Community Housing
INDUSTRY ASSOCIATION

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CHIA
2021 Federal Pre-Budget Submission

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Pre Budget Submission – CHIA Priorities for the 2021-22 Federal Budget

Executive Summary

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

The Community Housing Industry Association (CHIA) welcomes the opportunity to outline CHIA's priorities for the 2021-22 Budget. Our priorities primarily focus on actions that would enable our members to further leverage the opportunity created through the establishment of the National Housing Finance and Investment Corporation, so as to assist in relieving high and growing levels of homelessness and rental stress across Australia.

The COVID-19 pandemic has exposed the consequences arising from a housing system that is not meeting the needs of many Australians in the bottom two income quintiles. The pandemic forced (mainly state and territory) governments to take immediate action to address both rough sleeping and overcrowded shelters and boarding houses where residents share facilities. We have always known the public health risks both pose; the pandemic has shown that governments are able work collaboratively with other housing and service providers to secure resources and take rapid and effective action to provide temporary accommodation for around 40,000 people over a six month period, using hotels, pop up shelters and under occupied student accommodation.

Sudden loss of employment or business income at the start of the pandemic placed tens of thousands of Australians at immediate risk of homelessness. The introduction of JobKeeper and the Coronavirus Supplement for JobSeeker, together with moratoriums on evictions have also been important in helping most to remain housed.

While we acknowledge these achievements, the challenge of finding people permanent homes remains and, indeed, will grow when temporary income and eviction protection measures are withdrawn as planned. At the same time as re-housing those provided with temporary accommodation, we also need to assist the many other households already in rental stress before the pandemic or who have become precariously housed as a result. The continued intensification of Australia's social and affordable housing deficit also poses a huge challenge on whether the achievement of virtually eliminating street homelessness can be maintained into the future.

With the exception of the Victorian and to some extent the Tasmanian Governments, the Commonwealth and State and Territory Governments failed to use the opportunity provided by their 2020 budgets to make any significant investments in *additional* social and affordable housing to help address this need.

Government investment in housing could also support employment in construction. While late 2020 saw signs of a recovery in housebuilding this is predicted to be a short term phenomenon. The National Housing Finance and Investment Corporation (NHFIC) in its State of the Nation's Housing Report[1] expects that the lower demand for housing arising from slower population growth will weigh '*on construction over the medium to longer term, with net additions likely to fall and then recover to around 148,000 in 2025. Weakness in net apartment additions will extend to 2025, when just 27,000 new dwellings are expected, similar to levels seen prior to the apartment boom*.'

Including social housing construction as part of an economic recovery package has attracted widespread support[2]. CHIA and partners in the Housing Productivity and Research Consortium (see page 18 of our submission) recently commissioned work to gauge expert opinions on a range of housing and productivity related issues. One of the propositions tested with a cohort of Australia's leading economists and other housing market experts was around the value of social housing as an economic stimulus. The overwhelming majority of participants believed that the Federal Government had been unwise to exclude this in stimulus initiatives to date. By a margin of no less than eight to one, our expert research participants disagreed with the proposition that omission of such measures within the 2020 budget was well-judged. Moreover, 57% disagreed strongly.

In CHIA's last pre-budget submission, we proposed the Commonwealth Government should consider collaborating with the States and Territories to jointly fund a social housing program. Our 2021 submission retains this proposal – the Social Housing Acceleration and Renovation Program (SHARP)[3]. Not only will this deliver much needed housing for Australians in need, but it will be a surefire way to maintain jobs in the construction industry and increasing GDP by between $5.8 billion to $6.7 billion over the four year program, thus, more or less covering the cost of government investment.[4] It also has the benefit of guaranteed demand, adding rather than simply bringing forward construction and renovation activity, and being capable of being targeted at areas where there are particular economic pressures.

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

In addition to SHARP, our pre-budget submission contains proposals to address the longer term challenge of reducing shortfalls in social and affordable housing, supporting the continued growth of a robust community housing industry, which strengthens the institutional architecture supporting the social and affordable housing system and tackles some specific issues where the Commonwealth has a particular responsibility as with veterans' homelessness.

Key priorities

1. Support state and territory initiatives to respond to the additional demand for social and affordable housing generated by the pandemic through a ***social housing acceleration and renovation program***

(SHARP) [5]. Capitalising on historically low bond rates[6] the program could rapidly deliver 30,000 social rental housing units and at the same time mitigate construction activity consequences resulting from the predicted reduction in demand for new apartment dwellings[7] . This program should be led by the Commonwealth Government in collaboration with and jointly funded by State and Territory Governments and co-ordinated through **National Cabinet.**

