

HOUSING AUSTRALIA FUTURE FUND

More homes.
Better homes.
Now and into the future

DISCUSSION PAPER



Community Housing
INDUSTRY ASSOCIATION

JULY 2023

Acknowledgement of Country

CHIA acknowledges the Traditional Owners of country throughout Australia and recognises their continuing connection to land, waters and community. We pay our respects to them and their cultures, and to elders past, present and emerging.

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CEO letter

The Housing Australia Future Fund (HAFF) is a welcome investment that will provide homes to some of Australia's most vulnerable. However, we know that the number of people in need of social and affordable housing far exceeds the number of homes being delivered through the HAFF. As such, it is crucial that we see this HAFF investment as more than just a five-year commitment to 30,000 homes. Rather, the HAFF is the next step in the growth of the community housing sector that, if done correctly, will allow us to increasingly meet this chronic need with a decreasing reliance on government support.

The Community Housing Industry Association of Australia represents over 160 community housing organisations across Australia. Through consultation with our members, we have identified the key aspects of the HAFF policy design and delivery that should be considered by the Commonwealth as it finalises the required legislation, investment mandate and policy parameters. This discussion paper elaborates on these key policy design and delivery considerations.

A clear theme to emerge is that investing in social and affordable housing delivery through the not-for-profit community housing sector is an incredibly safe investment for the Commonwealth government, that will deliver a significant community impact. Every dollar invested in the sector stays in the sector, and compounds to deliver more and more houses for vulnerable Australians.

A second theme was the steps that could be taken to maximise the long-term returns of the HAFF investment. Namely, all investments made from the HAFF need to stay in the sector in perpetuity. Community housing organisations need to own the social and affordable houses, not just manage them on behalf of others. Transparency in the rollout and tracking of the HAFF funding is also paramount.

Finally, our community housing organisations have the demonstrated capacity and capability to deliver the 30,000 homes required through HAFF. Furthermore, investment in 30,000 homes with CHOs holding the equity over the next 5 years, combined with meaningful land release by state and territory governments, compounds to the potential delivery of an additional homes into the future.

As a sector, we believe that the HAFF can not only start to address the immediate need for affordable housing, but also shape the sustainable, long-term solution. This opportunity is realised by careful design and delivering the HAFF with CHOs around the table as the primary partner.

WENDY HAYHURST | CEO

Key findings

To maximise the long-term returns from the Commonwealth's Housing Australia Future Fund (HAFF) investment, the following 11 themes need to be factored into the policy design and delivery.

1. HAFF should be framed against a **chronic, historic undersupply** of social and affordable housing. Community Housing Organisations (CHOs) are the key mechanisms to address current and future undersupply. This role for CHOs has already been embedded through past sector reforms that commenced in 2009. The HAFF needs to be seen as the next step in further reducing government and funding barriers that hinders the sectors delivery of social and affordable housing.
2. The **community housing sector's delivery capacity** is demonstrated and substantial, with analysis of the CHO pipeline confirming that the sector can deliver the required 30,000 homes over the next five years. The sector is also diverse, with different segments likely to play differing roles in meeting the goals of HAFF, from rapidly delivering large volumes of stock in key metro areas through to meeting the needs of niche cohorts and regional and rural areas.
3. The **HAFF program design and funding criteria** will be critical to success. Program design and criteria should not be finalised without the sector being given opportunity to review and respond.
4. **Equity and asset ownership** is critical to CHOs – and makes exponential and ongoing CHO expansion from HAFF funding possible.
5. HAFF investment in social and affordable housing stock needs to remain in the sector for **perpetuity**. While the actual stock delivered may be reconfigured and recycled over time, the equity delivered through the HAFF needs to remain.
6. **Capex is required** to kickstart projects, either from HAFF funds, state and territory contributions, direct investment from institutional funds or a Commonwealth facilitated "aggregator mechanism" to provide industry wide access to institutional investment. Availability payment structuring does not necessarily overcome this capital constraint and potentially carries higher transaction costs.
7. **Demand/needs analysis** is required to prioritise HAFF funding, and balance profile and priorities across the program five-year rollout. CHOs need certainty so they can prepare to bring the best solutions forward to government, at the appropriate time.

8. A simple, **ongoing pipeline approach to procurement**, where a project is submitted once and then can be refined and tweaked in consultation with the National Housing Finance and Investment Corporation (NHFIC), will deliver better outcomes than multiple win/lose tender rounds.
9. **Transparency and program governance is critical** to getting the most out of HAFF – and improving learning and capacity to parts of the CHO sector. Six-monthly pipeline updates are required and a mid-program review in year 2 is recommended.
10. CHOs have insights about how to maximise outcomes/minimise risks of any '**Rapid Funding Round**' – they have been through such tenders before and know the opportunities, risks and pitfalls of such a process.
11. Projects need to be evaluated on a **whole-of-life basis** – they cannot be a race-to-the bottom where the lowest government subsidy wins, as this would have a material impact on the organisations' ongoing financial sustainability and/or the quality of homes and tenant services provided.
12. State and territory engagement and support of CHOs is uneven. However, the potential to use the HAFF funding to **incentivise state and territory** land-release, streamlining of their planning systems, coordination of different housing programs and better alignment of regulatory frameworks will increase the ease, and reduce the cost, of delivering social and affordable homes.

What are Community Housing Organisation?

Community housing organisations are not-for-profit providers with a primary mission to deliver social, affordable and secure housing to individuals and families in need. They are regulated under at least one of the state or territory social and affordable housing regulatory regimes.

Case study: CHL

Community Housing Ltd (CHL) operates in six Australian states and five overseas countries. Currently, CHL has almost 11,200 properties under management in Australia, underscoring its substantial footprint in the community housing sector.

Between 2017 and 2021, CHL delivered or integrated 5,077 homes into its portfolio, equating to an impressive delivery rate of 1,000 homes each year. CHL's customer group is highly diverse, including 18% Aboriginal and Torres Strait Islander individuals, 11% living with a disability, and 17% aged over 65.

CHL is trusted by state governments across Australia. These governments use CHL to effectively manage state owned social housing stock and deliver new housing stock at scale. Over 3,300 dwellings have been transferred to CHL in Tasmania, South Australia, and NSW in the past decade.

Furthermore, CHL possesses specialist expertise in the design and construction of affordable housing in accessible locations, catering to a full spectrum of households.

Recently, CHL was awarded the rights through the Victorian Ground Lease Model 1 program to build 1,110 new dwellings across three locations. These new homes will be a blend of social, affordable, market, and Specialist Disability Accommodation (SDA) homes. In a demonstration of successful partnership, CHL collaborated with the private sector to finance, design, construct, manage, and maintain these new homes in Brighton, Flemington, and Prahran across a 40-year concession.



Case study: Bridge Housing

Bridge Housing, a large Tier 1 CHO based in Inner Sydney, manages nearly 4,000 properties, providing homes for over 5,600 residents.

Bridge Housing is leading the landmark development at 600 Elizabeth Street in Redfern, Sydney. The New South Wales Government has appointed Bridge Housing as the lead developer for this project, a pioneering move that expands the typical management role of CHOs.

Dedicated to creating sustainable, long-term affordable housing, Bridge Housing is committed to preserving and celebrating Redfern's rich history and culture. The transformative project will deliver over 300 homes, with 70% allocated for community housing and the remaining 30% earmarked for private market sales.

The housing mix for this project will feature 100 social homes, 40 affordable homes, 80 homes for key workers, 11 specialized homes for people with disabilities, and 100 market homes. Additionally, there will be 3,500 square metres of community space, further enhancing the quality of life for residents.

With the support of the Housing Affordability Fund (HAFF), Bridge Housing could potentially retain up to 100% of the properties at the Redfern site for community housing purposes.

This project demonstrates collaborative efforts between community housing providers, government, institutional investors, and the private sector.



1. Introduction

Australia experiences a shortfall in social and affordable housing. Waiting lists in all jurisdictions far exceed current social and affordable stock, as well as the planned pipeline. This shortfall is expected to increase to over 700,000 dwellings by 2036. However, sector-wide reform is already underway and producing results, with more homes being delivered and better services being provided to tenants.

Against this backdrop the HAFF is not just about delivering the announced 30,000 homes. Rather, it is the next phase of sector strengthening reform that ensures the next 30,000 homes, and the 30,000 after that, are delivered with increasing speed and efficiency, and a decreasing reliance on government funding and financing.

1.1 The large and growing demand for social and affordable housing

In Australia, there is a structural deficit in housing stock, negatively impacting housing affordability for low to middle-income earners. The Australian Housing and Urban Research Institute (AHURI) estimates that an additional 727,300 social housing dwellings are required by 2036, costing the economy up to \$1.286 billion in lost social and economic benefits.¹ Other studies based on 2021 Census results indicate that there are currently over 640,000 lower income Australian households whose housing needs are not being met. This figure is expected to climb to 940,000 households with unmet

housing needs by 2041.² Quite simply, neither current nor future demand for social and affordable housing can be met under the current policy settings, industry structures and financing mechanisms.

