs which, in turn, leveraged private finance to build more homes. This delivered more than 1,000 additional affordable homes over and above those directly SHI-funded

¹ Using the average unit cost - see pp68-70 in AHURI Final Report no. 309 - of \$270K and uprating to \$300K, assuming that all units are social rented and require 80% subsidy the total construction cost (incl land) to government would be circa \$7.2 billion. Clearly actual costs will be influenced by the tenure mix, size, location, and state / territory contributions – we assume the costs would not all fall on one level of government. A renovation budget would be on top of this.

commissioning private sector builders would provide the program's main stimulus impact.

SHARP would be administered by a new arm of the National Housing Finance Investment Corporation (NHFIC) accountable to an oversight body reporting to COAG.

The housing procurement cost to the Australian Government could be calculated as for the SHI through setting a fixed sum per property regardless of location or construction costs. However, recognising nationally diverse land values, a preferred alternative would be to set the grant at a proportion of total development cost. This model would also more easily factor in other contributions – e.g. discounted land. The program will cap the renovation / maintenance budget and set an upper limit on acquired uncompleted sites - the latter to avoid impact on overall housing supply.

The community housing industry offers Government a trusted, transparent and regulated partner with a now-established track record in developing and managing social and affordable housing development in perpetuity. While independent from Government, we understand Government's needs and priorities and have the capacity to adjust policy settings to maximize opportunity. Together we can maximise program speed and bang for buck.

The SHARP as a short term program to kick start the economy should be complemented by the introduction of a long term recurrent Federal government incentive mechanism to enable affordable rental housing to be built at the scale Australia needs. CHIA has worked on a [blueprint](#) for such a mechanism.

Why Social Housing?

Infrastructure and projects that can be delivered

- The SHARP ticks all the boxes for a successful stimulus package. It involves standard products, industry capacity to deliver is available, and it is fast to roll out.
- Renovation and backlog maintenance are straightforward to deliver. In the early part of the program both repair work and new construction projects can largely involve bringing forward schemes already scoped
- By comparison with many infrastructure projects already in state and territory strategies which require long lead times new social housing can deliver a simpler and therefore quicker economic stimulus. By targeting locations with good access to transport and facilities newly-built housing can be well integrated into local communities.
- While some infrastructure projects have reportedly been delayed due to material and workforce shortages, housing construction should be relatively unaffected.
- State, territory and local governments all have access to under-utilised or surplus land that could be contributed. Through their land audits recently completed or currently in progress, several jurisdictions could easily identify suitable sites. A number are already well advanced in assembling proposals that could be kick started by the SHARP.
- Many private developers hold sizeable land banks that could be unlocked through careful design of the stimulus package. Similarly, other large land-owners may be incentivised to participate. The [Australian Catholic Housing Alliance \(ACHA\)](#) has for example been set up principally for this purpose. There are also many projects with development approval that may be brought forward with the right incentive.

Social infrastructure that is needed

- There is a pressing need for more social housing. More than 116,000 people were homeless in Australia on census night 2016, and over the past 10 years numbers have climbed by 30% <https://cityfutures.be.unsw.edu.au/research/projects/australian-homelessness-monitor/>
- Many other low income households, a fair proportion of them with at least one member in employment, are also in rental stress, paying more than 30% of income on housing costs. Recent research estimated that in 2016 there were over 400,000 households in the bottom income quintile either homeless or in rental stress requiring social housing <https://cityfutures.be.unsw.edu.au/research/projects/filling-the-gap/>
- Rental stress and homelessness have increased primarily because of the diminishing availability of low-price rental housing across Australia, and – as part of this – the failure to expand social housing to keep pace with household

growth. The national social housing portfolio has remained virtually static over the past 20 years, while Australia's population has increased by 35%.

- Information about the physical condition of Australia's social housing is not publicly available and the partial data available is of considerable vintage. Infrastructure Australia in their 2019 Audit cited research that suggested 25% of Australians rated social and public housing as poor quality and likely to worsen
<https://www.infrastructureaustralia.gov.au/australian-infrastructure-audit-2019-social>

Improvements in affordable housing industry capacity since 2008 will enhance outcomes

- The National Housing Finance and Investment Corporation (NHFIC) has been established, and through its bond aggregator, CHOs can now secure long term and low-cost finance, saving very considerable sums in interest charges. BlueCHP, a CHO that borrowed \$70M from NHFIC's first bond, has estimated that the organisation will save approximately \$1M per annum in interest payments. The National Housing Infrastructure Fund that NHFIC administers can also provide loans, equity and grants to assist in unlocking sites for housing.
- Furthermore, since (and in part because of) the 2008 stimulus program, CHOs have built capacity, experience and capability as housing developers (see box below). Over this period, the sector has more than doubled its dwellings in management. KPMG noted that CHO participation in SHI had enhanced 'their capacity to become commercially focused and work with banks, developers and builders in situations they might not have otherwise had the opportunity to work in'.
- A National Regulatory System for Community Housing (NRSCH) was established in 2014 that operates in all states and territories across Australia except Victoria and Western Australia which have their own separate regimes. These arrangements provide assurance to government and other investors about CHOs' governance, financial management and service delivery.

