A photograph of a modern, multi-story apartment building with a curved facade and balconies, set against a blue sky with clouds. The building is surrounded by trees and a street with a bus and other vehicles. The image is partially obscured by a grey overlay at the bottom.

SGCH submission: *Inquiry into housing affordability and supply in Australia*

13 September 2021

Introduction

We welcome the opportunity to provide a brief submission to the Standing Committee on Tax and Revenue inquiry into the contribution of tax and regulation on housing affordability and supply in Australia. We hope that it will draw on and complement other government reviews and reports, leading to structural reform that in the decades ahead will create a legacy of a well-formed housing system that has a great place for everyone.

Our vision is great places for everyone.

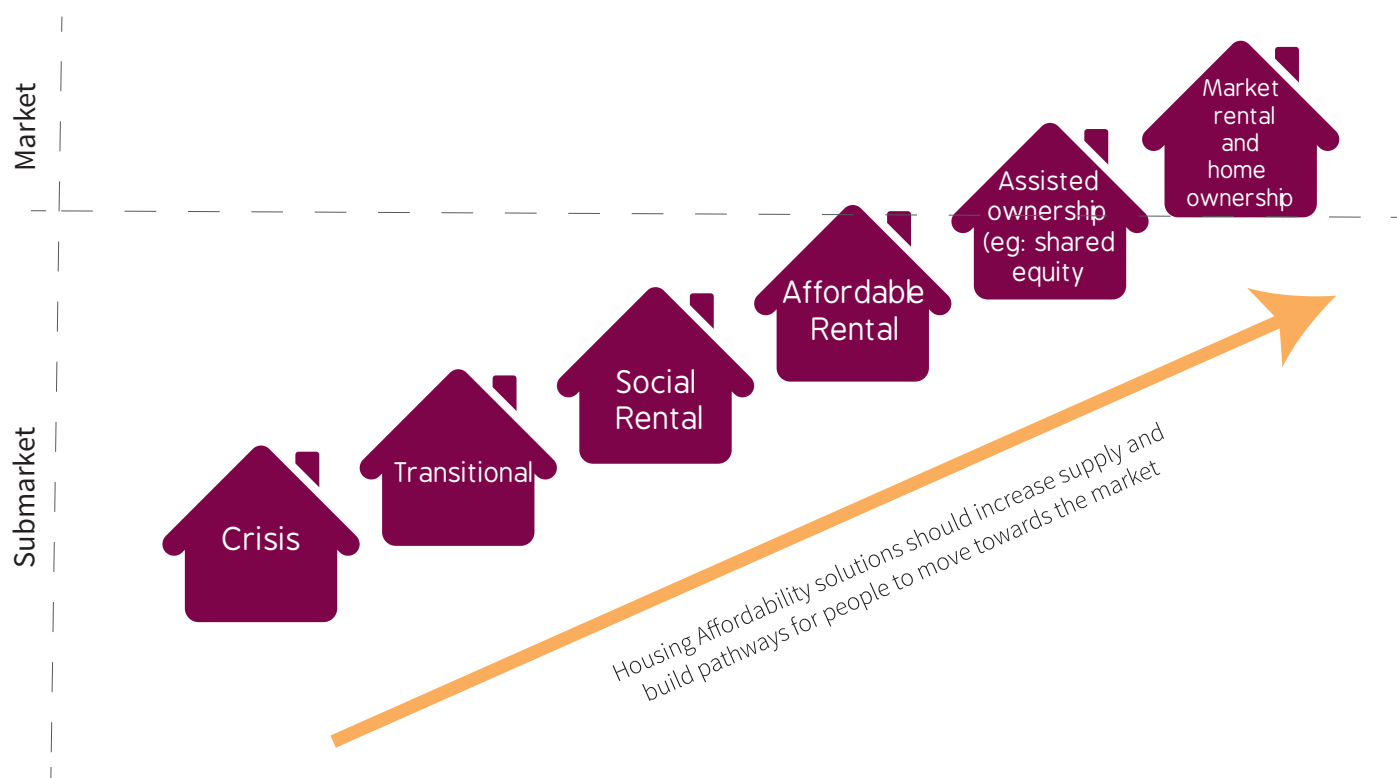
As a large community housing provider operating in Sydney, we share the aspirations set out in the *Housing 2041: NSW Housing Strategy* for a housing system that supports security, comfort, independence and choice for all people at all stages of their lives.

This means a functioning continuum of housing options from rental to homeownership that provide access to safe, sustainable and affordable homes.

Housing markets are complex with a range of direct and indirect policy settings impacting on housing affordability. What is clear is that housing in Australia is increasingly unaffordable and that this risks significant social and economic consequences.

