Bringing affordable housing to scale

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Committee for Sydney

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Cover image: Evolve Housing, Harts Landing, Penrith.

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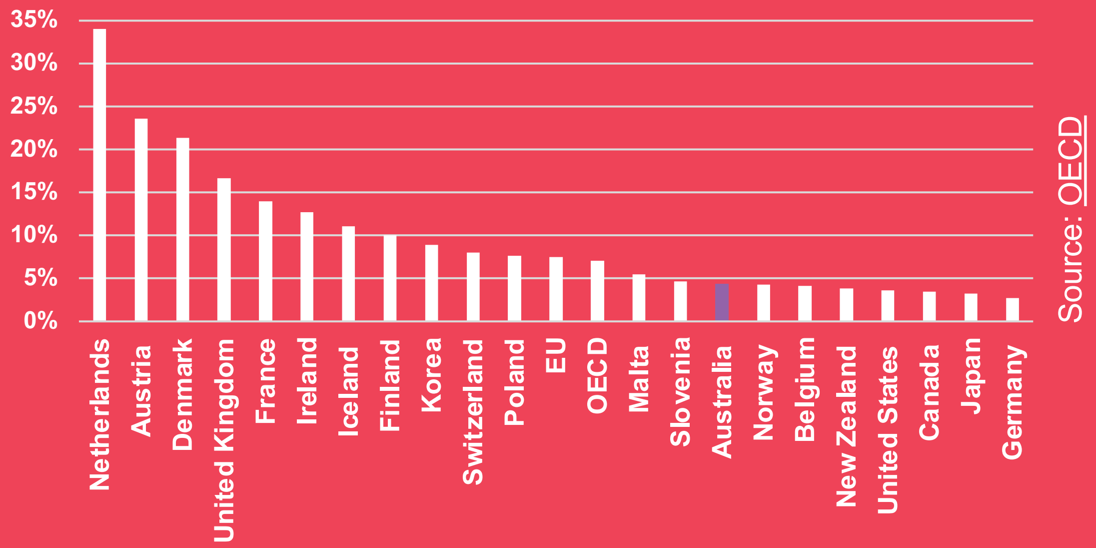
Sydney is being held back by a lack of social and affordable housing

Currently, social and affordable housing is just over 4% of the housing market in NSW.

By comparison, the OECD average is 7.1% and in some European countries it is much higher, for example, 14% in France, 24% in Austria, and 34% in the Netherlands.

While there are other parts of Australia's social safety net that help – especially Commonwealth Rental Assistance – increasing the portion of the housing stock that is affordable is also important, for social equity and economic reasons.

Australia has a low supply of social and affordable housing
Relative size of the social rental housing market – 2020



Partly thanks to some quite dramatic pandemic impacts on the housing system, but also following on from the change of government in Canberra in 2022, this is a fast moving policy area and there is a growing appetite for change.

The federal government is establishing the Housing Australia Future Fund, and has also announced a Housing Accord with the states. It is an exciting time for people who care about affordable housing.

The Committee notes the laudable efforts of some private developers, investors (including super funds) and not-for-profit community housing providers that have been experimenting with what can be provided without subsidy as an 'affordable property' solution as depicted on the housing continuum (see page 6). These initiatives have been an important and welcome addition to the housing system, and have broadened the diversity of offering delivered by the market.

However, the limitation of these models is they are unable to deliver affordable housing for the longer term, or for lower income households, due to the low yields that inevitably result from housing people with limited rent-paying capacity.

The focus of this paper, therefore, is the part of the spectrum that remains elusive – the scaling up of *permanently affordable rental housing* as part of the community housing sector.

The Committee's strong position is that permanently affordable rental housing (used in this paper to include social housing) remains the key challenge and must be considered as a form of both social and economic infrastructure. It is both essential for a functioning economy, and to ensure Sydney remains a place of opportunity for all to have a fair go.

Following the 2022 change of federal government, Australia's affordable housing industry anticipates a significant increase in investment in the sector.

This paper is intended as a contribution to the debate about how to scale up the production of affordable housing to meet those ambitions.

How can NSW create a world class planning and delivery system for affordable housing?

There are many reasons for Sydney's housing crisis, including federal tax settings and an ineffective planning system in NSW. Here we are focused on one part of the solution, how to realise the Committee's long-standing goal of increasing the stock of permanently affordable housing from just over 4% up to 10%.

For more information and a deeper dive on some of these issues, see:

- National Affordable Housing Alliance: Increasing the supply of social and affordable housing at scale and in perpetuity
- Australian Housing and Urban Research Institute: Private sector involvement in social and affordable housing

Housing continuum

= focus of this paper

Provided by government and community sector

Community housing

Market housing

Crisis & transitional housing	Social housing	Affordable Rental housing	Affordable Property	Market rental	Market housing
People experiencing homelessness, sleeping rough, in crisis accommodation and other transitional facilities.	Secure and affordable rental housing for people on very low incomes (generally welfare), managed by state public housing or community housing.	Rental housing for people on low to moderate incomes, priced to afford essential costs, managed by CHPs and others.	Rental housing at some discount to market and available for limited duration c.10+ years. Affordable purchase schemes – e.g. shared equity, rent-to-buy, and lower cost units – to benefit first purchasers, but with no ongoing affordability requirements.	Rental housing available on the private market. e.g. Build to Rent.	Housing available for ownership on the private market.

Require public subsidy – to increase availability means increasing public subsidy.

Produced by market developers – increasing availability means planning system increasing supply of buildable sites.

Bridge Housing, Parramatta

Defining terms: social housing and affordable housing

- One common way of defining 'housing affordability' is that a household spends no more than 30% of its gross household income on rent, excluding utilities.
- ‘Affordable housing’ is a broad term used to characterise many types of public or private housing made available for rent or purchase at specified or qualifying income levels.
- ‘Social housing’ is a subset of affordable housing, referring specifically to rental housing provided by the government or by a not-for-profit organisation operating on behalf of government. The need for social housing among very-low and low-income households is great, and wait-lists are extremely long (currently DPE estimates there are 51,000 individuals).