2. Allocate resources to develop a ***10-year National Housing Strategy*** that incorporates plans to address homelessness and meet Indigenous housing needs. This could be led from the ***National Housing Finance and Investment Corporation (NHFIC).***
3. Invest in ***housing as essential infrastructure -*** :
    a. Dedicate resources to re-establishing a ***recurrent Federal housing program*** for implementation in 2022-23 that incentivises State and Territory co-investment and attracts institutional capital, via a funding framework such as that provided by the **Affordable Housing Infrastructure Booster**. The program should be sensitive to variable development costs, incentivise other state and council contributions and attracts private institutional capital. CHIA with its partners is developing a policy blueprint to contribute to a development process.
    b. Use existing and new ***City and Regional Deal agreements*** to promote greater social and affordable housing provision through both inclusionary zoning and development uplift / value capture mechanisms, and through dedicated infrastructure project funding.
    c. Contribute ***$500K over two years*** to support the ***research program of a Housing and Productivity Consortium.***
4. Foster the ongoing expansion of the community housing industry to deliver more choice for low income renters through:
    a. contributing $500K annually to a ***National Industry Development Strategy***.
    b. Committing to further ***increases in the cap and extension of the NHFIC guarantee.*** This will have minimal budgetary impact but will give certainty to (1) CHOs about the future availability of low cost finance and (2) investors about the long commitment of the Commonwealth Government to this central aspect of NHFIC's mission.
    c. ***Contributing to the resources needed to enhance the National Regulatory System for Community Housing (NRSCH),*** in line with the yet to be fully implemented 2017 recommendations of the Government's own Affordable Housing Working Group.
    d. Using the ***National Housing and Homelessness Agreement (NHHA) to ensure more active state/territory inputs to improving housing outcomes***.
5. Set up a ***$30M grant program to support innovative Housing First accommodation options for veterans*** who are homeless or at risk of becoming homeless.
6. As part of the new National Disability Strategy allocate ***$1M to establish a national research centre on contemporary housing for people with disability*** to measure outcomes, share technology and design innovations and promote best practice.
7. Allocate resources of circa $100K to NHFIC to ***support the development of practical and sustainable proposals to assist lower income renters into affordable home ownership.***

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

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Pre Budget Submission – CHIA Priorities for the 2021-22 Federal Budget

Introduction

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

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

CHIA's submission is concerned with actions to address the housing need of lower income Australians. We also accept that housing affordability pressures exist for a broader range of households. CHIA's National Plan for Affordable Housing[8] sets out our position on the wider housing system, supporting entry into home ownership and market products such as Build to Rent Housing.

Our key priorities for the 2021-22 Federal Budget build on the Commonwealth Government's progressive 2018 action to establish the National Housing Finance Investment Corporation (NHFIC) and the access to cheaper CHO financing options thereby enabled. An overarching goal is to further leverage NHFIC's potential to assist CHOs in relieving high and growing levels of homelessness and rental stress across Australia.

Our submission retains many of the same actions that we have previously proposed. This will not be surprising given that there has been no improvement in housing affordability for large numbers of households in the bottom two quintiles. Before summarising these challenges, we have briefly considered the pandemic's impact on housing needs and housing supply in the coming months.

CHIA believes that the pandemic is likely to worsen affordability for lower income households. As temporary income supports (e.g. JobKeeper payments) are reduced and job protections withdrawn, we can anticipate more people will be pushed into housing stress and homelessness. While there will be some businesses that 'snap back', there will be many for whom a drawn out recovery process (at best) will leave them unable to retain all their employees.[9] Large sections of the workforce were also ineligible for the JobKeeper program and some may already be in precarious housing situations, but temporarily protected by the eviction moratorium. With these being lifted at the same time as the stimulus payments are withdrawn Australia faces a probable major spike in homelessness.

A study by Equity Economics[10] which projected changes in housing stress and homelessness in NSW in relation to expected increases in unemployment suggested that on average homelessness could increase by nine per cent in 2021 and that 24 per cent more Australian families will experience housing stress this year due to the COVID-19 crisis.

A recent AHURI report[11] concluded that the temporary income supports had significantly moderated the rise in housing affordability stress that would otherwise have occurred due to the pandemic. The number of households affected '*only rose to 861,500 – an increase of 14% - rather than 76%*' as would otherwise have happened. However, the researchers also found that '*As JobKeeper and the Coronavirus Supplement are wound back in early 2021, housing affordability stress will rise by 124,000 – leaving the total 30% above its starting point*.'

NHFIC's State of the Nation's Housing Report found that falling rents in inner city areas in Sydney and Melbourne are unlikely to mean 'that dwellings will become more affordable for all renters'. They point out that 'one of the drivers of the demand shock has been a disproportionate loss of employment in industries where workers were more likely to be renting'. Referencing recent research by Baker et al [12] the NHFIC authors note that 'renters continue to face potential affordability challenges with a range of factors currently safeguarding them from the full impact of the economic downturn'. A survey conducted for this research noted that many renters have used personal savings, taken advantage of access to superannuation and, rental deferments, relied on a range of government stimulus measures such as JobKeeper and JobSeeker to help maintain their tenancies.

Our submission is, however, also focused on putting in place actions that will start to tackle the longstanding and worsening housing affordability challenge for lower income Australians. The following points summarise this national challenge:

- As revealed in the latest official figures (2016) 116,000 Australians are homeless on any given night. Moreover, especially in capital cities, the past decade has seen homelessness rising far ahead of general population growth.[13]

- By 2015-16, more than three million Australians were living in poverty after taking their housing costs into account. Of those, 1.3 million were not in before-housing poverty but had been pushed into after-housing poverty by their housing costs.[14]

- The private rental market has not supplied dwellings at rents (i.e. $202 or less per week) that are affordable to households in the bottom income quintile. While the market has supplied some homes at rates affordable to households in the second bottom quintile (i.e. at no more than $355 per week) the homes are increasingly unavailable to these households; being occupied by higher income earners.[15]

- in 2016, there was a shortfall of over 650,000 homes across Australia, affordable to households in the bottom two income quintiles. Accounting for projected household growth to 2036, more than 1 million additional homes will be needed to meet the needs of these lower income households over the next 20 years[16].