A program that can also add value

- The KPMG evaluation demonstrated that the 2008 SHI delivered design innovations. However, modified planning and procurement processes could further enhance such performance under SHARP.
- SHARP could be designed to encourage new mixed tenure models to counter negative responses to developments, avoid stigmatisation and demonstrate the viability and attractiveness of new models such as build to rent.
- SHARP could encourage new forms of and arrangements between CHOs or between CHOs and other entities, for example, institutional investors, land owners including local and state governments.
- SHARP could require that bids encourage apprenticeships.
- New properties should be built to high level environmental performance standards. CHOs will commit to renovate homes to a clear standard that emulates and exceeds those achieved in the UK - [see here](#) for an example.

Benefits of not-for profit CHOs

- CHOs have demonstrated capacity to deliver new homes. Since 2012, in NSW alone they have delivered 2,700 properties. Valued at \$1B, these have been funded via \$266 million of CHOs' own equity and \$432 million in debt finance, as well as other contributions.
- CHOs reinvest their profits to improve services and expand their provision
- NFP CHOs have many competitive advantages. These include tax exemptions and the ability to secure investment finance against owned housing assets
- CHOs are viable, ethically-run businesses driven by strong missions and values
- CHOs are careful stewards of public assets with a commitment to transparency. They are accountable through robust regulation and contractual arrangements
- CHOs have proven capability in property and tenancy management, supporting people, and building strong communities
- CHOs have developed sophisticated partnership networks with councils, the private sector, local service providers and government agencies
- CHOs vary greatly in size and location. Larger providers have a track record in using their scale to diversify their service offer. This diversity delivers contestability to Government and choices to tenants.

- Where housing can be constructed near jobs and services this will generate first-order economic productivity gains that will offset the cost to government. While many social housing-eligible tenants may not be in paid work, a number will be enabled to enter the job market. In mixed tenure projects including affordable rental properties, the economic payoff will be larger. [UNSW-led research](#) clearly demonstrates these benefits in terms of productivity gains from both congestion busting and increased earnings.
- By investing in CHOs property can be acquired quickly, and if not suitable for purpose 'dealt and traded' over time with replacement properties in necessary locations finessed with the capital gain increases. In contrast, investment direct to State Housing Authorities (SHA), new property can mask and disguise the continued erosion of SHA stock with funds not directed back into housing, but rather to state treasuries. The [experience](#) of Commonwealth debt write off in South Australia is instructive.

SHARP principles

Strategic objectives

Building on the 2008 SHI, we believe that an effective SHARP should have the following strategic objectives:

1. Increase the supply of social housing, predominately via construction of new social housing including within mixed tenure developments
2. New social housing to be primarily targeted at households who are homeless or at risk of homelessness. Specific cohorts such as older single women may be prioritised
3. Stimulate the building maintenance and construction industry
4. Support employment in regional and metro areas across all Australia. We anticipate activity will be predominantly in areas where unemployment has hit the hardest
5. Support the housing market by taking the opportunity to acquire quality sites at keen prices that either investor landlords or developers wish to sell
6. Upgrade social housing to enhance energy performance
7. Complement, rather than replace, existing initiatives and assist in the achievement of a viable and interconnected housing system.
8. Build capacity in not-for-profit CHOs and encourage innovation in construction quality and design
9. Maximize public value through CHOs combining their rental income with other government subsidies, tax benefits, partnership arrangements and private finance to provide additional, low cost, housing.
10. Be combined with other regulatory and tax reforms to encourage multi tenure developments with build to rent
11. Over the longer term maximise tenant, community and economic outcomes.

Program elements

In designing SHARP, we believe there are a number of key considerations the Australian Government should consider. These include governance and strategic planning, design principles, the process for selecting housing providers (CHOs) to take part in the program, procurement arrangements and consultation.

