# PowerHousing Australia: Feedback and Options for the Housing Australia Future Fund

## Overview

PowerHousing has developed this paper to highlight key options and opportunities for the proposed the Housing Australia Future Fund (HAFF), with a broad overview of the HAFF provided below.

PowerHousing acknowledges and welcomes the necessity of the HAFF to bridge the viability gap to deliver social and affordable housing at scale. As such, this paper provides suggestions for how the HAFF could be implemented alongside further housing policy reforms to build a better system moving forward. Commencing with the Federal Budget Reply on 13 May 2021, this paper draws on recent discussions with the Shadow Minister for Housing and Homelessness, the Hon. Jason Clare MP and his staff.

The National Housing Finance and Investment Corporation (NHFIC) Review estimated that an investment of $290 billion will be required over the next two decades to meet the current and projected shortfall in the stock of social and affordable housing. The Australia Housing and Urban Research Institute (AHURI) has also argued that an additional 727,300 social housing dwellings are required by 2036 nationwide or an annual average growth of 5.5 per cent, to meet future projected need.

There is significant support for a HAFF-like fund by the community housing sector, policymakers and academics alike. In the Grattan Institute's A Place to Call Home: It's Time for a Social Housing Future Fund, there is a call for the Federal Government to establish a $20bn Social Housing Future Fund which engages both state and community housing providers to deliver more social and affordable housing. The article outlines that such a fund could help build 24,000 social housing dwellings by 2030 and 54,000 by 2040.

The HAFF is a first step in helping address Australia's housing crisis and developing a strong foundation for the HAFF will lead to exceeding the additional 30,000 homes that has initially been proposed. There is opportunity under the HAFF to explore the knockdown rebuild of outdated and aging public housing stock, by reviewing the pre-existing portfolio to uncover where the demand lies (i.e. replacement of 3 bedroom homes for 1 to 2 bedroom homes or where viable multi-residential units).

A streamlined process for the HAFF is recommended particularly considering the changes to land, material and labour procurement that has arisen since this policy was written (See Appendices 3 & 4). This would include both a primary and secondary process, with state and local government involvement in the latter. It is recommended that a simplified procurement process and a proven financial model based on recent successful initiatives, be incorporated. Additionally, consideration around the robustness of IT management systems supporting the HAFF is needed to mitigate administrative burden and maximise the integrity of payments. Lessons noted in the paper around the National Rental Affordability Scheme (NRAS) should be considered to assist with this.

Efficiently and effectively rolling out the HAFF while meeting key target timeframes, will require significant cross-sector collaboration. A vertical integration pipeline can ensure timeliness of delivery without compromising on long term outcomes. Criteria for success should include maximising environmental sustainability, universal design and high build quality.

These outcomes are best achieved by a model that supports CHPs to have flexibility and autonomy to develop their own projects. Vertical integration could be embedded throughout the HAFF model, from the planning and development approval stage through to financing, tendering, procurement, land acquisition and to meet supply and labour demands, which together will all lead to successful builds.

To maximise the potential of the HAFF and to meet the 5-year target of an additional 30,000 homes and beyond, extensive consideration of enhancing community housing providers' (CHPs') ability through innovative financing and leveraging off an efficient vertical integration model is required. These techniques are set out in this paper.

## Housing Australia Future Fund (HAFF) Elements

The following elements are understood to be key to the HAFF proposal:

- Should Labor win the 2022 federal election that is anticipated in May 2022, a Labor Government would deliver the Housing Australia Future Fund.
- The proposed timeline for the HAFF is for legislation to be finalised in late 2022, with implementation of the initiative to commence in 2023.
- As a component, a comprehensive national housing and homelessness plan is essential for the federal agenda moving forward to address the current housing crisis in Australia.
- The balance between supply and demand is to be aligned in the proposed Fund.
- The proposal to create 30,000 new CHP delivered social and affordable homes, promises to safeguard the future of tens of thousands of Australians. There will be:
  - a distribution of 10,000 affordable homes and 20,000 social homes,
  - 4,000 homes assigned to women and children fleeing family and domestic violence (FDV) and older women. The HAFF is anticipated to be the biggest investment by government for housing of women and children who are fleeing FDV.
- The HAFF commitment plans to invest in a $10b off budget Fund which:
  - would be based on the Future Fund set up by Peter Costello, which now manages $170b of assets and is managed by board of trustees,
  - will be managed by Board of Guardians for Future Fund and will also be modelled on the NSW SAHF.
  - ensures the $10b is not directly spent, but it is the dividends transferred to NHFIC for their distribution that will create the funds to support the building of the projected 30,000 homes based on conservative assumptions and investment returns will be reinvested into social and affordable housing.
  - will allow for service payments to be a yield gap subsidy made to community housing providers (CHPs).
  - the dividend spends will provide an additional $330m in the initial 5 year period.
  - the expected dividends will also produce the following:
    - $30m to fund homeless services and housing for veterans who are homeless or at risk of homelessness.
    - $100m for additional crisis accommodation for women and children, and older women.
    - $200m for repair maintenance and improvement of remote and indigenous housing.
- It is anticipated that the HAFF will create 21,500 full time construction jobs.
- A focus will be on the most vulnerable and prioritisation of frontline workers who are presently travelling extensive distances to and from work.
- Homes built will be universally designed to ensure disability access and most will be multi-residential dwellings (where possible) to maximise scale and efficiencies in the meeting of targets.

# Summary of Key Recommendations

1. **Program Design –**
    a. Introduce a National Housing Plan to guide the housing landscape broadly, including an outline of targets, roles and responsibilities for stakeholders under the HAFF.
    b. Look at planning efficiencies and incentivisation in the program structure to maximise outcomes.
    c. Imbed within the program the concept of knockdown rebuild of older stock to make way for new energy efficient homes.
    d. Consider learnings from the NRAS in relation to program design, administrative considerations and IT management systems and integrate with CHP and Departmental systems..
2. **Procurement –** Consider a simple, clear and time efficient procurement process with a review panel embedded who can evaluate each stage of the process.
3. **Site and Land Acquisition –** Look at opportunities such as under-utilised land on the Government Land Registry to unlock serviced idle land and redevelop old social housing stock.
4. **Development -** Consider a vertical integration model to streamline HAFF delivery for early wins and to provide assurance around longevity of the market. Financial incentivisation provided to States and developers would also enhance efficiencies.
5. **Operations –** Provide greater surety around assets through land banking. Comprehensive needs assets will be useful to map local area needs and for alignment to yield subsidies, that consider additional challenges and costs (e.g. regional areas).
6. **Finance –**
    a. Look for opportunities to crowd in investment and re-arrange funding stack so that banks provide senior debt, with NHFIC supporting with subordinate debt.
    b. Develop two streams; a fast and slower (CHP first then State Government) roll out, that looks at CHPs retaining ownership through effective finance offerings which provide Senior Debt and Subordinated Debt. CHPs can leverage fund equity to maximise housing outcomes.
    c. Consider redistribution of the $225 unused NHIF funds to CHPs as an equity injection under the HAFF or to provide financial support to projects currently underway.
    d. In the review of NHHA provide a competitive process for the existing $1.6B per annum to be focused on reform and fast track knock down rebuild of old environmentally inefficient public housing stock.

The full list of recommendations can be found in Appendix 1.

# SECTION 1 – Program Design

## Planning housing nationally for future state needs

### A 'National Plan' for Energy Efficient and Universally Designed Housing

Essential to the foundation and successful roll out of the HAFF model is the development of a comprehensive National Plan for housing. Instrumental to the model's success is clarity around the roles of all key stakeholders, including state and federal governments. This would benefit the coordinated roll out of housing initiatives both federally and across states, enabling greater consistency and communication at all levels.

There would also be value in the development of a standalone Federal Department of Housing whose primary purpose is to centrally oversee housing outcomes across all jurisdictions through rolling out National Plan targets, coordinating with state and territory governments, and uncovering innovative approaches to maximise housing affordability in Australia. Under the Department's remit could be the coordination and introduction of a National Housing Industry Partnership which would bring together thought-leaders across industry, including CHP representatives, to share ideas and solutions to address the housing affordability crisis. Under the Partnership, a working group for the HAFF could be developed. The working group could be chaired by NHFIC and have a primary focus on developing the structure of the HAFF roll out. Ideally key stakeholders involved in the working group would include community housing peak bodies such as PowerHousing Australia and CHIA, leaders in the CHP sector, NHFIC, state and federal government representatives (both Government and Opposition). Collaborative sector design of the HAFF is crucial to ensure that the program is not overengineered or performance managed to an extent that impedes the ability to achieve intended outcomes.

In addition to clearly articulating roles and responsibilities required to meet HAFF and broader housing policy targets, a comprehensive National Plan for housing would guide planning, taxation, demand and sustainable (net carbon zero) supply considerations, while clearly articulating an implementation plan for the HAFF and a pipeline of social and affordable housing beyond. The Plan also should consider the almost 7 million Australian legacy homes, that according to the Australian Government Net Carbon Zero Plan, will by 2050 have no energy or universal design improvements, contributing 18% of Australia's carbon footprint.

A National Plan will provide a consistent and comprehensive approach to housing in Australia across the continuum. Ideally, the development of a high-level blueprint will guide the housing landscape moving forward, with a focus on the provision of affordable and stable housing solutions for all Australians. This Plan would shape Australian communities and their way of life for the better.

### Housing Affordability

Alongside the global climate crisis, Australia is currently in a housing affordability crisis which will likely extend and widen in coming years. Outside capital cities in historically more affordable regions, there has been 12.1% annual growth in rents. The price of houses has also skyrocketed with values increasing on average by 22.4%, with higher impacts in Sydney (30%), Canberra (27.8%), Perth (11.4%), Hobart (26.3%), and Darwin (8.4%). In a town such as Nowra (and detailed in Appendix 4) median dwelling values have soared 39.52% to the end of December 2021 and rents have increased by 12.53% over this period.

The [2022 Australian Affordable Housing E-Scan report] identifies the opportunity that a pipeline of new and efficient housing could play in reaching Australia's carbon net zero targets, while also aiding housing affordability and bolstering the Australian economy. An existing 'old' standard house on existing commuter routes and close to jobs, can make way for up to three or more new highly energy efficient, accessible and well-located dwellings, a proportion of which can go to meeting the surging demand for more social and affordable housing.

To support the replacement or upgrades of older social and affordable housing stock, a vertical integration pipeline can be employed to enhance efficiencies and contribute to sustainable housing outcomes. The proposed National Plan for Housing could look to outline a vertical integration model which will help streamline the entire development process from planning and development approval stage, through to financing, tendering, supply and labour, to build completion.

There is opportunity for the HAFF to incorporate knockdown rebuild of older stock and retrofitting where appropriate, to help achieve the proposed additional 30,000 social and affordable homes and extend the number of builds under the Fund further. Both options will help with additionality to Australia's social and affordable housing stock, while ensuring that the future of social and affordable dwellings are energy efficient and universally designed. There needs to be incentives for state and local governments to come on board with the HAFF and to help upgrade and replace the 300,000 social housing dwellings that are alarmingly outdated. There would be value in looking at how the NHHA and the National Plan could align to encourage the knockdown rebuild or refurbishment of older social or public housing stock to make way for new efficient homes under the HAFF. If these older homes are replaced by newer energy efficient homes, this would produce immediate health, wellbeing, financial and economic impact outcomes.

Immediate audit, identification and prioritisation of existing public/social homes that meet the below is required. States should help identify the 300,000 public housing dwellings that are:

- Pre 2002 energy rated
- Non universal/accessible designed
- On larger lots
- Density capable
- Close to commuter routes, jobs, and retail.

