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INDUSTRY ASSOCIATION

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CHIA
2020 Federal Pre-Budget Submission
(Revised)

Pre Budget Submission – CHIA Priorities for the 2020-21 Federal Budget

Executive Summary

CHIA is the peak body representing not for profit community housing providers (CHOs) across Australia. Our 170+ members manage a $40 billion-plus portfolio of more than 100,000 homes, housing people on low and moderate incomes who find it hard to access affordable and appropriate tenancies in the private market.

The Community Housing Industry Association (CHIA) welcomes the opportunity to update CHIA's priorities for the postponed 2020-21 Budget. While the actions we proposed in the original pre-budget submission remain important, in this revised version we have chosen to focus on three key priorities for government action in the October budget.

The COVID-19 pandemic has exposed the consequences arising from a housing system that is not meeting the needs of many Australians in the bottom two income quintiles. The pandemic has forced (mainly state and territory) governments to take action to address both rough sleeping and overcrowded shelters and boarding houses where residents share facilities. We have always known the public health risks both pose; the pandemic has shown that governments are able work collaboratively with other housing and service providers to secure resources and take rapid and effective action to provide temporary accommodation for around 7,000 people, using hotels, pop up shelters and under occupied student accommodation. We acknowledge this achievement while, at the same time, questioning how permanent homes for these people will be secured. It also poses a huge challenge as to whether this achievement of virtually removing street homelessness can be maintained into the future.

At the same time as the pandemic has revealed the housing precariousness experienced by many Australian households it has also hit the residential construction industry. Industry stakeholders, think tanks and the Australian Treasury are in agreement that even with the impact of the Federal Government's HomeBuilder scheme there will be a severe contraction in residential construction during 2020/21 and 2021/22 as a result of falling demand from the drop off in migration and the financial stresses faced by many Australians. The HIA expect 'that the number of new home starts will contract from 173,000 in 2019/20 to 139,700 in 2020/21', with the 'multi-unit market will bear the brunt of the COVID-19 shock'.[1] The MBA makes similar forecasts noting 'the number of new home building starts is projected to fall to 124,550 during the 2020 21 financial year compared with an estimated 151,772 starts in 2019–20'. These forecasts factor in the impact of a new homebuilding grant.[2]

With reductions in other construction activity too, the impact on employment and economic output will be severe. In the year to December 2019 construction provided $145.9B to gross value added (7.8% of the total in Australia). In February 2020 1.2million people were employed in the construction industry, representing 9.1% of Australian jobs.[3]

Our priorities for government action focus on activities that would enable our members to further leverage the opportunity created through the establishment of the National Housing Finance and Investment Corporation, so as to assist in relieving high and growing levels of homelessness and rental stress across Australia.

In the current circumstances of severe recession, our single most important action for Government to consider is the Social Housing Acceleration Recovery Program (SHARP)[4]. Not only will this deliver much needed housing for Australians in need, but it will be a surefire way to generate jobs in the construction industry and add to the economy through raised output, thus, more or less covering the cost of government investment.[5] It also has the benefit of guaranteed demand, adding rather than simply bringing forward construction and renovation activity, and being capable of being targeted at areas where there are particular economic pressures.

<u>Key priorities</u>

1. ***Support state and territory initiatives to rehouse formerly homeless households temporarily housed during the pandemic*** by designating funds for head leasing of private rental units. CHIA and Homelessness Australia's rapid housing response provides a blueprint for such a scheme.[6]
2. Invest in ***social and affordable housing as essential infrastructure***:
   - **a.** Capitalise on historically low bond rates[7] and kickstart our country's post COVID-19 recovery through **a social housing acceleration program (SHARP)** [8] to rapidly deliver 30,000 social rental housing units. This program should be led by the Commonwealth Government in collaboration with the State and Territory Governments and co-ordinated through **National Cabinet's Housing Committee**
   - b. Dedicate resources to developing and establishing a ***recurrent Federal housing program*** for implementation in 2022-23 that incentivises State and Territory co-investment and attracts institutional capital, via a funding framework such as that provided by the **Affordable Housing Infrastructure Booster**.