Sector-wide reform is already underway to move towards a policy, industry and financing environment that can meet demand for social and affordable housing. The HAFF is the next important step in this reform that began in 2009 (see below). This process has been pursued collectively by governments across Australia with the CHO sector. It borrows from lessons overseas in moving the sector towards one where increasing volumes of social and affordable housing supply can be delivered with

¹ Nygaard, A (2022), Cost of Inaction: Social and economic losses due to the social and affordable housing shortage, Swinburne University of Technology.

² Van den Nouwelant, R., Troy, L., Soundararaj, B., (2022), Quantifying Australia's unmet housing need, University of NSW and University of Sydney for the Community Housing Industry Association.

decreasing reliance on government support, while keeping the interests of the tenants central.

1.2 Phase 1 – strengthening the sector

The initial phase of this reform program had two goals. First, it was designed to increase the scale and efficiency of CHOs in managing and delivering social and affordable housing stock. Second, it provided a mechanism for CHOs to strengthen their balance sheets to allow investment in

additional new stock with decreasing levels of government financial support.

This process commenced in 2009. As part of the broader Nation Building Economic Stimulus Plan that responded to the Global Financial Crisis, the Commonwealth, states and territories agreed to expand the role of the CHO sector through the commitment to social housing stock transfer (both transfer of the title and entering into longer-term management arrangements). In addition to over \$5 billion in new Commonwealth funding for social housing stock and maintenance of

CHO sector investment is very low risk to government and delivers very high social returns

Government investment in the not-for-profit CHO sector stays in the sector. Any operating surplus the sector generates through the development and management of homes is recycled into the delivery of more social and affordable homes. The stronger the CHO sector becomes, the less financial support it needs from government to deliver and manage social and affordable homes.

Based on recent experience, both in housing policy and other policy areas, the Commonwealth needs to be aware of potential HAFF funding leakage through two channels:

- ▶ Investing directly into the private sector means that operating surplus (i.e., profits) leave the sector in the forms of dividends to shareholders (including offshore investors), or through high executive salaries and bonus policies, as opposed to compounding into the delivery of more social and affordable homes.
- ▶ Over-reliance on state and territory government funding channels for HAFF can increase administration and transaction costs, delay delivery and potentially reduce accountability. This situation can lead to uneven outcomes for people depending on their state or territory's commitment to the sector, as witnessed by the different approaches states and territories have taken following the 2009 reform process, and the impact this has had on their current social and affordable housing delivery capability.

Avoiding this leakage of HAFF funding means more homes can be delivered and the outcomes of the HAFF remain closely aligned to its social and policy intent.

existing housing stock, the Nation Building program sought to encourage the transfer of housing stock to the not-for-profit sector. The proportion of stock to be owned and managed by the not-for-profit sector was negotiated with each jurisdiction.³

Following the completion of the Nation Building program, stock transfer programs in states and territories have evolved in different ways and at different speeds. The current strength, depth and breadth of the local sectors reflects the extent to which this first wave of reform has been continued at a jurisdictional level.

1.3 Phase 2 – funding for the future

The HAFF marks the critical second phase of this longer-term reform. Building on the scale, efficiency and strengthened balance sheets that resulted from phase 1, the HAFF injects further equity into the sector in a way that can match the project financing needs of CHOs with investment mandates of institutional investors.

Internationally, the ability of institutional investors, like superannuation and pension funds who seek long-term, stable returns, to invest in the sector has led to steady increases in housing stock while reducing the impost on government for financing support.

³ Murray, S, Bertram, N, Khor, L, Rowe, D, Meyer, B, Newton, P, Glackin, S, Alves, T and McGauran, R (2013) Design innovations delivered under the Nation Building Economic Stimulus Plan—Social Housing Initiative, AHURI

In Australia there is also demand from institutional investors, CHOs and governments. However, matching the size, regularity and returns on investment that institutions need, with the size and pipeline of local CHO projects has been a challenge.

Further regulatory reforms and investment in the sector will be required in the medium to longer term to realise the intended sector-wide changes and deliver houses to meet community needs and demand.

1.4 Structure of this report

Against this backdrop, CHIA has consulted widely with its state and territory bodies, and over 60 of its members, to identify the critical elements of HAFF design and delivery that will maximise the long-term impacts on the social and affordable housing sector and ultimately the number of houses delivered to the community. These elements are discussed in the following chapters:

2. Perpetuity, equity and capital
3. Sector profile and capacity
4. Addressing the areas of greatest demand
5. Procurement considerations

The role of states and territory governments

Positioning Paper No.155. Melbourne: Australian Housing and Urban Research Institute; and Housing Ministers Council, 2009

Case Study: Foundation Housing

Foundation Housing, a leading provider of social housing, currently manages a diverse portfolio of over 2,000 units, housing more than 3,500 tenants. 95% of these units are committed to social housing. The firm's property assets are valued at approximately \$250 million, in addition to which it oversees the management of another \$750 million worth of housing.

Foundation Housing's expansive portfolio is primarily situated in Perth, extending across the Pilbara and Kimberley regions.

Among the notable properties under Foundation Housing's management is the Ley Street property in Como. This property, an 18-unit complex spanning a 4,000 sqm block, is slated for significant redevelopment. The existing complex will be demolished, making way for the construction of 121 new apartments in its place. These apartments will be a blend of social and affordable housing. Development plans were approved in February 2022, with an indicative cost estimated of \$80 million.

In addition to the Ley Street project, Foundation Housing has also been shortlisted for four sites through the Housing Diversity Pipeline, which will potentially add about 230 apartments to their portfolio. These projects will primarily be social housing developments, necessitating substantial contributions from the State Government. Foundation Housing is currently in the process of working out commercial arrangements with Development WA.



Case Study: Southern Cross Community Housing

Southern Cross Community Housing (SCCH), a Tier 1 CHO, operates predominantly along the New South Wales South Coast, extending from the Illawarra to the Victorian border and inland to Jindabyne. The organisation manages a portfolio of 2,400 assets and anticipates the development of up to 500 new dwellings across multiple regional New South Wales centres, including Shoalhaven, Eurobodalla, Bega Valley, and Snowy Monaro Local Government Areas.

One of SCCH's significant projects is the redevelopment of an 8.6-hectare site at Bomaderry, set to yield 250-300 new dwellings. This new community precinct will be a mix of social and affordable housing, market housing, and independent living units. The site will also feature a medical centre, childcare facilities, offices, and social enterprise businesses, creating a holistic and integrated community. This ambitious project is being facilitated with the support of EG Funds Management, a private sector partner.

Should support be granted by the Housing Affordability Fund (HAFF), the volume of housing that SCCH can retain for community housing usages at the Bomaderry site could significantly increase, accelerating project completion and the supply of these homes.

The new housing at Bomaderry is set to play a vital role in SCCH's portfolio reconfiguration program. It will facilitate the redevelopment of SCCH's current public housing portfolio in partnership with NSW Land and Housing Corporation (LAHC), thereby realigning existing, dilapidated stock. The development of new, fit-for-purpose homes will cater to the needs of existing tenants, allowing ageing or inadequate housing to be renewed and made available to new tenants.



2. Perpetuity, equity and capital

Investments from the HAFF need to remain in the community housing sector in perpetuity. Capital contributions and ownership of assets are the other two crucial ingredients to maximise the long-term strength and success of the sector. Together, perpetuity, equity and capital will guarantee the social and economic returns from HAFF are maximised and the CHO sector can increasingly deliver social and affordable housing stock with decreasing levels of government financial support.

2.1 Perpetuity means more homes

HAFF investment in social and affordable housing stock needs to remain in the sector to meet long-term community need. While the actual housing stock delivered may be reconfigured and recycled over time, the equity delivered through the HAFF needs to remain. Clarity will be required from NHFIC on how this perpetuity requirements sits alongside different financing and delivery models with multiple partners (e.g. special purpose vehicles and trust structures).

Short-term boosts to stock, like those delivered through the National Rental Affordability Scheme (NRAS), can offer good temporary relief but do not provide a long-term solution. Nor do they strengthen the sector, as benefits flow to private investors.

Similarly, affordable build-to-rent developments that have recently emerged are based on an assumed asset holding period of 10 to 15 years, upon which time the assets will be divested and a capital gain realised. The capital gain is required to make these models financially viable and while

providing a good shorter-term supply solution, it does not solve the long-term shortage.

2.2 Equity means more homes

CHO ownership of social and community housing is a critical to the sector. A strong, sustainable CHO sector rests on the equity within the sector and its providers.