PowerHousing will reach out to and work with our Affiliates (including Harvey Norman, Bunnings, Karnedean etc.) in securing materials for retrofitting older housing stock to make way for revitalised social and affordable homes under the HAFF.

The National Plan could also look to outline and encourage opportunities for knockdown rebuild and retrofitting of outdated homes more broadly.

## A Plan that Encourages Knockdown Rebuild and Retrofitting

Australia's Long Term Emissions Reduction Plan forecasts that by 2050 around 7 million homes will not be subject to improved energy efficiency measures in the National Construction Code, with no retrofitted improvements to enhance the fabric of these older homes.

Almost 7 million older Australian homes are now well past their use by date, contributing 18 per cent of greenhouse gas emissions. Older homes often sit on larger 800-1000sqm lots, on flat land close to commuter routes and jobs. Disproportionality, they tend to be occupied by lower income families and younger Australians who experience adverse financial, and wellbeing impacts due to living in a lower energy rated home.

These outdated dwellings are cold in winter, hot in summer and prohibitively expensive to heat and cool. Added to this, they are not designed for universal lifelong living, whether that is accessibility for prams, ageing in place, or living with disabilities.

Whilst the focus of this paper is on the 400,000 social and affordable homes in Australia, these concepts can be embedded more broadly in a National Plan that motivates the replacement of old housing stock with new and refurbished 6 to 7 star energy efficient, universally designed homes.

### *Environmental enhancements - Solar Energy Potential*

The National Construction Code is heading towards considering Net Carbon Zero which could be a requirement by 2030 if agreed to by state housing ministers. More efficient dwellings will be a requirement.

Therefore, it is essential that any new social and affordable housing meets the rigorous standards for energy efficiency and onsite renewable energy generation. While new builds will play a role, nearly 8 million pre-rating homes will have to play their part as well, with solar a necessity for reduced emissions to be achieved. Designs should aim to meet high ratings on Nationwide House Energy Rating Scheme (NatHERS) and National Australian Built Environment Rating System (NABERS) for standalone dwellings and multi-residential dwellings alike.

Existing housing stock that is suitable for retrofits should be targeted for energy efficiency and rooftop solar upgrades. The Australian Photovoltaic Institute and University of New South Wales released research in February 2022 showing that Australia's public and community housing stock could host 1.8 Gigawatts (GW) of rooftop solar, a capacity equivalent to a large coal-fired power station which would generate 2.4 Terrawatt-hours (TWh) of electricity each year. This would directly benefit Australia's most vulnerable energy consumers through reduced electricity bills, with savings of up to $750 per household every year for 20 years. Over this period, it would offset 34 Megatonnes of greenhouse gas emissions over its 20-year lifetime, making a significant contribution to climate targets. In addition to benefiting thousands of Australians while reducing Australia's greenhouse emissions, the project would also create more than 2,000 skilled jobs for 5 years.

Allume Energy is an Australian company that has invented and patented SolShare, the world's first technology for sharing rooftop solar in multi-dwelling buildings. SolShare unlocks the benefits of rooftop solar through lower electricity bills and a reduced carbon footprint, for people who have previously been unable to access it because they live in an apartment building.

For example, after installing a 66-kilowatt solar system on a 44-unit community housing building for PowerHousing Member Housing Choices Australia, tenants saw significant savings. In the first year of operation residents saved $315 on average on their power bills. Allume has connected 602 community housing apartments to rooftop solar, with another 400 more connected in recent months.

### *Learnings from the Victorian 1,000 Homes Project*

In October 2018, the Victorian Government announced that they would build 1,000 new public housing properties specifically for those escaping family and domestic violence and homeless people. The new construction of the homes would ensure that they are comfortable and energy efficient (minimum 7 star energy rated), with expected completion of the project by late 2022.

The project has looked at vacant or untenanted land owned by the Director of Housing and has identified areas in across Victoria where homelessness is prevalent. With around 500 knockdown rebuilds of older public housing stock, the project will likely see around 1500 homes built all together (with 1000 complete new builds). All new homes built under the initiative meet modern residential standards and with tenure blind development, match the quality of design, material and craftmanship of the pre-existing housing environment in that region.

PowerHousing Affiliate EveryOne, a division of Metricon, has been instrumental in supporting the builds for this project. A simplified tendering process at the commencement of the project with approved standardised designs and agreed prices now sees 14 builders on a panel who are allocated different builds under the project. This simplified procurement and tendering process has prevented any waste of time or money that tends to occur with long and drawn-out tendering processes. Under this structure, pricing often to occur within 1-2 weeks, rather than the 3 months that is commonly seen. Town planning then takes place in around 4 weeks due to the standardised designs and master construction drawings which helps to fast track the process. Under the project, Metricon produce 6-7 design options which meet LHA gold level and has been able to deliver 400 new homes for Homes Victoria a 12-18 month period.

Some key learnings from the project include:

- Scale and efficiency can be achieved through house builds, whereby you can build 2-3 homes on pre-existing blocks;
- There is quicker planning and approvals for houses with less red tape than is experienced for apartments;
- State government own most of their land in low-rise residential areas;
- Land sizes vary and you can replace 1 home, with 2 -3 smaller homes (e.g. 1-2 bedrooms);
- Knockdown rebuilds allow for new properties which are welcomed by the local community and fit into the pre-existing neighbourhood character.

The success of the Victorian 1,000 Homes Project, makes it a valuable initiative for the HAFF to consider in its program design and development. The project successfully takes land that needs renewal to achieve scalable outcomes with homes that are standardised, while maintaining a high level of design and presentation. To maximise both efficiencies around the delivery of outcomes with scalability, there would be value in the HAFF incorporating both a mix of standalone homes (or townhouses) and multi-dwelling apartments.

### *Learnings from the National Rental Affordability Scheme*

The National Rental Affordability Scheme (NRAS) was introduced in 2008 to assist in increasing the supply of new affordable rental housing through the provision of an annual financial incentive given to housing providers who were providing rental dwellings at least 20 per cent below market rates. After its fourth round, the NRAS ceased to be funded.

Despite some success, there are several learnings from the NRAS which should be considered for the program design and financial oversight of the HAFF. Grattan Institute researchers Brendan Coates and Jessie Horder-Geraghty outlined that the scheme could have far greatly exceeded in its objectives to provide relief for struggling low to moderate income families, to increase new affordable housing and to encourage institutional investment. The researchers concluded that the scheme's eligibility requirements were too vague, properties were still too expensive for low-income households and no increase in new affordable housing was seen. Further, they identified that the program design demonstrated some cumbersome elements and that it saw numerous administrative issues. This too was backed by the Auditor General's first report (2015) and second report (2016) which identified that transparency of processes could have been improved and from a sample taken by in 2014, "70% of incentive claims were potentially non-compliant with the requirements of the Regulations".

In review of the program as briefed confidentially, the Departmental client management system was cumbersome, inconsistencies, errors which lead to the scheme having to pause at the close of round four and pauses on payments to sure up the current 38,000 tenancies identification and payment. This then led to round five not commencing and paused indefinitely.

The HAFF can take such learnings to develop a program infrastructure where administrative processes are clear, transparent, and supported by robust and secure IT management systems to ensure the integrity of the program and its outputs. Working to integrate both State and CHP tenant management systems at the inception of systems development in the next stages need this element to be considered. Moreover, when designing the program, there needs to consideration of how to ensure longevity of the HAFF beyond the initiative five-year period and how to create bi-partisan support for the Fund.

## Recommendations

| Recommendation | Priority | Outcomes |
|---|---|---|
| **QUICK WIN**<br>1. Prior to the commencement of the HAFF, consider introducing a National Plan as a high-level blueprint that will guide the housing landscape broadly and to outline targets, roles and responsibilities for stakeholders under the HAFF. | **Medium Term Priority** | **Short Term Outcomes** |
| **QUICK WIN**<br>2. Include within the HAFF, both a mix of standalone dwellings (e.g. homes and townhouses) and multi-dwelling apartments to cater to land requirements, balance efficiencies and streamline planning. | **Short Term Priority** | **Short Term Outcomes** |
| **QUICK WIN**<br>3. To assist with reach in the first year of the HAFF and sustainability of outcomes beyond the HAFF, consider knockdown rebuild focused on a significant number of the 400,000 outdated public/social housing homes, to make way for greater numbers of social and affordable homes.<br><br>Immediate audit, identification and prioritisation of existing public/social homes that are:<br><br>o Low energy rating<br>o Non-accessible design<br>o On larger lots/density capable<br>o Close to commuter routes, jobs and retail.<br><br>o If replaced these homes will provide very fast health, wellbeing, financial and economic, environmental and climate impact outcomes. | **Short Term Priority** | **Short Term Outcomes** |
| 4. Consider learnings from the NRAS in relation to program design, administrative considerations and IT management systems and integrate with CHP and Departmental systems. | **Short Term Priority** | **Long Term Outcomes** |

# SECTION 2 – Procurement

## Tenders and Procurement

Despite tenders being an essential part of the process, it is necessary to consider how not to burden CHPs with the excessive time and costs associated with tendering processes, as has been the case in the past. The tender submission requirements for the SAHF, and equivalent submissions in other States, have been criticised for being 'over engineered' without specific targets, leading to a significant cost outlay that could be better utilised to generate further housing outcomes.

Learning from some of the challenges in tendering that has been seen in the NSW SAHF program and similar programs in other states, there is a need for the tendering and procurement process in the HAFF to be less costly and time-consuming. The roll out should also include a simple and clear assessment process.

The introduction of the HAFF may create some competitive tension between states that could lead to more state support for CHP developments by the provision of land, which would be very positive. Consider a simple and efficient funding structure with targets for locations, specific social needs groups and design, and provide the indicative funding available, this will allow CHPs to align their submissions with Government requirements and deliver more relevant housing at a lower cost. Modelling on metro vs regions vs remote is required to get the program right, in addition to providing surety and visibility around future investments into the HAFF.

With growth in CHP-led development as a result of the HAFF, it would be assumed that there will be opportunities for Scale CHPs to leverage off corporate partners (e.g., Everyone – a Division of Metricon, Simonds, AV Jennings and Bunnings) in the tendering process, ensuring they are appropriately linked into the process and are given adequate forward visibility for planning.

### Procurement, Value for Money

With registered CHPs at the centre of the program, this will protect taxpayer funds and encourage states to get involved, while being careful private developers do not simply front end their bids with incapable housing providers. Assessment of individual CHPs' capacity to meet requirements and scalability could take place during the competitive bidding process.

There would be value in having NHFIC as the procuring agency, providing them with new capability to manage and streamline the procurement process. Introducing an Efficient Price Model for the construction of social and affordable housing will be a simpler way for providers and regulators to ensure compliance, with variances based on differences in costings associated with capital cities and regional or remote areas. Similar to the health system, the Efficient Price Model could be regularly reviewed and updated to reflect market and structural changes.

It is very complex and difficult to assess an open-ended tender process where parties bid back required money and different locations, needs and cohorts. As a result, a suggested service payment could be either as:

- $ figure (e.g. NRAS, SDA) – with adjustments provided which acknowledges the difference in property market conditions (at a greater level of detail than just a split between, say Greater Sydney vs. Rest of NSW) and target cohorts (to the extent that their revenue profile is different); or
- Rate of return with some quantum / % gearing thresholds (e.g. regulated energy networks, US Low-Income Housing Tax Credit program).

Setting a monetary return threshold allows CHPs to put forward projects which are financially feasible and therefore removes NHFIC or another procuring agency's need to evaluate the financial element.