It is fair to note that housing outcomes are primarily a state/territory responsibility under the Australian constitution. Only with the active participation and input of state/territory governments can any effort to significantly expand social and affordable housing provision succeed. Equally, however, adequate and affordable housing is an aspect of social security which is a formal Commonwealth responsibility. More importantly, it is only the Commonwealth that possesses the tax-raising and borrowing powers required to underpin the scale of investment needed.

Pre Budget Submission – CHIA Priorities for the 2020-21 Federal Budget

Introduction

The Community Housing Industry Association (CHIA) welcomes the opportunity to update CHIA's priorities for the 2020-21 Budget.

CHIA is the peak body representing not for profit community housing providers (CHOs) across Australia. The industry provides one in five of Australia's social rental properties, complementing public housing. CHOs manage a $40 billion-plus portfolio of more than 100,000 homes, housing people on low and moderate incomes who find it hard to access affordable and appropriate tenancies in the private market. Our 170 plus members include the largest (managing over 10,000 dwellings) to those with less than 100 homes. Our members provide a diverse range of housing for Aboriginal people, people with disabilities and the formerly homeless.

CHIA's submission is concerned with actions to address the housing need of lower income Australians. We also accept that housing affordability pressures exist for a broader range of households. CHIA's National Plan for Affordable Housing[9] sets out our position on supporting entry into home ownership and market products such as Build to Rent Housing.

Our key priorities for the 2020-21 Federal Budget build on the Commonwealth Government's progressive 2018 action to establish the National Housing Finance Investment Corporation (NHFIC) and the access to cheaper CHO financing options thereby enabled. An overarching goal is to further leverage NHFIC's potential to assist CHOs in relieving high and growing levels of homelessness and rental stress across Australia.

While our original priority actions for the government remain important to us, we have chosen to focus in this revised submission on two actions that meet the immediate and short term needs for secure, safe and affordable housing for Australia's most vulnerable households. At the same time, we also include a third action for the Commonwealth government to commence the process of implementing a longer term plan to address the growing shortfall of social and affordable housing.

Our view is that the scale of the housing challenge requires leadership from the Commonwealth. We do not believe that the entire financial cost should be borne by the Commonwealth government, but it can deploy its resources through programs that by design incentivise other levels of government and potentially other actors to make contributions. Our proposals assume that costs will be shared. We believe the National Cabinet's proposed housing committee provides the opportunity to negotiate adjustments to the state and territory National Housing and Homeless Agreements to include joint action to increase social and affordable housing supply.

The following points summarise the associated national challenge:

- As revealed in the latest official figures (2016) 116,000 Australians are homeless on any given night. Moreover, especially in capital cities, the past decade has seen homelessness rising far ahead of general population growth[10].

- More than half of the low-income households in rental housing – some 1.3 million people – face housing costs exceeding 30% of their income, leaving them without enough remaining funds for basic essentials like food and clothing[11].

- The private rental market has not supplied dwellings at rents (i.e. $202 or less per week) that are affordable to households in the bottom income quintile. While the market has supplied some homes affordable to households in the second income quintile (i.e. at no more than $355 per week) the homes are increasingly *unavailable* to these households; being occupied by higher income earners.[12]

- In 2016, there was a national shortfall of over 650,000 homes affordable to households in the bottom two income quintiles. Accounting for projected household growth to 2036 more than 1 million additional homes will be needed to meet the needs of these lower income households over the next 20 years[13].

- Using the projected number of households in Australia (ABS 2015) the number of social housing dwellings per 100 households has declined from 5.1 per 100 households in 2007–08 to 4.6 in 2017–18[14]

- No reliable figures exist on the additional new social and affordable homes currently planned for construction over the next few years, but even on optimistic assumptions this is highly unlikely to exceed 10% of what is required. Factoring in the loss of affordable homes through both the expiry of incentives awarded under the National Rental Affordability Scheme (NRAS) and other time limited schemes, as well as continued public housing sales and demolitions, the net increase in social and affordable homes is likely to be barely above zero. Unless there is a change of course by Australian governments, social and affordable housing provision per capita will continue to contract, just as it has for most of the past 25 years.