Home ownership is a worthy aspiration and for many households is a principal means of creating economic independence. Policies that support home ownership have value, but before people own a home they need a rental they can afford. There are also a growing number of Australian households who are faced with barriers that mean they will never own a home. Ensuring a supply of affordable rental provides a key stepping stone on the pathway to home ownership as well as a safety net for those for whom owning a home will always be out of reach.

Market and sub-market



About SGCH

SGCH have a 35-year history in delivering and operating sub-market housing - social and affordable housing- for local communities across Sydney. We manage the largest portfolio of community housing tenancies in Sydney - with a portfolio of approximately 7,000 properties housing more than 11,500 people. We currently provide a home for one in every 420 Sydneysiders. Our portfolio includes a mix of social housing, Aboriginal social housing, transitional housing, supported housing, affordable housing, key worker housing and specialist disability housing.

Since 2017, we have successfully mobilised private investment of \$475 million that leverages government contributions and has supported a pipeline of over 1,000 new social and affordable homes. Crucially, the delivery and operations of social and affordable housing by community housing providers does not infringe on the viability of market development.

Our role is to be a coordinating partner with the capability, expertise and vision to draw in a range of contributions from different levels of government and mix this with capital and capability from the private sector to achieve change and improve outcomes for individuals and communities.

Vision for sub-market housing

Community housing providers are regulated not for profit organisations that offer a range of housing options which are targeted where the market cannot provide housing at a price people can afford. In this sub-market space, SGCH would argue that the role of social and affordable housing must be reimaged to include providing homes for workers which supports economic development, and helping people in rental springboard into ownership, as well as providing a safety net. This is the model as was prevalent in the Menzies era post World War II and it played a significant role in economic and social recovery.

The significant investment into social housing post World War II was also in part an economic stimulus that provided a counter cyclical ballast to stabilise the construction and housing markets. Whilst we may view some of the legacy housing from this era as poorly planned, in a contemporary context a more integrated approach with modern design and construction coupled with management by community housing providers ensures that built form is better integrated into diverse communities.

From the 1990's social housing has fallen as a proportion of the housing system, and so too has it become more targeted as a social welfare response. In parallel the physical social housing stock has suffered from under investment across the span of several decades. This manifests in a social housing system, where for example in NSW public housing properties have an average age of over 40 years, and in many cases these properties are not fit for purpose. The system needs substantial recapitalisation to make it fit for purpose and capable of meeting demand. We note there are several large scale state initiatives such as the NSW Government's Communities Plus renewals which are seeking to improve the quality of housing and social outcomes in a resource constrained system.

In the sub-market, to reduce the call on government resources, community housing providers can bring together a range of contributions and attract private investment and capability, and bundle this with their own capability to partner in the delivery and operation of social and affordable housing.



Increasingly, affordable housing operated by community housing providers is recognised as an investment class offering the benefits of low-volatility, long-term demand and the assurance of being highly regulated. Investors are increasingly understanding the stable economic return and incredibly high social return available from this emerging global asset class. They want strong partners who will ensure that quality homes are delivered that add to the amenity of neighbourhoods and which are then managed to ensure outcomes for residents and the community.

A number of institutional investors have already made substantial investments into affordable housing and Specialist Disability Accommodation (SDA) in partnership with community housing providers for this reason. There is a growing weight of capital looking to invest and regulated not for profit community housing providers can bring together a range of contributions to deliver and operate affordable housing whilst ensuring strong protection of the public interest and benefit.

With the right policy settings and certainty of regulatory settings that support investment through community housing providers, this appetite can be unleashed to deliver more and better social and affordable housing that complements rather than competes with or challenges the viability of the private market.

A key structural mechanism for community housing providers to catalyse larger scale investment from the private sector has been the establishment of the National Housing Finance and Investment Corporation. We look forward to the outcome of the NHFIC Review later this year which we hope will allow NHFIC to build on the successes with ongoing government support, expanding the involvement of the private sector through investment into community housing.

We also welcome policy proposals currently being explored that recognise the central role of community housing providers in bringing together capital and capability with a programmatic approach to market intervention.

