



HOUSING SUPPLY BONDS

Finance for Affordable Housing

Unlocking investment into affordable housing

Australia's social housing system is in crisis from decades of underinvestment and neglect. The Greens will establish a new affordable housing finance mechanism to issue housing bonds to channel billions of dollars in new investment into the supply of affordable rental housing.

Years of federal and state government underinvestment combined with a housing market that is now the most unaffordable in the worldⁱ means more than ever before we need to channel large scale investment into affordable rental housingⁱⁱ.

The Greens propose to establish an independent intermediary, the Affordable Housing Finance Corporation (AHFC)ⁱⁱⁱ, which would have responsibility for project evaluation, and advising the Greens' proposed Infrastructure Bank on issuing housing supply bonds and zero interest loans worth a total of \$2 billion each year.

> THE PROBLEM

Australia's affordable housing sector is one of the smallest in the developed world - and the chronic undersupply of affordable housing has reached a crisis point:

- There are over 105,000 homeless people in Australia and 206,000 applicants and families on social housing waiting lists, waiting 2-10 years for a home^{iv}
- Another 875,000 people are in some form of housing stress, with 157,000 households paying more than 50% of their income in rent and living in severely unaffordable housing^v
- There is a national rental supply gap of almost 600,000 affordable and available rental homes
- There is a waiting list of over 400,000 families for public and community housing
- Only 5% of homes sold or built nationally were affordable to low income households and less than 1% of all private rental homes are affordable to low income earners^{vi}.

Our cities are becoming more socially polarised and the well-documented shortage of housing^{vii}, particularly affordable rental homes, is not acceptable in a country as wealthy as ours.

Business as usual will not fill these gaps or allow the potential of the non-profit housing sector in Australia to be realised.

The Greens believe it's time to harness the \$2 trillion dollars locked up in super funds, using the innovative and responsible funding mechanisms available in the UK, USA, France, Canada, Austria and the Netherlands – to drive a stable and proven way to fund much needed supply of affordable rental housing.

Our plan would allow superannuation funds and individuals to invest in the affordable housing industry.

A number of Australia's most eminent researchers and housing economists through the Australian Housing and Urban Research Institute (AHURI), RMIT and UNSW have put forward models that suit Australian conditions and are strongly supported by housing experts, peak bodies, and welfare agencies alike^{viii}.

Bonds are a straightforward, long term financial instrument. Affordable housing supply bonds are designed to provide cheaper finance at scale, and reduce the cost and complication of access to finance for affordable and community housing providers. The bonds would also be attractive to retail and institutional investors through a mix of tax incentives and government guarantees.

> THE BONDS PROPOSAL

The AHFC would issue three types of housing supply bonds:

- **Zero interest loan bonds worth \$200m per year** – called “social housing growth bonds” providing zero interest long term loans to non-profit housing organisations, Public Housing Authorities, and affordable housing developers (10% of bonds issued);
- **Tax smart housing supply bonds** – long term, fixed term, fixed interest bonds (6% return) with a tax incentive (no tax is paid on the return) to appeal to retail investors (20% of bonds); and
- **AAA Housing Supply Bonds** – a fixed interest (5% return), long term, AAA rated (government guaranteed) bonds to appeal to institutional investors such as super funds (70% of bonds issued).

> BUDGET IMPLICATIONS

The Independent Parliamentary Budget Office estimates that a relatively modest government investment of \$47 million per year could raise \$2.04 billion in housing bonds each year for 10 years.

The cost over forward estimates is \$188m and would generate \$8.05 billion in bonds.

These costs are already incorporated in the Greens Infrastructure Bank.

This includes Departmental expenses of \$10 million per year.

The costings assume each year the AHFC would provide \$2.04 billion in bonds each year to enable the construction of 7200 new homes each year for 10 years, with:

- 4800 loans of up to \$350,000 for standard housing
- 2400 loans of \$150,000 for homes built from high quality sustainable prefabricated materials or alternative 'fast build' construction.

Priority will be given to sustainable new build infill in urban or regional regeneration areas close to public transport and community hubs.

> WHY BONDS?

Australia currently has an inadequate and unsophisticated approach to funding affordable rental housing.

Core funding has been in decline over the last 15 years, and the government currently spends significantly more on subsidies for housing demand rather than supply.

In terms of 'investment' into rental housing, the government has left it to the private market and speculative investors to provide tenancies to one third of our population. As a result, Australia's private rental market is one of the most expensive in the world, and offers less secure and more costly housing conditions than most OECD countries^{ix}.

As landlords, investors are driven to realise their investment and 'churn' properties in and out of the market which adversely impacts on tenants^x. Research has shown 25% of tenancies are terminated due to sale in the first year^{xi}.