- A more meaningful measure of the decline in social housing supply is the reduction in the annual number of such properties being let to new tenants. This measure incorporates the impacts of declining gross provision (see above), the reduced number of newly built social rental homes coming onstream, and the contracting availability of affordable 'move on' accommodation (meaning fewer existing tenants have the capacity to transition into the private market). Therefore, as CFRC quote in their response to the ongoing Federal Homelessness Inquiry, '*Taking into account both public housing and community housing, the gross number of social rental lettings dropped from 52,000 in 1997 to 35,000 in 2017 – an absolute decline of a third*[15]*. Pro rata to population, this represents an effective reduction in social housing supply of some 50%'*

There are, on the other hand, major opportunities that will flow from tackling housing unaffordability through re-starting social rental housing investment. Traditionally, housing developed and managed by CHIA members has been valued for meeting social needs by providing safe, secure and affordable homes to vulnerable and low waged households who cannot access suitable market housing. More recently, research evidence has demonstrated that government investment in social housing (and, where necessary, floating support services) can produce net financial gains in terms of overall cost to government.[16] Increasingly, the broader economic outcomes that flow from our work are being recognised, notably the positive impact on human capital and hence economic productivity[17]. (Pages 6-8 of our submission)

Investing in social and affordable housing has positive outcomes for the residential construction industry, a key part of the Australian economy and one of the country's major employers. In February 2020, 1.2 million people were employed in the construction industry, representing over nine percent of Australia's 13 million jobs and also contributed $145.9B gross value added (7.8%) in Australia.[18] The construction industry is forecast to decline by 13 percent during 2020[19] with further contraction anticipated if international migration does not resume in 2021/22. Positively the 'residential building construction industry has the second-largest economic multiplier of all 114 industries that make up the economy' with $1 dollar invested realising almost $3 in additional economic output. [20]

In the short-term, a downturn in overall housing supply can be (at least in part) addressed through a social housing investment program and, in the future downturns mitigated through a recurrent social and affordable housing investment program would protect the construction industry against recession by introducing a counter cyclical economic component into the system. (See pages 10-11 of our submission)

CHIA's revised and shortened submission summarises our key priorities for the budget, focuses on the benefits derived from tackling housing unaffordability for lower income households, explains why CHOs should play a prominent role and how new government investment in CHO-delivered homes could best be structured. Further information about the three proposals is contained in the appendix.

CHIA's 2020-21 Budget Priorities

1. ***Support state and territory initiatives to rehouse formerly homeless households temporarily housed during the pandemic*** by introducing a fund to encourage head leasing of private rental units. CHIA and Homelessness Australia's rapid housing response provides a blueprint for such a scheme.[21]
2. Capitalise on historically low bond rates and kickstart our country's post COVID-19 recovery through **a social housing acceleration program (SHARP)** [22] to deliver 30,000 social rental housing units.
3. Dedicate resources to developing and establishing a ***recurrent Federal housing program*** for implementation in 2022-23 that incentivises State and Territory co-investment and attracts institutional capital, via a funding framework such as that provided by the **Affordable Housing Infrastructure Booster**.

Plan for the rapid re-housing of people temporarily rehoused during the pandemic

While, acknowledging that over 7,000 people sleeping rough and in unsafe accommodation have been temporarily housed, we now face the looming problem of how to provide for their rehousing into more permanent homes. As we prepare this submission there appear to be partial but no comprehensive national exit strategy in place.

Existing social housing will be unable to accommodate any urgent need to evacuate this cohort from hotels. The amount of social housing has reduced to just 4% of all dwellings and *'the annual number of lettings made by social landlords relative to population has halved since 1991'*.[23] Moreover, dwindling supply has meant that even in normal times virtually all of those being housed by CHOs and public housing agencies are 'greatest need applicants'. Even to the extent that such applicants could be deferred in favour of former rough sleepers being moved out of hotels, the social housing system would be incapable of absorbing all of the latter in any short time period.

Furthermore, as temporary income supports (e.g. JobKeeper payments) are reduced and job protections withdrawn, we can anticipate more people will be pushed into housing stress and homelessness. While there will be some businesses that 'snap back' there will be many for whom the recovery process will be far longer and are therefore unable to retain all their employees.[24] Large sections of the workforce were also ineligible for the JobKeeper program and some may already be in precarious housing situations, but temporarily protected by the eviction moratorium. With these being lifted at the same time as the stimulus payments are withdrawn Australia faces a probable major spike in homelessness. Estimating the numbers involved, mitigating the risk and planning and coordinating the response is urgently needed. The Federal Government should take the leadership role.