Overseas initiatives

There are a plethora of studies and reports into overseas initiatives that create a supply of affordable housing. We have highlighted several below which illustrate a set of characteristics we suggest be considered in the design of policy responses in Australia:

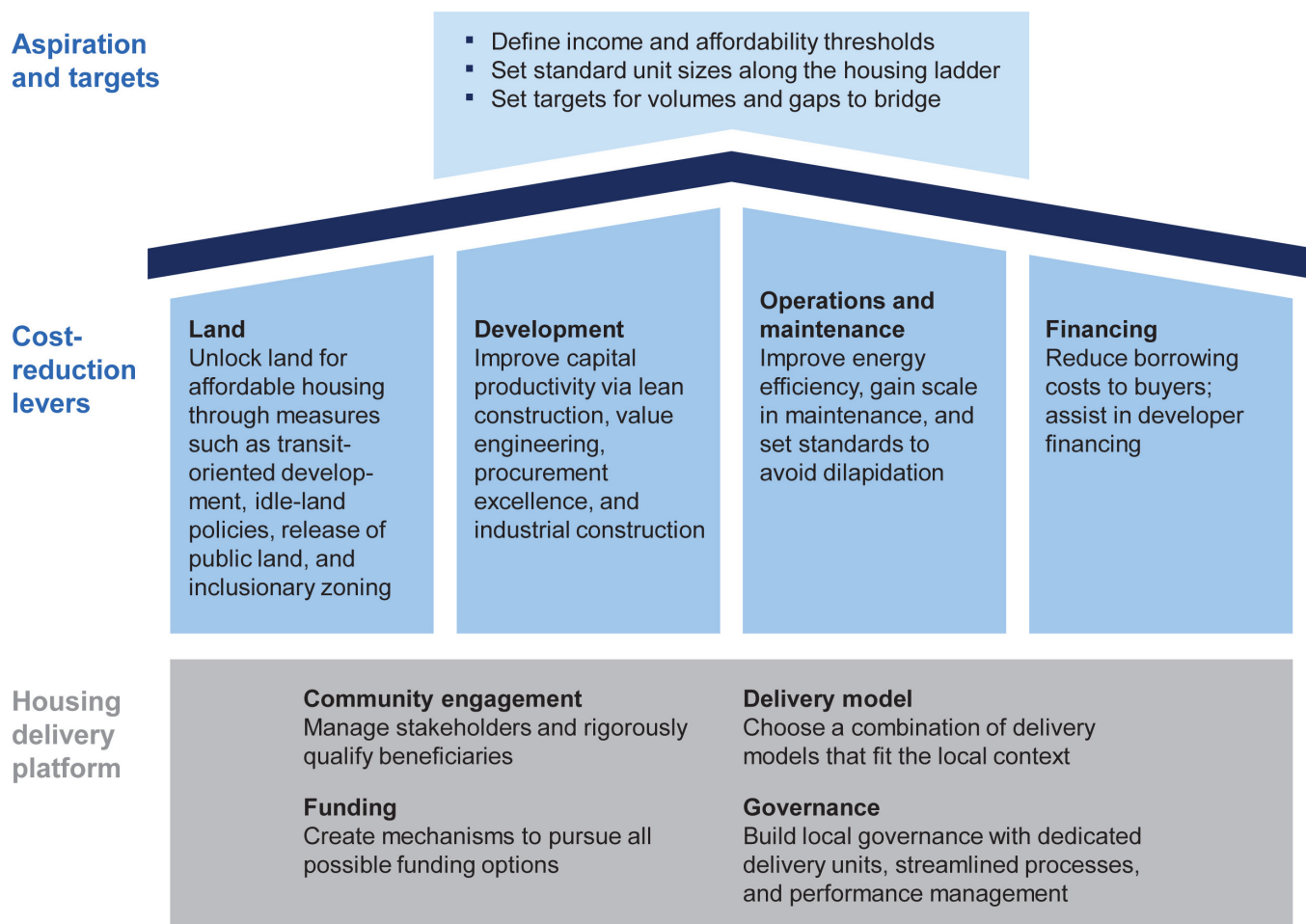
- **Scale** – Initiatives that have a meaningful scale have attracted high quality market participants. For example, in Homes England has recently announced £8.6 billion for affordable homes in a program that will deliver around 119,000 homes. Larger scale brings forth different levels of capital and capability.
- **Contestability** – Programs have established and consistent measures of what ‘value for money’ looks like and there is open contestability.
- **Replicability** – Successful initiatives are replicable and are often regularly repeated. There is a cycle of opportunities and how long procurement processes will take, they can make informed assessments about participation. For example, the Low Income Housing Tax Credit system in the USA operates on a known cycle of funding rounds.
- **Executable** – There are a several examples where procurements for affordable housing have been announced and then delayed, withdrawn or run as a “pilot.” This is inefficient as proponents are investing resources not knowing if the project will proceed at all, or if they are unsuccessful if there will be future rounds on similar terms so they can build on their efforts. Developers, community housing providers and partners want certainty that programs and projects will proceed. Uncertainty of transactions and the time taken to make decisions risk the loss of capability in the market.
- **Non-market subsidy availability** – To deliver sub market housing outcomes there is a need for subsidy. Successful initiatives overseas do not rely on the private market or housing providers compromising project viability measures to deliver this subsidy. Non market affordable housing should complement not impair the private market. Direct subsidy funding (e.g. Grants) or indirect subsidy (e.g. Tax concessions) combined with other levers such as density bonuses are required.