I. Four elements required for a better affordable housing system

The four elements required for a better affordable housing system

We believe four elements are required for a better affordable housing system:

1. A permanent source of funding as a clear signal to the entire housing system, and to increase the building stock

2. A planning system that expedites affordable housing projects, ensuring timely delivery

3. Reliance on the not-for-profit community housing provider (CHP) sector as the primary long-term owner and manager of permanently affordable housing

4. Sustainable sources of finance – debt and investment capital — that recognise the low-risk attributes of permanently affordable housing as an asset class.

Each of these elements is addressed below.

City West Housing 'Blackwattle Apartments,' Glebe

Photography: Brett Boardman Photography
Architects: Turner Studio

1. A permanent source of funding

Affordable housing requires a subsidy to make it financially viable – below-market housing is, by definition, not something the market can produce without assistance.

The sources of finance required to deliver a project need to be repaid. There will be income from rents, potentially supplemented by rent assistance. But, when tenants are – by definition – lower income households, there will always be a gap between the cost of housing provision and what occupiers can affordably pay.

We need to be clear, there is no magic 'model' that gets around the fact that affordable housing requires a subsidy.

As the table to the right illustrates, gaps can be bridged by upfront capital grants, ongoing rental subsidies, credit mechanisms, or a combination of all three. Each of these categories has many potential policy levers and in Australia and NSW many of them already exist to varying extents.

This paper does not discuss every form of subsidy, and instead focuses on the one that is considered most obviously absent and in need – revenue subsidies to fill the gap between operational costs and rents which can be collected.

Governments of all tiers have limited stocks of developable land that could and should be made judiciously available, ideally on long term leases so government retains control of the land for the long term. But even this is generally not enough on its own to make a project financially viable.

Types of economic assistance for social and affordable housing

Capital	Revenue subsidies	Credit enhancements
Funding grants typically targeted at construction stage (e.g. traditional upfront grants to CHPs)	Subsidies to bridge gap between costs (financing and operational) and rents	Mechanisms intended to enhance borrower credit
Reduced capital costs (e.g. lower car parking rates, waiver of planning fee or charges)	Direct assistance to tenants, such as Commonwealth Rental Assistance (CRA)	State loan guarantees and credit enhancement for private lenders
In-kind contributions (e.g. discounted land sale or lease)	Operational subsidies (e.g. land tax or council rate discounts, NRAS, GST exemption)	Reserve funds
Low cost loans (e.g. NHFIC)	Head leasing (indirect subsidy to occupant)	Use of syndicated funds through specialised financial intermediaries

Source: SGS, adapted from Pawson, Milligan and Yates (2020)

Bridge Housing, Bungaribee

The National Housing Finance and Investment Corporation (NHFIC) is the primary federal government entity involved in financing affordable housing in Australia, its creation being a positive innovation and legacy of the Morrison government. NHFIC's main function in the affordable housing space is to facilitate access to low-cost debt for CHPs, a critically important factor in enabling new provision.

But much more is needed. NSW Government investment in the right form will attract commercial senior debt financiers, providing NHFIC and the federal government with a clear direction of the scale of the state's ambitions, and allowing CHPs to develop the mainstay of smaller and mid-size projects. It will also help bridge the gap necessary to attract institutional capital to enter the sector at scale.

As the federal government has signalled a commitment to ramp up its investment in affordable housing, NSW also needs to commit to a program of subsidies in different forms (outlined in this paper). These should be long term, rather than treating them as one-off programs with all the accompanying expense and inefficiency that brings.

State governments are a critical enabler of affordable housing. Victoria's Big Housing Build and Queensland's Housing Growth Initiative are recent examples of state government programs aimed at providing the platform for the non-government sectors to combine investment opportunities with NHFIC low priced debt to deliver more homes on the ground.

While NSW has invested in programs such as the Social and Affordable Housing Fund (SAHF) to access developable land, and the Communities Plus program to revitalise social housing estates, these programs have been limited in scale. And, in the case of Communities Plus, fraught with delays in delivery. There remains a gap to truly bring affordable housing to scale – a clear and ongoing subsidy to provide assurance for investment in the long term.

The federal government has committed to the Housing Australia Future Fund as an ongoing subsidy for affordable housing. For this to be successful in supporting an ongoing housing supply program, it will need to be matched at both state and local government levels in varying forms.

While this kind of partnership is apparently the sort of approach envisaged in the recently announced Housing Accord, the model needs to be greatly expanded.

The National Housing Finance and Investment Corporation

The NHFIC is a federal government corporate entity with the purpose of improving housing for Australians.

NHFIC provides long-term, low-cost finance, and capability building assistance, to registered community housing providers (CHPs) to support the creation of more social and affordable housing.

NHFIC also lends, invests and provides grants to help finance critical infrastructure projects needed to unlock and accelerate new housing supply.

Since its establishment on 30 June 2018, NHFIC has:

- Approved $3 billion in long-term loans to 38 CHPs, supporting more than 16,365 new and existing homes and potentially saving these CHPs an estimated $550 million in interest and fees as well as other indirect costs associated with refinancing
- Issued nearly $2.2 billion in social and sustainability bonds, including the largest social bond in Australia by an Australian issuer
- Attracted investment from over 60 domestic and global institutional investors, to promote and grow social and affordable housing as an investible asset class.

For more information: NHFIC

2. A planning system that expedites affordable housing

For the most part, the current NSW planning system does not recognise the difference between affordable housing and market rate housing (one minor exception is the Housing SEPP's attempt to facilitate floor space bonuses).

We believe permanently affordable housing should be compliant with planning and design guidance, but not subject to lengthy and costly design competitions and assessment processes.