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

- In 'Social housing as infrastructure: an investment pathway'[17] the authors estimated that, 'to simply prevent further deterioration in the current level of social housing shortfall, of over 430,000 dwellings (manifest need plus evident need) there is a need for a national program producing just over 290,000 additional homes over the [20-year] projection period, or nearly 15,000 per year'. While the pandemic's impact on population growth may have marginally reduced this figure we are still a long way short of what is required simply to prevent housing stress from rising to still higher levels.

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

- A more meaningful measure of the decline in social housing supply is the reduction in the annual number of such properties being let to new tenants. This measure incorporates the impacts of declining gross provision (see above), the reduced number of newly built social rental homes coming onstream, and the contracting availability of affordable 'move on' accommodation (meaning fewer existing tenants have the capacity to transition into the private market). Therefore, as CFRC quote in their response to the ongoing Federal Homelessness Inquiry, '*Taking into account both public housing and community housing, the gross number of social rental lettings dropped from 52,000 in 1997 to 35,000 in 2017 – an absolute decline of a third*[18]*. Pro rata to population, this represents an effective reduction in social housing supply of some 50%'.*

There are, on the other hand, major opportunities that will flow from tackling housing unaffordability through re-starting social rental housing investment. Traditionally, housing developed and managed by CHIA members has been valued for meeting social needs by providing safe, secure and affordable homes to vulnerable and low waged households who cannot access suitable market housing. More recently, research evidence has demonstrated that government investment in social housing (and, where necessary, floating support services) can produce net financial gains in terms of overall cost to government.[19]

Building on this work, CHIA and its partners commissioned Swinburne University to incorporate wider social and economic benefits in a social cost-benefit assessment of social and affordable housing.[20] The work provides the basis for a submission to Infrastructure Australia's Priority Projects List. While the provision of social and affordable housing requires financial assistance to be viable in commercial terms, the report finds that 'the estimated wider social and economic benefits (WSEB) in this report show that the overall societal gain from providing social and affordable housing exceeds the cost of public support required to deliver new housing construction, even at relatively high discount rates (7%).

Increasingly, the broader economic outcomes that flow from our work are being recognised, notably the positive impact on human capital and hence economic productivity[21] (Pages 10-11 of our submission).

Investing in social and affordable housing has positive outcomes for the residential construction industry, a key part of the Australian economy and one of the country's major employers. In February 2020, 1.2 million people were employed in the construction industry, representing over nine percent of Australia's 13 million jobs and also contributed $145.9B gross value added (7.8%) in Australia.[22] The construction industry is forecast to decline by 13 percent during 2020[23] with further contraction anticipated if international migration does not resume in 2021/22. Positively the 'residential building construction industry has the second-largest economic multiplier of all 114 industries that make up the economy' with $1 dollar invested realising almost $3 in additional economic output. [24]

In the short-term, a downturn in overall housing supply can be (at least in part) addressed through a social housing investment program. Moreover, mitigation of future downturns through a recurrent social and affordable housing investment program would protect the construction industry against recession by introducing a counter-cyclical economic component into the system (see pages of 14-16 of our submission).

Recognising housing as essential infrastructure

The problem Australia needs to fix.

The scale of the housing affordability challenges facing lower income households was starkly revealed by the Productivity Commission's 2019 report 'Vulnerable Private Renters: Evidence and Options'. This highlighted that most lower income renters experience housing affordability stress – i.e. housing costs exceeding 30% of income. Furthermore, almost half of these households in rental stress are likely to remain stuck in this situation for at least five years. As highlighted in the introduction, UNSW's City Futures Research Centre (CFRC) estimated in its report 'Filling the Gap', that by 2036 an additional 1,023,900 homes would be required to meet the needs of households in the bottom two income quintiles.

The COVID-19 pandemic has exposed the consequences arising from a housing system that is not meeting the needs of many Australians in the bottom two income quintiles. The pandemic forced state governments to take action to address both rough sleeping and overcrowded shelters and boarding houses where residents share facilities. We have always known the public health risks both pose; the pandemic has shown that governments are able work collaboratively with other housing and service providers to secure resources and take rapid and effective action to provide temporary accommodation for around 40,000 people, using hotels, pop up shelters and under occupied student accommodation. We acknowledge this achievement while, at the same time noting that many departed temporary accommodation without a longer-term housing option and questioning how permanent homes for those remaining will be secured. The scale and structurally embedded nature of this problem has also been highlighted by the observation that rough sleeping numbers rose once again in the second half of 2020 from mid-year lows due to emergency accommodation action[25].