Illustrative examples from overseas include:

- **Affordable Homes Programme (England)** – Recently announced funding of £8.6 billion will deliver around 119,000 homes, including 57,000 for ownership, 29,600 for social rent and 6,250 affordable rural homes.¹
- **The Low-Income Housing Tax Credit (USA)** – The Low-Income Housing Tax Credit (LIHTC) provides a tax incentive to construct or rehabilitate affordable rental housing for low-income households. The LIHTC program is the primary driver of affordable housing in the USA, with over 3.13 million dwellings constructed since it was introduced in 1986 and over \$100 Billion USD in private equity capital generated between 1986 and 2017. The LIHTC provides tax credits to developers who build affordable housing to incentivize private sector involvement. The LIHTC works by providing a developer with federal tax credits equal to either 30% or 70% of the eligible costs of affordable housing projects, depending on whether tax exempt bonds are used to finance the project. The credits may then be claimed annually over a 10-year period.²
- **The National Housing Strategy (Canada)** – This includes \$40 Billion CAD over 10 years to increase the number of affordable housing dwellings across Canada. Most notably, the National Housing Strategy included the National Housing Co-Investment Fund (NHCIF), which provides low cost loans and capital contributions to encourage constructing new or redeveloping aging dwellings.
- **HOPE IV (USA)** – HOPE VI is a program designed to revitalise aging affordable housing dwellings. Under HOPE VI, Public Housing Authorities (PHAs) worked with the private sector to demolish aging affordable housing dwellings and replace them with lower scale, mixed use projects.
- **Housing Choice Voucher Program (Section 8) (USA)** – The Housing Choice Voucher Program (HCV) provides rental subsidy vouchers to 2.2 million low-income households in the USA (as at 2017). Properties that accept the vouchers receive 30% of income from low-income earners and receive a top up payment from HUD, if applicable, so that total rent received is the Fair Market Rent (FMR) for the area, at a minimum.

We also draw attention to the insights from A blueprint for addressing the global affordable housing challenge published by the McKinsey Global Institute in October 2014³ which suggests the following key levers to systematically deliver affordable housing outcomes:

Affordable housing can be addressed systematically: setting targets, employing cost-reduction levers, and strengthening local delivery



SOURCE: McKinsey Global Institute analysis

¹ <https://www.gov.uk/government/news/86-billion-for-affordable-homes-to-give-boost-onto-housing-ladder>

² These summaries sourced from - International Housing Partnership, *Creation of a global asset class for affordable housing*, 2019, http://www.powerhousingaustralia.com.au/wp-content/uploads/2019/12/Creation-of-Global-Asset-Class-for-Affordable-Housing-v2.0_compressed.pdf

³ McKinsey Global Institute, *A blueprint for addressing the global affordable housing challenge*, 2014 https://www.mckinsey.com/-/media/mckinsey/featured%20insights/urbanization/tackling%20the%20worlds%20affordable%20housing%20challenge/mgi_affordable_housing_executive%20summary_october%202014.ashx

Recommendations

We propose that the Inquiry consider making the following recommendations:

1.	Develop a national housing strategy across all market and non-market segments
2.	Increase the National Housing Finance and Investment Corporations bond aggregator guarantee cap and the expand the mandate to encourage greater private sector investment in affordable housing through community housing providers
3.	Expand the mandate of the National Housing Infrastructure Facility to include funding of affordable housing
4.	Encourage state governments to adopt consistent density bonuses that support the viability of affordable housing
5.	Encourage state governments to enable faster delivery of sub-market housing by facilitating accelerated assessment of development applications for affordable housing
6.	Develop a replicable and scalable government program for the development of sub market social and affordable housing. This may include tax incentives or concessions
7.	Provide greater regulatory certainty to not for profit community housing providers to enhance their ability to channel private sector investment into affordable housing
8.	Increase contestability in relation to subsidies (direct and indirect) for social and affordable housing
9.	Ensure government incentives for affordable housing provide a long term benefit for the community, by providing clear guidance on: how the contribution is calculated; the length of time the affordable housing should be provided; who can own the affordable housing delivered; that it must be managed by community housing providers who provide regulated assurance of meeting ongoing requirements including the eligibility and rent setting model.