A Commonwealth government led **rapid housing response fund is proposed** to enable community housing organisations to head lease private rental accommodation and specialist homelessness services to provide support for former rough sleepers. Many CHOs already operate long standing head leasing schemes and in a position to respond quickly and take advantage of an anticipated oversupply of homes in the private rental market[25]

Recognising housing as essential infrastructure

The problem Australia needs to fix

The scale of the housing affordability challenges facing lower income households has been starkly revealed by the Productivity Commission's recent report 'Vulnerable Private Renters: Evidence and Options'. This highlighted that most lower income renters experience housing affordability stress – i.e. housing costs exceeding 30% of income. Furthermore, almost half of these households in rental stress are likely to remain stuck in this situation for at least five years. As highlighted in the introduction, UNSW's City Futures Research Centre (CFRC) estimated in its report 'Filling the Gap', that by 2036 an additional 1,023,900 homes would be required to meet the needs of households in the bottom two income quintiles.

Infrastructure Australia in its 2019 Infrastructure audit[26] identified four key challenges facing the social housing system - the absence of sufficient affordable homes for households able to move on from social housing, existing social housing not meeting current needs, deteriorating property condition, and severe overcrowding in remote Indigenous communities.

The recent AHURI report 'The supply of affordable private rental housing in Australian cities: short term and longer term changes', estimated that in 2016 four out of five Q1 income renters were paying unaffordable rents with the proportion rising to almost nine out of ten renters in metropolitan areas. In the report which is the latest of a time series that has been running every five years since 1996 the researchers also found that 'there was an increasing trend in Q2 renters nationally paying unaffordable rents: this rose from 24%

in 2006 to 36% in 2016'. In Sydney, 71% of Q2 renters were paying unaffordable rents. In all capital cities there is a 'spatial restructuring of rental housing markets' with more affordable homes in the outer suburbs and satellite cities.

Within these overall totals different segments of the population are disproportionally affected. Frequently overlooked are people with disability. While the government's Specialist Disability Accommodation (SDA) scheme will help create housing for around 28,000 people in the NDIS this is but a fraction of the numbers requiring affordable housing. The December 2015 AHURI report 'NDIS, housing assistance and choice and control for people with disability'[27] estimated there was an 'unmet need in affordable housing for between 83 000–122 000 NDIS participants at full rollout of the scheme in 2019'. Apart from ensuring that funding programs include specific targets for housing to meet these needs many current housing options available to people with disability are not fit for purpose.

Current and previous Federal Governments have taken steps towards creating institutions that could enable a significant increase in affordable rental housing. The investigation into 'innovative finance models' carried out by the Government's Affordable Housing Working Group (AHWG)[28] was instrumental in NHFIC's establishment. The low-cost finance options that have subsequently become available via NHFIC have reduced CHO interest payments. However, the resulting savings go only a short distance towards bridging the social and affordable housing funding gap[29] as acknowledged by the AHWG. That is, the difference between the cost of developing and managing affordable housing (land, construction, housing management and maintenance) and the income received (from rents and Commonwealth Rent Assistance).

CHIA has therefore recommended that Federal budget 2020-21 should include measures to contribute towards, bridging this funding gap.

The social, economic and productivity benefits from investing in social and Affordable Housing

Along with others operating in the housing and homeless sectors, we have long argued that inadequate provision of social and affordable housing negatively impacts welfare outcomes for lower income Australians. However, less has been said about the positive outcomes that flow from providing secure affordable housing.

CHIA's submission to Infrastructure Australia's 2019 Audit authored by A/Prof Christian Nygaard at Swinburne University[30] provides evidence of the multiple ways in which the provision of secure high quality affordable rental housing can result in expenditure savings for other public services. The findings highlight two dimensions of social and affordable housing as essential social infrastructure:

1. Social and affordable housing as an independent effect on the wellbeing, productivity and cost-reduction for individuals and society.
2. Social and affordable housing as a platform for unlocking additional individual and societal wellbeing, productivity and cost-reduction for individuals and society.