The management of properties by CHOs on behalf of others delivers improved tenant outcomes and can generate operating efficiencies through scale and not-for-profit status. However, management on behalf of others does not provide equity for CHOs to borrow against to deliver more social and affordable dwellings. This leads to a position where many CHOs can deliver more dwellings but are constrained by the level of equity on their balance sheet.

HAFF investment in social and community housing with a CHO managing the asset will result in just one new home. The same level of HAFF investment in social and community housing where the CHO is both the owner

and manager will deliver and keep more properties within the sector.

2.3 Capital constraints hinder CHOs

CHOs' ability to develop and expand their housing stock is often constrained by their low cash flow business model. This model means they lack the capital to fund new developments.

This capital constraint is overcome when CHOs own the housing assets they manage as it allows them to responsibly borrow against these assets. However, large parts of the CHO sector are also equity constrained, most notably those that have not received title stock transfer from state and territory governments.

2.4 Use of debt

Social and community housing is an important social asset that provides affordable housing options for those in need. However, it is important to note that these properties cannot generate the same rental returns as market properties, even with historical government subsidies.

In addition to the lower rental returns, there are ongoing maintenance and operational costs associated with managing social and affordable housing. Combined with the need to ensure the long-term viability of CHOs across all interest rate market cycles, this means there is limited availability to use leverage to support developments within the

sector when compared to other sectors within the property industry.

Despite these challenges, some CHOs have been able to secure debt to support their purchases and development, largely due to government subsidies. However, other CHOs have been unable to do so due to their strategic and operating mandates. Overall, it is important to find a balance between ensuring the long-term financial sustainability of CHOs, maximising development opportunities while still providing affordable housing options.

2.5 HAFF subsidy mechanism

The nature of the support provided through the HAFF directly influences CHOs' ability to overcome equity and capital constraints. Two mechanisms of support were identified. Under these models, it is critical for the CHO to own the assets to maximise the returns from the HAFF and ensure the longer-term strength of the sector.

- **Capital grant or payment.** This up-front capital can help offset the construction costs and pay down debt, and is the more traditional method that governments have used to support the sector. Within the context of the HAFF, there is also the opportunity for the Commonwealth to act as the intermediary between institutional investors and CHOs. This role would facilitate the flow of institutional capital into the sector, at

a lower cost of capital, with the potential mechanics of this aggregator mechanism explored in past work undertaken by CHIA and its partners.⁴

- **Availability payment.** This annual payment, potentially running for up to 25 years, is used to pay down debt and support ongoing maintenance costs. Within this context, the government contribution can help 'top-up' the smaller annual returns from social and affordable rentals, making projects viable and providing confidence to lenders and investors.

From a CHO perspective, three things are important to note:

- Many CHOs require up-front capital grants to make projects financially viable. Availability payments do not necessarily negate this capital requirement.
- The consistency of returns delivered through an availability payment can be important to attracting institutional investors to invest in the sector.
- The structuring of availability payments is more complex than capital grants. CHOs have a fairly basic business model, which is

relatively consistent across the sector. Care should be taken to avoid adding unnecessary financing complexity to the HAFF, as this results in inefficient rollout of the project, project delays, and leakages of HAFF funding to specialist advisers and away from the sector and delivery of housing.

The considerations above demonstrate that the most appropriate forms of support differ on a CHO-to-CHO, project-to-project basis. Hence, a degree of flexibility in how the HAFF dividends are used to deliver social and affordable housing is warranted. The HAFF dividends mechanism (as specified in draft legislation) has the potential to accommodate this flexibility, with early returns used for capital grants prior to the need for the availability payments kicks in upon completion of construction. The introduction of an aggregation vehicle alongside HAFF funding would further increase flexibility.

If the Commonwealth decides to focus primarily on one mechanism (for example availability payments), then the Commonwealth could seek delivery of complementary capital grants from states and territories to reflect the partnership ethos captured in the Housing Accord and HAFF investment.

⁴ Housing Boost Aggregator (2021), The Constellation Project and funding partners. [Link](#)

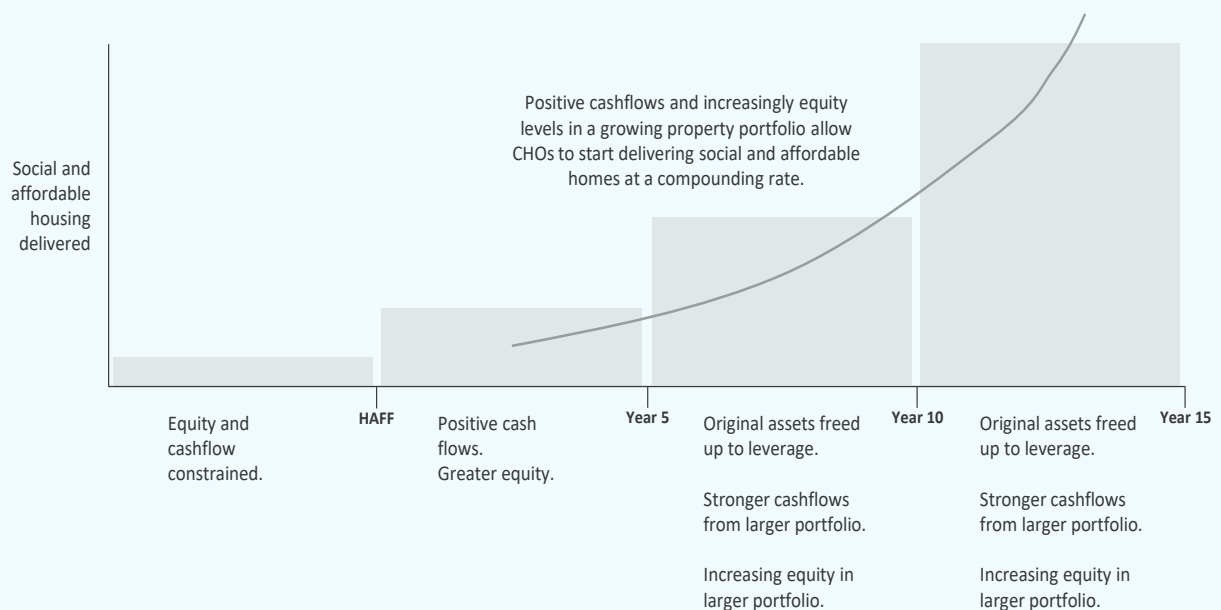
The HAFF flywheel potential

The 'flywheel' effect asserts that small decisions made about the design and delivery of HAFF can have major implications on the longer-term ability of the CHO sector to effectively meet Australia's social and affordable housing crisis.

The flywheel is a powerful metaphor for the compounding effect that incremental asset ownership and capital strengthening decisions have on the sustained growth, sustainability and effectiveness of the sector. In essence, the flywheel represents the process of building momentum through a series of consistent, interconnected reforms and decisions that compound over time, ultimately driving exponential capacity of the sector to meet Australia's social and affordable housing need.

In the UK, the flywheel effect has become increasingly evident within the community housing sector, because of the compounding effect of successive reforms, stock transfers and investment. From the late 1980s, the UK Government initiated a series of large-scale voluntary stock transfers of over one million homes from local authorities to community housing providers. The sector has grown substantially because of these transfers and the increased involvement of providers in delivering community housing supply. By 2022, housing associations were responsible for managing approximately 2.6 million homes in the UK. Between 2011 and 2021, providers had built around 300,000 homes, accounting for almost one-third of all new housing in the UK during that period.

Within the context of HAFF, the ability to provide an initial capital injection, equity and ownership of the assets, and positive cashflows across the first five years are the actions which start to build momentum. In turn, the positive cashflows and equity strengthens balance sheets. The stronger balance sheets provide the capital (or ability to borrow against their equity) to then deliver supply that CHOs own at increasingly faster rates, which further strengthens cashflows and their balance sheet etc.



Case Study: Cornerstone Housing

Cornerstone Housing Ltd is a CHP that manages nearly 700 properties within metropolitan Adelaide and regional South Australia.

Cornerstone has a deep pipeline of potential projects in which the proportion of social and affordable housing could be significantly boosted through HAFF. For example, Cornerstone is involved in a 550-unit development with current take-out of 19 units (i.e., 19 units for social and affordable housing). With HAFF support, this take-out could increase to 150 dwellings for social and affordable housing.

There are a further 3 projects in which Cornerstone is participating which will deliver a total of 1,600 new dwellings. Without HAFF Cornerstone take-out will be around 2% for social and affordable housing. HAFF could significantly increase this to around 15%.

Cornerstone also has a portfolio renewal and uplift program which includes a rolling 3–5-year development plan based on surplus property disposal to fund new developments. It will double in size from 80 to 160 units – but this could rise to 300 plus units with support from HAFF to reduce the need for disposals.



3. Sector profile and capacity: delivering the next 30,000 homes

The long-term success of HAFF requires a genuine partnership with the sector. Consultation across CHIA's members confirms a strong pipeline of opportunities which can help deliver the *first* 30,000 homes required under HAFF in the next 5 years.