The focus of the Value for Money assessment could be set based on the demonstrated need, cohort, location and other relevant considerations.

Demonstrating Value for Money (VfM) to the Australian National Audit Office (ANAO) could be done by:

- Ownership by CHPs even if $ / return setting are not quite right, any surplus returns will be reinvested in the sector.
- Part of the assessment would be for CHPs to outline what happens to dwellings at the end of the term – if a particular bid requires sale of these dwellings with proceeds to go to investors, this could be marked lower, than say a bidder who is committing to ongoing use as affordable housing.
- As above, VfM assessment could also look at demonstrated need / cohort / location of bids.
- Demonstrating the application of a vertical integration model, whereby the process is streamlined and cost-effective.

Further, taking on the learnings from procurement processes employed by many large institutions and government departments (e.g. schools, health departments and universities), there would be value in pre-registering suitable consultants for future project roll outs. When project RFPs under the HAFF are prepared they can go out to those consultants who are already approved on a panel. This can mean less reliance on detailed designs being developed during each individual tender which costs the tenderers a lot of time and money. Some of the recent PPP processes for mixed tenure projects in Victoria have required full schemes to be provided from all tenderers, costing many hundreds of thousands of dollars and several months to prepare.

**Recommendations**

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|---|---|---|
| **QUICK WIN**<br>5. In the initial set up of the HAFF, consider a simple and clear tendering and procurement process which is time efficient and not overly costly for CHPs to tender for. Further that it targets specific locations, social needs and other considerations. | **Short Term Priority** | **Short Term Outcomes** |
| **QUICK WIN**<br>6. To maximise efficiencies under the HAFF, consider establishing a review panel who examine each step of the process including pricing through quantity surveyors for procurement of builders or labour. | **Short Term Priority** | **Short Term Outcomes** |
| 7. Consider imbedding in the structure of the HAFF, service payments that are adjusted based on considerations such as market conditions and target cohorts. | **Short Term Priority** | **Medium Outcomes** |
| 8. Consider vertical integration discussions with CHPs and construction/building Affiliates at the development and assets and joined up discussions to assist with planning and streamlining of processes under the HAFF. | **Short Term Priority** | **Medium Outcomes** |

# SECTION 3 – Land

## Site and land acquisition

A well-established pipeline of dwellings will not only help ease current affordability issues but will create lasting impacts for future generations. Learnings from models such as the Housing State Environmental Planning Policy (Housing SEPP) that has been developed by the NSW Government to deliver more diverse and affordable housing options through boosting supply, should be considered.

With a land supply crisis evident in the largest states, availability of suitably zoned and serviced land is a current constraint that can be overcome with the roll out of the HAFF should the right incentivisation be utilised. Development of a comprehensive and clearly articulated strategy for land procurement is needed, with collaboration and committed effort required at all levels of government. Securing land in a timely and efficient manner will require streamlined planning and preparation. Significant consideration is needed on the current and projected future cost of land as prices across Australia (including regional areas) have soared in recent times. To ensure that the HAFF effectively targets the areas of greatest need, it is recommended that localised SA3 data be reviewed in addition to a comprehensive needs assessments of population demographics and for vulnerabilities to be identified (i.e. level of FDV seen in a particular region, number of key workers etc.). An overview of recent SA3 data is provided in Appendix 2: Australian Land Price and Construction Trends.

In order to maximise impact and viability of building all 30,000 homes in a 5 year period, supporting CHPs to acquire land in a cost-effective and streamlined approach can be achieved through vertical integration models. Equity style capital is also needed to efficiently and effectively secure land. This will assist with the 5-year targets of the HAFF being met and will help build an ecosystem that remains beyond the HAFF.

New planning regimes are being looked at in Victoria to simplify the process of acquiring land. There would be value in having an innovative and resourceful approach to securing land that is either already in use (property transfer) or alternatively can easily transition through the approvals process. With old homes that are not efficient or sustainable that are presently in the public housing portfolio, there could be an opportunity to promote transfers and transition of old public housing stock into new affordable housing options that are better suited to tenant needs. Identifying pre-existing opportunities to acquire sites which are ready to go, will simplify and expediate the process, lending itself to building more homes under the HAFF in a short period of time. A considered approach and leadership from CHPs is required to effectively relocate tenants in pre-existing public housing stock to new homes.

There is a need for greater coordination and collaboration with state and local governments to support the planning process and roll out of the HAFF. Greater outcome-based incentivisation of states and getting them on side with projects is critical to the HAFF's success. Penalties could be given to local governments who are indecisive or demonstrate prejudice in their decisions around releasing land for affordable and social housing.

### Key Option: Government Land Registry

The Australian Government Property Register (AGPR) contains information on the Commonwealth's leased office accommodation and owned land. The [Commonwealth Land Holdings] reflects current and future needs. At current, there is an acute underutilisation of Government land. With the support of PowerHousing Corporate Affiliate, JLL, the HAFF could look at AGPR for opportunities for surplus land.

There would be value in knowing where surplus Commonwealth land is, what it is currently used for and what it may be used for into the future. Some land under the registry may be useful for residential use, and even community housing provision. Repurposing and freeing up land that is currently under the registry may create additional land supply which could potentially be made available for use under the HAFF and contribute to the targets of 30,000 additional social and affordable homes over the next 5 years.

JLL currently provides the whole of government contract and is responsible for the management of approximately 80% of all federal government properties. There could be opportunity through Section 12 of the contract to review the assets so that potential opportunities for land supply can be identified. Such a re-qualification of land could allow it to go to market more rapidly and will expediate the construction process. One such opportunity is looking at open air car parks redeveloped into higher density community housing which re-integrates multi-deck parking into the developments while improving the public realm.

There is a need to think innovatively of how best to maximise use of land holdings so that they can be multipurposed and once released, can alleviate pressure on the current housing availability and affordability crisis.

It is anticipated that addressing the land supply issues could help stabilise the construction industry moving forward, ensuring a consistent pipeline, while overcoming land availability and affordability issues. Further sales of surplus state and local government held land would be appropriate.

Consideration is needed for how to simplify the process of releasing surplus land for community housing use. An example of an unnecessarily protracted approach to releasing surplus land was demonstrated in Victoria. A decommissioned school was offered to all government departments and then went through an entire market process. The only way that a CHP could gain the land was if Housing Victoria accepted the offer for the land but then decided that they no longer wanted it. It is only then that CHPs had an opportunity to bid for the land before it went to market. There would be value in identifying and making surplus land available for community housing use in the first instance, to save both time and money.

Additionally, thought is needed on what is a suitable incentive for states and local governments to as well release surplus land. Generally, state and local governments keep surplus land as leverage to secure other land that may be more desirable to them. Thus, incentives for states to release surplus land need to be a matched injection that is in line with their perceived value of the land.

One option for how Federal Government can incentivise states and territories to release land is by providing an early investment with a combination of both cash and land. States need both cash and capital to leverage private sector an CHPs.

## Key Option: Property Transfer options and enhancements

As detailed by Appendix 5, CHPs can work with state governments to arrange more property transfers and use of state government land for developments. Incentivisation of state governments to transfer management of state managed housing to CHPs is just one possibility for how property transfers under the HAFF could be implemented. Across Australia there has been a significant program of property transfer undertaken with states, who have previously committed to transferring 25% of all public housing across to the community housing provider management. Over the past decade there has been significant transfer of property to CHP providers from the South Australian, New South Wales and Tasmanian Governments. Tasmania has over 11,000 social housing dwellings with around half of these homes under CHP management, with more on the way. However, making the states a necessary part of the HAFF roll-out could slow down implementation. Stewardship from CHPs could be maximised with the ownership of the homes resting with CHPs. A long-term lease for over 15-20 years or a simple title transfer allows for leveraging of the asset and provides an ability to increase the supply of social and affordable dwellings.

Continuity of policy between local, state and federal governments, in addition to simplifying the process and costs for CHPs to access land, would afford CHPs to take more risks and deliver sustainable homes swiftly. In relation to universal design and energy efficiency, there are 300,000 social housing dwellings that are primarily 20-50 years old that should be considered for renewal.

There could be a funding component which looks to enhance the NatHERS star rating for existing properties (apartments and detached houses) to finance upgrades.

Key considerations when considering property transfer options include:

- Consider options such as the National Housing and Homelessness Agreement (NHHA) which is under current review, to incentivise state governments to transfer titles.
- There is significant value in evaluating the role that CHPs could have to support reform with state governments across the country.
- Opportunity to unlock Commonwealth Rent Assistance funding to improve tenant experience, improve property condition and provide access to capacity building tenant programs.

**Recommendations**

| | | |
|---|---|---|
| 9. Consider structural reform whereby CHPs are given greater control over the process, decision-making and self-approval powers (similar role to that of the NSW Land and Housing Corporation (LAHC)). | **Short Term Priority** | **Medium Outcomes** |
| **QUICK WIN**<br>10. Look at two options to acquire sites to build properties as part of the HAFF which include releasing dormant public land (look at Government Land Register) and unlocking serviced idle land and redevelop old social housing stock. | **Short Term Priority** | **Short Term Outcomes** |
| 11. Consider incentivising state and local governments to release available land at a lower cost to CHPs for developing social and affordable homes under the HAFF. | **Medium Term Priority** | **Medium Outcomes** |

# SECTION 4 – Development

## Unblocking the pipeline – Planning Efficiencies

### NSW Housing State Environmental Planning Policy (Housing SEPP)

The NSW Government has developed a [Housing State Environmental Planning Policy (Housing SEPP)] and the [Affordable Rental Housing SEEP (ARHSEPP)], which seeks to boost housing supply, in addition to creating more diverse and affordable housing options. Being instrumental to support the NSW Government's economic recovery efforts, some key changes introduced by the policy include:

- A professionally managed build-to-rent scheme.

- Amendments to some state-level planning provisions to support social housing developments.
- Increasing the maximum number of dwellings that the NSW Land and Housing Corporation (LAHC) can self-assess on a single site from 20 to 60.
- A requirement for LAHC to consider its design guidelines 'Good design for Social Housing' and 'Land and Housing Corporation Dwelling Requirements" when self-assessing development proposals.
- A requirement for all development under the in-fill affordable housing provisions to deliver a minimum 20 per cent of gross floor area as affordable housing.

### Tasmanian Single Res Code

The Tasmanian Planning Scheme provides for housing across 14 zones. These are the General Residential, Inner Residential, Low Density Residential, Rural Living, Village, Urban Mixed Use, Local Business, General Business, Central Business, Rural, Agricultural, Landscape Conservation, Environmental Management, and Major Tourism Zones.

Five of the 14 zones provide a No Permit Required pathway for a single house. These zones include the General Residential, Inner Residential, Low Density Residential, Rural Living and Village zones. This means that if the house complies with the Acceptable Solutions in the development standards in these zones and applicable codes, no planning approvals are necessary. With greater certainty, there is less red tape that improves the development pipeline.

Moreover, as planning is a state-based issue, there would be value in considering greater opportunities to incentivise states to maximise planning efficiencies.

## Zoning, planning and development approval

Introducing inclusionary zoning in planning schemes with density bonuses would expedite planning approval by way of fast tracking social and affordable housing. It would be useful to examine and implement best practice learnings from Tasmania, where they have introduced a single residential code to streamline planning and development. In addition, improving urban land use rules to increase housing footprint allowances (e.g. 70/30 or 80/20 for medium density and dual key residences on one parcel) could be explored under the HAFF.