In Victoria, affordable housing projects are assessed under an expedited planning assessment. The precondition is projects must be carried out on land owned by the Director of Housing or be subject to funding by the Director. Given that nearly all projects require a subsidy, this effectively captures all community housing projects within the state.

Low-priced capital cannot be attracted to a sector that suffers lengthy and uncertain planning pathways – and that's the case for affordable and social housing, which essentially face the same approval risk as market real estate development.

Further, the not-for-profit community housing sector should be spending its resources on housing more people in need, not navigating an overly onerous planning process.

Victorian Planning Provisions

Clauses 52.20 and 53.20 of the Victorian Planning Provisions provide for projects that are wholly or partly funded under the Big Housing Build program, carried out by or on behalf of the Director of Housing.

Projects seeking the agency's funding are required to allow for council, referral authority and community consultation; a review by the Victorian Government Architect, where projects are over three storeys or 100 dwellings; meetings with the Department of Planning; revised documentation; and an eight-week assessment process.

This is indicatively an eight-to-10-month process from the time of being advised of success in seeking funding, through to construction commencing. By contrast, the Committee estimates most equivalent projects in Sydney area would take approximately two years.

NSW needs to reform its planning pathways to ensure they provide fast and predictable outcomes. Our members point to extensive regulation and guidance documents, which keep standards high and protect NSW from poor outcomes.

The Committee emphasises it is the process that is the problem, not the standards. An expedited planning process for affordable housing can be achieved with no reduction in urban outcome in planning or design.

The Housing SEPP should provide expedited approvals for all social or affordable projects, as well as mixed income schemes where the share of affordable housing is significant.

Evolve Housing, Guildford

3. A robust community housing sector

Community housing providers, which reinvest their surplus into more housing for people in need, should be the primary owner and manager of permanently affordable housing.

We acknowledge the continuing role and scale of state public housing, relative to CHPs. However, policy change at federal government level (both recent and in the establishment of NHFIC) point to a future with third-party sources of finance, and partnerships between CHPs and the private sector to scale up of the industry.

Accordingly, our view is that expanding the stock of permanently affordable housing ultimately rests primarily with the non-government sectors.

CHPs already play several roles:

- lead developer for projects generally of <100 dwelling scale
- long-term owner of housing
- property manager
- provider of tenant services
- coordinator of wrap around support services.

However, for the most part, the current housing system (including state housing and land agencies) is set up with the CHP's role primarily being for tenant and property management services. All members of the sector point to the need to be both owner and manager of housing.

If we get the settings right, CHPs can increase their capacity to develop on their own, as well as to partner with commercial entities on larger projects.

Additionally, given the continued role of public housing authorities in the production of housing, this channel will continue to be an important part of the system.

Among the benefits to government of relying on CHPs for more affordable housing (whether on their own, in partnership with others or via acquisition) is that surplus would be reinvested for the same purpose.

Beyond this, CHPs can leverage their tax advantages (e.g. exemption from GST, and other state and local taxes and duties), as well as benefiting from the eligibility of their tenants for Commonwealth Rent Assistance (unavailable to public housing tenants). This is not new ground, CHPs in the UK and US are significant entities in their own right.

City West Housing 'Ironbark Apartments.' Forest Lodge

Photography: Ben Guthrie, The Guthrie Project
Architects: Scott Carver

UK housing associations

The UK currently has about 1600 housing associations, or 'private registered providers' (PRPs), and these take the form of charities, not-for-profit and for-profit organisations.

In 2018/19, one third of all new homes in England were built by housing associations. Together with local authorities, housing associations provide around 17% of the UK's housing stock as social or affordable tenancies, occupied by almost 6 million people.

Mergers have changed the landscape in recent years and the biggest housing association in the UK is Clarion Housing, which manages about 125,000 dwellings.

The G15 is a group of the 15 largest housing associations that, between them, house one-in-10 Londoners. In this famously unaffordable city, Mayor Sadiq Khan secured more than £4.8 billion in government funding in 2016 to help start working with G15 organisations to build at least 116,000 affordable homes by March 2023. The results of that investment are now revealing themselves with 18,722 affordable homes under construction by councils and housing associations in 2021/22, a 40% increase on the previous year's figures.

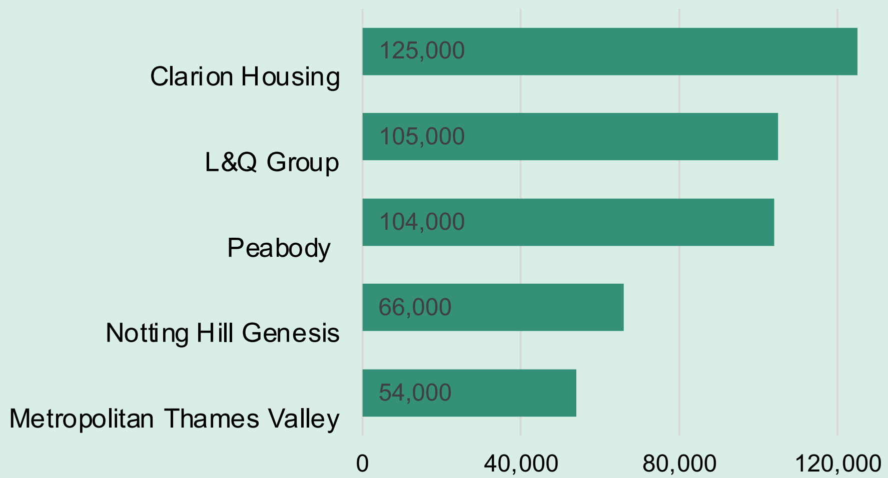
Housing associations have also experienced an increase in funding from the UK Government. In 2020, the government pledged £11.4 billion to its national Affordable Homes Programme from 2021-26, up from the £6.2 billion disbursed between 2016-20 and reversing the declining trend in funding since 2009.