The report sets out the cash, public sector savings and monetary wellbeing equivalents of the wider social and economic impacts that can be unlocked through investment in social and affordable housing and expresses these as a proportion of the cost involved.

In addition to the social benefits, we now have evidence that over-expensive housing also incurs negative impact on urban productivity. There is a growing body of research to demonstrate the ways that such impacts can be generated. These include an AHURI commissioned scoping study '*Making connections: housing, productivity and economic development*' (MacLennan et al. 2015).

Concerned about the housing affordability challenge in Sydney and its consequences for the growth and productivity of the metropolitan area, CHIA NSW initiated a research collaboration to further investigate these issues. On behalf of a partnership that has included NSW Government agencies, the private and not for profit sectors, CHIA NSW commissioned two reports by Professor Duncan MacLennan published through UNSW's City Futures Research Centre (CFRC).

HOUSING AND PRODUCTIVITY IMPACTS

The results show significant direct, or 'first round', productivity impacts across the city:

$2.26B (NPV) in travel time savings, of which $1.129B is used for travel-to-work journeys and increases the supply of labour;

$17.57B (NPV) in human capital uplift in terms of added household incomes associated with better job choices as a result of investing in affordable housing in more accessible locations.

Indirect, or 'second-round', effects that arise from these major first round gains are also substantial and are estimated at $1.36B (NPV) for travel time savings to be available for productive work and $12.23B (NPV) gains from more efficient labour market matching.

These direct and indirect benefits are estimated to come at a cost to government of $7.27B (NPV) - the cost of investing in

The first of two reports 'Making Better Economic Cases for Housing Policies'[31] suggested that housing's weighty economic role is under-appreciated. Two categories of productivity impacts were identified:

(a) Constrained human capital

- the mismatch between housing and jobs and resulting in poor access to jobs, lower labour participation, health impacts on performance and less labour mobility
- high housing costs leading to lower living standards, with affected households also being frequently concentrated within specific neighbourhoods thus compounding disadvantage. These lower living standards being manifested in poorer educational attainment, health and well-being outcomes.

(b) Impacts of high house prices and rents on consumption, savings and investment.

The housing boom has:

- encouraged investment in lower productivity industries,
- locked up capital that has added little to growth and productivity but adds to rentier returns that constitutes a major distortion in the functioning of the economy that has both federal and state implications

- increased instability, as rising housing wealth results in increased consumption, and this is likely to be pro-cyclical spending that raises the amplitude of metropolitan economic cycles. This will increase instability and reduce productivity.
- There is likely to be a much more significant, and negative, effect on consumption when rising housing costs capture a disproportionate share of disposable household income.

In the second report 'Strengthening Economic Cases'[32] the authors modelled how housing outcomes impact economic growth and productivity, with a particular focus on the Sydney metropolitan area. The productivity modelling exercise was based on an Economic Impact Assessment (EIA) which revealed strong, positive productivity effects from investing in better housing outcomes over a 40-year timescale that reduce commuting times and extend access to a wider set of labour market opportunities. The key results are outlined in the box above. While the results are specific to Sydney similar outcomes (if in some cases less dramatic) would be likely for other major Australian cities.

The scale of potential productivity gains from government investment in well-located affordable housing suggest an economic performance impact that compares very favourably to most other infrastructure investments, including transport investments. However, due to limitations in modelling capability these gains do not include the economic impacts arising from the excess housing cost burden experienced by many renters, and newer owners. The report estimated that the excess of rent payments over a 30% contribution averaged just under $6000 per household p/a, amounting to $1.8B p/a for NSW and absorbing an estimated $1.4B of Commonwealth rent support.

There remains much scope to develop wider and deeper insights on housing and productivity inter-connections, and to better understand how better housing outcomes affect the trajectories of the lives of individuals and the long-term wealth of cities. In collaboration with UNSW's City Futures Research Centre and other partners CHIA is currently assembling a housing and productivity research consortium to progress further research in this area.