Planning and development should remain the responsibility of both state and local governments, who should have clearly articulated goals prescribed by Federal Government. There needs to be incentivisation of state governments with a recommendation to streamline the entire process by vertical integration from planning through to build. Short, medium and long term incentives could be layered to maximise the extent that states and territories embrace the HAFF. There is also necessity for Federal Government capacity to intervene to ensure a consistent approach to planning and development under the HAFF by local governments. However, there needs to be a mechanism to safeguard design quality, particularly for larger buildings or precincts to ensure a legacy of robust high amenity and sustainable housing. A best practice example is from South Australia, where a State Coordinator General has been employed to assist with fast tracking planning approvals and providing exemptions to the planning process for community housing provision under the Nation Building project.

Additionally, incentivising developers to provide a quantum of below market priced lots throughout their developments, that have a memorandum on title to be retained, should be considered. Incentives by way of increased dwelling capacity per hectare that is dependent on affordable stock made available and/or comfort around the asset and tenancy management measures, are some further considerations.

## Supply and Labour

To help mitigate the impact of heightened costs to supply and labour, and to facilitate an efficient approach to the entire construction process, a vertical integration of housing pipeline is required. An effective vertical integration method will ensure that all key stakeholders involved have a clear understanding of roles and responsibilities, while leveraging off their influence on supply chain and streamlining the construction process for affordable housing stock from start to finish.

Key players who need to be engaged from the commencement of a project include all levels of government, developers, urban planners, CHPs, prominent builders and suppliers. In addition, the procurement model and the level of understanding needs to be part of the vertical integration section. There is a requirement to be innovative and look to non-traditional approaches to acquire land, and approach supply and labour considerations to deliver on the proposed builds.

### Key Stakeholders

Systematisation and clearly articulated roles and responsibilities for all key stakeholders is necessary for the successful roll out of the HAFF. Key stakeholders involved in the HAFF should be entities (CHPs, builders etc.) who demonstrate scalable delivery systems. There is also value in understanding how smaller CHPs can achieve high quality, rapid and locally focused outcomes such as how PowerHousing Member Pacific Link have done through their *Communities Plus Program* which delivered 21 high quality fit for purpose dwellings.

Efficiencies and visibility of program ahead of time, will allow for adequate planning and to manage stakeholder expectations. It will provide a common vision and trajectory for all involved to move towards. There is a requirement for greater safeguarding around developers to prevent any pushing for higher margins. This safeguarding will help stabilise values and support the affordability of land.

### Materials, Supply and Labour

Shortages of materials and supply continues to be an ongoing challenge for the construction sector that is being felt globally. Costs of trusses have increased substantially, however there is hope that following what is currently seen in the USA, that pricing will likely slowdown in the next 6-month to 12-month period.

The *Housing Stimulus* introduced as part of the Federal Government's COVID-19 recovery, while beneficial for job creation has inadvertently placed pressure on shovel ready land and in turn has escalated land prices across the country.

Costs of materials, shortages in labour and land have meant prices have skyrocketed, becoming further detrimental to affordable housing in both home ownership and the rental market. Alternative construction materials and methodologies to reduce upfront and ongoing costs of builds is needed to manage increased costs due to heightened demand and issues with supply that is resultant of the pandemic.

Working with Master Builders and key suppliers may be of benefit to explore construction alternatives. Some cheaper alternative materials include CLT, which many builders are opting for and large suppliers are looking into instead of usual timber and steel, due to issues with supply. Other alternatives include low carbon concrete. PowerHousing Affiliate AVJennings are also trialling modular and prefab housing and there may be an opportunity to explore how they can help deliver these for high quality and efficient homes under the HAFF. All suppliers would welcome early access to the supply brief of the HAFF and to work with designers and planners at the onset, to ensure that they are able to plan and resource accordingly particularly in light of prevailing supply chain challenges.

**Recommendations**

| | | |
|---|---|---|
| QUICK WIN<br>12. Reduce planning complexity, overlap and red tape by considering the planning efficiencies and look to incentivise states to improve and speed up the development pipeline. | Short Term Priority | Short Term Outcomes |
| 13. Consider embedding into the structure of the HAFF appropriate incentives for state and local governments, and developers, in conjunction with a vertical integration approach. Federal competitive incentivisation across the states for funding to improve planning delivery that target:<br>• Provision of affordable housing – provided into perpetuity<br>• As of right approval for compliant development. | Short Term Priority | Medium Outcomes |
| QUICK WIN<br>14. Consider a vertical integration model that is vital to streamlining the delivery of the HAFF for early wins and to provide assurance around longevity of the market beyond. | Short Term Priority | Short Term Outcomes |
| 15. Consider an ability to forecast material and labour availability into the near future (2-3 years) for planning around supply and demand. | Medium Term Priority | Medium Outcomes |

# SECTION 5 – Operations

## Quality assets

Around 7.5 million homes are low energy, not rated and likely less than a 2 star energy rating. However, it is promising that the National Construction Code is heading towards new net Carbon Zero Homes by 2030. Further, there has been greater awareness of new builds requiring to meet the 'Silver' Livable Housing Design Standard. While today there are only 20-50,000 homes that meet the Livable Housing Australia (LHA) guidelines, the Silver standard is being adopted by most states in new dwellings under the National Construction Code.

To ensure properties under the HAFF are purpose-built and quality assets, they need to be CHP led developments. It may take longer to scale initially but the difference in long term outcomes from the environmental, sustainability and cost perspective (i.e. maintenance cost + tenant energy bills) will be significant. One way to accelerate the initial pipeline could be to work with a select number of CHPs who have a proven track record and capability to work through an alliance procurement framework, which will speed up projects and promote high quality housing design.

Sustainability will be a key focus for subordinated debt investors, if aggregated subordinated investment layer can be facilitated (see financial section below) and it can align with the transition to a net zero emissions pathway. By this means, we would see setting very high sustainability thresholds as a key component of ensuring legacy quality assets are built. As an example, PowerHousing Members SGCH and Housing Plus have worked with Clean Energy Finance Corporation (CEFC) to build energy efficient homes, with SGCH's Gibbons St development achieving 8.3 star NatHERS rating.

Social needs projects do benefit from the support of an initiative such as the HAFF (e.g., those fleeing domestic violence, experiencing mental health issues, etc.) however a concentration of the social need within the same property may not deliver a favourable outcome. Consideration needs to be given to properties being utilised in a flexible manner and not "locked" into a particular social purpose, with the social purpose achieved over the entire CHP property portfolio.

## Regional and Remote Balance

The HAFF could target a regional balance that provides benefits right across Australian cities. regional and remote centres. Despite the value of a consistent approach to the roll out of the proposed fund, consideration for the additional challenges that impact the regional housing market is needed. Commonly seen issues such as costs associated with building in regional and remote areas, older houses and limited housing stock need to be taken into account.

The Regional Australia Institute has recently released a discussion paper which describes universal pressures currently experienced across the regional housing market. Regional Australia's population grew by average by 76,500 people per annum in the decade to 2020, while the numbers of housing approvals has declined in five out of those 10 years. With a record increase in opportunities for work in regional areas and still greater affordability in the regions, many capital-city dwellers are relocating to the regions for new work roles or to work remotely as COVID-19 has opened the door to offsite work arrangements.

The potential for regional Australia is vast. However, there needs to be an acknowledgment of the additional challenges and considerations for smaller regional areas or where there has been unprecedented increased demand due to relocation of those from big cities during the pandemic with greater opportunities for remote working. The added challenges faced in creating a housing pipeline in regional areas includes access to supplies, labour and inadequate supportive infrastructure to sustain population growth.

The approval process also tends to be slower and generally presents more challenges than those faced in higher density areas. Regional and remote construction costs are higher and yields are lower which needs to be taken into account. As such, it is suggested that regional investment requires a form of subsidy (i.e. regional grants) to make the roll out of HAFF homes in regional areas possible.

To maximise the potential for HAFF in regional Australia, the funding should be accessible to smaller regional CHPs. The NSW Community Housing Innovation Fund (CHIF) which is a $150 million program to deliver social and affordable housing in collaboration with CHPs across NSW, is a good model that allows CHPs of all sizes to participate in the program.

Identification and classification of what is deemed a regional or a remote area is necessary in order to mitigate any inappropriate classifications and to ensure regional areas are not inadvertently disadvantaged (e.g. The Central Cost is classified as and receives the same funding as a metro area under the NSW SAHF program). Modelling of metro vs regions vs remote is required to get the program right, and to develop a broader understanding of additional constraints faced in regional areas.

A thorough understanding of regional needs is required by a comprehensive needs assessment and an understanding of the local housing markets and specific local area needs. A comprehensive needs assessment can help identify regions and local governments who are well prepared and have the capacity to scale up to meet projected demands. There is a requirement for different levels of yield subsidies depending on the differing characteristics of different areas.

**Recommendations**

| | | |
|---|---|---|
| 16. There would be value in having a capacity to land bank and for greater surety around assets and acquiring prospective assets. This would provide CHPs with assurance and will help maintain the market after the HAFF has been fully delivered. | **Long Term Priority** | **Long Term Outcomes** |
| 17. Consider undertaking through needs assessments of local regional areas and aligning yield subsidies while taking into account additional challenges or costs associated with developing in the region. | **Short Term Priority** | **Long Term Outcomes** |
| 18. Federal Government could provide clear guidelines and protocols to maximise efficiencies in regional areas, enhancing HAFF's contribution to regional communities and bolstering the economy in regional areas. | **Medium Term Priority** | **Long Term Outcomes** |

# SECTION 6 – FINANCING

## History of Thinking Big – Successful Contemporary Financial Models

### National Housing Finance and Investment Corporation (NHFIC)

The HAFF is based on the NSW Social and Affordable Housing (SAHF) Model and will see NHFIC playing a substantial role in the initiative. As such, there are key learnings from both NHFIC and the SAHF.

The growth of NHFIC in just over three years has been remarkable. Since NHFIC's introduction, the majority of PowerHousing's 36 CHP Members have accessed long-term, low-cost, government backed lending from the $2.7b loans approved by the NHFIC board, to deliver 14,000 new and existing homes.

The proposed use of funds generated by the HAFF will act as a "yield gap" subsidy, with service payments a key component. It is assumed that there will be a funding stack of both senior debt and either junior debt or equity. Care will need to be taken in the scheme arrangements to ensure that the returns derived by the CHP are proportionate (i.e., returns to junior debt sources and providers of equity are not excessive). To effectively invest in the additional social and affordable housing as outlined under the HAFF, CHPs will require some form of subsidy or grant to make investment viable over a 20-year loan payback period rather than the 10-12 year repayment period currently used by NHFIC. Moving to 20-year terms will give enormous planning, investment and property management confidence, while structurally strengthening the balance sheets of CHPs and lowering financial risk, which will encourage greater private investment.

Crowding in of private investment and presenting community housing as a safe, long term and stable return asset class, similar to that of an infrastructure asset class, will also assist. There is opportunity to create greater awareness of the CHP sector as a viable and secure asset class for private investors, similar to the emerging confidence seen by impact investors in the Specialist Disability Accommodation (SDA) and aged care sectors. Additionally, highlighting the community housing sector's growing alignment to Environmental, Social and Governance principles as well as the UN's Sustainable Development Goals (SDGs) will also help to attract impact investors and PowerHousing Australia will look to undertake more work in this space.

In addition to government backed finance (junior debt) through NHFIC, private capital is required to realise Labor's policy ambitions for the HAFF. NHFIC's role could evolve and diversify from currently being the primary finance stream, to include a focus on bringing in more private financiers to partner and help in meeting affordable housing objectives under the HAFF. At current, there are no clear arrangements for CHPs to source private equity. Such arrangements need to be considered with careful regard to the costs of such funds. There will need to be a balance between profitability while meeting tenant needs, as private investors come into play and adjustments to the debt stack may have impacts on the quality and location of developments.