But despite this, most housing associations finance their investments with debt. The rise of ESG and impact investing provides an opportunity for the UK's housing associations to reach a far broader universe of investors than they currently do. The Investment Association estimates the overall size of the UK sustainable investment market is currently about £2 trillion.

For more information:

- Homeviews
- National Housing Federation UK
- Mayor of London
- Homes England Annual Report 2021 to 2022
- The ESG Social Housing Working Group

Largest UK housing associations
Number of homes per association



Sources: Clarion Housing, L&Q Group, Peabody, Notting Hill Genesis, Metropolitan Thames Valley

4. Sustainable sources of finance

Australia is a wealthy nation with abundant capital available in the form of both debt and equity.

With respect to senior debt, which forms the vast majority of affordable housing finance, the federal government established the National Housing Finance and Investment Corporation (NHFIC). NHFIC's positive and significant impact on the sector has been welcome, and it would be the logical agency to take on an expanded mandate to place Commonwealth investment in affordable housing. Equivalent institutions in the UK and US are there for the long run, providing a stable backbone of lending to the sector.

NHFIC needs to be scaled up as all Australian states address the problem more completely.

The Committee welcomes the announcement of the Housing Accord and new energy being invested in federal and state coordination on housing affordability. The federal government requires a clear signal from the states and territories as to the scale that NHFIC needs to become – NSW needs to signal its intentions.

NSW needs to decide how it would like to see private capital involved in the sector and, if so, in what form. There is not a settled view on affordable housing as an asset class yet, because the planning requirements and approach to subsidies differ wildly in different parts of the country.

Sometimes the smallest and cheapest apartments for sale in a market-rate project are deemed 'affordable,' or short term affordable rental housing with an expiry date. But these affordable property approaches, well-intentioned as they may be, are not solutions for permanently affordable rental housing. NSW needs to create a clear framework for a scaled-up program that all actors in the housing system can work within.

City West Housing 'Blackwattle Apartments,' Glebe

Photography: Brett Boardman Photography
Architects: Turner Studio

St George Community Housing, Newtown

If NSW commits to finance and subsidies for permanently affordable rental housing, it will send a clear signal to both community housing sector and financiers to respond.

Victoria has begun providing low interest loans to the sector and providing Treasurer's guarantees to private banks and financiers of CHPs. The benefit of both approaches is they allow CHPs to borrow at reduced rates and then invest the funds as equity into their projects. This ensures the lowest amount of debt service and interest expense leaves the charitable structure, and maximises the CHPs' retention of profits or surplus. While NHFIC may remain the largest source of financing, it can only help for NSW to bring in other sources of lending for affordable housing.

Australia is in the enviable position of having enormous pools of capital in super funds. Again, this is not 'free money' for affordable housing — it would be loans that need to be repaid — but it could be an important part of the solution. Few people realise that Australian super funds are more heavily invested In US affordable housing than in Australia because there are (with a few exceptions) no opportunities for them to deploy capital in affordable housing locally.

The super funds, many of which are member-based organisations, with community objectives and good ESG governance, are a natural source of capital for affordable housing. However, they require certainty and scale of programs, the likes of which can only be found offshore at present. Superfunds will also require investable projects to have subsidies to ensure returns are adequate.

The superfunds should not be seen as benevolent sources of capital willing to accept sub-economic returns. Their sole purpose is to support their members retirement incomes and in a world of lower levels of home ownership, we cannot afford for retired renters to also be straddled with lower retirement incomes.

NSW needs make it clear that it wants super funds or other similar private capital sources involved in the sector, in what form (senior or junior debt or equity), and then ensure the policy settings are in place to enable that capital to be deployed. Ideally there would be some commonality across state borders.

II. Better delivery models

There are two primary delivery models for affordable housing in NSW

At a high level, there are two primary delivery models for affordable housing in NSW:

1. Mixed income developments on government-owned land, including renewal of public housing estates

2. Ongoing funding to community housing providers to undertake projects.

Our view is both models can be improved.

Evolve Housing, Newcastle

1. Mixed income developments on government owned land

How it currently works:

- Government puts land out to tender. Usually, public housing estates with housing stock that needs to be replaced or repaired, but it could be other government owned land.
- Depending on the state government's preferred commercial model, the lead bidders are market rate property developers or, as has recently been the case in Victoria, PPP social infrastructure developers. They form teams with financers, CHPs and others.
- The basic model is to use the market rate housing and land to fund the development of the affordable housing in part or whole. Bidders might compete based on how much affordable housing they can provide or for the lowest subsidy required, but the criteria could and usually does involve other government strategic objectives. Depending on how the deal is structured, there could also be financial or asset returns back to government over time.

St George Community Housing, Miller

There are two basic variations

A. **Build a mix of market, social and affordable housing, then hand back the social and affordable housing to the state government and sell the market rate housing.**

   Property developers would typically lead these bids. This has been the more common model in recent decades. But it has the downside of leaving government with less land at the end of the deal, and less ability to undertake renewal again in 50 years' time.

   In that sense, the government is engaging in 'asset swapping' of land (a dwindling resource) for dwellings, usually apartments. Most of these projects sit on the land legacy of the post-war era when government built housing estates in inner city locations.

   Government is not gaining more land in these important locations, even as the population grows. In NSW, the Communities Plus program is the most recent example of this model.

   This model could be improved by using CHPs to undertake development where the project scale is within their capability and skillset, noting larger projects will likely continue to require leadership from the private sector. Since CHP interests are closely aligned with those of state housing authorities, the CHPs should – in theory – make ideal partners.

   If NSW would like the CHP sector to reach the capacity and capability of its UK and US equivalents, then procurements should be structured in a way that makes it possible for capable local CHPs to scale up to the challenge.