The diversity of the community housing sector is one of its strengths. This diversity ensures coverage across Australia, catering for the housing needs of different cohorts. Within the context of HAFF, different parts of the sector will play different roles. Tier 1 providers are best placed to rapidly deliver large volumes of housing stock in metro areas. Tier 2 providers play an important role in meeting the acute needs of niche cohorts and delivering stock in regional and rural locations.

3.1 Sector pipeline

Prior to the announcement of the HAFF, CHIA tracking of the sector pipeline identified approximately 6,000 dwellings that were either under construction or had approved development applications. It is noted that this figure was smaller than previous years due to COVID-19 related delays and the conclusion of certain state-based programs. This figure also reflects the absence of any national

supply funding or programs.⁵ The Commonwealth should ensure that its target of 30,000 social and affordable dwellings to be delivered through the HAFF (and additional 10,000 delivered through the Housing Accord) is on-top of this existing pipeline.

CHIA commissioned a subsequent survey of members (May 2023) to understand the strength of the CHO pipeline within the context of HAFF funding and land released by state and territory governments.⁶ The results of the survey indicated that in addition to the 6,000 dwellings already in the pipeline:

- the sector has a pipeline of 30,000 social and affordable dwellings to be delivered over the next five years, subject to the appropriate funding through the HAFF being available.
- the sector's capacity to deliver far exceeds 30,000 social and affordable dwellings over the next five years if

⁵ Community Housing Industry Association (2023), Australia's Community Housing Industry in Profile: 2021. [Link](#).

⁶ Polis Partners (2023), survey undertaken for CHIA.

sufficient land is released by states and territories to complement the provision of HAFF funding.

The analysis of the sector pipeline reinforces the sectors capacity to deliver on the Government's HAFF ambitions. It also highlights the dual roles that addressing both funding and land constraints have on successful short, and long-term supply of social and affordable housing.

3.2 All CHOs have a role to play in HAFF delivery

3.2.1 Tier 1 providers (and equivalents)

Proportion of sector stock owned and managed: >83%⁷

Sector's net equity: 87%

Overview

Tier 1 providers (and their equivalents in Victoria and Western Australia) operate in all states and territories across Australia.

Together, they account for over 83% of the total stock owned and managed by the sector. Within this Tier 1 group, the largest five manage an estimated 31% of the total stock in the sector.

In addition to a deep commitment and expertise in the delivery and management of housing services (and in some cases other

wraparound services), these Tier 1 CHOs generally have in-house development teams, multi-year development pipelines, active partnerships with like-minded developers and institutional investors, sophisticated asset renewal plans and board-endorsed strategies for increasing the size of their portfolio to support more people in need. These organisations have experience in structuring and executing deals, both individually and as part of consortia, securing finance through varying channels, and can responsibly leverage their strengthening balance sheets to underpin the future delivery of housing stock with increasingly limited government support.

Role in HAFF

Tier 1 CHOs will be the quickest responders to HAFF and ensure larger volumes of stock are able to be delivered. Consultation indicated that there is capacity and pipeline within the Tier 1 and equivalent providers to deliver the 30,000 homes in the next 5 years.

Tier 1 providers also play a very important capacity building role within the sector. Successful teaming and partnerships, both within and across jurisdictions, have led to Tier 1 experience and capability, both in the development and at-scale management, flowing through to Tier 2 and Tier 3 CHOs. This collegial and constructive approach is a core

⁷ Key industry statistics are sourced from: Community Housing Industry Association (2023), Australia's Community Housing Industry in Profile: 2021. [Link](#).

strength of the sector which careful HAFF design can foster.

3.2.2 Tier 2 providers (and equivalents)

Proportion of sector stock owned and managed: circa. 15%

Overview

Tier 2 providers (and their Victorian and Western Australian equivalents) are medium-sized operations which, in broad terms, focus less on the development of housing stock and more on the management of this stock on behalf of government and others. As such, their expertise generally lies in tenant support, management of housing stock and often wraparound services.

Role in HAFF

The HAFF represents an opportunity for those Tier 2, with strategies to grow their stock under management, to strengthen their balance sheets and evolve into Tier 1 providers. This in turn will be an important contribution to meeting long-term social and affordable housing demand.

There are also many Tier 2 providers who are not seeking to increase their stock under management, gain development capability or leverage their balance sheet for growth. Rather, they aim to remain focused on serving demand from specific cohorts, and/or operate in specific locations where they are the only service providers. Both these situations see Tier 2 providers meeting some of the most acute demand from at-risk groups.

Therefore, these CHOs will play a critical role in the HAFF, ensuring that areas of highest demand are met, and all segments of the market are equitably served across metro, regional, rural and remote Australia.

3.2.3 Tier 3 providers

Proportion of sector stock owned and managed: circa. <2%

Overview

Tier 3 providers are much smaller CHOs, often owning or managing a handful of properties that are adjacent, or an adjunct to their broader social or community mission. Like Tier 2 providers, their focus is often on serving niche areas of housing demand, and/or providing services in a specific location.

Role in HAFF

Tier 3 CHOs are not generally looking to increase their stock ownership or management, nor would this segment of the sector be expected to meaningfully contribute towards the HAFF's 30,000 housing target. However, like some Tier 2 providers, their focus on meeting demand, often in very specific locations, could play an important role in helping HAFF funding flow to areas of greatest need.

3.3 Maximising the HAFF investment

There are several different ways that HAFF funding could be productively used to increase the supply of social and affordable houses in perpetuity, while also strengthening

the CHO sector. The variety is important as it means the manner and timing in which new social and affordable homes can be delivered differs. This will need to be factored into the design and delivery of the HAFF funds. The different mechanisms are discussed below.

- 1. Unlocking the viability of CHO-owned land (especially around faith-based and Indigenous landowners).** Many CHOs have land holdings which have not been translated into social and affordable housing due to funding and financing constraints and planning restrictions. The funding provided through HAFF can help overcome constraints and unlock this land. Complementary changes by states and territories could focus on zoning, simplification and streamlining of social and affordable housing approvals? to overcome this development constraint.
- 2. Increasing the proportion of social and affordable stock of mixed-use developments CHOs already have in their pipeline or are currently delivering.** One model CHOs use for the delivery of social and affordable housing is to cover the funding gap via the sale of dwellings in the same development to the general market. The profit achieved on these general market build-to-sell properties is then used to fund the social and affordable housing. Funding available through HAFF can immediately reduce the reliance on build-to-sell cross-

subsidisation, meaning a greater number of social and affordable homes can be delivered in the same development.

3. Partnering with government.

The nature and scale of state and territory government support for the local community housing sector differs substantially across Australia. The introduction of the HAFF, and the potential for state and territory governments to accelerate land release and streamline approvals, should provide an opportunity for CHOs to increasingly partner with state and territory government. Chapter 6 provides greater detail on these opportunities.

Increasingly, local governments are also transferring land to CHOs to deal with acute affordable and social housing needs in their community. Suitable sites are transferred to the CHO, who then secure the capital to deliver the housing by using their own balance sheet. They borrow against the land value, potentially cross-subsiding by also developing build-to-sell dwellings and sometimes, securing state government grants. The development is then delivered by the CHO, or in partnership with a developer, with the CHO operating the completed stock.

4. Partnering with developers to deliver social and affordable housing.

CHOs throughout Australia have a strong track record of partnering with developers. This

can be in the form of meeting planning requirements for a certain proportion of social and community dwellings in a new development, through to proactively acquiring a substantial number of their properties, either near completion or off the plan. The discount on properties secured through this model is often substantial given the scale of the purchase. The scale, and certainty of the partnership, also then supports the commercial viability of the project for the developer. This win-win relationship implies the CHO has helped underpin the financial viability of the development (and helped meet planning obligations), with the CHO then owning and managing social and community housing stock.

5. Purchasing stock. Where CHOs have the financial capacity, they have also successfully worked with developers to secure the purchase of normal and distressed stock. This model quickly increases social and affordable housing stock, represents good social and financial return on investment for the sector given the discounts that can be secured, and supports the developer in completing the project. Different stock and distressed stock purchase opportunities include:

- a. purchasing individual dwellings
- b. purchasing multiple units or homes in distressed developments

- c. increasing the number of units or homes already being purchased (as part of zoning requirements) in distressed developments
- d. purchasing distressed developments outright.

6. Portfolio reconfiguration

Portfolio configuration to benefit CHOs and housing recipients can be realised through two mechanisms:

1. More housing choice can provide CHOs with greater flexibility to allocate tenants to accommodation that meet their needs at any given time. For example, this could mean moving a single elderly person from a large existing CHO home to a newly built unit to allow a family to live in the house.
2. Reconfiguration of existing stock could include sales of older stock to reinvest in newer stock, and demolition and rebuilding to increase the number, and appropriateness, of dwellings on a site. Options also exist for land-swaps to aggregate and amalgamate adjoining sites, allowing for the delivery of more social and affordable homes.