Crowding in is a viable solution that has significant potential. Public-private partnerships (PPP) are required to leverage private sector investment and capital to deliver HAFF outcomes. An effective example of a successful PPP in the community housing space is in Victoria through the Big Housing Build fund.

Incorporating banks, private investors, superfunds, Government (both Federal and State) to operate in different parts of the stack has the potential to prove up the HAFF model. Stacking of finance is required to maximise scope and reach of the HAFF. NHFIC should no longer remain the base of the stack nor be the first and last resort for financing but rather, there is opportunity to look to banks to provide long term senior debt, with NHFIC stepping in as sub-debt. Banks too provide due diligence and de-risking which give a greater sense of security and enticement for superannuation funds and other private investors to come onboard. Investors will also need surety with a long-term pipeline of HAFF projects visible.

Rather than sole funding through NHFIC, options such as leveraging off superannuation super funds and Government incentivising private investors, should also be considered in this emerging asset class. Incentivisation from the Federal Government will support the viability gap and will attract private investment who can assist in expanding the housing pipeline under the HAFF. There is greater opportunity for banks to provide primary finance to CHPs through long term senior debt, with incentivisation and assurance through NHFIC as a buffer and form of government guarantee. With NHFIC focusing on providing equity and junior debt and providing a strong backing as a secondary finance option, this will maximise the capital available to CHPs and will ultimately lead to a greater number of affordable housing outcomes delivered under the HAFF.

Bringing banks and superfunds to help finance the HAFF, will free up NHFIC's time and resources to encourage crowding-in, develop and oversee innovative projects and promote sector growth under the fund. By doing this, NHFIC can prove up and embed the market.

Unlike previous "stimulus" programs which used the states as a conduit for funding, there may be initial merit in this structure being bi-lateral as between NHFIC (for the Commonwealth) and CHPs, and the State Governments would have a second stage funding role. There would be value in meeting with state Treasurers and Premiers rather than solely state Ministers and developing state targets under the HAFF for this second stage of funding. A comprehensive assessment of SA3 data could demonstrate what different states are capable of delivering and where gaps in social and affordable housing are evident.

Once key structural components of financing for the HAFF are established, innovative finance models need to be considered and implemented to maximise return and multiple finances. Opportunities such as incentives for impact investment or creating subsidiaries to take advantage of tax benefits can convert commercial debt to leverage returns on the equity. The National Housing Infrastructure Facility (NHIF) could be enhanced to encourage more accessible, greener and safe homes (e.g. energy efficient, in-building electrical sub stations, fire hydrants) delivered under the HAFF.

## Key Option: Broadening the NHFIC Financing Model and Ownership

The HAFF requires low-cost finance from NHFIC to best leverage the fund and bipartisan support for NHFIC is a priority for this fund to be successful. The NHFIC liability cap has been reached twice, leaving CHPs with uncertainty of finance that is subject to Government increasing the cap, which adds unnecessary risk, delays and potential property developers withdrawing from partnership opportunities. Consider increasing the cap on a periodic basis which anticipates the need to provide headroom for the 30,000 homes, in addition to incremental increase. This will maximise NHFIC's potential and continued growth.

The proposed use of the funds generated by the HAFF will be as a "yield gap" subsidy. CHP's will therefore require a funding stack of both senior debt from crowding-in private investors and junior debt from NHFIC. CHPs require the use of subsidiaries to create structures that allow the use of equity and/or junior debt. Currently, NHFIC can only lend to CHPs, not wholly owned charitable subsidiaries of the CHP with an aligned purpose and greater flexibility here is required.

Ownership of dwellings by CHPs is important. The NRAS model which includes mum and dad investors will not necessarily get to scale efficiently and is hard to ensure quality assets. Ownership by others (e.g. CHPs solely managing properties for investors) will result in value being transferred outside of the affordable housing sector during and at the end of the subsidy term. An ideal model would see a service payment plus rent as sufficient to cover interest payments on senior debt and subordinated debt, with the CHP accessing the growth in capital value providing them the ability to retain ownership for the ongoing affordable housing outcome.

To enable CHPs to own these dwellings, there needs to be a solution to the missing financing layer, being the subordinated debt investment layer. At current NHFIC is providing senior debt and CHPs do not have the balance sheet to fund the remainder for a program of this scale, so they would need a subordinated debt investment layer to bridge the funding gap. By allowing banks and private investment to take on the senior debt component, NHFIC can fill the gap of the subordinate debt.

An element of Federal Government guarantee to reduce sub debt cost of capital by providing some form of first loss underwriting, rather than just using it all on senior debt could also further leverage the capital structure would be beneficial. Prior to implementing the HAFF, there would be value in reviewing tax settings (e.g. less than 75% market rent GST exemption threshold for affordable housing could be increased to, say 80% and this would then align with NRAS requirement). An additional 5% would allow cross subsidisation to provide more social housing.

As outlined in the recent review of NHFIC, there are NHIF funds that have not been used ($225m unused) but are available to finance and equity investment. NHIF funds could be used as an equity injection, allowing for quick wins, however this would require a change to the investment mandate. These funds could be transferred into CHP equity to support CHPs in the delivery and meeting of the HAFF objectives. Additionally, there is opportunity to inject these unused funds into projects that are currently underway to create quick wins for the HAFF and to enhance market confidence.

Any leveraging of pre-existing community housing projects can allow for HAFF to stretch further, creating greater opportunities for additionality. Similar to the refinancing of NHFIC, these projects can be refinanced to supercharge the pipeline of the HAFF with money currently invested in these projects recycled to assist with future HAFF builds.

NHFIC's role could be broadened beyond low-cost, long-term debt by being linked to equity instruments.

## Victorian Big Housing Build Funding

The HAFF can also look to learnings from the *Victorian Big Housing Build* on how a simplified application and tender process, can still deliver effective housing outcomes in a timely manner. The streamlined approval and permit process seen under the Big Housing Build, has contributed to commencements on construction to meet the 12,000 new social and affordable housing targets.

The Social Housing Growth Fund round demonstrates the simplification and speed that can be seen when local government puts out a parcel of land for expression of interest (EOI), request for proposal (RFP) and then the formulation of agreements, with the entire process taking only 6-9 months. Opportunity for rapid grant rounds such as those seen in Victoria, provide a quick turnaround from signing a lease with council, signing the funding deed and commencement of construction within a 4-5 month period.

There is opportunity to maximise vertical integration for housing supply through securing a forward-looking pipeline through private sector partnerships, such as PowerHousing Corporate Affiliates, Simonds and Metricon, to assist with aligning CHP housing strategies to house and land opportunities. This would allow for greater certainty for the CHP sector and promote continued capacity building to meet the challenge of implementing this scale of development program.

## Finance and low-cost subsidy - NSW Social and Affordable Housing Fund (SAHF) Funding Model and Victorian Social Housing Growth Funder (SHGF) Learnings

As demonstrated through the SAHF, the lead time for housing opportunities can be significant and limited funding rounds creates pressure to put forward higher cost shovel-ready projects in favour of medium-term value for money projects, where the next funding opportunity is unknown.

Securing land at an affordable amount has been an ongoing issue for CHPs, which has recently been exacerbated by rising land prices seen in most regions of Australia. Just one example is the experiences with the NSW Land and Housing Corporation (LAHC), where NSW Treasury will not allow the gifting of land, but conversely require land to be purchased by CHPs at full market value and in some cases, are quoted at the market improved value.

Homes Victoria has grown substantially in size to deliver the *SHGF* and the other Big Housing Build Initiatives. An option for funding could be for NHFIC to partner with some of the HAFF funding to states and territories to utilise and leverage off existing resources of the state-based authorities (e.g. Homes Victoria, WA Housing Authority etc.). For this to be done successfully, clear deliverables and objectives are needed with roles and responsibilities outlined in the national plan and state-specific agreements.

## The HAFF future funding stream (the “dividends”)

Understanding the additionality that can be created through the best use of dividends is key. Ideas around options for dividends and how they can be spent (i.e., what are the areas of most need and benefit) is required to maximise outputs and lead to the sustainability and longevity of affordable housing created through the HAFF across Australia. Dividends could either assist CHPs to leverage the balance sheet and increase debt, or partner with equity providers.

There is opportunity for the HAFF to explore options for dividends and target groups who will benefit the greatest from where they are spent (e.g., homeless youth, those with disability etc.).

As mentioned prior, different levels of subsidies are required to balance location considerations particularly for those in more regional jurisdictions. The introduction of a possible two streams, whereby the Federal Government funds CHPs directly and the other where funding goes to the states and CHPs. There are pros to each, however it should be noted that the second option with state land may be slower but could be cheaper.

Financial Learnings from the National Rental Affordability Scheme (NRAS) NHFIC loans can be relatively expensive to establish and, in some instances, have had a significant lead time, with limited flexibility of tenure and repayment options. As the model currently stands, liabilities are significant for CHPs as loans need to be paid back. With the cessation of NRAS there is concern of how repayment of debt can be achieved. In 10-12 years, debt will need to be repaid and CHPs will be carrying the burden of this debt. There needs to be consideration for the extra debt that the HAFF may place on Tier 1 CHPs and mechanism put in place that will mitigate associated risks. While CHPs may seek to refinance their funding obligations, the availability and cost of appropriate facilities in 10 to 12 years from now is very uncertain.

As the NRAS winds down over the next 3 – 4 years, this funding mechanism will soon drop away and there is some concern by providers in financing extra debt. There is opportunity for HAFF to harness the key positives of a scheme such as the NRAS, which includes simplicity as a model.

Moreover, long term subsidies are needed (e.g. 20 years or more) as they are more attractive to social impact investors and mitigate the need to sell social housing and relocate social tenants after a short period.

The aim of the HAFF should be to drive new development that would not otherwise occur (additionality), rather than just converting existing rental supply into in a discounted supply (with a large portion of the benefit going to private landlords).

## The Role of State Government

The National Housing and Homelessness Agreement (NHHA) recognises the Commonwealth and the State Governments' shared interest to improve housing outcomes for Australians who sit across the housing continuum. The NHHA despite highlighting the need for collaboration between Federal and State Governments and providing around $1.6B each year to states, has not successfully maximised the role that State Governments could play in delivering more affordable and social housing outcomes for their local areas. Aligned with the National Plan for Housing as proposed above, there is opportunity to look at greater incentivisation and guidance to State Governments to boost housing supply delivered under the HAFF. Appropriate incentivisation of states will enhance the condition of homes through reviewing the current 300,000 public housing homes, and knockdown rebuild of poor-quality ageing homes to make way for more energy-efficient and universality designed houses or multi-dwelling units.

Additionally, solely relying on NHFIC to continue to facilitate debt lending and the infrastructure fund in addition to administering a SAHF-style recurrent subsidy (the HAFF) is a lot to take on. It is evident that Homes Victoria has grown in size to deliver the SHGF and other Big Build initiatives. A second stream for funding could come through state governments. Despite this likely being a slower approach, the is opportunity to leverage off pre-existing state-based entities and corporations, while easing some of the load on NHFIC. The proposed National Housing Plan could look to identify clear deliverables and objectives for this pathway to succeed.