   This would mean CHPs taking on more risk, but it would also require the state government to accommodate the needs of the sector. For example, master plans for larger sites can be divided into smaller packages which would enable CHPs to lead delivery and would also de-risk the overall project.

B. **Build a mix of market, social and affordable rental housing, and return the land to government at the end of the contract (typically 40 years).**

   This would be a PPP social infrastructure model, in which infrastructure developers and financiers lead bids alongside or on behalf of a CHP. This is beginning to take hold in Victoria and is termed the 'Ground Lease Model' (see page 23).

   Victoria has recently transacted a large scale 1200 dwelling project and has another 1400 dwelling project out to tender at time of writing. More are in the pipeline as this is viewed as the most dependable model for a rapid expansion of affordable housing stock, and gives CHPs a more significant role, albeit significantly supported by parts of the private sector (investors, banks, infrastructure developers, asset managers).

   In NSW, this model does not yet exist and the Committee believes consideration should be given to the use of such an approach given the scale of the challenge, the benefits to both the state and non-government sectors, and the ability of such an approach to provide opportunities of scale to be attractive to institutional capital.

We would note that renewal of council estates brings in a distinct set of challenges to developing affordable housing on other government-owned land.

Major renewal of public housing estates involves successfully relocating and rehousing vulnerable existing communities of tenants in large scale tranches. In a social housing system that is ‘full’ and a low number of vacancies, this challenge requires great care, community consultation and coordination with other parts of the social housing system.

It can and probably should involve the transfer of the tenants and title from public housing to community housing providers at the same time to take advantage of CRA subsidies, new financing opportunities and achieve some market sales, if de-concentration of disadvantage is a place making goal.

Ground Lease Model

In 2021, the Victorian Government contracted a social infrastructure style 40-year concession project to a consortium led by Community Housing Limited (CHL).

The innovative structure sees c.1200 dwellings in a mix of social, affordable and market housing being delivered across three sites in inner Melbourne.

Senior debt was provided by NHFIC, while equity was invested by CHL but with funds sourced from a loan from Victorian Treasury.

Profits will be used to pay down debt faster than normal, after which time they will be shared between CHL and the Victorian Director of Housing.

The structure will mean all profits, noted to be over $200 million, stay within the social and affordable housing system since that is the core purpose of both CHL and the Victorian Director.

For more information: Homes Victoria

2. Funding to community housing providers

In this model, government provides subsidies to community housing providers to 'top up' the gap to make a project viable.

While the GST exemption granted to CHPs through the Australian Tax Office is a reliable indirect operational subsidy, governments are inconsistent in their approach to subsidising development and/or operations for CHPs in three ways: (a) offering publicly-owned land available at a discount; (b) offering rates reductions; or (c) offering subsidies in the form of contribution charge or fee exemptions.

There are two basic variations:

1. Upfront capital grants to reduce initial investment requirements and borrowing
2. Ongoing rental subsidies or availability payments to make dwellings available at below-market rents that help close the gap between operating revenues and project delivery and operational costs.

In both variations, CHPs can build their own stock, as is the norm for CHPs in the UK and US. Developing new units or purchasing in bulk at discounted rates from property developers are both possible. The former has the advantage of potentially being delivered for lower cost and building up the skill base of the sector, while the latter may provide speed and leverage efficiencies given the scale of production.

In NSW, the Social and Affordable Housing Fund (SAHF) is an example of the rental subsidy model. The Committee notes the concept was strong, but recommends a more streamlined cost-efficient process could be adopted.

NSW Social and Affordable Housing Fund

A good example of a successful approach to affordable housing that relies on monthly payments rather than upfront capital grants. The Department of Communities and Justice ran two rounds of bidding, which resulted in agreements with eight different CHPs to provide housing and services for a total of 3400 households.

The program commits to a 25-year payment stream to the housing providers, contingent on meeting their performance targets. A minimum 70% of homes delivered under the SAHF must be made available for social housing and 30% for affordable housing.

CHPs delivering under the SAHF must not only provide good quality accommodation, but also property and tenancy management services, and access to supports tailored to individual residents' needs.

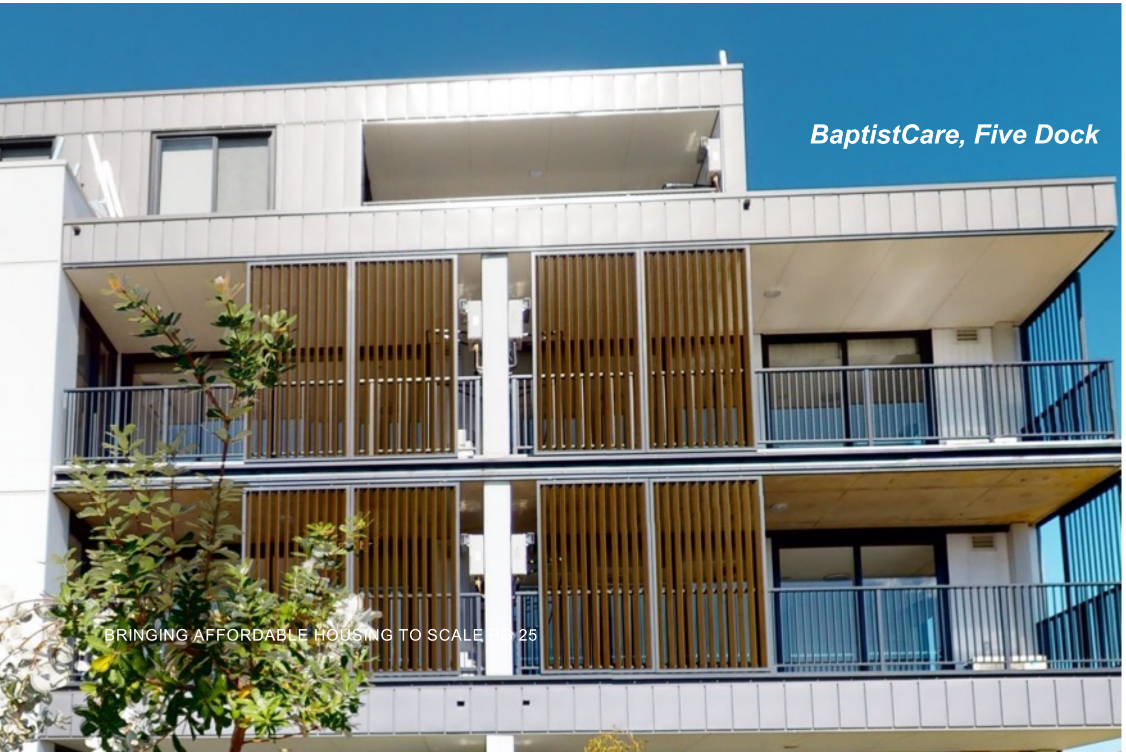
The SAHF provided flexibility about how the dwellings are delivered, resulting in a mix of new construction, refurbished dwellings and long-term leases. They are in areas where there is a high demand for social and affordable housing, and for specific population groups including Aboriginal people and their families. It is also a requirement for these homes to be close to transport and services.