There is a major risk if HAFF funding supports the tendency of both the private sector and state and territory governments to limit their use of CHOs to the management of social and affordable housing stock. Specifically, in

the case of the private sector, it risks the assets not remaining in the sector in perpetuity.

Limiting the role of CHOs also means the sector is not strengthened in a meaningful way through balance sheet improvements, undermining the longer-term reform agenda and ability to meet Australia's chronic undersupply. A simple management model would strengthen the private sector asset owners (which results in a leakage of HAFF funds through domestic and international shareholder returns and bonuses) and state and territory governments.

3.4 Building the capacity of the sector

Long-term capacity

Capacity in the sector is strengthened by providing the right opportunities through HAFF. Most important is the opportunity to own the stock. The second most important element is to ensure CHOs are managing increasingly large volumes of stock on behalf of states and territories.

No amount of secondary support by way of training, incentives etc. can compensate for conscious decisions made by government to constrain the sector by not providing the right asset ownership and management opportunities. The correlation between the strength of the sector in various jurisdictions, and the level of stock ownership (and to a lesser extent scale of stock management), is clear evidence of this. Where the government

settings are correct, the sector has grown, delivered an increasing number of social and affordable homes, and is delivering superior services and support to tenants.

Short-term capacity and HAFF success

Several shorter-term capacity building measures should be considered to maximise the participation and long-term returns from HAFF.

1. Clear communication and engagement.

The level and nature of engagement with CHOs by both the Commonwealth and state and territory governments differs dramatically. This is leading to confusion and frustration within the sector.

Notwithstanding the need to finalise the design and delivery details of the HAFF at the Commonwealth level, early engagement and consistent messaging allows the sector time to shape the funding package and prepare and respond in a manner that best meets Commonwealth aims. Engagement is not an opportunity for Commonwealth advisers to learn about the affordable and social housing sector. Credible policy settings and decision making should be informed by genuine consultation and open discussions with the appropriately qualified individuals and organisations.

At a state and territory level, some jurisdictions are actively working with CHOs to coordinate responses and maximise their chances of securing HAFF funding. In other jurisdictions, the engagement with CHOs has been limited

to non-existent. This disparity is likely to influence the effectiveness, efficiency and speed of housing supply, as well as the long-term strength of the CHO sector in that jurisdiction.

2. Education, tools and best practice material.

Given the variation of capability within the sector, education, tools and best practice materials will be required to ensure wider-spread participation.

Specifically, the sector has more limited experience with availability payment structures, project aggregation and potential securitisation simply because sector-wide funding and financing constraints have limited these opportunities. While the HAFF is the next important stage of reform that potentially overcomes these constraints and introduces these opportunities to the sector to help build its longer-term strength and capacity, this experience will not be widely available on day one. Maximising the long-term value of HAFF funding means ensuring that the sector can actively engage with the proposed support.

NHFIC should therefore consider educational material, a range of standardised templates and models, and targeted CHO guidance to support the proposed HAFF funding mechanism.

As a principle, CHOs should not need to engage specialist financial advisers and consultants to navigate the complexities of

the proposed funding and support mechanisms.

3. Intra-sector partnerships

The sector is very collegial, with CHOs already active in partnering, both across tiers and jurisdictions. This partnering has been organically driven from within the sector to respond to specific opportunities made possible by government policies.

Situations where government has actively tried to facilitate, or coordinate partnering/capacity building are much less effective. The government should focus on providing the opportunities and incentives, with the sector then responding with the partnerships that best respond to these opportunities.

Partnerships within the sector have been successful for the transfer of stock development, financing and tenant management capabilities between CHOs. Partnering has also played an important role in mitigating risks, with larger or more experienced CHOs able to provide the knowledge and guidance that allow smaller CHOs to take advantage of new opportunities in their locations, such as site development or stock transfer.

Specific actions that could be taken within the context of the HAFF to further support organic partnerships within the sector are discussed below.

- Expanding the scope and funding available through the NHFIC Capacity

Building Program to include partnering costs. CHOs identified that resource constraints were the biggest barrier to teaming, behind the lack of specific government opportunities in which partnering was required.

- Within the criteria used by NHFIC for prioritising funding, weighting could be given to those that demonstrate capacity building through partnerships at the project level. Incentivising partnerships through this mechanism should also then recognise and contribute to the cost of this partnership and sector-led capacity building (as noted in the point above).

4. Timing and signalling

Allow time to organise, partner and put forward developments. Rushing the process, or not providing clarity on the timing of opportunities, will mean these capacity building opportunities are lost. See Chapter 5 – Procurement Considerations, for more details.

Case Study: Brisbane Housing Company

Brisbane Housing Company (BHC), a registered Tier 1 CHO, proudly owns and manages 1,700 affordable housing properties.

BHC boasts the largest wholly owned, purpose-built affordable housing portfolio in Queensland and ranks among the largest in Australia. Since its establishment in 2002, BHC has developed over 1,800 homes in key growth locations. The organisation has successfully assisted more than 7,000 households in accessing safe, secure, and affordable housing. A significant 81% of its tenants are sourced through the Queensland Housing Register, underscoring its strong relationship with the local community. Among its major developments, BHC has executed several noteworthy projects including:

- ▶ Quadrant in Chermside, consisting of 84 dwellings that encompass 48 affordable housing units, 19 National Rental Affordability Scheme (NRAS) units, and 16 private apartments sold to the market.
- ▶ Richmond in Bowen Hills, featuring 107 dwellings. This includes 43 affordable housing units, 50 NRAS units, and 13 private apartments sold to the market.
- ▶ Cornwall Street in Woolloongabba, a complex of 32 dwellings comprising studio, one-bedroom, and two-bedroom units. This development includes 19 affordable housing units, 8 units for key workers, and 5 homes specifically tailored for young people, with support from the Brisbane Youth Service.
- ▶ Benson Place in Springwood, housing 35 affordable apartments, contributing significantly to the provision of accessible accommodation in the region.



Case Study: Believe Housing Australia

Believe Housing Australia, a nationally accredited Tier 1 CHO with over 20 years of experience, provides safe, secure, and affordable housing solutions for vulnerable Australians. Believe Housing owns or manages over 2,000 homes, supporting around 5,000 tenants, predominantly those with low incomes.

In the course of 2023, Believe Housing plans to release approximately 100 new social and affordable homes, in line with its mandate to increase access to quality housing for those in need.

Earlier this year, Believe Housing, in a collaborative project with the South Australian government, released an \$11 million social and affordable housing development at Woodville West. This development resulted in 30 new homes made available for young people, those over 55, individuals living with disabilities, and income earners who aren't eligible for community housing but qualify for affordable housing.

Believe Housing is also working on another \$11 million development project in Adelaide's south. Upon completion, this development will introduce 23 new social and affordable rentals in Panorama, featuring eight fully accessible apartments, and 10 townhouses set to be sold on the open market.

Furthermore, a \$14 million partnership project with the state government is slated for completion at Mansfield Park by the end of 2023. This development is set to make available 37 new social and affordable homes, further expanding Believe Housing's portfolio and impact.

Believe Housing Australia continues to leverage its experience and partnerships to provide crucial housing services to communities across the country. With these ongoing and upcoming projects, Believe Housing is solidifying its position as a leader in the provision of social and affordable housing and tenancy services.



4. Addressing the areas of greatest demand

Matching supply of social and affordable housing to the areas of greatest need is critical. Given the quantum of unmet demand far exceeds the 30,000 dwellings to be funded through the HAFF, prioritisation will need to occur. The principles, criteria and data used to prioritise demand needs to be clearly communicated to the CHO sector.

4.1 Prioritising social and affordable housing based on demand

The undersupply of social and affordable housing across Australia far exceeds the 30,000 homes that will be delivered through HAFF. Therefore, prioritisation of funding and projects will be required. Prioritisation should be guided by the **greatest community need**. Sitting below this principle are several practical considerations that need to be carefully weighed, and then communicated to the sector. These considerations include:

- ▶ **Acknowledging the complexities of demand:** Attempts to understand demand for social and affordable housing need to acknowledge and account for the complexities of demand. Overly simplistic approaches that focus solely on wait lists or population projections will not only understate total demand, but also fail to capture the needs of specific populations, cohorts and locations.
- ▶ **Defining affordable:** affordable housing needs to actually be affordable. There is a risk that an un-nuanced application of the 74.9% of market rent threshold means lower income workers in metro areas (who are not eligible for social housing) are still priced out of affordable housing. Section 5.4 elaborates on this.
- ▶ **Responsibility for demand assessment:** Clarifying whether the responsibility for assessing the demand and need for social housing in a particular area lies with the Commonwealth government, state government or the proponent is crucial. Ideally, a consistent set of demand parameters should be adopted across the HAFF, as opposed to differing levels of demand and need that would exist at a state and proponent level.
- ▶ **Jurisdictional perspective:** From a practical perspective, greatest community need will likely sit alongside a broadly fair distribution of

funding based on a per capita basis. Therefore, community need vs. equal distribution will have to account for areas that have lower per-capital representation but much higher representation in the acute social and affordable housing needs.