# Key Innovative Finance Options

## Low-Income Housing Tax Credit (LIHTC) System

A Low-Income Housing Tax Credit System (LIHTC) is an innovative taxation incentive which has gained significant attention and has demonstrated success internationally. A LIHTC system has been operating in the United States for over 30 years with impressive results and could easily be established in Australia. The introduction of a LIHTC mechanism at the procurement process of the HAFF will allow for-profit and not-for-profit developers to compete in an annual round for tax credits earmarked by states under different terms and under federal rules. Tax credits are then sold to investors which can use them to lower their tax burdens. The equity raised can then fund the development of affordable housing. LIHTC fills a gap in the current housing tax system in Australia. Namely, this would create incentives for the private market to create affordable housing supply with CHPs.

## Shared Equity/ Home Share

A further enhancement option to the HAFF which should be considered is the introduction of Shared Equity tenures which are established through the release of surplus Government land at a submarket price. Applying a Shared Equity model to the HAFF would assist in reducing the deposit gap. A 20-40% equity investment into a property via a government structured entity, such as NHFIC, can support people to maintain their home ownership and assist to reduce accumulated debt. An equity investment allows for an investment vehicle to hold an asset that can be realised at or after 10 years when the homeowners refinance or sell their property.

Another option is for CHPs to retain the 20-40% equity ownerships as they have stock they could sell to current or future tenants on a shared equity basis so that the tenant (now homeowner) can raise the finance needed to acquire 60-80% of the property. This approach allows the transition of affordable tenants to home ownership and enables the CHP to leverage four properties constructed for every five 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 meet the ongoing demand for social and affordable housing.

There is opportunity to use pre-existing systems and infrastructure such as Centrepay, that can play a significant role in increasing home share in Australia. Centrepay can become a vehicle that links banks and CHPs with tenants who are transitioning into shared home ownership, allowing for repayments towards shared equity to made through the platform.

**Recommendations**

| | | |
|---|---|---|
| 19. Develop funding structure for the HAFF based on learnings from NHFIC and Victorian Big Housing Build, while broadening the mandate of NHFIC lending to facilitate lending to structures required to deliver more housing. NHFIC cap to be reviewed frequently to meet needs and maximise sustainability of the sector. | **Short Term Priority** | **Medium Outcomes** |
| 20. Look for opportunities for crowding in of investment and re-arranging funding stack so that banks provide senior debt, with NHFIC supporting with subordinate debt. Consider streamlining application processes and providing opportunities for CHPs to repay debt as a means to mitigate risk. | **Medium Term Priority** | **Medium Outcomes** |

| | | |
|---|---|---|
| 21. Consider a long duration for the subsidy, with benefits going to CHPs not solely to private developers or landlords. A model with a pipeline of funding over the medium term with known timing, will allow CHPs the foresight to plan opportunities that align with funding available and thereby maximise these opportunities to deliver more housing. | **Medium Term Priority** | **Long Term Outcomes** |
| 22. Consider a component of the HAFF funds be distributed through NHFIC to state authorities to leverage off pre-existing state projects. Clearly articulated goals, targets and responsibilities should be outlined and utilisation of existing resources recommended (e.g. Homes Victoria, WA Housing Authority etc.). | **Medium Term Priority** | **Long Term Outcomes** |
| 23. Develop two streams; a fast and slower (CHP first then State Government) roll out, that looks at CHPs retaining ownership through effective finance offerings which provide Senior Debt and Subordinated Debt. CHPs can leverage fund equity to maximise housing outcomes. | **Short Term Priority** | **Long Term Outcomes** |
| 24. Consider redistribution of the $225 unused NHIF funds to CHPs as equity injection under the HAFF or to provide financial support to projects currently underway. | **Short Term Priority** | **Short Term Outcomes** |
| 25. Consider sharing modelling around the rate of return on $10b to generate a dividend with PowerHousing for industry feedback and look at the introduction of a booster variable tax credit model similar to that seen under NRAS. | **Medium Term Priority** | **Long Term Outcomes** |
| 26. In the review of NHHA provide a competitive process for the existing $1.6B per annum to be focused on reform and fast track knock down rebuild of old environmentally inefficient public housing stock. | **Medium Term Priority** | **Short Term Outcomes** |
| 27. Consider innovative financing models for long term establishment of the HAFF and beyond. These include the introduction of a system similar to LIHTC to encourage private investment into the HAFF, and a Shared Equity or Home Share model that can be achieved in partnership with Centrepay. | **Medium Term Priority** | **Long Term Outcomes** |

## Appendix 1: Overview of Recommendations - A Snapshot of Quick Wins and Building Momentum Over Time

| | | **Outcomes (Time needed to see outcomes)** | | |
|---|---|---|---|---|
| **Priority (When it needs to be done)** | | Short Term (0-36 months) | Medium (36-64 months) | Long Term (64 months +) |
| | Short Term (Initial Setup. Foundational) | ***Quick Wins***<br>Rec 1.<br>Rec 3.<br>Rec 5.<br>Rec 6.<br>Rec 9.<br>Rec 13.<br>Rec 23. | Rec 7.<br>Rec 8.<br>Rec 9.<br>Rec 12.<br>Rec 18. | Rec 4.<br>Rec 16.<br>Rec 22. |
| | Medium (In first 12-64 months) | Rec 2.<br>Rec 25. | Rec 11.<br>Rec 14.<br>Rec 19. | Rec 17.<br>Rec 20.<br>Rec 21.<br>Rec 24.<br>Rec 26. |
| | Long Term (64 months +) | | | ***Long Term Momentum***<br>Rec 15. |



**<u>Recommendations</u>**

### SECTION 1 – Program Design

| | | |
|---|---|---|
| **QUICK WIN**<br>1. Prior to the commencement of the HAFF, consider introducing a National Plan as a high-level blueprint that will guide the housing landscape broadly and to outline targets, roles and responsibilities for stakeholders under the HAFF. | **Medium Term Priority** | **Short Term Outcomes** |
| **QUICK WIN**<br>2. Include within the HAFF, both a mix of standalone dwellings (e.g. homes and townhouses) and multi-dwelling apartments to cater to land requirements, balance efficiencies and streamline planning. | **Short Term Priority** | **Short Term Outcomes** |

| | | |
|---|---|---|
| QUICK WIN<br>3. To assist with reach in the first year of the HAFF and sustainability of outcomes beyond the HAFF, consider knockdown rebuild focused on a significant number of the 400,000 outdated public/social housing homes, to make way for greater numbers of social and affordable homes.<br><br>Immediate audit, identification and prioritisation of existing public/social homes that are:<br><br>○ Low energy rating<br>○ Non-accessible design<br>○ On larger lots/density capable<br>○ Close to commuter routes, jobs and retail.<br><br>○ If replaced these homes will provide very fast health, wellbeing, financial and economic, environmental and climate impact outcomes. | **Short Term Priority** | **Short Term Outcomes** |
| 4. Consider learnings from the NRAS in relation to program design, administrative considerations and IT management systems. | **Short Term Priority** | **Long Term Outcomes** |

## SECTION 2 – Procurement

| | | |
|---|---|---|
| QUICK WIN<br>5. In the initial set up of the HAFF, consider a simple and clear tendering and procurement process which is time efficient and not overly costly for CHPs to tender for. Further that it targets specific locations, social needs and other considerations. | **Short Term Priority** | **Short Term Outcomes** |
| QUICK WIN<br>6. To maximise efficiencies under the HAFF, consider establishing a review panel who examine each step of the process including pricing through quantity surveyors for procurement of builders or labour. | **Short Term Priority** | **Short Term Outcomes** |
| 7. Consider imbedding in the structure of the HAFF, service payments that are adjusted based on considerations such as market conditions and target cohorts. | **Short Term Priority** | **Medium Outcomes** |
| 8. Consider vertical integration discussions with CHPs and construction/building Affiliates at the development and assets and joined up discussions to assist with planning and streamlining of processes under the HAFF. | **Short Term Priority** | **Medium Outcomes** |

## SECTION 3 – Site and Land Acquisition

| | | |
|---|---|---|
| 9. Consider structural reform whereby CHPs are given greater control over the process, decision-making and self approval powers (similar role to that of the NSW Land and Housing Corporation (LAHC)). | **Short Term Priority** | **Medium Outcomes** |
| **QUICK WIN**<br>10. Look at two options to acquire sites to build properties as part of the HAFF which include releasing dormant public land (look at Government Land Register) unlocking serviced idle land and redevelop old social housing stock. | **Short Term Priority** | **Short Term Outcomes** |
| 11. Consider incentivising state and local governments to release available land at a lower cost to CHPs for developing social and affordable homes under the HAFF. | **Medium Term Priority** | **Medium Outcomes** |

## SECTION 4 – Development

| | | |
|---|---|---|
| **QUICK WIN**<br>12. Reduce planning complexity, overlap and red tape by considering the planning efficiencies and look to incentivise states to improve and speed up the development pipeline. | **Short Term Priority** | **Short Term Outcomes** |
| 13. Consider embedding into the structure of the HAFF appropriate incentives for state and local governments, and developers, in conjunction with a vertical integration approach. Federal competitive incentivisation across the states for funding to improve planning delivery that target:<br>• Provision of affordable housing – provided into perpetuity<br>• As of right approval for compliant development. | **Short Term Priority** | **Medium Outcomes** |
| **QUICK WIN**<br>14. Consider a vertical integration model that is vital to streamlining the delivery of the HAFF for early wins and to provide assurance around longevity of the market beyond. | **Short Term Priority** | **Short Term Outcomes** |
| 15. Consider an ability to forecast material and labour availability into the near future (2-3 years) for planning around supply and demand. | **Medium Term Priority** | **Medium Outcomes** |

## SECTION 5 – Operations

| | | |
|---|---|---|
| 16. There would be value in having a capacity to land bank and for greater surety around assets and acquiring prospective assets. This would provide CHPs with assurance and will help maintain the market after the HAFF has been fully delivered. | **Long Term Priority** | **Long Term Outcomes** |
| 17. Consider undertaking through needs assessments of local regional areas and aligning yield subsidies while taking into account additional challenges or costs associated with developing in the region. | **Short Term Priority** | **Long Term Outcomes** |

| | | |
|---|---|---|
| 18. Federal Government could provide clear guidelines and protocols to maximise efficiencies in regional areas, enhancing HAFF's contribution to regional communities and bolstering the economy in regional areas. | **Medium Term Priority** | **Long Term Outcomes** |

## SECTION 6 – Finance

| | | |
|---|---|---|
| 19. Develop funding structure for the HAFF based on learnings from NHFIC and Victorian Big Housing Build, while broadening the mandate of NHFIC lending to facilitate lending to structures required to deliver more housing. NHFIC cap to be reviewed frequently to meet needs and maximise sustainability of the sector. | **Short Term Priority** | **Medium Outcomes** |
| 20. Look for opportunities for crowding in of investment and re-arranging funding stack so that banks provide senior debt, with NHFIC supporting with subordinate debt. Consider streamlining application processes and providing opportunities for CHPs to repay debt as a means to mitigate risk. | **Medium Term Priority** | **Medium Outcomes** |
| 21. Consider a long duration for the subsidy, with benefits going to CHPs not solely to private developers or landlords. A model with a pipeline of funding over the medium term with known timing, will allow CHPs the foresight to plan opportunities that align with funding available and thereby maximise these opportunities to deliver more housing. | **Medium Term Priority** | **Long Term Outcomes** |
| 22. Consider a component of the HAFF funds be distributed through NHFIC to state authorities to leverage off pre-existing state projects. Clearly articulated goals, targets and responsibilities should be outlined and utilisation of existing resources recommended (e.g. Homes Victoria, WA Housing Authority etc.). | **Medium Term Priority** | **Long Term Outcomes** |
| 23. Develop two streams; a fast and slower (CHP first then State Government) roll out, that looks at CHPs retaining ownership through effective finance offerings which provide Senior Debt and Subordinated Debt. CHPs can leverage fund equity to maximise housing outcomes. | **Short Term Priority** | **Long Term Outcomes** |
| **QUICK WIN**<br>24. Consider redistribution of the $225 unused NHIF funds to CHPs as equity injection under the HAFF or to provide financial support to projects currently underway. | **Short Term Priority** | **Short Term Outcomes** |
| 25. Consider sharing modelling around the rate of return on $10b to generate a dividend with PowerHousing for industry feedback and look at the introduction of a booster variable tax credit model similar to that seen under NRAS. | **Medium Term Priority** | **Long Term Outcomes** |
| 26. In the review of NHHA provide a competitive process for existing $1.6B per annum to be focused on reform and fast track knock down rebuild of old environmentally inefficient public housing stock. | **Medium Term Priority** | **Short Term Outcomes** |

| | | |
|---|---|---|
| 27. Consider innovative financing models for long term establishment of the HAFF and beyond. These include the introduction of a system similar to LIHTC to encourage private investment into the HAFF, and a Shared Equity or Home Share model that can be achieved in partnership with Centrepay. | **Medium Term Priority** | **Long Term Outcomes** |

# Appendix 2: Australian Land Price and Construction Trends

Australia has gone through a period of significant cost increases for both vacant land and construction (labour and materials). These factors contribute to the difficulties faced by the community housing sector in creating new social and affordable housing developments. Future housing measures will need to deal with costs, both by lowering them where possible and by providing assurance in the pipeline to prevent delays and cost overruns.