The certainty of monthly service payments over the 25-year SAHF term has allowed CHPs to secure competitive, long-term finance to fund project developments. And this finance is available on a cashflow basis, rather than a traditional construction loan or loan-to-valuation basis, which resulted in a higher level of gearing (debt to equity). The reviewable component of the monthly service payments also provides funding for the tailored support services, which is integral in achieving positive sustainable outcomes particularly for social tenants.

Both forms of subsidy can work. Upfront grants have traditionally been sized so that no further government subsidy is required, and CHPs rely on social and affordable rents to operate and maintain their buildings.

This approach works for CHPs, but will quickly stretch the state budget if deployed at scale, noting it does not use third party capital (other than for the limited amount of senior debt within the overall mix of capital in projects procured under this approach).

Combining ongoing rental subsidies with smaller upfront grants and/or discounted land contributions could also be considered. This approach enables government to balance the cost and level of long-term subsidy commitments relative to the size of upfront contributions, and would be made for treasuries to optimise their liabilities over the short and longer term.



BaptistCare, Five Dock

For rental subsidies to work, permanently affordable housing requires a permanent program, and eligible projects need subsidies for a long duration (i.e. 25-40 years) for the capital required to deliver projects to be paid off sufficiently, to then allow for future liabilities to be managed with rent collected.

In this regard, the previous National Rental Affordability Scheme (NRAS) and the USA's Low Income Housing Tax Credit program have significant shortcomings due to being available for only 10 and 15 years respectively. Across Australia, we are now seeing the impact of projects rolling off NRAS subsidy, before the capital has been sufficiently paid off, resulting in much of that stock reverting to market housing at a time when we need more affordable housing, not less.

There are several advantages of ongoing subsidies over upfront capital grants:

- They are an efficient way to operate and manage affordable units, because CHPs will be the owners and managers of their stock, potentially entire buildings
- They are efficient from a financing and tax perspective, because projects can be funded with less expensive debt than market rate developers use, and can access the various concessions available to charitable CHP entities, such as no income tax, GST, stamp duty and land taxes
- The availability of long-term subsidies (i.e. 20-40 years) is attractive to the lowest priced capital
- They spread the cost over decades, rather than hitting the budget upfront
- They could be quick to process and deploy, especially if the improvements noted below were adopted.

The federal government's Housing Australia Future Fund is essentially a mechanism to deliver a significant increase in projects funded by ongoing 'availability payments,' which is the way PPP infrastructure finance is usually structured over a term of 20-40 years

BaptistCare, Elderslie

How to improve this model:

1. The big change we recommend is creating an ongoing program with a 'shopfront' that accepts applications in an ongoing way. Instead of one-off tenders with very large transaction costs, government would define criteria for what it wants to fund — for example, the cost per unit of housing it is willing to pay for by location, or preferred geography — and then fund any CHP applicant with a project that meets the criteria.