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

The AHURI report 'The supply of affordable private rental housing in Australian cities: short term and longer term changes', estimated that in 2016 four out of five Q1 income private renters were paying unaffordable rents with the proportion rising to almost nine out of ten renters in metropolitan areas. In the report which is the latest of a time series that has been running every five years since 1996 the researchers also found that 'there was an increasing trend in Q2 renters nationally paying unaffordable rents: this rose from 24% in 2006 to 36% in 2016'. In Sydney, 71% of Q2 renters were paying unaffordable rents. In all capital cities there is a 'spatial restructuring of rental housing markets' with more affordable homes in the outer suburbs and satellite cities.

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

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

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

Maintaining Employment in the Construction Industry

At the same time as the pandemic has revealed the housing precariousness experienced by many Australian households it has also hit the residential construction industry. Industry stakeholders, think tanks and the Australian Treasury are in agreement that even with the impact of the Federal Government's HomeBuilder scheme there will be a severe contraction in residential construction - particularly apartment construction from mid-2021.

NHFIC, in its 'State of the Nation's Housing Report', estimates that 'COVID-19 is expected to cause the largest negative shock to population growth since early last century, with almost one million fewer people (than previously) expected to be living in Australia by 2025.' This lower population growth will weigh on construction, with net additions likely to be only 148,000 in 2025. It is the apartment market that will experience the brunt of this, '*the downturn has weighed more on apartments than detached or medium-density dwellings because of international border closures. Furthermore, federal and state government stimulus packages thus far have been more targeted towards the detached dwellings. Lower population growth means that net additions for new apartments in 2023 are likely to be 58 per cent below those seen just prior to the COVID-19 recession. Even by 2025, we still expect them to be 51 per cent below this benchmark and only 27,000 dwellings, levels last seen prior to the apartment boom. But net additions to the apartment market were already 15 per cent below their peak before the COVID-19 recession*'.

Compounding with expected reductions in other construction activity, the impact on employment and economic output will be severe. In the year to December 2019 construction provided $145.9B to gross value added (7.8% of the total in Australia). In February 2020 1.2million people were employed in the construction industry, representing 9.1% of Australian jobs.[30]

CHIA's proposed short term housing stimulus program, SHARP will mitigate these negative impacts on the construction industry.

The social, economic and productivity benefits from investing in social and affordable housing.

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

CHIA's submission to Infrastructure Australia's 2019 Audit authored by A/Prof Christian Nygaard at Swinburne University[31] provides evidence of the multiple ways in which the provision of secure high quality affordable rental housing can result in expenditure savings for other public services. It highlights two dimensions of social and affordable housing as essential social infrastructure:

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

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

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CHIA recognises that savings generated 'by' housing 'for' other public budgets are difficult to reassign to housing. However, for a government department such as the Department of Veterans' Affairs which oversees a range of health and welfare services and where a proportion of the individuals it assists require stable accommodation the potential savings should justify investment in targeted housing options**. CHIA has recommended a small grant fund to support innovative Housing First approaches for homeless veterans.**

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

Concerned about the housing affordability challenge in Sydney and its consequences for the growth and productivity of the metropolitan area, CHIA NSW initiated a research collaboration to further investigate these issues. On behalf of a partnership that has included NSW Government agencies, the private and not for profit sectors, CHIA NSW commissioned two reports by Professor Duncan MacLennan published through UNSW's City Futures Research Centre (CFRC). In the first of these 'Making Better Economic Cases for Housing Policies'[32] it was demonstrated that housing's weighty economic role has continued to be under-appreciated by Australian governments. Two categories of productivity impacts were identified:

(a) Constrained human capital.

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

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

The housing boom has:

- encouraged investment in lower productivity industries, locked up capital that has added little to growth and productivity but adds to rentier returns that constitutes a major distortion in the functioning of the economy that has both federal and state implications.
- increased instability, as rising housing wealth results in increased consumption, and this is likely to be pro-cyclical spending that raises the amplitude of metropolitan economic cycles. This will increase instability and reduce productivity.
- There is likely to be a much more significant, and negative, effect on consumption when rising housing costs capture a disproportionate share of disposable household income.

The second of Prof Maclennan's reports 'Strengthening Economic Cases'[33] modelled how housing outcomes impact economic growth and productivity, with a particular focus on the Sydney metropolitan area. The productivity modelling exercise was based on an Economic Impact Assessment (EIA) which revealed strong, positive productivity effects from investing in better housing outcomes over a 40-year timescale that reduce commuting times and extend access to a wider set of labour market opportunities. The key results are outlined in the box above. While specific to Sydney, similar outcomes would be likely for other major Australian cities.

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

There remains much scope to develop wider and deeper insights on housing and productivity inter-connections, and to better understand how better housing outcomes affect the life trajectories of individuals and the long-term wealth of cities. In collaboration with UNSW's City Futures Research Centre and other partners CHIA has convened a Housing and Productivity Research Consortium (with membership drawn from the private sector, government and the NFP sector) to progress further research in this area. The Consortium has already published a proposal for further work[34] and has commissioned an initial project from this program to review 'how major consequences of housing productivity and stability for the longer term could be reflected in better policy approaches across all orders of government'. It is tapping into Australia's leading economists and housing market experts in a high level moderated 'debate' that synthesises a range of views on the future evolution of Australia's housing system'.[35]

HOUSING AND PRODUCTIVITY IMPACTS

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

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

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

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

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

In summary, we believe that no responsible government can ignore the mounting evidence that our housing system is under-performing, and that this is impairing national economic productivity and growth. A clearer appreciation of the interconnectivity of housing and the economy would do three things:

- Articulate the productivity benefits that will flow from well-located and housing affordable to low and moderate income workers.