Our proposal is focused on allocating resources centrally with the community housing industry leading the program. We recognise that another option would be to allocate resources via state governments. This option would not preclude CHOs being the delivery vehicle but where states decide to lead development, we advocate that title of the new properties is vested in CHOs (as in NSW under the 2008 model). As explained earlier, this could facilitate subsequent procurement of additional housing (again as in NSW under the 2008 program). An additional benefit of allocating direct to CHOs from the Federal level is the reduction in administrative complexity arising from a two-stage process. As noted below allocation via a Federal body does not preclude state/territory governments having a role in decision making on program design, priority locations and tenant cohorts.

Governance and strategic planning

- The Australian Government's role should be leadership, coordination (through COAG perhaps through reinstatement of a housing ministers' group and housing ministers advisory council a possibility) and funding. NHFIC could manage SHARP by tasking a separate staffed team benefiting from top quality and experienced state

and federal public servant secondments, supported by commercial specialists working with state/territory planning and housing officials, and CHOs, to better align roll-out and intra-government coordination. The possibility of using/ inserting an addendum to the NHHA bilateral agreements between the Commonwealth and states / territories has been suggested, though this may be hard to achieve in the short term.

- NHFIC has established its housing research function and this should be the body that provides guidance ‘number, type and general location’ of properties that will be prioritised for grant funding. Recognising this is a stimulus package, requirements will be non-prescriptive but potentially guided by the needs of priority applicants on state/territory waiting lists. Ideally, locations will have good access to services such as schools and hospitals, and properties will be energy efficient. This body will also set grant rates. In the interim the body could draw on the need and cost information in the [Affordable Housing Assessment Tool](#) developed by UNSW City Futures.
- Scope also exists to incorporate initiatives that respond to specific challenges - for example to reduce veterans’ homelessness and relieve overcrowding in remote communities.
- The same guidance will also be used to determine where properties could be acquired.

States and territories

- In the interests of speedy implementation, the Australian Government could allocate funding for delivery in each state and territory on a per capita basis. Alternatively, there could be some location factor incorporated such as that which is used under the NDIS SDA formula.
- State/territory governments may be sufficiently encouraged / incentivised to enhance SHARP by contributing discounted land or land as equity investment. An alternative may be to allocate (say) 75% on a per capita basis and the remaining proportion conditional on matched state / territory contributions.
- States and territories will establish special land-use planning processes similar to those agreed for SHI which significantly enhanced project delivery times. The KPMG report found that generally the speeding up of the process was accomplished without objections. Significantly, in those few cases where there were objections these were rarely on development grounds.
- There may be merit in states incentivising land-owners to provide options to CHOs through the DA processes and State and LGA rapid approval process to get approvals quickly.
- States and territories will identify and publish a list of government-owned sites (including council-owned sites) available for purchase at discounted rates and / or which could be provided as an equity contribution.
- States and territories will identify properties for renovation / upgrading with input from CHOs managing homes vested from or managed under contract with the state and territory.

Procurement

To maximise the leverage impact of funding and partnerships, the Commonwealth Government funding should be directed through a specially mandated grant funds (one for new dwellings and another for maintenance and upgrades), both managed by the National Housing Finance and Investment Corporation (NHFIC).

New and acquired homes

- Procurement should be via tenders and allocations will be awarded to not-for-profit tier 1/2 or equivalent CHOs.
- The Commonwealth could set a quota for the percentage of new housing to be owned by CHOs but to avoid stifling innovation and cross-sector partnerships and SPVs, and slowing the rate of housing delivery, there is scope to help foster relationships and support new models.
- A cap on acquired homes (i.e. those already existing, partially or newly completed) funded via the SHARP will be set. This option will only be available during the scheme’s first year.
- Who develops (designs and project manages) the new homes is a separate issue to who owns and manages them. Either CHOs or the state/territory housing authority could be the developer, although the former would have the advantage of GST zero-rating. It also means that the CHO (with a key focus on the long-term maintenance and management of the properties as well as the running costs for tenants) would be in control of the design.

- The procurement process will be designed with CHOs. There are options around the timing and frequency of tenders. There could possibly be an initial tender focused on projects deemed shovel-ready and a second within six months allowing time for negotiation and partnership formation
- To ensure that housing units delivered meet the high standards expected the procurement process should place CHOs in the 'decision making role' in site / scheme selection.
- All tier 1 / 2 (or equivalent) CHOs have been assessed by the regulator as having the capacity to develop new housing. Potentially, a new 'class' of CHO could be badged, through a pre-qualification process. Regulatory information supplemented by evidence from already completed schemes provides a basis for assessment.
- Tender and procurement costs must be kept to a minimum. In some jurisdictions these have been enormous without a discernible beneficial impact on the outcome.
- Consideration should be given to proposals allowing CHOs to undertake broader scale developments that allow 'develop and sell, land or land and housing packages' that target affordable house purchase and rental markets whilst developing pipelines of revenues (profits from first stage) that can subsequently deliver affordable rental properties as well. This creates a second round effect as well as creating sustainable ongoing activity pipelines for CHOs.