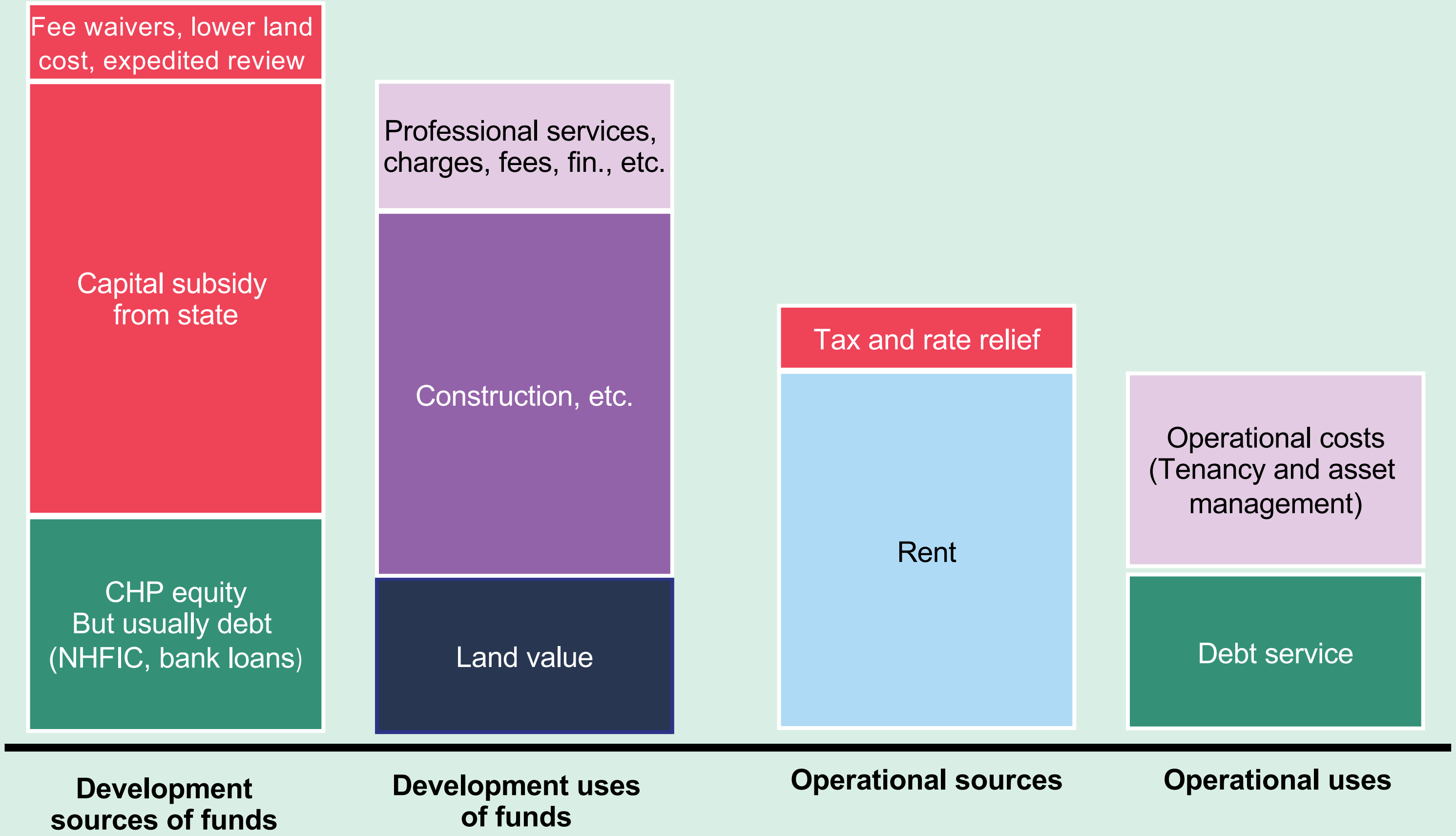
   If funding for a given year runs out, then the program starts up again the following year. If the program is continually over-subscribed, government can either increase funding, or tighten the criteria. This ongoing, shopfront approach would allow CHPs to be much more entrepreneurial about pursuing sites and putting projects together. With predictability, comes a model that would enable the community housing sector to scale up. This approach would also benefit from a pre-qualification 'approved developer' mechanism for assessing the capacity of the developers.

2. Greater consistency between jurisdictions would also help. While any action is encouraged, Victoria, Queensland and NSW are all experimenting with different programs. Industry investors want a consistent model they can rely on. While many CHPs are largely based in one state, most of their partners and advisors are not, and this increases transaction costs for the sector as each state's rules are different, and their procurement approaches are different.

Lastly, with respect to all delivery models outlined in this section, the effective use of government subsidies should have regard to careful spatial planning and not just be applied anywhere and everywhere. All local government areas require affordable housing, but the goal of helping as many people as possible will be aided by subsidies being prioritised to locations within each LGA where land does not come at a premium and there can be efficiencies in scale.

Accordingly, the Committee's view is that any mandated percentages of affordable housing should be implemented by authorities exercising judgement as to whether projects should implement with works in kind or cash contributions, subject to appraisal relative to an LGAs strategic plans for their municipality.