- Stimulate a broader discussion on the actions Government could take to alleviate housing unaffordability (acknowledging that the solutions for tackling housing unaffordability are linked to household incomes).

- Enable a conversation about the relative merits of investing in affordable housing compared to other forms of infrastructure.

CHIA recommends that the Federal Government contributes $500K over two years to supporting research on housing and economic productivity via the Housing and Productivity Research Consortium.

Community Housing as a Delivery Vehicle

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

In New South Wales, CHOs are on track to deliver 2,700 new homes over the eight years to 2020. [36] In Victoria, the industry delivered 1,033 additional social and affordable homes across 95 projects between 2010 and 2019[37].

Not-for-profit community housing is a sustainable social housing model that lowers the direct cost to government of providing affordable housing to low income households. Reflecting their charitable aims and non-profit status, CHOs are eligible for a range of tax concessions (on for example land tax and GST). Theseapply to both their procurement and operating costs, thus reducing the cost of housing development. The NFP business model also retains any surplus in the business for use on additional services or further development. A recent study revealed that holding 1,000 properties in state government management and ownership would result in a $30 million deficit after 30 years, whereas transferring the same number of properties to community housing would deliver a $40 million surplus over the same period, which could be reinvested to produce additional social housing.[38]

A report commissioned by the NSW agency, Landcom[39] and published earlier in 2019 assessed the financial feasibility of build to rent projects incorporating affordable rental housing, comparing the results from for profit and not for profit developers. They concluded ‘there will be a significant advantage to governments layering in additional subsidy support to leverage existing CHO concessions (rather than for-profit developers)’.

With the right policy settings and support to build on what it has already achieved the community housing will double again — or more — in the next decade. **CHIA thus recommends fostering the sector’s expansion through a range of measures outlined in the Appendix.**

Appendix 1 Budget priorities – Additional Information

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

CHIA has put together a proposal for a short-term program[40] to deliver 30,000 social (and potentially affordable) rental housing units over four years. Under our proposal Australian Government investment **together** with state, territory and potentially council contributions and support would enable not-for-profit community housing providers (CHOs) to deliver 30,000 social housing units and carry out renovations to existing social housing units Leveraged against the resulting dwellings and associated future rental income, CHOs will raise private finance to further expand resulting housing investment. States and territories will be incentivised to either make equity investments in CHOs via land, or to sell land at a discount to CHOs and thus maximise dwelling output in their jurisdictions. It could work well targeted at specific City / Regional Deal areas.

The program will also boost residential construction activity and employment in the building industry. While registered CHOs would be grant-recipients, they would commission private sector builders to deliver the housing and thus stimulate the construction industry too. Modelling by SGS Economics and Planning estimates that on average between 15,500 and 18,000 FTE jobs per annum will be supported by SHARP. In addition, output would be raised by $15.B to S18.2B in total over the four years of construction[41].

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

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

Government investment will be relatively cheap. As the July 2020 Economic and Fiscal Update notes borrowing costs are very low: 'While the unprecedented speed and scale of the Government's economic response to the COVID-19 pandemic as well as the impact of automatic stabilisers have resulted in a rapid increase in borrowing, historically low interest rates mean that the cost of servicing this debt is relatively low. The assumed market yields in this update result in a weighted average yield for future issuance of Treasury Bonds of around 0.8 per cent, compared with around 1.1 per cent at the 2019-20 MYEFO. Low debt servicing costs will assist in reducing the stock of debt as a share of the economy over time'[42].

Allocate resources to develop a 10-year National Housing Strategy that incorporates plans to address homelessness and meet Indigenous housing needs.

This budget submission focuses on actions that can be taken in the coming financial year and have a positive impact over the forward estimates. However, correcting the sub-optimal performance of Australia's housing system calls for more fundamental long-term actions; hence our recommendation that the Federal Government commits resources to developing a 10-year National Housing Strategy to tackle the supply and demand drivers of housing affordability in a coordinated way across all levels of government.

It is the Federal Government that has the central responsibility to lead policy in matters of national significance such as this, notwithstanding that many of the levers around planning and land administration lie with the states and territories.

The establishment of the NHFIC and the City Deals program are excellent examples of Commonwealth leadership around housing affordability. Through agreements with the states and territories - the National Housing and Homeless Agreement (NHHA) - the Federal government has the scope to incentivise positive change at this level of government. However, in the absence of a coherent, coordinated National Housing Strategy, it is unlikely that these measures will have the enduring impact, at scale, which is required.

A National Housing Strategy should contain clear targets for overall housing supply, and for homes that are affordable to households in all income quintiles. The strategy should also contain separate but fully integrated plans to tackle homelessness, the housing needs of Indigenous households and for people with disability.

The development of a national housing strategy will require dedicated resource, whether that is through an existing agency (NHFIC being one example) or department or through the creation of a new purpose-designed body. Reinstating something similar to the Housing Ministers Advisory Council to promote intergovernmental coordination and cooperation and mechanisms to enable wider stakeholder participation are also recommended.