Construction costs are a significant barrier to affordable housing in Australia; construction costs affect greenfieldrefurbishments. The past year has seen national construction costs rise by 7.1%–as recorded by the Cordell Construction Cost Index (CCCI)–, the highest annual growth rate since 2005. Q3 2021 saw construction costs rise by 3.8%, the highest quarterly growth since 2000 (associated with the introduction of the GST).

Increases in Construction Costs

| | 1 yr. change | 5 yr. change |
|---|---|---|
| National | +7.13% | 23.54% |
| NSW | +6.65% | +24.33% |
| VIC | +6.85% | +23.81% |
| QLD | +8.02% | +23.66% |
| SA | +7.52% | +21.41% |
| WA | +7.51% | +20.00% |

Source: Cordell Construction Cost Index

The recent rise in construction costs reflect some recent COVID specific related impacts. These include COVID related construction shutdowns, supply chain disruptions, housing stimulus measures, etc. However, rising construction costs are not a recent phenomenon. Since 2012, construction costs have consistently outstripped inflation with only 5 quarters recording a higher CPI than CCCI. Deflating construction costs from inflation, real construction costs have risen 12.9% in the past 5 years. Given the recent trends, the secular increase in construction costs is unlikely to abate. Affordable housing policy will have to deal with this issue, reducing costs where possible and mitigating increases where they arise.

Another key component in creating new housing supply is land. Like construction costs, land prices have also seen a significant rise recently. With the exception of Brisbane, regional Queensland and regional South Australia, vacant land prices have increased over the past year, in some cases quite significantly.

Vacant Land Prices

| | 2016 | 2020 | 2021 | 1 yr. change | 5 yr. change |
|---|---|---|---|---|---|
| Greater Sydney | $425,000 | $440,000 | $528,995 | +20.23% | +24.47% |
| Rest of NSW | $200,000 | $235,000 | $250,000 | +6.38% | +25.00% |
| Greater Melbourne | $232,000 | $319,000 | $350,350 | +9.83% | +51.01% |
| Rest of VIC | $153,000 | $203,200 | $255,000 | +25.49% | +66.67% |
| Greater Brisbane | $238,206 | $246,250 | $237,000 | -3.76% | -0.51% |
| Rest of QLD | $222,000 | $190,000 | $185,000 | -2.63% | -16.67% |
| Greater Adelaide | $212,000 | $215,000 | $220,000 | +2.33% | +3.77% |
| Rest of SA | $104,999 | $116,000 | $110,000 | -5.17% | +4.76% |
| Greater Perth | $255,000 | $240,000 | $275,000 | +14.58% | +7.84% |
| Rest of WA | $175,000 | $177,000 | $180,000 | +1.69% | +2.86% |
| Greater Hobart | $165,000 | $210,000 | $300,000 | +42.86% | +81.82% |
| Rest of TAS | $110,000 | $132,750 | $168,000 | +26.55% | +52.73% |

Source: HIA CoreLogic Residential Land Report

The standouts are Sydney, Perth and Hobart, which have seen vacant land prices rise by 20.2%, 14.6% and 43.9% respectively. The past five years has also seen significant rises. In states such as WA, SA and

QLD the rises have been moderate. NSW, VIC and TAS on the other hand have seen considerable growth since 2016. Greater Hobart has seen vacant land prices increase by 81.8% over the past 5 years.

The influences on land prices are complex. Aside from demand side factors such as wages growth or credit expansion, vacant land prices are influenced by local supply factors including the availability of unutilised land, local geography, urban fabric, etc. Securing land at favourable prices remains an ongoing challenge. Local governments primarily control the levers of land supply and it would be fruitful to coordination or incentive policies that would lower land costs for affordable developments.

To illustrate the impacts of rising land/construction costs, PowerHousing has combined from CoreLogic with indicative development costs from NHFIC's recent report, *Developer Contributions: How Should We Pay For New Local Infrastructure?*. This illustration examines the case of Bathurst, NSW. According to CoreLogic data, over the past 5-years the nominal land costs have increased 22.42% and the nominal construction costs have increased 24.33%. Adjusting for inflation, the real land costs have increased 12.42% and the real construction costs have increased 15.43% over those 5-years. This would have pushed the real development costs up by $45,000 (9.24%) over the past 5-years.

Hypothetical Development: Bathurst, NSW

| 2016 Development Cost ($, 2021 Prices) | 2021 Development Cost ($, 2021 Prices) | 5-year Cost Change ($, 2021 Prices) | 5-year Cost Change (%) |
|---|---|---|---|
| $487,000 | $532,000 | $45,000 | 9.24% |

Source: CoreLogic, NHFIC

## Appendix 3: An example of development input increases from a CHP Member of PowerHousing (Nov 2021)

- $10bn doesn't buy what it once did because at 30,000 homes that's ~$333k each, regional NSW / ACT a new house package is between $400k - $450k if you are lucky in timing.
- Debt of our sector, leveraging NHFIC to grow has in 10-12 years debt to be repaid + ability carry this.

| All numbers are $'000 unless noted otherwise | Actual FY2019 | Actual/Prelim FY2020 | Budget FY2021 | Forecast FY2022 | Forecast FY2023 |
|---|---|---|---|---|---|
| Current loan liabilities - Housing | 13,831 | 46,431 | 4,488 | 8,070 | 8,039 |
| Loan liabilities - Housing | 734,142 | 1,171,665 | 1,514,220 | 1,716,783 | 2,058,098 |
| Loan liabilities - Other commercial loans | 6,897 | 6,463 | 35,922 | 14,920 | 14,183 |

- Recent experiences with LAHC on land, NSW Treasury will not allow gifting of land, they need full market value (in some cases we are quoted at market improved value)
- NRAS and its winddown over the next 3-4 years, while I think this is yet to be played out but this is a funding mechanism that will soon drop.

| All numbers are $'000 unless noted otherwise | Actual FY2019 | Actual/Prelim FY2020 | Budget FY2021 | Forecast FY2022 | Forecast FY2023 |
|---|---|---|---|---|---|
| NRAS subsidy | 40,197 | 39,503 | 35,204 | 31,857 | 25,989 |

- At the moment we have had positive outcomes with NSW Communities and Justice who are making $ available for acquisition / build. It's a very simple model that makes our balance sheet sustainable.

# Appendix 4: An example of dwelling inflation and rental increases (Feb 2022)

House prices across Australia grew rapidly without warning and against previous forecasts in the 2021 calendar year. PowerHousing look forward to working together to tackle this issue which we are urging Australian Governments to continue to get behind.

### House Price Inflation Case study: Nowra (Gilmore Electorate)

| Electorate: Gilmore | | |
|---|---|---|
| Dwelling Value | 2021 Median Dwelling value increase ranking: | 1 out of 151 Electorates |
| | 2021 Median Dwelling value increase: | 39.52% |
| | 2021 Median Dwelling value: | $883,384 |
| | 2020 Median Dwelling value: | $633,165 |
| | 5-year Median Dwelling value increase: | 57.12% |
| | 2016 Median Dwelling value: | $562,237 |
| | 10-year Median Dwelling value increase: | 122.1% |
| | 2011 Median Dwelling value: | $397,743 |
| | | |
| Rents | 2021 Median Dwelling rents increase ranking: | 33 out of 151 Electorates |
| | 2021 Median Dwelling rents increase: | 12.53% |
| | 2021 Median Dwelling rent value: | $553 per week |
| | 5-year Median Dwelling rent increase: | 40.09% |
| | 2016 Median Dwelling rent: | $395 per week |
| | | |
| Wages | Average 2021 Wage rise (est.): | 2.5% |
| | Electorate Median Employee Income (2021 Estimate) | $45,595 |

Source CoreLogic, PowerHousing Australia , ABS (February 2022)

This growth in values over one year has not been forecast, with an unexpected increase in wealth in some cases being offset in many other cases by the following stark challenges:

- Dwelling values increasing by almost 40% and rents increasing by over 12% in one calendar year, which average wage rises of 2.5% over this period do not keep up with.
- Home ownership moving well beyond the reach of many;
- Increasing potential risks in value volatility and uncertainty in post COVID-19 housing markets.

On the macro level 88 of Australia's 151 electorates have seen a 20% plus increase in dwelling values and 65 electorates out of 151 seeing at least a 10% increase in median rents.

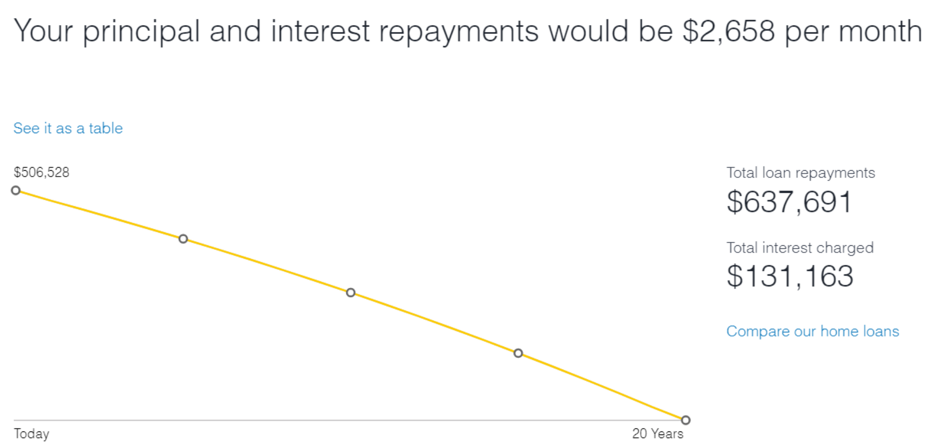
## One year rise = An additional decade in debt.

As a result of the 2021 median dwelling increases alone, a home buyer with a maximum mortgage budget limit of $2,800 monthly payments has to extend the loan from 20 years to 30 years to keep this stable payment level. They will see an extraordinary increase of $353,065 to be paid off over the life of the loan. With interest rates likely to go up, the extra amount to be paid off over the life of the loan is much greater.