Affordable rental housing development – with upfront grants

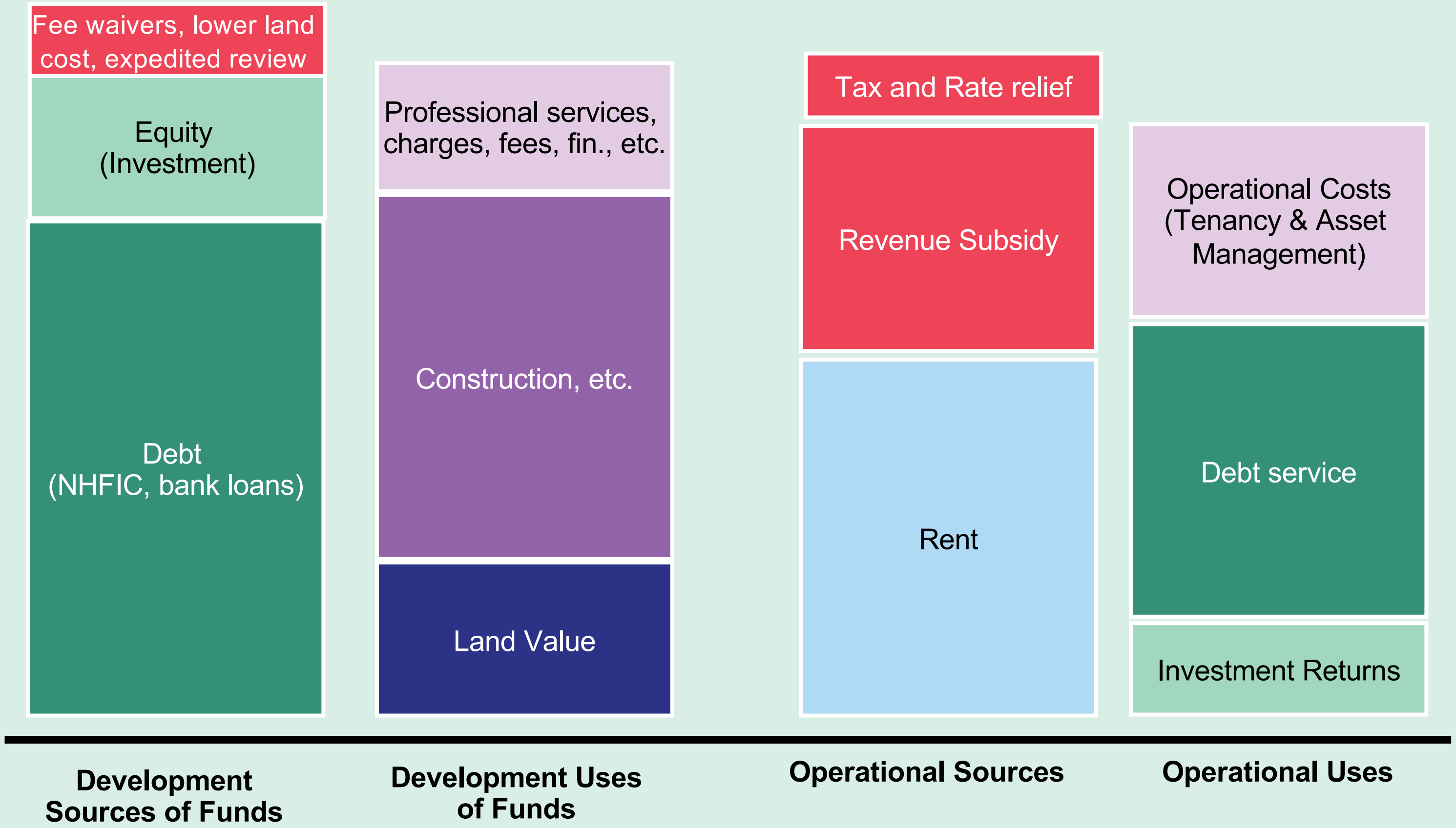


Source: SGS Economics & Planning

This conceptual diagram depicts the funding model where the majority of a CHP acquisition or development is funded from a state capital grant. The CHP then invests the balance of funds as equity, though in practice this is usually via raising senior debt. Note, there is also potential for other forms of upfront subsidy or savings via fee waivers, expedited reviews and so on.

As most costs to acquire the new dwelling come from a grant, affordable rents can cover the operational costs and the servicing of the relatively low amount of debt against the dwelling. Note that tax and rate relief is a form of operational subsidy already in place.

Affordable rental housing development – with operating subsidy



Source: SGS Economics & Planning

Where there is no upfront capital grant, the full cost of acquisition or development of a new dwelling is borne by the developer. A significant long term revenue subsidy attracts low priced investment capital and creates the conditions for higher leverage, ensuring a low average cost of capital.

The revenue subsidy, together with rent collected, is used to cover operational costs, repayment of senior debt, and lastly investment returns. Again, in both models there are also potential for other forms of upfront subsidy or savings via fee waivers, expedited reviews and so on.

III. Recommendations

1. Planning

- **Identify more government-owned land that can be put in to affordable or mixed income housing production.**

  Currently, the land resources of housing-focused agencies like Land and Housing Corporation and Department of Communities and Justice are viewed as potentially available for housing development. But other state agencies have land that could be used as well — Health, Education and so on.

  We note the establishment of the Transport Asset Holding Entity (TAHE), with the explicit mandate to develop land owned by Transport for NSW, could be an important added source of land supply for housing.

  This should not involve the sale of government land, instead land should be made available on long-term leases (40-99 years, subject to delivery approach) to ensure longer term government control and retention of land assets

  Key actor to lead on this: Greater Cities Commission

- **Reform planning system to provide a distinct approval pathway for affordable housing projects.**

  The Committee emphasises it is the *process* (including design competitions and lengthy assessment timeframes) that is the problem, not the standards. An expedited planning process can be achieved with no diminution of quality in planning or design outcomes.

  Key actor to lead on this: NSW Minister for Planning

- **Undertake strategic planning within each LGA to identify the best locations for affordable housing to be delivered.**

  Determine criteria for projects where affordable housing should be delivered as works-in-kind versus those where contributions would be better collected and applied at other locations within the LGA.

  Key actor to lead on this: NSW Minister for Planning and local government authorities

Bridge Housing, Parramatta

2. Funding

- **Designate NHFIC to manage the federal government's Housing Australia Future Fund (HAFF).**

  Among other things, NHFIC can expand the housing bond aggregator for senior debt, and potentially act as an intermediary for super fund investment in a pooled and well-governed equity fund that invests in affordable housing projects. It is critical that procurement be simple and ongoing, not one-off.

  Key actor to lead on this: Commonwealth Housing Minister

- **Provide low interest loans and guarantees for the types of capital that NHFIC cannot provide.**

  This could include loans for riskier parts of the capital stack or limited treasury guarantees for private lenders.

  Key actor to lead on this: NSW Treasury

- **Create a permanent NSW housing delivery fund that makes both capital grants and long-term rental subsidy contracts.**

  As outlined in section above on Subsidies to Community Housing Providers, the Committee believes that creating a shopfront with known parameters for supportable projects would be efficient for the entire system.

  As part of this program:

  - Develop criteria that enable CHPs to apply for funding in an ongoing way, based on a first come, first serve basis each year.
  - Tailor the program so that it provides differential funding amounts based on unit type and populations to be served. Update the criteria from time to time as new knowledge is gained, land and construction prices change, and the program evolves.
  - Use this program to support the growth of the community housing sector. That means providing a mix of funding options (both capital and operating) that enable CHPs of various sizes to access the program that best suits their needs and strategy.

  Key actor to lead on this: NSW Department of Communities and Justice, NSW Treasury

3. Delivery

- **In partnership with state agencies, particularly Land and Housing Corporation, scale up the CHP sector to be responsible for delivery, ownership and management of the permanently affordable housing system.**

  Key actors to lead on this: Land and Housing Corporation, NSW Department of Communities and Justice, and CHPs

- **Develop a large-scale program of procurement for rapid expansion of the stock and to attract institutional capital.**

  Encourage partnerships with larger developers (infrastructure, property) as required, depending on the project type.

  Key actor to lead on this: Land and Housing Corporation, NSW Treasury, CHPs and developers

St George Community Housing, Redfern

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