Procurement of maintenance and upgrades

- Funds be directed to CHOs and applied to fund maintenance upgrade programs on social housing assets; and,
- Require the CHO to commit to leverage the funds through a new build program in addition to carrying out the maintenance upgrade program; and,
- Allow funds to be used for maintenance on state government owned social housing where a CHO has a minimum 20 year lease for a nominal fee. This will encourage State Government's to offer long term leases to CHOs who are best placed to leverage private sector partnerships and funding, including through additional borrowing from NHFIC. Longer leases will also provide the opportunity to leverage the cashflow to support the construction wave.

Other supports

- NHFIC (if CHOs choose to use) will fast track loan and NHIF financing applications associated with SHARP.

Outputs and outcomes

- Government investment should be devoted to achieving social housing outcomes. CHOs, in leveraging the allocation, should be able to introduce affordable rental homes in to the mix.
- Mixed tenure including build to rent (BTR) will be encouraged. Partnerships between CHOs and private developers that unlock land opportunities will be welcomed.
- Mixed tenure developments can also deliver into the mix SDA (Supported Disability Housing) homes for people with high needs, thus also delivering on the governments interest in maximising NDIS effectiveness.
- Developments will need to be in locations with demonstrable housing need, and meet at least [LHA](#) silver standard.
- Existing homes will be brought up to a negotiated but high level environmental standard.
- Management of additional social housing will generate local jobs

Monitoring delivery

- The focus should be on the important outputs and outcomes. Arguably these are the build and design quality, the location, impact on affordability, and of course on-time completion. Sufficient attention needs to be given to collect information that will identify systemic and / or location-specific issues that need resolution.
- In the UK the government role in overseeing development is focused on ensuring that properties are delivered. The oversight authority recognises the complexities and realities of development and within clear parameters can be flexible about timing, substitution of sites etc.
- To achieve ambitious delivery targets, the application and monitoring processes should be streamlined and returns should be easy to complete.
- Existing NRAS compliance agents and organisations could easily adapt to providing quality assurance of tenancing and other aspects of ongoing compliance if/as required.

- Given the size and importance of the program there are grounds to commission an ongoing evaluation from the outset. Design the program to achieve the stated objective of growing CHO capacity.

Main References

This paper draws on a number of published research papers and reports. These are listed below. It is also informed by CHO experience and expertise including of delivering the SHI in Victoria.

KPMG SHI Review 2012 http://www.nwhn.net.au/admin/file/content101/c6/social_housing_initiative_review.pdf

UNSW City Futures 2019 for Landcom – How an Australian Build to Rent Project contribute to urban renewal and affordable housing supply. This report provides evidence of the ‘savings’ from using a not-for-profit CHO as the developer

<https://cityfutures.be.unsw.edu.au/research/projects/how-can-australian-build-rent-product-contribute-urban-renewal-and-affordable-housing-supply/>

UNSW City Futures 2019 for CHIA NSW and Homelessness NSW - Filling the Gap (includes costs for land to SA4 level and housing need for social and affordable housing) <https://cityfutures.be.unsw.edu.au/research/projects/filling-the-gap/>

AHURI 2018 – Paying for Affordable Housing (part of larger inquiry that also considers planning mechanisms), this report includes the affordable housing assessment tool that helps calculate the subsidy required to deliver different mixes of subsidised housing.

The second link is to a summary of lessons from examining two strategies <https://www.ahuri.edu.au/research/final-reports/293>

https://www.ahuri.edu.au/_data/assets/pdf_file/0020/20783/PES-09-Lessons-in-affordable-housing-strategy-for-government.pdf

UNSW 2019 - Strengthening Economic Cases for Housing <https://cityfutures.be.unsw.edu.au/research/projects/strengthening-economic-cases-housing-productivity-gains-better-housing-outcomes/>

UNSW et al for Launch Housing – Australian Homelessness Monitor 2018

<https://cityfutures.be.unsw.edu.au/research/projects/australian-homelessness-monitor/>

The SHARP is proposed as sort sharp economic stimulus to address jobs and meet a social need. CHIA also has a comprehensive National Strategy Plan for comprehensively addressing Australia’s housing challenges - see [here](#).