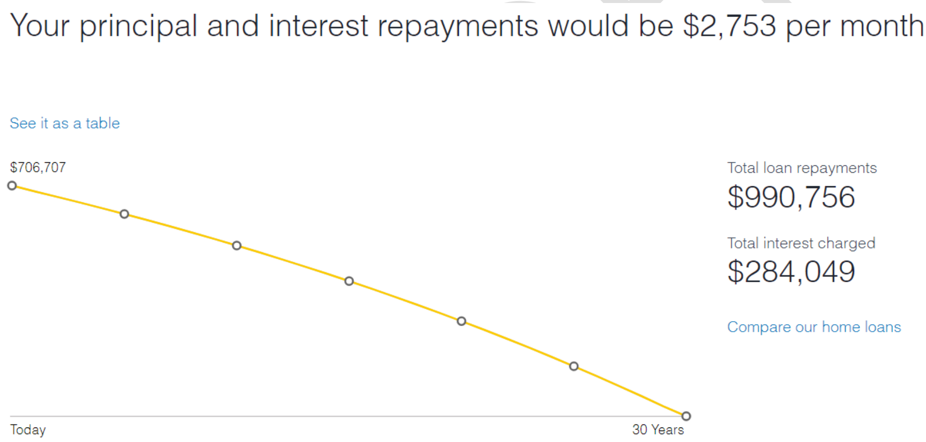
With inflationary pressures and a normalisation of the economy post-COVID, the current low mortgage rates are unlikely to persist. The RBNZ has recently increased their projected path of monetary tightening, projecting their cash rates to increase to 3.4% by 2024.

ANZ is predicting the RBA to following suit, increasing Australian cash rates to 2% by the end of 2022. Holding mortgage budgets constant, a concomitant increase in mortgages rates would blow out the mortgage repayment schedule to 58 years.

Buying a house in December 2020 – median dwelling price $633,160 (Calculated less 20% deposit)




Buying a house in December 2021- median dwelling price $883,384 (Calculated less 20% deposit)




| Sale date | Median Dwelling increase (1 year %) | Median Dwelling Price $ | Max Mortgage budget - $2,800 per month | Total payback $ |
|---|---|---|---|---|
| December 2020 | | $633,165 | 20 year payback | $637,691 |
| December 2021 | 39.85 % | $883,384 | 30 year payback | $990,756 |
| | | | Additional Payments | $353,065 |

Countering this challenge and creating greater certainty in affordability, our 36 CHP Members provide 75,000 social and affordable homes to 125,000 people nationally. These homes are provided at 25% of a tenant's income for social rents or at 75% of the market rate. Whilst the median rents may have increased in your electorate, our tenants will not see such significant rises in median rents, as we keep a realistic rent in place for those that need this.

# Appendix 5: Property Transfer Best Practice (Feb 2022)

## Property Transfers to Community Housing Providers

As noted in the Report on Government Services, in addition to dwelling condition, tenant satisfaction has also declined since 2018 with the with the proportion of tenants 'satisfied' or 'very satisfied' declining in public housing, SOMIH and community housing. Nationally, community housing maintains a 4.5% higher rating over public housing.

There tends to be better tenant outcomes and less stigma when tenants are supported by a CHP rather than a state government service. Houses managed by CHPs tend to have better maintenance and households tend to receive more wrap around services and supports, which holistically enhance tenant satisfaction and wellbeing across numerous domains (e.g. physical, psychological and social). The number of community housing dwellings have more than doubled between 2008-09 and 2017-18 from 39,800 to 87,800 dwellings, while public housing decreased by 20,000 in the same period.

Total CHP homes sit at over 100,000 dwellings developed from innovative and pragmatic partnerships.

Property transfer, also known as stock transfer, involves the transfer of management and/or title of public housing property to CHPs. Across Australia there has been a significant program of property transfer undertaken with states having previously committed to transferring 25% of all public housing across to the Community Housing Provider management.

Over the past decade there has been significant transfer of property to CHP providers from the South Australian, New South Wales and Tasmanian Governments. Tasmania has over 11,000 social housing dwellings with around half of these homes under CHP management, with more on the way.

Property transfer programs such as NSW Family and Community Services transferring the tenancy management of around 14,000 social housing tenancies to community housing providers, of which around 11,000 are to be managed by PowerHousing Members, has also contributed to CHP growth over recent times. As CHPs continue to work in partnership with all levels of government and the wider private sector, the community housing sector is destined to see greater expansion to help house more Australians.

In some cases, the tenancies have a long-term tenant lease and in others the title is transferred to the CHP. A long-term lease for over 15-20 years or a simple title transfer allows for leveraging of the asset and provides an ability to increase the supply of social and affordable dwellings.

With opportunity to renovate transferred properties, these homes can be revitalised to have greater energy efficiency through implementing solar and glazing insulation. Further opportunity for density bonuses, similar to those seen in Tasmania, would be an appropriate incentivisation for property transfers as more housing can be built on the site.

In other cases, there is the opportunity to knock down to create additional dwellings. An ageing home on a large flat lot on commuter routes can see the old home redeveloped to have three brand new environmentally efficient, universally designed homes with options for increasing public housing and new social and affordable housing as a result.

As a revision to the current NHHA, there is opportunity to consider property transfer as a crucial approach to expanding social housing supply and ensuring best practice management of homes into the future.

## PowerHousing's Members Experience with Property Transfer

PowerHousing has continued to review our Member's experience of property transfer over the preceding years. PowerHousing previously commissioned AHURI to investigate property transfers. The result was the [2017 Inquiry into property transfer methodologies report](). Following this report and building on a brief 2020 survey, PowerHousing and its Members have been conducting a broader survey of our experiences with property transfer. PowerHousing is creating a at Property Transfer Report to detail these outcomes.

**Table 1: PowerHousing Members Transferred Properties**

| | No. | % |
|---|---|---|
| Total No. of Transferred Properties | 16,321 | - |
| Total No. of Management Transfers | 15,174 | 93% |
| Total No. of Asset Transfers | 1147 | 7% |

The preliminary results of PowerHousing's Property Transfer Report include some important insights on the outcomes of property transfers. Our current data includes information from ten of our members from South Australia, New South Wales and Tasmania. The data covers 16,321 transferred properties, a considerable proportion of the total number of properties transferred over the past decade.

The vast majority of the transferred properties (93%) are management transfers rather than asset transfers (7%). Management transfers are usually long-term management agreements with the states (Chart 1) for CHPs to operate public housing stock instead of the public housing authority. Most members agree that these arrangements provide long-term financial certainty and an ability to leverage an income base to create new housing supply. However, asset transfers are generally considered more favourable to CHPs as they allow greater retrofit and redevelopment of old housing stock. Asset transfers are only a small portion of property transfers (7%) and increasing this amount could substantially increase the development capacity of CHPs.

Chart 1: Property Transfer Tenure

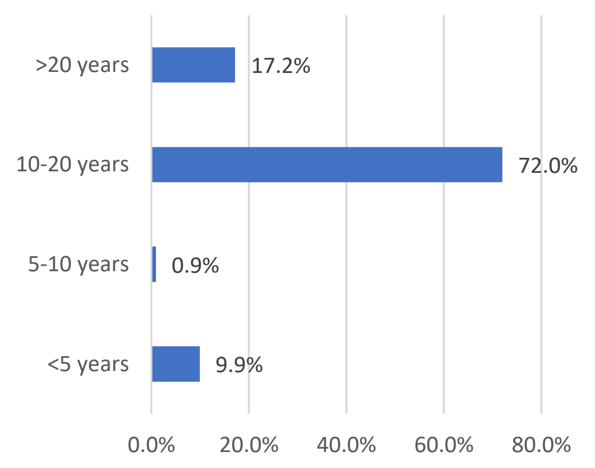
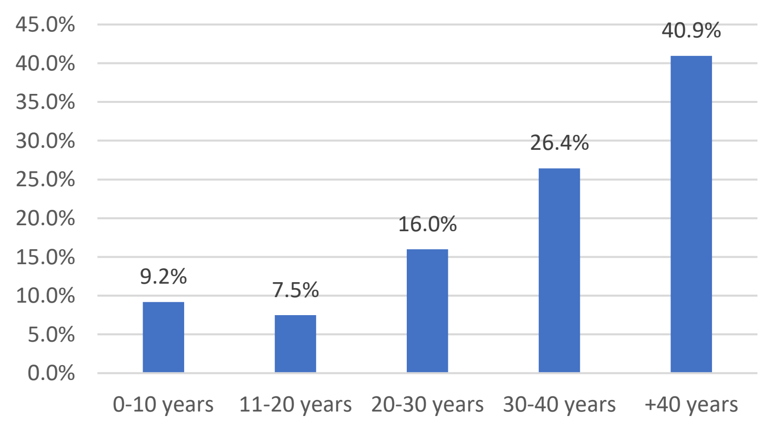
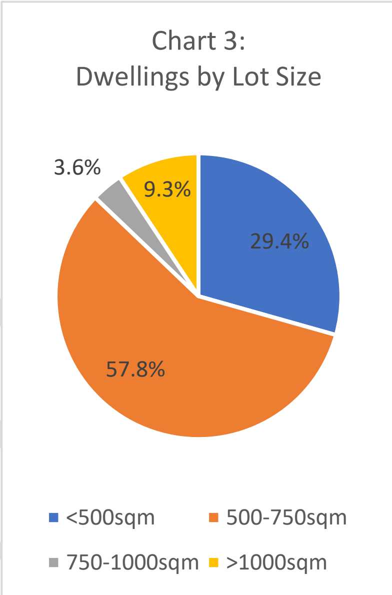



Chart 2: Transferred Properties by Age




One challenge faced by CHPs when dealing with transferred properties is the age profile of the housing stock. Much of the transferred stock is of considerable age. Our survey indicated the average age of transferred stock was 40 years old. Chart 2 provides a breakdown of transferred properties by age cohort.

Old housing stock poses a variety of challenges including age related decay, outdated building standards, poor land utilisation, limited accessibility and increasing maintenance costs. For instance, Australia did not adopt compulsory 4-star Nationwide House Energy Rating Scheme (NatHERS) ratings into the national construction code until 2003. From our survey 83.4% of transferred stock was construction before the institution of 4-star NatHERs ratings. This means that the vast majority of transferred property has poor energy efficiency, increasing energy costs and decreasing tenant satisfaction.




The maintenance costs of old housing are considerable. The average maintenance backlog of transferred properties is ~$11,500. This is not necessarily accurate as estimates are provided by state authorities before the property has been transferred. CHPs have been dealing with cases where the estimated backlog of maintenance is a considerable underestimation of the true backlog. Aside from backlog maintenance, our CHPs estimate that a transferred property costs an additional $1,780 per annum in ongoing maintenance costs as compared to a new build property. Most common maintenance repairs come from plumbing and electrical issues. These issues are part of the fabric of the building and are difficult to rectify.

Retrofitting or rebuilding these properties can bypass the need to deal maintenance backlogs and reduce the ongoing maintenance costs. It also offers an opportunity to deal with the other issues with old housing stock. Very few properties are built to accessibility standard. Only 568 (3.5%) transferred properties are built to Livable Housing Guidelines or an equivalent. Livable Housing Guidelines have recently been adopted into the national construction code; all new builds would be built with accessibility in mind.

Further, old housing stock tends to have poor land utilisation with small/single-family dwellings built onto large lots. From our survey, 70.6% of transferred property sits on lots larger than 500sqm. For context, the UDIA combined capital cities annual median lot size was 420sqm in 2020. Redeveloping these larger lots in line with modern standards could substantially increase the supply of social and affordable housing, as well as improving accessibility, and comfort.