Specifically, regional and rural areas, as well as Indigenous Australian housing needs are two key areas where specific allocations within HAFF should be mandated.

- ▶ **Competitive element:** Similar Commonwealth funding mechanisms use a competitive element to incentivise state and territory contributions and increase the innovation of solutions. If this approach is adopted then communicating the process, criteria, tracking against targets, and transparency with the sector around what is and is not getting funded – and why, is crucial.
- ▶ **Identifying demand for sites:** Developing a methodology for selecting, checking and prioritising sites that make the most significant difference from an affordable and social housing perspective is essential. For example, prioritising sites that have development approval and are close to public transport and other community services.

- ▶ **The suitability of state and territory governments' land:** The benefit of state and territory land contributions is realised when this land is transferred to CHO ownership (equity) at a price that reflects the community and social benefit of this housing (as opposed to being priced according to highest and best use).

On top of the HAFF, onerous and inflexible design requirements, and additional jurisdictional based site procurement and tender mechanisms, reduce the value of these state and territory contributions, increases the cost of delivery and hinders the supply of social and affordable homes.

- ▶ **At-risk cohorts:** Clarity is required on how the provision of housing to domestic violence victims, veterans, older women and the Indigenous community will be prioritised and delivered under the HAFF.

4.2 Clear and consistent communication of priorities

Clarity on the Commonwealth priorities discussed above gives the CHO sector the parameters it needs to prepare and submit projects that best address government priorities. Clarity is also required on the timing of these priorities within the five-year period. While some major projects in urban areas may be shovel-ready and can be brought

forward immediately, the time taken to develop solutions in regional and rural areas, or solutions that target at-risks cohorts may take longer.

Three examples of this type of clarity and signalling from similar funding processes are detailed below.

1. **Targeted fundings priorities in different years.** For example, HA may be seeking to take advantage of current market conditions and use year 1 of the program to target prime sites in metro areas with existing development approvals, where large discounts to market can be secured and delivery can commence rapidly. Year 2 could be used to prioritise regional and rural locations. Year 3 may prioritise specific cohorts in need. An approach like this could allow Tier 1 CHOs to prioritise certain developments to bring forward in year 1, while allowing other CHOs to pull together projects targeted at specific locations and more niche cohorts in years 2 and 3.
2. **Consistent annual delivery across all five years.** This approach would see a consistent number of social and affordable homes delivered to specific cohorts in need each year, for five years, across metro, regional and rural locations.
3. **Identifying the quantum of the subsidy available.** Providing CHOs with an indication of the potential subsidy

ensures that CHOs bring forward projects that meet both expectations and funding envelopes. For example, in other programs the annual subsidy for affordable vs social housing can be gauged (often \$15K and \$20K respectively). Given the scope of the HAFF, the quantity of subsidy is less apparent, which limits the ability of CHOs to bring forward the most appropriate projects, and makes the NHFIC role of assessing projects next to one another much more difficult.

Across all these examples, providing clarity also makes the assessment role of NHFIC simpler and more efficient as it ensures appropriate project comparisons within the full spectrum of similar potential projects.

4.3 Ongoing program transparency

More broadly, transparency is critical for a program of this size and profile. The fact that the HAFF has the potential to cut across all levels of government, as well as the public, private and not-for-profit sectors further heightens the importance of this transparency.

Lessons from the JobKeeper review and the audit of various Commonwealth and state government grant funding programs have demonstrated the importance of transparently accounting for spending and maintaining public confidence in this policy space. For the rollout of HAFF, at a minimum,

six monthly updates should be made public.

These updates should cover:

- ▶ the number of funding submissions received
- ▶ successful applications, including the parties receiving the funding, number of dwellings to be delivered and quantum of funding
- ▶ tracking of the delivery of social and affordable homes, including numbers where contracts have been signed, construction has commenced and construction has been completed
- ▶ reporting on the total quantum of funding allocated, split between CHOs, state and territory governments, local governments and the private sector.

In addition to regular and transparent reporting, a program evaluation should be carried out after two years of HAFF. This should focus on the efficacy, effectiveness, and efficiency of the HAFF implementation and tracking against the stated policy goals. The findings of this review should be made public and be used to refine and improve the later years of funding delivery.

There are numerous benefits that can be realised by improving the transparency of the HAFF application and delivery process for CHOs. These benefits include:

- ▶ **Planning:** Improved transparency can also help CHOs to better understand where, what type and tenure of housing is required. This information can help CHOs to plan and prioritise their development efforts more effectively.
- ▶ **Learning and development:** By having greater visibility into the inputs and outcomes of the HAFF application process, CHOs can gain valuable insights into best practices and areas for improvement. This can help to drive ongoing learning and development within the sector.
- ▶ **Accountability:** Greater transparency can help to ensure accountability for all stakeholders involved in the process of delivering housing. This can help to ensure that the focus remains on delivering housing rather than just meeting contractual obligations.
- ▶ **Reduced bidding costs:** By improving transparency, the cost of bidding for HAFF funding can be reduced. This can ultimately result in more homes for people and less money spent on consultants.

Indigenous housing requirements from the HAF

The Victorian Aboriginal Housing and Homelessness Forum (VAHFF) submitted a response to the housing legislative package, which includes the establishment of the Housing Australia Future Fund and the National Housing Supply and Affordability Council. The VAHFF has highlighted the historical experience of Aboriginal dislocation, leading to sustained economic exclusion and a legacy of housing poverty and deprivation.

To achieve the goal of ending Aboriginal homelessness and housing exclusion in Victoria and across Australia, the VAHFF recommends several governance and delivery mechanisms, including:

- ▶ 10% of the Housing Australia Future Fund be dedicated to Aboriginal people
- ▶ two seats on the Council be designated for Aboriginal people with extensive experience and understanding of Aboriginal housing and homelessness issues
- ▶ develop a specific Aboriginal schedule of works to ensure that the impacts and outcomes of investments via the Housing Australia Future Fund are tracked, monitored and evaluated
- ▶ expand outreach programs such as More Than a Landlord to all Aboriginal renters in social housing across Australia
- ▶ support capacity building for Aboriginal organisations who want to become housing providers and identify opportunities across Australia for stock transfers as well as building new stock for Aboriginal housing providers to own, manage and leverage.

[drafting note – to be confirmed and revised with Rob Macfarlane]

Case Study: Housing Choices Australia (Tasmania)

Housing Choices Australia (HCA), a national CHO, currently manages over 7,400 dwellings across five Australian states. The housing portfolio managed by HCA is valued at over \$1.2 billion, representing a significant commitment to providing affordable housing across the nation. HCA is also a leading provider of Specialist Disability Accommodation in Australia.

Housing Choices Tasmania (HCT) is a subsidiary of HCA and is one of the major CHOs operating in Tasmania. At present, HCT manages 1,850 dwellings in Tasmania and maintains ownership of a further 300 dwellings. This expansive portfolio is a testament to HCA's dedication to the Tasmanian community.

One of HCT's developments is a residential complex of 26 two-bedroom homes in Rosetta, Hobart. This project was partially funded through a Commonwealth City Deal and boasts panoramic views across the Derwent River and Mt Direction. Notably, these homes were built to a 6-star energy rating, aiming to lower utility bills and contribute to environmental sustainability. The design of each home provides a high level of comfort and considers the future housing needs of residents, making these residences an ideal choice for the long term.

Looking ahead, HCT has over 200 dwellings in its current pipeline, focusing primarily on the regions of Hobart and north-west Tasmania.



5. Procurement considerations

Specific details of the procurement process and evaluation criteria, and the clarity in which these details are communicated, is critical to sector participation and success. The easier and clearer the process is, the better CHOs can respond and bring forward projects that directly address prioritised needs.

5.1 How will the procurement process work?

The application process to receive HAFF funds needs to minimise bid costs and duplication of effort for proponents, while maximising chances that funding flows to the areas of greatest need and longest-term value.

Two potential procurement models have been used in similar programs.

A tender-round approach implies defined rounds of funding (potentially annually) to which proponents submit projects and the Commonwealth announces funding based on prioritisation and funding availability. This approach is efficient for one-off grant-type funding distribution and is currently being used in Victoria's Big Housing Build and Queensland Housing Investment Fund.