NHFIC through its newly established research function is also well placed to develop a robust and nationally consistent approach to housing needs assessment. There are international examples on which to draw. Reliable information about housing needs is vital for the production of not just national but also state and housing market / regional plans. NHFIC has already recognised that it has a role to play in this field in the State of the Nation's Housing, noting that future editions should focus '*on the acute issues faced by many who experience housing stress and who cannot find appropriate accommodation suitable for their needs, including disadvantaged groups such as those with disabilities and many of Australia's Indigenous population*[43].

Invest in housing as essential infrastructure:

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

SHARP is a short term, time limited program, designed to boost housing construction, retain jobs in the industry, increase social housing and be started in 2020-21. To meet the housing need outlined earlier in the submission a long term ongoing program is needed.

There are number of program design options available to government including capital grants (Safe Places being a small-scale example); revenue subsidy type mechanisms (NRAS being a variant) and potentially interest-free loans. All are worthy of further consideration. There may be scope for the AHWG to be reconvened to consider innovate funding (rather than financing) models.

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

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

CHIA's scheme, the Affordable Housing Infrastructure Booster (AHIB)[44] aims to generate dwellings to be let at least 20% below local market rents for 20 years, targeted to low and moderate-income households. The AHIB mechanism lets the desired housing outcomes and locations determine the financial boost that is provided so as to enable affordability, rather than the financial boost conditioning the type of housing and locations that can be provided. AHIB is responsive to variation in construction cost, land cost and local rent levels.

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

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

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

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

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

Working with our partners in the Constellation Project and Industry Super Australia, CHIA is about to commission work to bring the two strands of work - the AHIB and the capital aggregation model - identified above, into one policy blueprint, as a contribution to the debate.

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

Use existing and new City and Regional Deals agreements to promote greater social and affordable housing provision through both inclusionary zoning and development uplift / value capture mechanisms and through dedicated infrastructure project funding.

The City and Regional Deals program is ideally placed to create incentives for state and territory governments to reform planning systems and ensure that affordable housing is delivered as a fundamental component of urban infrastructure investment. However, at present City and Regional Deals have no explicit requirements to contribute to social and affordable housing provision.

Social and affordable housing should be front and centre of City and Regional Deals and housing representatives (from all parts of the housing sector) should be represented on City and Regional Deal governance structure.

To date the Deals have all involved substantial investment in new infrastructure which in most if not all cases will involve the rezoning and up-zoning of land. This provides an ideal opportunity for inclusionary zoning planning powers to be used to secure affordable housing outcomes.

With residential housing starts currently trending downwards and the construction industry shedding jobs, there is also an opportunity to use existing or forthcoming city and regional deals to drive increases in social and affordable housing. In areas such as (not restricted to) SE Queensland where housing stress has been raised as one of the most pressing issues during public consultation a specific housing deal supported by designated infrastructure project funding could boost jobs, support local industry and meet housing need. Delivery of a housing deal through the existing city/ regional program should allow for smoother implementation facilitated by the co-ordinated governance arrangements that are in place.

The Constellation Project has led a collaborative process with stakeholders drawn from state and local governments, NFPs, academics and the private sector to develop a National Framework for Mandatory

Inclusionary Zoning that is should be published in March / April 2021. This will provide an excellent basis for designing a proof of concept MIZ. An early outline of the scheme is available.[45]

Contribute $500K over two years to funding the research program of a Housing and Productivity Consortium

Earlier we explained the housing industry-led work that CHIA (and CHIA NSW) have initiated to better establish the links between housing and economic productivity. Three stages have been funded using contributions from the private sector, government and not for profits.

We have assembled a Housing and Productivity Research Consortium with membership drawn from the private and not for profit sectors, academia and government. A draft research program has been produced that proposes a suite of projects to address currently unanswered questions on the productivity effects of sub-optimal housing system performance. The *Extending Economic Cases* report[46] identified nine key questions that the program of research should address. The box above includes two examples.

The Consortium will raise funds for the program from multiple sources. Given the importance of the research to public policy the Commonwealth (potentially through NHFIC and / or Infrastructure Australia) should commit resources to supporting this work.

As indicated earlier we have already commissioned our first project - **Housing and the Economy: Scenarios for Australia to 2025 and 2045 –** an interim report which will published in February 2021.

HOUSING AND PRODUCTIVITY RESEARCH

Productivity and employment effects of changing housing costs. CGE modelling of rising rents, bringing together the key results of R3 (below) and R4 could provide critical information for housing policy debates and choices in Australia on a recurrent basis.

Demographic change, housing prices, wealth transfers and retirement savings in Australia. This would involve an expert team using modelling and simulations of potential outcomes. It would draw on the findings of earlier research projects, specifically R3 and R4, and provide a more sophisticated analysis of the likely outcomes of rising housing costs on these essentially interrelated matters which impact on wealth generation to support an aging population.

Foster the expansion of the community housing industry to deliver more choice for low income renters

Contributing $500K annually to an industry led National Community Housing Development Strategy to build the capacity of the community housing sector.