Australian banks are also part of the problem. They will not provide finance to affordable housing developments or dwellings smaller than 50sqm, and are only willing to provide limited funds to non-profit housing organisations. Private finance also has a high cost.

There is also a lack of large scale institutional investment into affordable housing in Australia - including Australia's

superannuation funds which hold \$2 trillion (\$2,046 billion) in funds^{xii} – a sum that will grow to \$3.2 trillion by 2035^{xiii}.

The potential for housing supply bonds has been the subject of a number of reports, inquiries and campaigns^{xiv}.

Many prominent housing and welfare peak bodies support the model put forward by AHURI and are now calling for the introduction of affordable housing bonds, including the Salvation Army^{xv}, National Shelter^{xvi}, the McKell Institute^{xvii} and the prominent 'Australians for Affordable Housing' coalition, representing over 60 national housing, welfare and community sector organisations^{xviii}. The proposal has also attracted considerable interest from key stakeholders, in particular pension funds.^{xix}

Infrastructure bonds were proposed by a coalition of 10 peak bodies including the Property Council and the Australian Conservation Foundation in the 'New Deal for Urban Australia'^{xx}.

In 2010 the Productivity Commission highlighted that a lack of access to private capital and the absence of financial intermediaries was hindering the not for profit sectors' development. In 2015 the Senate Inquiry into Affordable Housing recommended giving due consideration to the introduction of housing supply bonds and establishing a Housing Supply Financing Task Force^{xxi}.

> THE BONDS PROPOSAL IN MORE DETAIL

The Greens Affordable Housing Supply Bonds proposal is based on the model outlined in two consecutive reports by the Australian Housing and Urban Research Institute (AHURI) which described international measures to channel investment towards affordable housing and how these might apply in the Australian context^{xxii}.

The model draws on AHURI's comprehensive research and modelling, and was refined to a modest instrument that could be scaled up over time^{xxiii}. In developing the model AHURI consulted with investors including super funds. In particular they looked at successful practice in Austria, and conducted extensive industry consultation on the design of a suitable bonds instrument for Australia, tailored to local conditions.

A recent report and investigative panel initiated by the Housing Ministers' Advisory Committee showed institutional investors have considerable interest in the proposal and support the bonds concept.

> JOBS AND INNOVATION

This initiative will create thousands of jobs in the construction sector and drive economic activity^{xxiv}.

In December 2015, the SA Labor government introduced a public housing stimulus package to build 1000 homes in 1000 days and create 900 jobs^{xxv}.

Federal Labor's Social Housing Stimulus package introduced in 2009 to fund 19,200 social housing dwellings created 14,000 full time jobs and generated \$1.30 for every \$1 spent^{xxvi}. Other benefits of this initiative include

- Promoting economic stability, support skilled labour markets and catalysing innovation in the residential construction industry;
- Consolidating and accelerating efforts to develop a viable non-profit housing sector at scale; and
- Providing a suitable vehicle for investment funds to meet both the yields required by policy makers and their own social, economic and environmental corporate responsibilities.

> THE GOVERNMENT'S RECORD

The Abbott-Turnbull government's record on housing affordability has been a catastrophic failure. The Coalition's first budget cut more than \$500 million from housing affordability and homelessness programs, including \$44m for new homeless shelters, abolishing the National Affordable Rental Scheme (NRAS), and most callously of all, cancelling funding for peak bodies Homelessness Australia, National Shelter, and the Community Housing Federation of Australia^{xxvii}.

It has refused to adopt targets for reducing homelessness or turnaway rates, and for two years has deferred all questions on its commitment to Housing Affordability, saying it would be articulated in the *Reform of Federation White Paper*, which has now been abandoned.

Prime Minister Turnbull's promise of comprehensive tax reform with 'everything on the table' has also been botched, with his refusal to include negative gearing or capital gains tax discounts, leaving one of the largest and most expensive distortions of our housing market untouched.

*This proposal is in no way intended to be a replacement to the direct responsibility of the commonwealth and states to **directly** fund public and community housing. It is intended to be read in conjunction with the Greens National Public and Community Housing Supply Boost, our overarching plan to see 200,000 new social housing dwellings built by 2030.*

The Australian Greens acknowledge the expertise and extensive research conducted by the Australian Housing and Urban Research Institute (AHURI) and RMIT University in the development of this policy.