However, experience has shown this approach can lead to significant duplication of work (for both proponents and the agency undertaking the evaluation), with unsuccessful projects having to be resubmitted and reconsidered in later funding rounds. This approach is also less suited to growing industry capability and the sector indicated that it is not as conducive to

building constructive relationships between CHOs, developers, NHFIC and investors.

The pipeline approach would see proponents apply to NHFIC/HA once – when their projects are ready, and then continue to work with NHFIC/HA to develop the projects and slot them into the prioritisation process. This would steadily build up the pipeline of projects for the Commonwealth to prioritise from, while also allowing CHOs to work constructively with NHFIC to improve a project's chance of receiving funding. The Infrastructure Australia pipeline is an example of this mechanism (albeit it is used to make recommendations to government as opposed to informing specific procurement decisions).

Within this mechanism, the Commonwealth could make rolling recommendations on project funding as different projects become ready. In year 1, it is likely there would be 'shovel-ready' projects, as well as projects which could be further developed and ready for funding later in the five-year window.

This mechanism is preferred by the sector. It should also provide NHFIC with the most complete view of potential projects to fund, and the most efficient mechanism for assessing projects.

Taking advantage of the current housing market conditions through a rapid funding round

The rapid rise in financing costs, compounded by strong increases in labour and material costs, has seen a general cooling in the residential housing market. These market conditions may present unique opportunities for CHOs to secure prime sites with existing development approvals that otherwise would not have been available for social and affordable housing. If such opportunities present themselves during the initial expressions of interest for HAFF funding, the following principles should be adopted to ensure that securing these sites mitigates risk while leading to the greatest long-term outcomes.

1. Sites and projects which ensure CHOs retain the ownership and equity of the homes is critical to maximising the long-term value of the HAFF and strength of the sector. Hence, these projects must be prioritised above any opportunities which just use CHOs as managers of the assets, as this limits the long-term value of HAFF.
2. Prioritise site opportunities with developers who have current partnerships and a track record of working with CHOs to reduce the overall risk of delivery, noting:
 - a. Opportunities must be outcome and demand led, not site led. Trying to back-solve an appropriate CHO/developer relationship to a site put forward by a non-CHO organisation in an EOI process is akin to putting the site owners needs ahead of the future tenant needs and CHO future sustainability.
 - b. The HAFF is not the policy vehicle for developers with no experience trying to enter the community housing sector. A large proportion of the development sector already works with CHOs, share a common mission in the delivery of social and affordable housing, understand the required consortia structures and CHO funding and financing process, and factor in the unique characteristics that future tenants need. To minimise risk and maximise HAFF outcomes, these are the development partners which the HAFF must support CHOs working with.
 - c. The HAFF is not a housing industry support package to assist/bail out private sector developers who were unable to manage the cyclical nature of the market.
3. Sites with development approval should be prioritised through this process as they increase the speed and reduce the cost of delivery.
4. Opportunities should exist for CHOs serving niche cohorts, or operating in areas of very high needs, to purchase single or small numbers of distressed assets from the open market, if appropriate discounts can be secured. This will expediate the targeted delivery of homes.
5. Ensure all sites secure a major discount to market, and that this discount to market is transparently reported, on an annual basis, to demonstrate the value that HAFF can extract from the current market conditions.

5.2 How can the Commonwealth ensure the process is efficient?

The CHO sector has deep experience in tendering for government programs, grants and sites. Based on this experience, the following areas should be considered when developing the HAFF procurement process.

A two-phase procurement process

A two-phase procurement process could be used to further streamline the initial running of a pipeline approach, or as a filter to the tender-round approach (Section 5.1). In both circumstances, this can help the CHO reduce the costs of applications. The first phase of this process is the Expression of Interest (EOI). Elements critical to a successful EOI are discussed below.

- ▶ An EOI is a procurement mechanism. It is not an efficient or effective mechanism to better understand market demand, or the capacity, capability and pipeline of the sector. Best practice procurement dictates that these insights and market intelligence are undertaken prior to commencing a procurement process as they are required to effectively inform the initial approach to market.
- ▶ Clear guidance needs to be provided to CHOs that were not successful during an EOI phase as to when the next opportunity exists, how they capitalise on this opportunity and

what factors of their response to an EOI did not align with NHFIC's criteria. Without this iterative feedback and a clear pathway for continued participation with HAFF, there is a risk that CHOs are discouraged from further interaction with NHFIC and participation in the broader reform process which HAFF, if appropriately specified, can support.

Bid costs

Bid costs need to be kept low and manageable. This is required to both incentivise initial interest and to ensure bidders are not discouraged from continuing to work with NHFIC, or participating in future rounds if costs are too high. The use of expert advisers and consultants should not exceed current levels required to develop a competitive bid, structure a deal and exchange contracts. NHFIC should aim to create an inclusive and competitive environment that fosters innovation and collaboration.

Reducing bid and transaction costs also relates to streamlining interactions with state, territory and local governments required to deliver the project. Given the likely need for all levels of government to be involved at some point of project delivery (including transfer of state or territory land and securing development approvals), the reduction in duplication and coordination of delivery and

reporting is critical to the efficient delivery of the HAFF.

Transparency

As highlighted in Section 4.3, transparency is required to help build sector capacity while ensuring an efficient process. Regular reporting of contracts signed against demand priorities (by location and cohort) are important for CHOs to understand what types of projects can still be brought forward. Specific feedback to CHOs on why projects were unsuccessful, as well as public feedback and analysis on the characteristics of both successful and unsuccessful bids, is critical for the sector to learn and adapt.

5.3 Promoting best practice

NHFIC consideration of projects should incentivise the adoption of best practice building standards and reporting requirements. Specifically:

1. All projects should be delivered in-line with the National Construction Code energy efficiency provisions.
2. Environmental, Social and Governance reporting standards should be adopted by all recipients of HAFF funding.⁸

⁸ Community Housing Association (2023), Environmental, Social and Governance: reporting standards. [Link](#).

Why early engagement with CHOs is essential

CHOs design their social and affordable housing to both meet the needs of their tenants and reduce ongoing operating costs. These are important considerations if HAFF is considering proposals to purchase near complete dwellings that have had no CHO input into design. Care is needed in the following areas:

- ▶ meeting the needs of the future tenants, both in terms of accommodation typology but also in proximity to transport and other wrap around services.
- ▶ ensuring up-front discounts are not eroded or potentially even exceeded by long-run maintenance costs due to inappropriate design and fit-out. For example, a traditional 'build-to-sell' fit-out focuses on the sale of the dwelling, with the developer having no exposure to long-term maintenance and replacements. This differs to CHOs who actively reduce long-term maintenance liabilities through smart design and appropriate fit-out choices.

Securing the wrong near completed dwellings may appeal in the short-term to demonstrate policy delivery speed and to access discounts in current market conditions. However, in the long-term, these decisions can end up costing more and limit the total number of dwellings HAFF fundings can support, while not supporting the housing design and typology actually needed.

5.4 Defining affordable housing

Simply, affordable housing means that the accommodation must be affordable to the lower income individuals and families the HAFF is targeting. Delivering on this definition within a policy context requires a discount to market rent, with this discount also based on the individual household's capacity to pay without putting them in severe housing stress.

In practice, this combination of definitions mean CHOs are often charging less than 74.9% of market rates (the statutory rate) to ensure a person is not spending above the proportion of their income that would lead to housing stress. This situation implies a larger subsidy is required to supply housing to these individuals, with the lower the household's capacity to pay, the larger the subsidy must be.

Therefore, the project selection criteria need to look beyond pure financial metrics and 'average' measures or levels of subsidy. This will ensure that CHOs, which serve higher need individuals without placing them in housing stress, are not penalised given the higher subsidy required. Equally, CHOs operating in regional and remote areas can face higher construction, operations and maintenance costs due to the remoteness of their locations and inability to generate the economies of scale that are possible in major metro areas. Again, simple cost metrics may penalise these CHOs.

Risk of accelerating the program

Accelerating the program to achieve early momentum and outcomes may come at the expense of long-term success and benefit for tenants. Hastening the program's implementation may not allow adequate time for testing and refining its design, which could lead to inefficiencies or unintended consequences at the expense of the needs of tenants and limit optimal use of resources.

An accelerated program might prioritise investment in areas that can immediately supply land and market participants (i.e., private sector developers), potentially overlooking other locations where there is a higher demand for social and affordable housing. This approach could lead to an imbalanced distribution of resources and exacerbate existing housing disparities.

Case Study: Venture Housing

Venture Housing - a leading Tier 1 CHO, established in 2011 in the Northern Territory - is also a licensed real estate agent, NRAS approved provider and Accredited SDA provider under the NDIA. Venture owns and manages 600 homes, comprising of social (95), affordable(501) and SDA(4) across Greater Darwin and Tennant Creek districts. A significant proportion of Venture's tenants are key workers vital to the Territory's economy, with approximately 45% identifying as Aboriginal or Torres Strait Islanders.