In summary, we believe that evidence of housing system under-performance cannot be ignored. A clearer appreciation of the links between housing system performance and economic productivity would do three things:

- Articulate the productivity benefits that will flow from well-located and housing affordable to low and moderate income workers
- Stimulate a broader discussion on the actions Government could take to alleviate housing unaffordability (acknowledging that the solutions for tackling housing unaffordability are linked to household incomes).
- Enable a conversation about the relative merits of investing in affordable housing compared to other forms of infrastructure.

Community Housing as a Delivery Vehicle

The mainstream community housing sector has more than doubled in size over the past decade and now represents over 20 per cent of the social housing sector and 4 per cent of all rental housing stock. This has enhanced supplier competition and increased choice for low income tenants. Through leveraging its own capital and via public housing transfers, the community housing sector has shown it can manage large-scale financing arrangements and undertake significant property development in partnership with the private sector.

In New South Wales, CHOs are on track to deliver 2,700 new homes over the eight years to 2020 [33] In Victoria, the industry delivered 1,033 additional social and affordable homes across 95 projects between 2010 and 2019[34] .

Not for profit Community housing is a sustainable social housing model that lowers the direct cost to government of providing affordable housing to low income households. These CHOs are eligible for a range of tax concessions (on for example land tax and GST) that apply to both their procurement and operating costs and thus reduce cost of housing development. The not for profit business model also retains any surplus in the business for use on additional services or further development. A recent study revealed that holding 1,000 properties in state government management and ownership would result in a $30 million deficit after 30 years, whereas transferring the same number of properties to community housing would deliver a $40 million surplus over the same period, which could be reinvested to produce additional social housing.[35]

A report commissioned by the NSW agency, Landcom[36] and published earlier in 2019 assessed the financial feasibility of build to rent projects incorporating affordable rental housing, comparing the results from for profit and not for profit developers. They concluded ‘there will be a significant advantage to governments layering in additional subsidy support to leverage existing CHO concessions (rather than for-profit developers)’.

With the right policy settings and support to build on what it has already achieved the community housing will double again — or more — in the next decade.

Appendix 1 Budget priorities – Additional Information

Support state and territory initiatives to rehouse formerly homeless households temporarily housed during the pandemic

CHIA has collaborated with Homelessness Australia to produce a proposal for a two year rapid housing recovery fund of $50M. Our blueprint assumes costs would be shared between the Commonwealth and State / territory governments.

The fund would provide additional housing and support to rough sleepers of any age or gender, with the highest level of need, and where conditions require their rehousing on public health grounds. It should be for the provision of accommodation with support for rough sleepers with the highest level of need. An initial two year fund is proposed with the opportunity to extend subject to a positive review.

Eligible projects should involve assertive outreach and / or referrals to identify people with the highest level of need of such housing and support; securing accommodation for head leasing in the private rental sector; provision of tailored support, including health supports; tenancy and property management functions; and the opportunity for long-term housing.

Invest in housing as essential infrastructure:

CHIA is proposing two housing investment programs. The first is time limited, designed to boost housing construction, retain jobs in the industry, increase social housing and be started in 2020-21. The second is a recurrent long-term program that incentivises institutional capital into community housing.

CHIA has developed outline proposals for both options. In both cases we have been concerned to devise a program that is affordable to government and at the same time, makes a noticeable impact by reducing the housing needs outlined earlier in our submission.

There may be scope for the AHWG to be reconvened to consider innovate funding (rather than financing) models.

Capitalise on historically low bond rates to introduce a social housing acceleration renovation program (SHARP).

CHIA has put together a proposal for a short-term program[37] to deliver 30,000 social (and potentially affordable) rental housing units over four years. Under our proposal Australian Government investment together with state territory and potentially council contributions and support would enable not-for-profit community housing providers (CHOs) to deliver 30,000 social housing units and carry out renovations to existing social housing units Leveraged against the resulting dwellings and associated future rental income, CHOs will raise private finance to further expand resulting housing investment. States and territories will be incentivised to either make equity investments in CHOs via land, or to sell land at a discount to CHOs and thus maximise dwelling output in their jurisdictions. It could work well targeted at specific City / Regional Deal areas.