The AHWG in its 2017 report 'Supporting the implementation of an Affordable Housing Bond Aggregator' recommended the updating of the existing National Industry Development Framework. While supporting this recommendation CHIA believes such industry development needs to be resourced. The associated work program also needs to be industry-led if it is to meet the sector's needs and ensure that it is well placed to drive the expansion of affordable housing supply and provide real choice to low income tenants.

Over the past decade, high-performing community housing organisations have responded to opportunities (both development and management) by ensuring that they are operating under the expert oversight of skilled boards of management. In the last year NHFIC has made available capacity grants to support individual providers in applying for NHFIC loan facilities. However, while such assistance is welcome these grants are not designed to drive sector growth or improvement.

The growth of similar sectors elsewhere has been underpinned by strong collaborative action and joint initiatives. A recent example is the Canadian Community Housing Transformation Centre which is funded by the Canadian Housing and Mortgage Corporation (CHMC) and governed by sector representatives. [47] Specific examples of projects that could be delivered through a National Community Housing Development Strategy include:

- Work to assist CHOs in harnessing the potential of technology and data analysis to drive performance improvement.
- Supporting the development of National Community Housing Standards – complementary to formal regulatory frameworks – to drive service excellence.
- Improving the capacity of mainstream CHOs to engage with tenants with special needs, including those with disabilities, as well as in the delivery of culturally appropriate services to tenants from culturally and linguistically diverse backgrounds, including Indigenous Australians.
- Support for the 'nationalisation' of state / territory led initiatives.
- Improvement in management information to support benchmarking and evaluation to drive continuous improvement strategies across the sector.

The investment required for industry development is modest in comparison to the significant asset portfolios under management across the sector and government contributions can be leveraged to secure funding from the community housing industry and other partners.

Commit to further increases in the cap and extension of the NHFIC guarantee. This will have minimal budgetary impact but will give certainty to (1) CHOs about the future availability of low cost finance and (2) investors about the long commitment of the Commonwealth Government to NHFIC.

NHFIC and specifically the Affordable Housing Bond Aggregator has been an undoubted success, amply demonstrated by the issue of three social bonds in less than two years of operation, at highly advantageous – and decreasing – rates of interest. The outcomes in terms of both savings to CHOs and also for tenants, are well documented in NHFIC's social bond report[48]. Not only have NHFIC's bonds been used to refinance existing loans, releasing equity for reinvesting in additional homes and services, but they have also supported new construction too.

The government guarantee has been critically important in attracting investor interest in NHFIC's bond issuances. While it is difficult to estimate the impact on pricing, officials at the UK equivalent The Housing Finance Corporation (THFC) have told CHIA that as a rule of thumb such a measure typically achieves a 1% reduction in interest rate.

Fixed income investors need to be convinced of the low risk of any new investment. The government guarantee is a cost effective (cheap) way for the Commonwealth Government to signal social and affordable housing is a safe haven. CHIA notes that the guarantee is in place until at least 2023. We strongly support the Commonwealth Government's recent decision to increase the cap and the positive signal this sends to investors. The sector needs confidence that NHFIC will be able to lend when it presents compliant proposals and will not be constrained by the level Commonwealth guarantee provided. This uncertainty is concerning from a new project basis and a refinance basis. The Commonwealth should provide this certainty.

CHIA thus recommends that the Commonwealth commits to further increases in the cap and extension of the guarantee beyond 2023. There is a very small cash impact attached to this recommendation. Increasing the cap by $1 Billion in the recent Federal budget had a small balance sheet impact[49].

Supporting the strengthening of the National Regulatory System for Community Housing (NRSCH) by contributing resources to establish independent and robust governance and develop specialist regulatory expertise.

Good regulation drives industry capability and improves the confidence of investors, governments and tenants in the quality of management and security of housing assets. The AHWG acknowledged so much in its 2017 paper by recommending the need to 'develop and implement a uniform and nationally applied regulatory framework'.

The official review of the National Regulatory System for Community Housing (NRSCH) has not been finalised some two years after its commencement. We however understand that there is a possibility that neither the Victorian nor WA government will join the NRSCH. Given that one of the main objectives of this review was to address the barriers to the two governments joining, this would be disappointing. The three existing regimes operate with similar standards and have similar enforcement powers. They regulate the same types of organisations, indeed in some cases the same CHOs. CHOs however, wishing to operate nationally are required to register separately and submit to different compliance assessments, adding considerably to regulatory burden.

CHIA's preference is for a single national regulator for all social and affordable housing (the option the AHWG supported); but accepts that there are alternative options to strengthen the system's governance and regulatory expertise in specialist areas.

The Commonwealth initially committed resources to part fund this review. In order to secure a satisfactory outcome we strongly recommend that a further allocation of resources is made by the Commonwealth to appoint an independent reviewer to resolve the current impasse and produce a clear roadmap to achieving a truly national regulatory regime.

Given the reliance placed on the regulatory regime by NHFIC to provide assurance organisations are well governed, CHIA recommends that the Commonwealth government support its ongoing operation by reinstating its original financial support to the NRSCH, as withdrawn from 2014.

Community Housing
INDUSTRY ASSOCIATION

Using the NHHA to secure better housing outcomes - Negotiating with the state and territory governments to transfer ownership of 50 per cent of public housing stock to community housing organisations by 2030 and reinstating a rental supply program.