Venture is one of two preferred providers negotiating with NT Government for the first tranche of 500 management transfers of social housing dwellings with handover of 250 homes to Venture planned for October 2023.

As an approved NRAS provider, Venture has 181 NRAS incentives on its homes, as well as managing 57 incentives for private owner investors.

Venture partners with 65 real estate agents and is the architect and deliverer of the Rent Choice Private Rental subsidy program, utilising a \$3M grant from the NT government.

Venture has built its development capacity through developing and acquisition of its own homes in Tennant Creek (5) and Palmerston (40). It is currently developing 32 new homes in Katherine and Palmerston, with plans for 12 more in Tennant Creek.

In 2023 Venture commenced tenancy, property and place management of the 78 new social housing homes at John Stokes Square precinct in Nightcliff, Darwin. This 20-year lease is the NT's first new development to be delivered as a partnership between NT Government and a Community Housing Provider. It is Darwin's largest social housing project to date, and a key component of the NT Community Housing Growth Strategy.



Case Study: Regional Housing

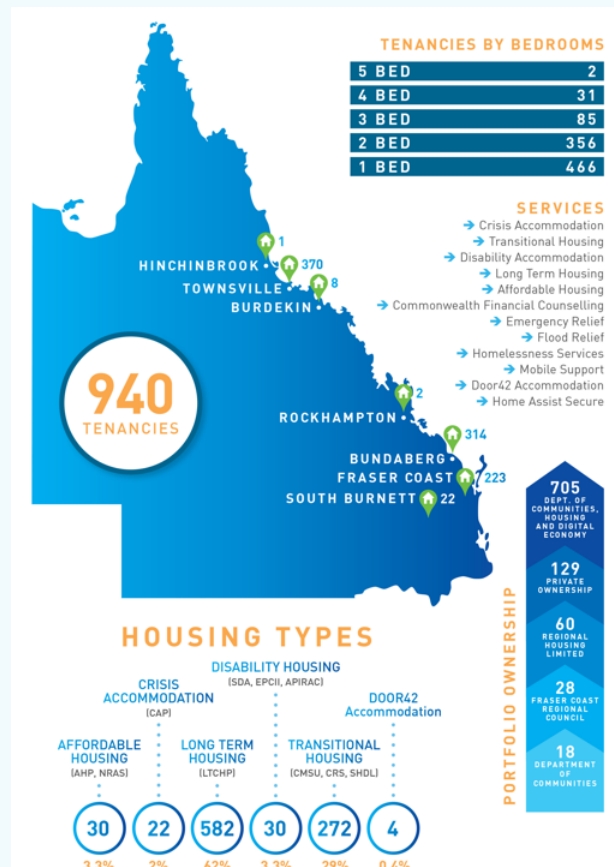
Regional Housing Limited is the only Tier 1 CHP in QLD focused solely on regional outcomes.

Regional Housing currently manages 940 properties throughout regional Queensland with the majority centred in or around Bundaberg, Townsville, and Hervey Bay. It provides emergency, transitional, and long-term social and affordable housing as well as a number of complimentary support programs.

Wrap around services are a key point of difference for Regional Housing. It provides specialist homelessness supports, financial counselling, and safety and security maintenance for eligible cohorts.

Regional Housing undertakes appropriately scaled developments within existing neighbourhoods in key regional Queensland centres. Current developments (approved or in progress) range in scale from duplexes to 10 and 16-unit complexes with varying typologies and a total of 37 new dwellings.

Regional Housing's approach to HAFF would involve aggregation of new housing across multiple sites in high demand areas through turn-key purchases and new developments.



6. Role of the state, territory and local governments

The chronic undersupply of social and affordable housing can only be addressed through effective cooperation and partnerships between all levels of government.

The Commonwealth's HAFF investment can serve as a catalyst to alleviate some of the state, territory and local barriers that hinder the supply of social and affordable housing. This funding, alongside land release, streamlining of the planning process, and minimising development risks, are hallmarks of effective cooperation and coordination across all levels of government.

This was a theme raised consistently by CHOs. Less consistent was the nature and level of engagement by states and territories with CHOs in preparation for the release of HAFF funds, ranging from relatively targeted collaboration with parts of the sector to non-existent. This difference has the potential to influence the effectiveness and speed of meeting social and affordable housing needs across jurisdictions.

6.1 Land release

Access to appropriate land on which to deliver social and affordable housing is one of the biggest barriers faced by CHOs. Hence, accelerating the release of state and territory government land is critical for increasing the supply of community housing. CHOs have indicated that substantially more homes could be delivered over five years if this land

is made available. Four critical aspects of land transfer are required:

1. land identified by states and territories must be transferred to the CHOs. No HAFF funding should flow to states and territories directly using CHOs solely to manage new housing being delivered.
2. The transfer of state and territory land to the not-for-profit CHO sector must either be at non-cost or at an appropriately discounted price, reflecting the social good the land and investment will deliver. The pricing of land at 'market rates' for CHOs is counterproductive to supporting vulnerable citizens.
3. The land transfer process needs to be efficient, with the focus being on the social and affordable housing outcomes that the CHOs developing and managing the site need to deliver. Unnecessary and onerous design and delivery specifications should be avoided. The land transfer process should coordinate with the broader HAFF submission process to

avoid duplication of work and deliver meaningful results quickly.

4. Clear signalling is required from states and territories on the pipeline of potential land release and the timing of this release over the short-, medium- and longer-term time horizons.

6.2 Planning approvals

The other major obstacle CHOs face at the state and territory level is the complexity and speed of the planning approvals process, leading to significant development risk and project delays. Some states have introduced dedicated approval pathways for the delivery of social and affordable housing, recognising the urgently needed social good characteristics of these developments and balancing them with local planning and community requirements.

While the changes required to the planning process will ultimately differ across jurisdictions, a principle that reflects the collaborative nature of the Housing Accord and HAFF investment is that jurisdictions should be required to identify and implement measures that improve the efficiency and effectiveness of social and affordable housing delivery to be eligible for funding.

6.3 Harmonisation of regulation

The regulatory environment has not kept pace with the evolution of the sector. As such, the current regulatory settings are increasingly becoming an artificial constraint imposed by government on the ability of the sector to efficiently deliver and manage social and affordable housing. Two issues are most relevant:

- ▶ A national regulatory system which includes both Victoria and Western Australia is required. This view was continually reinforced by the sector during the recent review of the National Regulatory Sydney for Community Housing. Action is now required, with the HAFF providing a possible mechanism as the costs of the regulatory burden on the sector undermine the impact of the potential funding being delivered.
- ▶ The current regulatory system should be modernised to: reflect current best practice; respond to new CHO organisational models and commercial structures; adopt a more sophisticated risk-based approach to regulation; adopt mutual recognition of other government accreditation; provide greater transparency; and enshrines strong prudential and consumer standards.⁹

⁹ See for example CHIA's submission to the NRSCH review.

[Link.](#)

6.4 The Role of Local Government

There is an important and constructive role for local government to play in helping to unlock additional new social and affordable housing. As the tier of government closest to the community, the impact of housing stress and homelessness are visible, making local governments role in tailoring solutions critical. The potential areas of local government influence relevant to HAFF are discussed below.

Land release

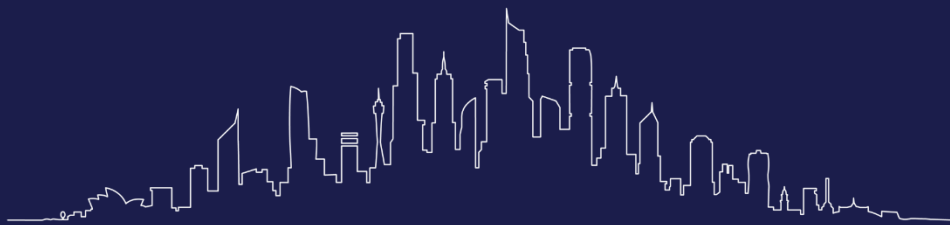
Local government authorities are often landholders and have the potential to repurpose this land for the supply of social and affordable housing by CHOs (often in partnership with state government who provide a capital grant). This is a tried and test model. Instances of local government contributions include the repurposing of council car parks or surplus depots for blended community housing projects. Collaborative efforts across regions, where multiple councils pool together surplus land for community housing, are a testament to the potential of such partnership models.

Planning approvals

Local governments across Australia also play an important role in the approval process for many social and affordable housing developments. However, approvals bottlenecks often result from insufficient resources at local government level. This

resource constraint is driven by both funding and availability of suitable staff. The timely rollout of HAFF funded social and affordable homes needs to be aware of, and potentially address, this local level bottleneck.

The planning approval process can also inadvertently reduce the scale of proposed community housing developments, despite meeting zoning requirements. This leads to underutilisation of valuable land and could render projects financially unfeasible for CHOs, thereby limiting supply.



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