The program will also boost residential construction activity and employment in the building industry. While registered CHOs would be grant-recipients, they would commission private sector builders to deliver the housing and thus stimulate the construction industry too. Modelling by SGS Economics and Planning estimates that on average between 15,500 and 18,000 FTE jobs per annum will be supported by SHARP. In addition, output would be raised by $15.B to S18.2B in total over the four years of construction[38].

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

The cost to the Government is circa $7.7B However, these costs are assumed under the proposal to be shared with state and territory governments and could in part be met by land contributions. Options for philanthropic contributions or elements of cross subsidisation from market products may also exist.

Government investment will be relatively cheap. As the July 2020 Economic and Fiscal Update notes borrowing costs are very low 'While the unprecedented speed and scale of the Government's economic response to the COVID-19 pandemic as well as the impact of automatic stabilisers have resulted in a rapid increase in borrowing, historically low interest rates mean that the cost of servicing this debt is relatively low. The assumed market yields in this update result in a weighted average yield for future issuance of Treasury Bonds of around 0.8 per cent, compared with around 1.1 per cent at the 2019-20 MYEFO. Low debt servicing costs will assist in reducing the stock of debt as a share of the economy over time'[39].

Dedicate resources to developing a recurrent Federal social and affordable funding program for implementation in 2022-23 The program should be sensitive to variable development costs, incentivise other state and council contributions and attracts private institutional capital.

There are number of program design options available to government including capital grants (Safe Places being a small-scale example); revenue subsidy type mechanisms (NRAS being a variant) and potentially interest-free loans. All are worthy of further consideration.

To serve as a basis for discussion CHIA together with a number of partners commissioned a scheme blue print. The blueprint was informed by the following key principles:

- A fund should be recurrent and sensitive to variable development costs, should incentivise other state and council contributions, and should attract private institutional capital
  - Scheme longevity is key, annual 'funding' allocations can vary
  - Support should be funnelled through registered CHOs subject to effective statutory regulation
- The program should work with / support
  - state and council co-investment
  - value capture and inclusionary zoning
  - redevelopment of public housing
  - cross subsidisation through market for sale
- It should be capable of effecting a measurable decrease in rental stress and homelessness.

CHIA's blueprint scheme, the Affordable Housing Infrastructure Booster (AHIB)[40] aims to generate dwellings to be let at least 20% below local market rents for 20 years, targeted to low and moderate-income households. The AHIB mechanism lets the desired housing outcomes and locations determine the financial boost that is provided so as to enable affordability, rather than the financial boost conditioning the type of housing and locations that can be provided. AHIB is responsive to variation in construction cost, land cost and local rent levels.

Like some international initiatives, AHIB involves a tax credit that CHOs can use to raise capital investors. This capital injection can help fund construction and thus reduces the borrowing requirement and debt servicing costs for an affordable housing project. The AHIB could also work well alongside a housing capital aggregation vehicle which could provide a pathway for pooling funding to secure interest from larger institutional investors. CHIA is collaborating with the Constellation Project to develop an aggregation vehicle model. Stakeholder engagement including sessions with superannuation funds has been positive.

The modelling that underpins the AHIB demonstrates that a much higher level housing that can be retained, or re-invested, beyond the initial 20-year affordability period. AHIB is thus a vehicle for a long-term strategy to provide an infrastructure of affordable housing in Australian cities and neighbourhoods.

Unlike NRAS and some comparable international programs, AHIB does not operate with a priori determined annual levels of support or project level subsidies. Instead, registered providers tender for the boost required to service borrowing costs at prudential standards and to meet acceptable rates of investor returns. Registered providers can thus start by considering what type of housing is required where and then bid for tax credits to enhance the financial viability of the project.

The AHIB is designed to attract 'contributions' from other actors. This includes state and local governments - for example via granting of long term land leases or through the introduction of planning policy (e.g. inclusionary zoning) that supports affordable housing. Other contributions could come from philanthropic sources and via cross subsidisation from market sale or rental housing.

The AHIB could be developed slowly to provide 3,000 incentives in 2022-23, 5,000 in 2023-24 lifting to 10,000 in 2024-25

NHFIC could also use a proportion of its resources to co-ordinate a collaborative project to investigate and identify land that could be contributed (via discounted sale, long term leases etc) to social and affordable housing projects.

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