CHIA welcomed the introduction of the National Housing and Homelessness Agreement (NHHA) in July 2018. Through its provision of $1.6B[50] annually to the States and Territories the Federal government can exercise influence over the housing outcomes achieved. For example, the Commonwealth has the power to designate at least part of its annual funding to a rental supply program. This would restore the per-1996 status quo under which Commonwealth-State Housing Agreement funds were ring-fenced for additional social housing supply. Such a restoration would effectively require that states and territory governments step up their financial contribution to social housing in their jurisdictions.

The Commonwealth Government should also use the NHHA process to negotiate with state and territory governments to transfer ownership of at least 50 per cent of public housing stock to CHOs by 2030. By enabling CHOs to leverage these assets, title transfer would act as a catalyst for growth of social and affordable housing portfolios, would address the financial unsustainability of public housing, and would deliver lasting outcomes for tenants and communities.

Title transfers to CHOs maximise public value as providers combine their rental income with other government subsidies, tax benefits and private finance to provide additional low cost housing. Independent modelling in South Australia and New South Wales has been carried out to estimate what additional housing could be leveraged from title transfer. This is estimated at between 5 and 10 per cent of the total homes transferred, depending on the policy settings, and access to competitive financing and land. [51] By contrast, preserving the status quo will lead to further shrinking of the social housing system with ever decreasing rental income streams and negative outcomes for tenants. Owning the transferred properties allows providers to be highly responsive to the needs of tenants and communities by undertaking active portfolio management, including establishing pathways for tenants by integrating social, affordable and shared home ownership programs. It would also maximise community renewal outcomes through long term investment in neighbourhoods.

Set up a $30M grant program to support innovative housing first accommodation options for veterans who are homeless or at risk of becoming homeless.

Research[52] completed in 2019 by AHURI for the Department of Veterans' Affairs (DVA) demonstrated that 'a much larger group of veterans than previously estimated experience homelessness. Estimates based on DVA- and Defence-funded administrative and survey data indicate that 5.3 per cent of the recently transitioned ADF population were homelessness in a 12-month period. By extrapolation, the number of contemporary veterans who experience homelessness over a 12month period is estimated to total well over 5,000.'

At the same time the researchers found that well under half of those who reported experiencing homelessness had sought assistance from mainstream homeless service organisations and those who had sought help reported high rates of dissatisfaction with the services provided.

The strongest risk factors for veteran homelessness included higher levels of psychological distress during service; and relationship breakdown and unemployment following transition.

CHIA has been working with veterans' organisations and the DVA since the report's publication to identify options to address veteran homelessness. There are currently a small number of housing first type options that have been developed and show positive signs of assisting veterans to address in a stable, low cost and sympathetic environment.

By funding a small program, designed along similar lines to the DSS Safe Places Program, the opportunity exists to support additional options in key locations. CHIA is also working with DVA to explore the possibility to provide community housing staff with the resources to provide sensitive tenancy management to the veterans' community.

Allocate $1M to establish a national research centre on contemporary housing for people with disability to measure outcomes, share technology and design innovations and promote best practice.

Most of the current housing options available to people with disability are inconsistent with the aspirations of people with disability. Group homes dominate the market. This form of housing is associated with negative outcomes for residents such as isolation, exclusion and risks of and exposure to violence, abuse, neglect and exploitation.

The anticipated new National Disability Strategy provides an opportunity to improve the provision of housing that is accessible to people with disability. The first strategy (2010-20) committed 'to support an agreement between housing industry, community and human rights leaders to a strategic plan to provide minimum accessibility in all new housing by 2020, with interim targets to be reviewed every two years'[53]. While not yet achieved, the Building Minister's Forum is overseeing a process which we hope will conclude with the introduction of a mandatory standard for accessible housing into the National Construction Code[54].

The previous Disability Strategy also committed to 'develop innovative options to improve affordability and security of housing across all forms of tenure'. CHIA believes that as part of the new strategy, the Commonwealth Government should drive innovation through allocating funding to a national research centre or hub that focuses on contemporary housing for people with disability. This centre / hub could:

- Provide support to test out design innovations and new technology
- Facilitate national and international knowledge and practice exchange
- Enable people with disability to be involved in the design process
- Review and evaluate new approaches
- Promote best practice

Allocate resources to NHFIC to support the development of practical and sustainable proposals to assist lower income renters into affordable home ownership.

Many tenants of community housing aspire to own their own home but are unable to take advantage of current opportunities such as First Home Owner Grants or NHFIC's deposit guarantee scheme. Even with these schemes the deposit hurdle can be too high. While initiatives such as shared home ownership and to a lesser extent rent to buy have been introduced there are still relatively small scale and have not been subject to evaluation.

NHFIC could commission work to review existing schemes in Australia and internationally with a view to examining outcomes identifying effective design features. It should also consider demand and the support that lower income tenants (particularly those in social an affordable housing), might need to take advantage of these schemes and, assist them in sustaining home ownership.
The research should inform the design of a fund to support new schemes targeted at lower income tenants. A budget of circa $100,000 is likely to suffic.

The research could also incorporate other groups such as older women who following a relationship breakdown cannot afford to maintain full homeownership.

Community Housing
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