ⁱ The Economist 'Global house prices', 31 March 2016 at <http://www.economist.com/blogs/dailychart/2011/11/global-house-prices?fsrc=scn/fb/te/bl/ed/locationlocationlocationglobalhouseprices>

ⁱⁱ Lawson, Milligan and Yates (2012) Towards cost effective private financing of affordable rental housing. Housing Finance International. Summer 2012. p25-31

ⁱⁱⁱ Similar to that outlined in Lawson, J, Berry, M, Hamilton, C and Pawson, H (2014) Enhancing rental investment via an intermediary and guarantee, Final Report 220, AHURI <https://www.ahuri.edu.au/research/final-reports/220>

^{iv} Australia Institute of Health and Welfare (2015) Housing Assistance in Australia 2015 <http://www.aihw.gov.au/housing-assistance/haa/2015/priority-groups/>

^v Anglicare Australia, Rental Affordability Snapshot (2015) at www.anglicare.asn.au/site/rental_affordability_snapshot.php and on rental stress, see National Shelter, Rental Affordability Snapshot (2015) at www.shelter.org.au, both cited in St Vincent de Paul 'The Ache for Home' Plan, 2016.

^{vi} On home ownership figures National Shelter 2013 Housing Australia Factsheet; On rental affordability Anglicare Australia Rental Affordability Snapshot (2015)

^{vii} See for example Lawson, Milligan and Yates (2012) Housing Supply Bonds – a suitable instrument to channel investment towards affordable housing in Australia? Australian Housing and Urban Research Institute (AHURI). AHURI Final Report no. 188

^{ix} Wulff, Reynolds, Dharmalingham, Hulse and Yates (2011) cited in Lawson (2012) Housing supply bonds and attracting institutional investment. *Around the House* no 91. Shelter NSW. December 2012. p9-12

^x Wood and Ong (2010) Factors shaping the design to become a landlord and retain rental investments. Final Report 142. AHURI. Melbourne, cited in Lawson, Milligan and Yates (2012)

^{xi} Wood and Ong (2010)

^{xii} ASFA (2016) Superannuation Statistics issued February 2016 at

<https://www.superannuation.asn.au/resources/superannuation-statistics>

^{xiii} Lawson, Milligan and Yates (2012)

^{xiv} Lawson, Milligan and Yates (2012)

^{xv} The Salvation Army (2010) Statements for the Federal Election recommended government consider the concept of affordable housing bonds as a way to provide low-cost housing and related infrastructures development.

^{xvi} The National Shelter Policy Platform (2012) recommends the creation of vehicles such as unit investment trusts (in which investors can invest in the overall, fund instead of in individual properties) and Affordable Housing Bonds for attracting and managing institutional investment in rental housing.

^{xvii} http://mckellinstitute.org.au/wp-content/uploads/2012/04/McKell_HomesForAll_A4.pdf

^{xviii} Australians for Affordable Housing (2012) Addressing Housing Affordability in Australia: A 4-point plan for the next five years.

^{xix} Australia's largest industry superannuation fund, Australian Super, has backed a proposal for government-guaranteed housing supply bonds which it says could bring billions of dollars into the ailing not-for-profit social housing sector." reported in Australian Financial Review, 31 May 2012, see

http://afr.com/p/business/property/super_funds_could_back Cheap_homes_FHNTa4F2w7uHhec8DfjmGN

^{xx}

http://www.acfonline.org.au/sites/default/files/resources/ACF_A_New_Deal_for_Urban_Australia_report.pdf

^{xxi} Senate Economics References Committee (2015) Out of Reach? The Australian housing affordability challenge'. Recommendation 40 read "To give due consideration to introducing Housing Supply Bonds using AHURI's research as a starting point as part of the White Paper on Federation. At http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Report

^{xxii} See Lawson, Gilmour and Milligan for AHURI (2010); and Lawson, Milligan and Yates (2012) Lawson et al (2012), Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia? AHURI Final Report No.188, Australian Housing and Urban Research Institute, Melbourne, 2012.

^{xxiii} The model proposed is a scaled down version of a model described by AHURI (2012) in which it was demonstrated, through research and extensive consultation that government investment of \$90 million a year could leverage \$7 billion of private investment into affordable rental housing, enough to fund 20,000 new dwellings. To issue bonds over five years would cost 1.4 billion and leverage \$35 billion worth of investment into the affordable housing sector^{xxiii} See Lawson et al (2012); Lawson et al (2010); and Lawson, Milligan and Yates (2012)

^{xxiv} The NRAS scheme for example has provided the 'missing link' in the viability of many housing developments and acted as an extra-cyclical stimulus for the construction industry. See Community Housing Federation of Australia (I2013). National Rental Affordability Scheme. Participant Roundtables Nov-Dec 2013. Final Report. February 2013

^{xxv} <http://www.abc.net.au/news/2015-12-06/public-housing-stimulus-package-to-create-900-jobs-koutsantonis/7005050>

^{xxvi} KMPG, Social Housing Initiative Review, report prepared for the Housing Ministers' Advisory Committee (September 2012) cited in St Vincent de Paul 'The Ache for Home' Plan, 2016.

^{xxvii} For a full list of cuts see <http://scott-ludlam.greensmps.org.au/content/news-stories/turnbull-abbott-governments-500-million-cuts-homelessness-services>